Adriatic Slovenica d.d.
and
Adriatic Slovenica Group

AUDITED

ANNUAL REPORT 2014

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1. OPERATING HIGHLIGHTS

1.1 SIGNIFICANT BUSINESS EVENTS OF THE PARENT COMPANY IN 2014

January

– On 11 January, at the “ONA ali ON” (SHE or HE) event in Postojna, organized by a regional radio station Radio 94, Adriatic Slovenica donated 10 thousand euros to the Postojna Hospital for Gynaecology and Obstetrics, which were spent for a new ultrasound machine.

– In line with the change of pension legislation, Adriatic Slovenica prepared an individual and collective pension plan of voluntary supplementary pension insurance for the austerity period, the rules of management and statements on investment policy. These documents were submitted for approval by the Insurance Supervision Agency (ISA) and the Ministry of Labour of the Republic of Slovenia.

– On 13 January, after obtaining the ISA licence for serving as management board member, **Varja Dolenc,** MSc was appointed as Member of the Management Board of Adriatic Slovenica. She is responsible for finance, accounting, treasury and controlling.

– Since 1992, Adriatic Slovenica has been the official insurance company of the Slovene Olympic Team. Before their departure to the Winter Olympic games in Sochi, Russia, all Slovene Olympians were awarded with a 4-month life insurance premium “Aktivna renta AS” (Active annuity AS).

– On 27 January, Adriatic Slovenica invited its business partners to a Duo Silence and the RTV Slovenija Symphony Orchestra concert. Adriatic Slovenica and KD Group subsidiaries have been supporters of the RTV Slovenija Symphony Orchestra for the past seven years.

– On 30 January, the Adriatic Slovenica Management Board formally welcomed its fourth Member. **Matija Šenk** obtained his ISA licence for serving as management board member on 30 January. As a Member of the Management Board, he is responsible for the segments of insured events, risk management, actuarial operations, strategic reinsurance, and fraud prevention and correction.

February

– On 30 January and 1 February, Adriatic Slovenica’s biggest motivational-educational sales conference took place in Portorož. For the first time, the whole Adriatic Slovenica’s own sales network, namely all insurance agents and key account managers, were invited. The event was conveniently named KompAS, as approximately 450 attendees got familiar with the key guidelines of the company for 2014.

– On 1 February, a large part of Slovenia, especially Notranjska, Koroška, Savinjska regions and Šaleška valley, were affected by disastrous glaze ice which caused damage especially on forest areas, electricity and telecommunications infrastructure, railways, roads, and also some on real estate and cars. Adriatic Slovenica’s clients reported for about 750 thousand euros of damage. The procedures for reparation and cleaning the devastated areas will take a long time since approximately 40 per cent of Slovene forests were obliterated. Quite some time will also be needed to repair the electricity grid. Moreover, in Notranjska region, some trouble was caused by flooding of Planinsko field.

– In the spirit of our long-time support for the Road Safety Council of the Municipality of Ljubljana, Adriatic Slovenica handed 500 warning vests for children over to the representatives of Ljubljana kindergartens, so that the children will be easily visible, and therefore safer, during their walks around the city.

- Adriatic Slovenica introduces a very welcome novelty for payments of the first premium of supplementary health insurance in cases when the validity start date is not on the first day of the month. For the first month, the insurants pay the premium only for those days when their insurance was valid.

March

- On 1 March, **Viljem Kopše**, a long-time president of the Adriatic Slovenica Works Council, began his function as a professional member of the Works Council.

- Adriatic Slovenica renewed the Dom AS real estate and movable property insurance with modern coverages which make the choice easier for the clients. On one Dom AS policy, apart from the real estate, they can now also insure new items, such as gas furnaces with boilers, external installations, heat pumps, mobile devices (such as tablet computers), glass stairs, fences, kitchen vents etc.

- On 12 March, Adriatic Slovenica became the general sponsor of the "500 Businesswomen" event in Ljubljana and offered property insurance, life insurance for businesswomen, and pension insurance for employees of the target group of small companies.

- On 17 March, **Mateja Keržič**, MSc in Economic Sciences, joined Adriatic Slovenica as the new Executive Director, responsible for the actuarial field.

- On 21 March, Adriatic Slovenica made the "Dinozavri prihajajo" (Dinosaurs are coming) exhibition in Arboretum Volčji potok possible, and got involved with numerous promotional activities.

- Adriatic Slovenica offered a new accident insurance product – in case the insurant becomes permanently disabled to a degree of 50 per cent or more due to an accident, the insurance company pays the supplementary health insurance premium by the time the insurant is 75 years old.

- Adriatic Slovenica introduced new insurance terms for insurance of temporary disability care due to accident or illness, and insurance of temporary disability care due to accident, and limited the insurance period to a fixed period of 4 years.

April

- On 1 April, Adriatic Slovenica offered a limited-edition life insurance "Potencial Evrope AS" (European potential AS) which was available from 1 April to 30 June and presents one of the best possibilities for increasing the asset value in a period, longer than 10 years, by investing in European stocks.

- As the general sponsor, Adriatic Slovenica has supported the all-Slovenian initiative "Moj zdravnik" (My doctor) for the twelfth time this year. "Moj zdravnik" is an annual nomination of the best and most respected Slovene doctors, organised by Viva magazine, and was closed at a renowned event in Ljubljana on 3 April.

- On 7 April, the Olympians who came from Sochi were welcomed in Ljubljana by several thousand people. On this occasion, Gabrijel Škof, President of the Management Board of Adriatic Slovenica, which is the official insurer of Team Slovenia, rewarded them with Aktivna renta AS insurance policies, which included four months of premium free of charge.

- On 9 April, the company organised a business-social event for contractual partners of complementary sales channels in Mengeš. Apart from the socialising, the guests also enjoyed in a popular comedy, Udar po moško 2.

- On 17 April, Adriatic Slovenica organised a Sales conference for agencies in Portorož Auditorium. The best agencies received awards for the achieved results in the past year. The 21 biggest agencies were also presented with the company's strategy and this year's sales goals.

- On 24 April, the management of Adriatic Slovenica began a series of press conferences (the first one took place in Maribor), in which, they inform the general public about the successful results in 2014 and the first quarter of 2014, solutions regarding the Slovene health care system reform, novelties, offered by the insurance company, and the equipment of regional centres with defibrillators within the iHELP project partnership. By the end of June, there were 11 new defibrillators provided (two in Ljubljana and one in Koper, Novo mesto, Kranj, Maribor, Celje, Postojna, Murska Sobota, Grgar and Arboretum Volčji Potok). Within the iHELP project partnership, there was a training of basic reanimation procedures organised for KD Group employees.

- On 25 April, Adriatic Slovenica informed the general public that from 1 June 2014 on, the premium for supplementary health insurance would be lower. The new price, including 3 % discount, would be 27.49 EUR (before: 28.50 EUR), and 28.34 EUR (before: 29.38 EUR) without the discount. All insurants with supplementary insurance were granted plenty of other bonuses – the existing insurants with supplementary health insurance were given free-of-charge insurance for temporary disability care due to accident which includes coverages for home assistance and transportation to hospital for medical check-ups.

May

- Within the "Priporočena varnost" (Recommended safety) product, intended for marketing via the Post of Slovenia, Adriatic Slovenica introduced to the Slovene market the life insurance products Priporočena varnost up to 65 years of age, and Priporočena varnost above 65 years of age. The main features of these two packages are a simple way of subscribing and ensuring the basic insurance security with an affordable premium.

- A new fraud detection and prevention department was established in Adriatic Slovenica.

- For the purpose of process optimization in the field of claims resolution, we have merged nine claims locations into three claims centres: Ljubljana, Maribor and Koper. By doing this, we have standardised the processes, merged the best practices and achieved a more uniform and flexible distribution of work in case of major claims events.

- The "Življenjski kasko – Asistenca življenja" (Life hull insurance – Life assistance) life insurance was supplemented by a new coverage – a modern critical illness risk coverage. This insurance covers multiple payments – compensations for health treatments in one-off payment, or in the form of health annuity, and a preventive health service with three different DNA analyses.

- The "Nezgoda za mlade po srcu" (Accident for the young at heart) insurance is a new lifetime accident insurance, introduced by Adriatic Slovenica. The target group are persons from 61 to 85 years of age and boasts 8 new coverages.

- As the school year was closing, Adriatic Slovenica offered a new accident insurance for children and youth below 26 years of age. It included new coverages and the option of subscribing for a year or several years. The company also ensured a cost-effective subscription process.

- Adriatic Slovenica employees joined the KD Foundation charity appeal for collecting material and financial aid for the people of Serbia and BiH, affected by floods.

- Adriatic Slovenica devotes significant attention to employee development. In May, we have established a concept of employee education process and introduced “AS Akademija” (AS Academy). We have also carried out the final phase of the Effective Staff information system implementation.

June

- On 1 June 2014, the insurance company lowered the supplementary health insurance premium and informs all of the 320,000 insurants that they are given free-of-charge four-year insurance “Prehodna oskrba” (Transitional care), which covers home assistance and transportation to hospital for medical check-ups.

- In line with the Slovene – USA agreement on enforcement of tax legislation, Adriatic Slovenica prepared the bases for the enforcement of the new legislation for the life insurance segment.

- On 22 June, Arboretum Volčji Potok hosted the business-social event with an emphasis on charity, called “Olimpijski dan s športnimi ASi” (Olympic day with sports aces), co-created by Slovene Olympians, football representative team members and numerous partners. This was a celebration of the 20th anniversary of KD Group and the international Olympic day, attended by insurants and employees of Adriatic Slovenica. On the same day, Adriatic Slovenica organised a charity golf tournament for business partners. The attendees of both events had the opportunity to participate money for the “Podari malico” (Donate a snack) charity project, within which, funds are raised for school meals for children from socially deprived environments.

- Adriatic Slovenica successfully closed sales of the planned quotas of tranche investment life insurance “Potencial Evropa AS”.

- A sales folder Priporočena varnost was launched on the market by Adriatic Slovenica. It comprised all personal insurance packages (health, accident and life insurance). As many as 11 insurance products and 29 different coverages are designed for the target groups below 65 years of age, and above 65 years of age.

- For the purpose of determining correctness of medical services settlement on the account of supplementary health insurance, Adriatic Slovenica purchased a new program tool (SPSS IBM). Additionally, for the purpose of control over health services providers, three licences for “Programski model SPSS simulacija”.

- Adriatic Slovenica and KD Group supported the 20th “Primorski poletni festival” (Coast summer festival), a jubilee edition of the theatre festival on the Slovene coast. Within the sponsorship programme, visitors were also invited to attend a complimentary concert of RTV Slovenija Big Band with guests, which took place on 26 June in Koper.

- A team of prospective Adriatic Slovenica employees joined the Case Study Competition event at IEDC Business School Bled where they successfully presented the integration and marketing concept of a new insurance product on a foreign market.

- In the Human Resources area, Adriatic Slovenica upgraded some of the information solutions (BC, ERS, internal regulations…) and renewed internal processes in order to achieve a more effective management of human resources. An introduction to the Family Friendly Enterprise concept was made as well.

- Adriatic Slovenica began marketing an upgraded life insurance “Življenjski kasko – Asistenca življenja” with a new supplementary insurance against critical illness. This insurance covers multiple payments – compensations for health treatments in one-off payment, or in the form of health annuity, and a preventive health service with three different DNA analyses.

July

- Adriatic Slovenica began marketing the “Paket dobrodošlice za mlade po srcu” (Welcome package for the young at heart) (65+). Apart from the supplementary health insurance and accident insurance, the package also includes life insurance for persons above 65 years of age.

- The integration of a new CRM module – CRM Task Manager, which enables Adriatic Slovenica an active way of managing agents’ activities, and consequently a centralised measurement instrument for their success.

- Adriatic Slovenica integrated important information solutions within the LifeRay portal platform, which enable an upgrade of systems for sales support, new product sales and corporate communications (publication of the interactive annual report).

- Just before summer, Adriatic Slovenica introduced system improvements of reinsurance and coinsurance processes. It is an important change which enables monitoring of all reinsurance risks and prevents that there concluding insurance policies above the allowed limits.

- With globalisation, there has been an increased demand for insurance of property abroad. To address this, Adriatic Slovenica prepared instructions on the related procedures, which will remain in effect until the enablement of such insurance policies, supported by the company’s own information system INIS.

- Within the framework of the internal education programme AS Akademija for acquiring knowledge and transferring it to the sales practice, Adriatic Slovenica prepared a concept and annual notice of the 2015 curriculum.

August

- Before the beginning of a new school year, Adriatic Slovenica began an extensive school accident insurance marketing campaign. Important attention was paid to promotion of web and mobile-based ways of subscription, and long-term insurance sales.

- To acquire a better overview of the use of supplementary health insurance resources, Adriatic Slovenica carried out an inspection in four largest health services providers in Slovenia.

- Adriatic Slovenica partnered with Si.mobil in its campaign “Žur z razlogom” (Party with a cause), which helps young people to get their first job.

September

- In mid-September, the eastern part of the country was struck by heavy rain which caused floods in Mura and Kolpa river basins, and to a smaller extent in Savinja, Paka and Sava river basins. The rate of flow of these rivers rose rapidly and several landslides occurred. The flooded buildings and landslides alone caused as much as 600,000 EUR of damage to Adriatic Slovenica’s insurants.

- Up until September, Adriatic Slovenica performed a review of the target structure of “Aktivni naložbeni paket” (Active investment package) in line with insurance terms. Based on the expected capital market trends, the expected success and risks of individual investments, the decision was reached that the target structure of "Aktivni naložbeni paket" remains unchanged.

- Adriatic Slovenica began marketing the "Priporočena varnost" life insurance via direct sales. The package features a simple way of subscribing and basic insurance security with an affordable premium.

- With the "Krog varnosti" (Circle of security) marketing campaign, Adriatic Slovenica communicated to the customers about the significant savings when subscribing to the full "Krog varnosti" package – namely the property, health and life insurance. Within this campaign, Adriatic Slovenica also gave out the results of the "Zavarovalniški Monitor" (Insurance Monitor) survey where Adriatic Slovenica is positioned as the insurance company with the highest number of highly satisfied insurants. A part of this marketing campaign was also "Super AS Jesen" (AS Autumn) marketing activity, in which the emphasis was on significant savings when subscribing to or renewing car insurance; the limited offer expired at the end of 2014.

- Adriatic Slovenica introduced a marketing campaign of supplementary health insurance packages for the youth. It includes rising awareness about the importance of supplementary health insurance after the age of 26 or when they lose their student status.

- Adriatic Slovenica began with workshops on the topic of Family Friendly Enterprise, organised for its employees.

- Adriatic Slovenica contributed to the international survey "The position of women with top management roles", performed by Deloitte consulting company.

- Adriatic Slovenica supported the production of musical Cvetje v jeseni and connected it with the promotion of "Aktivna Renta AS" life insurance. At the same time, a message was given out to the public about the importance of saving money for retirement years.

- Adriatic Slovenica upgraded the intranet page for employees, which became an interactive portal, named "KompAS".

- Adriatic Slovenica was the general sponsor of the main event at the "Managerski kongres 2014" (Manager Congress 2014) event, organised by Manager Association, which took place on 25 and 26 September in Portorož.

October

- Adriatic Slovenica made an important supplement to accident insurance for the active population, by adding three new coverages: surgery due to accident, disability due to accident with fourfold progression, and fractures, dislocations and burns. At first, these coverages were offered to professional and other top athletes in combination with supplementary health insurance.

- Within the Solvency 2 project, Adriatic Slovenica started to implement the "Mood's Analytics – Risk Foundation Platform" solution.

- Due to a change in legislation, which required higher amounts of insurance for the compulsory insurance of insurance agents, Adriatic Slovenica adapted the insurance terms of the related packages.

- Adriatic Slovenica presented a life insurance package with one-off premium payment "Enkratna priložnost AS" (Unique opportunity AS). It is an excellent opportunity for saving and increasing asset value. The limited offer is valid by 31 March 2015. The novelty on the market was accompanied by an educational event which featured eminent Slovene and foreign professionals in the fields of investment business and pension insurance.

- Adriatic Slovenica carried out the annual internal SIOK survey on climate in the organisation, management systems and employee satisfaction. There were also workshops for employees on the topic of saving in the 2nd pension pillar.

- At the end of October, Adriatic Slovenica introduced an additional possibility – insurants can opt for an extended period of health annuity payments if they have the Health annuity of the supplementary insurance for critical illness coverage. Apart from the 10-year payments of health annuity, there is now also a possibility of 6-year repayments.

- Adriatic Slovenica continued its cooperation with GEA COLLEGE Faculty of Business in the field of habilitation of internal lecturers.

- Thunderstorms in Tolminsko, Poljanska valley and Polhograjsko hills caused severe damage in river basins of Sora, Gradaščica, Mali graben and around smaller torrents in municipalities of Žiri, Gorenja vas-Poljane, Škofja Loka, Medvode, Domžale and Ljubljana. The rivers broke their banks, damaged roads and flooded cellars and buildings. Adriatic Slovenica paid out 160 thousand euros of compensation for the damage to its insurants.

November

- On 14 November, the Nova Gorica branch, after some years, reopened its agency in Miren. The opening received a warm welcome from Mr Mavricij Humar, the Mayor of Miren-Kostanjevica – a municipality that was affected by severe floods in 2010 and 2012.

- On 21 November, Fitch Ratings assigned the company an Insurer Financial Strength (IFS) rating of BBB- with a stable mid-term forecast.

- On 28 November, approximately 1300 employees, contractors and friends of all companies within KD Group, which celebrated its 20th anniversary in 2014, gathered at the parent company's jubilee event. In the spirit of the values that permeate the operations of all the companies within the group, the event reinforced the momentum in achieving future goals.

December

- On 5 December, the National Assembly adopted amendments to the Insurance Contracts Tax Act and increased the insurance services tax rate from 6.5 to 8.5 per cent. The higher tax rate is effective from 1 January 2015 on.

- Adriatic Slovenica prepared a new product for insuring small companies and tradesmen, called "Podjetnik AS" (Entrepreneur AS), the marketing of which began in February 2015. The product represents an important novelty because it combines a number of insurance coverages, useful for companies, in a single policy. It is a comprehensive package for the insurer, and easy to subscribe.

- On 10 December, Adriatic Slovenica attended a round table, called Challenges and opportunities of financial markets, organised by KD Group upon its 20th anniversary in association with Finance newspaper. Among the renowned speakers were Matjaž Gantar, President of KD Group Administrative Board, Mitja Gaspari, former Secretary of the Treasury and Governor of the Bank of Slovenia, Boštjan Vasle, director of UMAR, Veljko Bole, economist, Gabrijel Škof, President of Adriatic Slovenica Management Board, W. J. Westerlaken, Member of Adriatic Slovenica Management Board, Aljoša Tomaž, Chief Executive Officer of KD Group, and Luka Podlogar, President of KD Skladi Management Board.

- On 21 December, the company once again hosted its business partners of complementary sales channels in Cankarjev dom, Ljubljana. They were invited to a Christmas concert, performed by the RTV Slovenija Symphony Orchestra and Nuša Derenda. Companies within KD Group are long-time supporters of the orchestra.

- Adriatic Slovenica refreshed packages for athletes – the renewed offer of first-rate health insurance was expanded by new accident insurance coverages. Athlete insurance is meant for top / professional, registered, and also recreational athletes. From 1 January 2015, they are able to choose their "Osnovni" (Basic), "Modri" (Blue) or "Pro" package. The packages differ in coverages and insurance sums, but all of them offer the possibility of sub-participation in costs of services in specialist outpatient clinics, and by this, a lower premium.

1.2 SIGNIFICANT BUSINESS EVENTS OF THE SUBSIDIARIES IN 2014

January

- On 31 January, Prospera subsidiary started using a new support application for ensuring daily transfers of payments, which are sent to the bank account of the parent company, to Prospera information system. Before the upgrade, automatic allocation of payments was impossible, which hindered the operational debt collection processes?

- At the beginning of the year, Viz subsidiary organised a contest called "Najsrečnejši avto" (The happiest car) and rewarded the owner of the car that won the most votes with a tablet computer.

February

- KD životno osiguranje insurance company recapitalised Permanens subsidiary in the amount of 6,529 euros.

March

- By the end of March, Prospera subsidiary successfully finished the process of preparation, verification of assignment agreements, and the process of informing the debtors about the concluded sale of receivables of the previous creditor Adriatic Slovenica to the new creditor Prospera in December 2013.

- The parent company Adriatic Slovenica recapitalised KD životno osiguranje subsidiary in the amount of 250,718 euros.

April

- At the end of April when catastrophic floods struck Serbia, AS neživotno osiguranje subsidiary suffered the biggest single fire damage claim on Serbia insurance market in the last few years – an insured building, a modern warehouse, together with inventories of medical and laboratory equipment, was burned to the ground. The damage in the amount of 2.8 million euros was repaid in full by the end of July. It was reinsured to a large extent, therefore, it did not affect the operating result of the subsidiary. The catastrophic floods in spring on the territory of central and western Serbia did not affect the insurance portfolio of the company.

- In line with the fulfilment of regulatory requirements, the parent company recapitalised AS neživotno osiguranje insurance company in the amount of 349,621 euros in April.

May

- On 28 May, Viz subsidiary commemorated the second year of successful operating activities. The data shows that the company even exceeded the planned business goals, and the users evaluated their experience as excellent.

June

- In June, AS neživotno osiguranje subsidiary completed its reorganisation and optimisation of business processes, which are aligned with effective execution of the changed business strategy. By the number of employees, the subsidiary is one of the smallest insurance companies on Serbian market. In line with the fulfilment of regulatory requirements, the parent company provided for a recapitalisation in the amount of 347,100 euros in June.

- KD životno osiguranje subsidiary recapitalised Permanens subsidiary in the amount of 6,529 euros. The parent company Adriatic Slovenica recapitalised KD životno osiguranje in the amount of 173,675 euros.

July

- At the beginning of July 2014, Matej Cergolj resigned as Member of the Board of Directors of AS neživotno osiguranje. He remains a member of the audit committee.

- In July, Viz subsidiary renewed its web page and graphic design which is now glowing in neon colours. Together with its presentation, they have also prepared a very successful web campaign #avtoWIZ, in which the winners were given the opportunity to borrow a Ford Mustang GT (they signed up for the ride via social networks Facebook and Twitter).

- Prospera subsidiary ensured correct transfers and refreshing of data from the parent company's database of persons to Prospera. Transfers of clients' personal data between the companies had to be aligned with the Personal Data Protection Act.

August

- Viz subsidiary began marketing supplementary health insurance under the WIZ trademark. Apart from the supplementary health insurance, named "WIZ Zdravje" (WIZ Health), the insurants can opt for "WIZ Zdravje plus" (WIZ Health Plus) insurance, which is a combination of first-rate health and accident insurance, for an additional cost of only 0.99 euros.

September

- Upon subscribing to "WIZ Zdravje", Viz subsidiary offered an additional bonus: they could choose either 40 euros of cashback to their bank account, a Sportina stores coupon in the amount of 50 euros, or 70 euros of discount for "WIZ Avto" car insurance. The product and the bonus offer were promoted in a comprehensive marketing campaign "Ni obvezno, je pa nujno" (It is not mandatory, but it is absolutely necessary).

- On 4 September, the parent company recapitalised Viz subsidiary in the amount of 72,500 euros.

October

- On 1 October 2014, AS neživotno osiguranje subsidiary appointed a new General Director **Aleksandar Mitrović**, who by then worked as the Director of Beograd branch.

- Prospera subsidiary bought from the parent company the enforced recourse receivables as at 31 August 2014 in gross amount of 2,365,194.22 euros, with key money in the amount of 984,119.89 euros; and premium receivables as at 31 August 2014 in gross amount of 1,183,006.67 euros, with key money in the amount of 285,272.90 euros.

- KD životno osiguranje subsidiary recapitalised Permanens subsidiary in the amount of 13,058 euros. Adriatic Slovenica recapitalised KD životno osiguranje subsidiary in the amount of 348,720 euros.

November

- In November, Narodna Banka Srbije (NBS – National Bank of Serbia) regulator granted **Tomaž Peternelj** the licence for serving as member and Non-executive Director of the Board of Directors of AS neživotno osiguranje.

- At the end of November, the parent company performed an IT systems security review in AS neživotno osiguranje subsidiary, during which, the focus was mainly on the current state assessment, with the aim of upgrading the information support of the company and ensuring business continuity.

- Prospera subsidiary successfully finished the process of preparation, verification of assignment agreements, and the process of informing the debtors about the concluded sale of receivables of the previous creditor Adriatic Slovenica to the new creditor Prospera in October 2014.

December

- In early December, Adriatic Slovenica carried out a review of claims process and an assessment of taking out insurance from the legal perspective in AS neživotno osiguranje. The review was performed with the purpose of transferring knowledge, best practices and experience.

- In order to fulfil the regulatory requirements, the parent company recapitalised AS neživotno osiguranje subsidiary in the amount of 299,047 euros.

- At the end of December, Viz subsidiary launched a contest, called “V novo leto z gratis vinjeto” (Enter the new year with a free vignette) and rewarded five winners in January.

1.3 SIGNIFICANT BUSINESS EVENTS OF THE PARENT COMPANY AT THE BEGINNING OF 2015

January

- On 1 January 2015, the insurance services tax rate was raised from 6.5 to 8.5 per cent based on the amendments to the Insurance Contracts Tax Act, adopted by the National Assembly on 5 December 2014. The tax on insurance services is not charged in case of supplementary health insurance, accident insurance and life insurance with insurance period not shorter than 10 years, and in case of insurance against loss events outside the Republic of Slovenia. Adriatic Slovenica ensured that the increased tax rate was properly calculated and applied.

- On 16 January, Adriatic Slovenica acquired the basic Family Friendly Enterprise Certificate and prepared an action plan for work process improvement measures and quality of work environment in order to achieve a good work-life balance. The acquisition of the basic certificate and the plans for its upgrade reflect the positive attitude of the insurance company towards the needs of its employees living a family life.

- In January 2015, Adriatic Slovenica submitted an amended application for establishment of a branch in Croatia to the ISA, and the ISA sent it further to the Croatian supervisory authority.

- On 24 January 2015, the Decree on co-financing of insurance premiums of agricultural production and fishery came into effect, which stipulates that the amount of the state's co-financing of insurance premium for insurance of livestock lowers from 30 to 20 per cent, and the insurance of crops to lower from 40 to 20 per cent.

February

- On 13 and 14 February, Adriatic Slovenica organised the seventh annual sales conference for its own sales network in Portorož. In this educational-motivational event, the management presented the strategic and sales targets for 2015. The winner of the prestigious award, "Ambasador AS za leto 2014" (AS Ambassador for 2014), was Aleš Bojc, an insurance agent from Ljubljana. A day before, the company prepared the annual meeting of exclusive agencies and presented them with the 2015 targets, and rewarded the most successful ones.

March

- On 5 March, the Fitch Ratings rating agency confirmed the Insurer Financial Strength (IFS) rating BBB- with a stable mid-term forecast.

1.4 SIGNIFICANT BUSINESS EVENTS OF THE SUBSIDIARIES AT THE BEGINNING OF 2015

January

- On 29 January, the parent company increased its investment in KD životno osiguranje subsidiary by 396,492 euros. In other subsidiaries, there were no important business events after 2014 year-end.

1.5 STATEMENT BY THE PRESIDENT OF THE MANAGEMENT BOARD

Dear policyholders and business partners, dear shareholders, dear colleagues!

The economic and financial environments in Slovenia have started to show the first signs of recovery after several years of crisis. Despite this, the business conditions on the domestic insurance market faced no significant difference in the past year. The past business year was thus still difficult, but in Adriatic Slovenica, we managed to fulfil our business plans, outlined within the business strategy of KD Group.

We have maintained our market share, the second place among Slovene insurance companies, our operations exhibited security, quality and profitability. We have been focused on our clients' satisfaction and it is our clients who expressed the most important confirmation of our efforts, since independent surveys have shown that among all insurance companies, Adriatic Slovenica has the highest number of highly satisfied policyholders. And this is what all of us are very proud of.

In October last year, we have received a Fitch Ratings rating of "BBB-" and in March 2015, based on our 2014 results, we have received a confirmation of this rating, showing the financial strength of the insurance company. The rating trend assessment is "stable" and it reflects the strong position on Slovene insurance market.

We operated successfully and closed the 2014 business year with a net profit of 18.8 million euros, which is in comparison to the year before higher by 38.8 per cent or 5.3 million euros. Thus, we have reached a return on equity of 18.9 per cent, which is 3.8 percentage points higher than the year before. The growth is on the one side a consequence of favourable conditions on financial markets, and on the other side the reflection of good results of insurance activities. The good results of our core business are substantiated by the insurance company's combined ratio of 93.6 per cent in 2014. In this way, we have ensured positive results in all three basic insurance segments: non-life insurance, as well as life and health insurance operated with net profit. In terms of capital, the insurance company is stable and secure. The solvency ratio or available capital of the insurance company exceeds both the current legal requirements, as well as the upcoming requirements of the Solvency 2 Directive, which will come into effect at the beginning of 2016. At the end of 2014, the available capital of the insurance company surpasses the required minimum capital and the company's capital adequacy index as per requirements of Solvency 1 stands at 176. The total assets of the insurance company at the end of 2014 totalled 687.2 million euros while the company's capital increased by 14.6 per cent to 106.8 million euros.

Most of our activities in the past year were conducted on the domestic market and we intend to operate similarly in 2015. As the parent company of AS Group, we have thus directed only a small portion of our activities to markets where our subsidiaries operate. Over 98 % of total written premium is collected on the Slovene market and the rest on Croatian and Serbian insurance markets. On markets outside of Slovenia, we have put the most effort into preparations for the establishment of the Croatian subsidiary. With 297.9 million euros of premiums written in the past year, we are in the second place on the domestic market and we have retained our market share on quite the same level as the year before. At the end of 2014, it stood at 15.4 per cent (0.1 per cent less than in 2013). In the segment of non-life insurance, we have reached 17.4 per cent market share, and in life insurance 10.1 per cent market share at the end of 2014. Due to the consequences of the economic and financial crisis, the premiums written is lower by 8.5 million euros (at the end of 2013, it amounted to 306.4 million euros). The largest portion of premium was collected in the non-life insurance segment, which, together with health insurance, presents 82 per cent of our portfolio. Life insurance at the end of the year accounted for 18 per cent of the portfolio, which is comparable to the proportion of life insurance at the end of 2013, after this segment was transferred to AS.

The amount of written premium proves that our sales strategy is correct, being based on a comprehensive offer of insurance products, different sales channels and a complete insurance protection for our clients under one umbrella, together with financial and assistance services that are growing richer with time. In 2014, we have made our services even more accessible. There are 351 points of sale our clients can visit and since 2014, they can take out various insurance packages in two banks. In all our business units, we are also offering the excellent investment products of KD Skladi. Instead of following new trends, we are creating them by providing a growing selection of insurance products to take out over the internet. Consequently, we have in 2014 again increased the share of premium from direct sales. The year 2014 was marked by numerous mass claims events, the biggest damage being caused by the snow storm with glaze ice in the beginning of the year, followed by several flooding events during the year. Due to the consequences of glaze, AS policyholders reported claims in the amount of 750 thousand euros, and due to the floods in autumn, there were 1624 damage reports, resulting in 2.3 million euros of claims. In spite of this, the gross claims amount was 4 per cent lower than in 2013 and totalled 208.8 million euros. There is a favourable trend in the field of car insurance, mainly due to the successful client segmentation and increased traffic safety.

I am pleased that the four members of the Management Board of the insurance company worked in full and efficiently almost throughout the whole year and together implemented the strategic decisions, after in January 2014, Varja Dolenc, MSc and Matija Šenk joined the Board. The insurance company has had good reputation in business spheres in the past years and with the strengthened management in 2014, we have raised the reputation even higher.

We are continuously developing innovative insurance products and services, while making the insurance products more and more connected because in this way, we increase the financial security of our clients. We adapt the products to the needs of different target groups, having in mind also the children, for whom we have renewed the accident insurance product, as well as the sports persons. By providing pension and savings insurance, we take care of the active population, and adjust our products to the elderly with our offer of health and accident insurance. We have also renovated and upgraded entirely the home insurance segment, and refreshed car insurance products. We are convinced that we have managed to prepare attractive and quality insurance solutions. Last but not least, to the population in favour of taking out insurance via internet, we have offered an additional web-based health insurance package.

Everything we do is done responsibly. We put much effort into continuous education of our colleagues and into keeping them up to date with developments in the domestic, as well as foreign insurance markets. At the same time, we endeavour to keep them satisfied and maintain a good balance between work and family life. Thus, we are very proud of the educational process in the insurance company and of the recently acquired Family Friendly Enterprise Certificate. We are also proud that many Aces engaged themselves in training for saving lives and that we equipped numerous cities of Slovenia with defibrillators, we are proud of AS Foundation activities and many other things, presented in this report.

We realise that our communication with clients when taking out insurance or settling claims is key for their satisfaction. This is why we have intensified contacts with them on all levels. “AS Klub ugodnosti" (AS Bonus club) is becoming an important channel for informing clients and our Client Care Centre is key in our direct communication with them. The Client Care Centre is available via a toll-free phone number for all the answers the clients may need, successfully presents our products and provides the assistance services we offer. In the times when many people feel excluded and disappointed due to the conditions in our country, we strive even more to connect with our clients and business partners, to establish long-term relationships and trust, and especially to provide them with comprehensive services needed to establish a full circle of safety.

I am sure we are on a right path and that the insurance company, together with KD Group, will develop successfully also in 2015. I am inviting you to discover the quality of our solutions!

Sincerely,

Gabrijel Škof,
President of the Management Board

Koper, 10 March 2015

1.6 SUPERVISORY BOARD REPORT – Summary

Introduction

The purpose of the Supervisory Board report is to pass an expert opinion to the Assembly about the materials to be used in the meeting, in which the annual report will be discussed and the distributable profit distribution will be determined. The Supervisory Board is responsible for review of the annual report and the consolidated annual report of Adriatic Slovenica. In its report, the Supervisory Board must disclose the manner and scope of its supervision over the entity during the business year, state its opinion on the Independent auditor's report, Actuarial opinion and other statutory reports.

The Supervisory Board was in 2014 initially composed of eight members, three of whom were representatives of employees, and from July onwards it was composed of six members, including two representatives of employees.

Supervision over business operations of Adriatic Slovenica d.d. and Adriatic Slovenica Group

The Supervisory Board operated in compliance with the agreed model of supervision over activities of the Management Board and regularly addressed quarterly reports on the Company's operations, periodic reports on plan realisation in the areas of premiums, claims and expenses, regularly monitored the status of investments and their profitability and the measures performed to improve business operations and achieving the set goals. Apart from the quarterly reports, the Supervisory Board addressed and approved the business policy and financial plan for 2014, approved the annual report of Adriatic Slovenica d.d. for 2013 and the consolidated annual report of Adriatic Slovenica for 2013. The Supervisory Board also agreed with the plan of activities of the Internal Audit department for 2015.

On the basis of regular reporting, the Supervisory Board was also informed about business operations of the subsidiary AS Osiguranje a.d.o. and other important topics, for example the sales of car insurance and life insurance.

The Insurance Act also stipulates that the Supervisory Board must monitor the activities of the Internal Audit department (NRS). In relation to this, the Supervisory Board approved the plan of activities of the NRS for 2014, addressed the reports on the activities of the NRS in 2013, and separately the report on its activities in the first half of 2014. Based on all the reports on NRS operations, the Supervisory Board concluded that there were no deficiencies within risk management that would threaten the security of the Company's operations.

Due to the need for effective operating of the Supervisory Board in its efforts to fulfil its mission and strategic goals of the Company and the Group, the Supervisory board regularly addressed the Audit Committee reports.

The Audit Committee devoted most of its attention to the following areas:
- risk management and effective operating of internal controls;
- effective operations of the Internal Audit department;
- financial statements and external audit;
- monitoring of the review and decisions passed over to the Company by the regulators;
- the process of debt collection;
- important projects.

After the end of the business year 2014 until the issuing of the annual report and consolidated annual report for 2014, the Supervisory Board closely monitored the operations of the Company, discussed the unaudited annual report and approved the business policy and financial plan for 2015.

Review and approval of the annual report and consolidated annual report

In its 66th meeting on 9 April 2015, the Supervisory Board discussed about the annual report and consolidated annual report on the business operations of Adriatic Slovenica for 2014, together with the audit opinion of KPMG Slovenija d.o.o., the proposal of the Management Board about the distribution of distributable profit and a proposal for discharge. Beforehand, the Supervisory Board received the Audit Committee report with an unqualified opinion on the annual report and the consolidated annual report.

Adriatic Slovenica d.o.o. must prepare consolidated financial statements since the establishment of its subsidiaries: AS Neživotno osiguranje a.d.o. Belgrade in January 2008, Prospera d.o.o. in December 2011, VIZ d.o.o. in May 2012 and in May 2014 when 100 % ownership of KD Životno osiguranje d.d. Zagreb was acquired. The subsidiaries and the parent company together form Adriatic Slovenica Group.

As part of the review of the annual report and consolidated annual report, the Supervisory Board was also informed about the opinions of certified actuaries Jadranka Maček and Ana Žnidarčič who concluded that the premium amounts and provisions formed as at 31 December 2014 are appropriate and sufficient for permanent fulfilment of the insurance company's liabilities.

At the meeting, the Supervisory Board was also informed about the report on activities of the Internal Audit department in the second half of 2014 and report on its activities in 2014. The Supervisory Board has a positive opinion on the annual report of the Internal Audit department for 2014.

The Supervisory Board was also informed about the report of the Management Board on the relationship with the controlling company in 2014.

The Supervisory Board concludes that the content of the annual report and the consolidated annual report presents a realistic picture of the business operations of Adriatic Slovenica d.d. and Adriatic Slovenica Group.

Based on its reviews of the consolidated annual report and audit report for 2014, the Supervisory Board:

- approves the annual report for 2014,
- approves the consolidated annual report for 2014,
- gives a positive opinion on the opinion of the independent auditor,
- proposes discharge to the General Meeting of shareholders and the allocation of distributable profit in agreement with the proposal of the Management Board:

1. The distributable profit of the Company as at 31 December 2014 amounts to 37,998,464.26 EUR.
2. Dividends are to be paid on 13 April 2015 in the amount of 17,944,000.00 EUR.
3. The rest of the distributable profit in the amount of 20,054,464.26 EUR remains unallocated.

Matjaž Gantar, MSc
Chairman of the Supervisory Board

Koper, 9 April 2015

1.7 REPORT OF THE AUDIT COMMITTEE OF THE SUPERVISORY BOARD – Summary

Formal aspect

The purpose of this report is to pass an expert opinion to the Supervisory Board about the materials to be used in the regular session, in which the Supervisory board will decide about its approval of the annual report, discuss the proposal of the Management Board on the allocation of the distributable profit, decide about approval of the Adriatic Slovenica d.d. annual report, forming an opinion on the independent auditor's report, and about the approval of the Annual report of the Internal Audit department (NRS) and the opinions of the certified actuaries for life and non-life insurance in 2014.

The Audit Committee provides expert support to the Supervisory Board in its supervision over management of the Company's operations. In 2014, the Audit Committee held seven meetings in which its members discussed the following matters:

1. risk management and effective operating of internal controls;
2. effective operations of the Internal Audit department;
3. financial statements and external audit;
4. risk management;
5. monitoring of the review and decisions passed over to the Company by the regulators;
6. monitoring of processes (debt collection, preparation for Solvency II)
7. monitoring of important projects.

In 2015, the Audit Committee also held two meetings in which materials related to approval of the annual report for 2014 were discussed.

In 2014, the Audit Committee consisted of five members: Chairman Matjaž Gantar, Vice-chairman Polona Pergar Guzaj (until 26 March 2014), Vice-chairman Jure Kvaternik (since 26 March 2014) and members Mojca Kek, Milena Georgievski and Matjaž Pavlin

Substantive aspect

Risk management and effective operating of internal controls

In the reporting period, by monitoring the business operations of the Company and the subsidiary AS Osiguranje, members of the Audit Committee also monitored the appropriateness of risk management.

The Audit Committee was informed about actuarial reports for the business year 2014 and concluded that the insurance company calculated the amount of capital and capital adequacy, technical and mathematical provisions and alignment of investments, resources and prescribed limitations on a quarterly basis and regularly reported to the Insurance Supervision Agency. As at 31 December 2014, the amount of capital of the insurance company is adequate, carrying a surplus of capital. Based on the opinions of certified actuaries, an expert assessment can be made that the amount of premiums written in 2014 and the amount of technical provisions as at 31 December 2014 are sufficient to ensure permanent fulfilment of all liabilities of the insurance company, arising from insurance contracts. The reinsurance protection has been assessed as appropriate as well.

Effective operations of the Internal Audit department

The Audit Committee regularly monitors the operations of the Internal Audit department, its effectiveness and performance, including its compliance with the international standards of internal auditing. In 2014, the Internal Audit department operated in line with the annual plan of activities and carried out all the important activities. 13 regular audit reviews were performed. Moreover, it reported regularly to the Management Board and the Audit Committee about the fulfilment of recommendations to the auditees. For this purpose, seven reports were issued.

Among other tasks, the Internal Audit department also monitored compliance with the insurance company's rules of risk management, carried out informal consulting services and other audit activities in line with the requirements made by the Management Board or Audit Committee.

In its audit reports in 2014, the Internal Audit department issued 64 recommendations. The auditees were successful in eliminating the deficiencies since most of the recommendations were realised in the predicted time frame.

Financial statements and external audit

In compliance with its responsibilities, the Audit Committee was actively involved already in the process of selecting a new independent external auditor KPMG Slovenija d.o.o. and determining the required scope of relationship with the auditor.

At first, the Audit Committee was informed about the course of audit procedures. In relation to the auditor's opinion, there were no important problems during the audit.

Related to the annual report of the insurance company for 2014 and the auditor's report of KPMG Slovenija d.o.o., the Audit Committee concludes:

- that the annual report of the Company has been prepared within the statutory deadline and consists of all the mandatory contents;
- that the disclosures in the financial statements are complete;
- that the financial statements are prepared in compliance with the generally accepted auditing standards and adequately reflect the applied accounting policies;
- that the insurance company formed its statutory reserves and reserves for own shares adequately;
- that KPMG Slovenija d.o.o. issued the independent auditor's report on the financial statements of the company with unqualified opinion.

Conclusions

With respect to the information above, the Audit Committee proposes the following to the Supervisory Board:

1. to express a positive opinion on the reports of the certified actuaries;
2. to express a positive opinion on the report of the Internal Audit department for the second half of 2014 and for the year 2014;
3. to express a positive opinion on the independent auditor's opinion in the recommended content and to approve the annual report and consolidated annual report of Adriatic Slovenica d.d. for the year 2014.

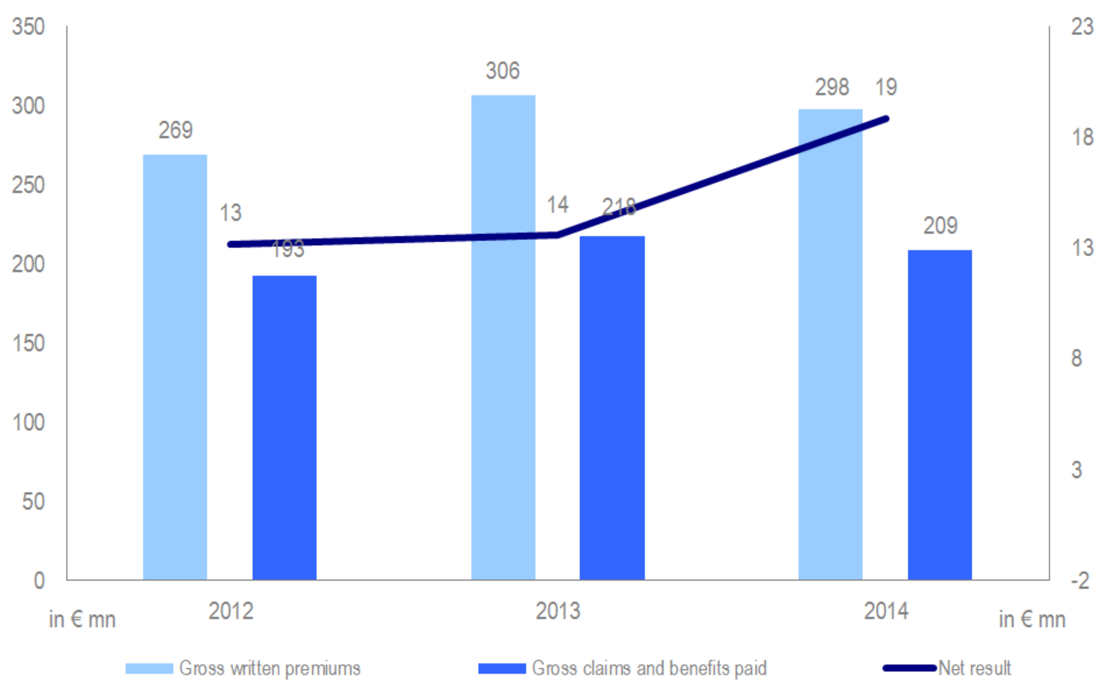
Matjaž Gantar, MSc
Chairman of the Audit Committee
Audit Committee of the Supervisory Board of Adriatic Slovenica

Koper, 9 April 2015

1.8 FINANCIAL AND OTHER HIGHLIGHTS OF ADRIATIC SLOVENICA D.D. IN 2014

	2014	2013
Gross written premiums (in millions of euros)	297.9	306.4
Gross claims and benefits paid (in millions of euros)	208.8	217.6
Market share	15.4%	15.5%
Profit/(loss) before tax (in millions of euros)	22.6	15.9
Profit/(loss) after tax (in millions of euros)	18.8	13.6
Financial investments, cash and cash equivalents (as at 31 December) (in millions of euros)	578.1	532.9
Gross liabilities arising from insurance contracts (as at 31 December) (in millions of euros)	528.6	491.4
Number of employees (as at 31 December)	1,027	1,050
Premium per employee (in thousands of euros)	290.0	291.8
Total investment yield	9.70%	0.20%
Return on equity (ROE)	18.9%	15.1%
Book value of equity (as at 31 December) (in millions of euros)	106.8	93.2
Book value of share in euro (as at 31 December)	10.36	9.04
Capital adequacy index	176	175
Ratings (as at 31 December), Fitch Ratings	BBB- stable (Fitch Ratings)	-

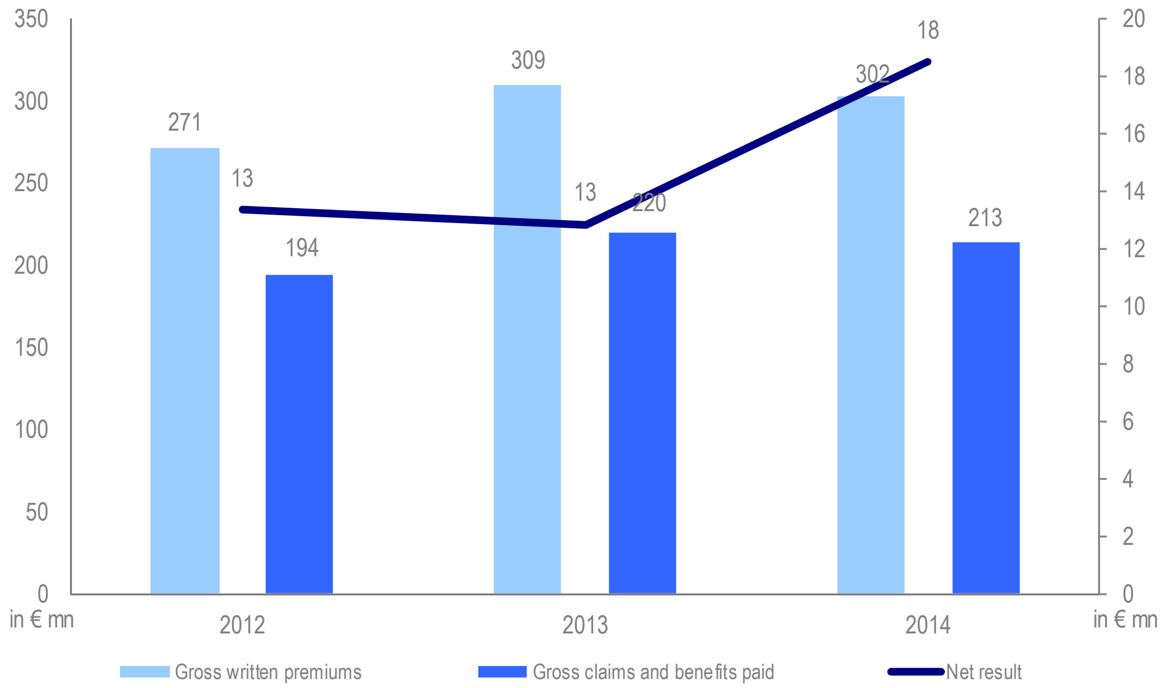
Movement in gross written premiums, gross claims and benefits paid, and net result of Adriatic Slovenica



1.9 FINANCIAL AND OTHER HIGHLIGHTS OF THE GROUP IN 2014

	2014	2013
Gross written premiums (in millions of euros)	302.1	309.1
Gross claims and benefits paid (in millions of euros)	213.5	219.7
Profit/(loss) before tax (in millions of euros)	22.3	15.3
Profit/(loss) after tax (in millions of euros)	18.5	12.9
Financial investments, cash and cash equivalents (as at 31 December) (in millions of euros)	577.8	530.7
Gross liabilities arising from insurance contracts (as at 31 December) (in millions of euros)	534.9	494.9
Number of employees (as at 31 December)	1,152	1,214
Premium per employee (in thousands of euros)	262.1	254.6
Return on equity (ROE)	17.9%	13.7%
Book value of equity (as at 31 December) (in millions of euros)	109.6	96.6
Book value of share in euro (as at 31 December)	10.63	9.36

Movement in gross written premiums, gross claims and benefits paid, and net result of the group



2. GENERAL INFORMATION ABOUT THE PARENT COMPANY AND THE GROUP

2.1 ADRIATIC SLOVENICA D. D.

Registered company name, head office
and address: ....ADRIATIC SLOVENICA Zavarovalna družba d. d.
Ljubljanska cesta 3 a
6503 Koper
Telephone: (05) 66 43 100
Abbreviated company name: .... ADRIATIC SLOVENICA d. d.
E-mail: .... info@as.si
Website: .... http:// www.as.si
Corporate website: ..……………………………...http:// www.as-skupina.si
Company registration number: 5063361
VAT identification number: ....SI 63658011
Share capital: .... 42,999,529.80 euros
Date of entry into the Court Register: .... 20 November 1990

Adriatic Slovenica Zavarovalna družba d. d. – Slovenia's second biggest insurance company – was established on 29 December 2005 by combining the strengths of two well-known Slovenian insurers.

The alliance was made back then between Slovenica, zavarovalniška hiša d. d. Ljubljana, and Adriatic Zavarovalna družba d. d. Koper. Adriatic changed its name and since then it operates under the company name of Adriatic Slovenica Zavarovalna družba d. d. The merger was the first and still remains the only successful merger in Slovenia's insurance sector, blending two corporate entities each with its sales and distribution network, of all employees, assets, resources, strengths and knowledge. The capitalisation and soundness of the new insurance company has increased, as well as access to high-quality insurance products and services across the Slovenian territory. By combining the businesses of the insurers, Adriatic Slovenica remains to date the only insurance provider in Slovenia with a full range of insurance services in its portfolio: health insurance, non-life, life and pension insurance.

Adriatic Slovenica is proud of its extensive distribution network, consisting of nine area branch offices located in all regional centres of Slovenia (Koper, Postojna, Nova Gorica, Ljubljana, Kranj, Novo mesto, Celje, Maribor and Murska Sobota). The company offers its services in five more branch offices and 37 representative offices. Within a network of contractual points-of-sale (agencies), insurance services are also available at 134 agencies and 166 complementary points-of-sale. Altogether, the insurance services of Adriatic Slovenica were at the end of 2014 available at 351 points-of-sale and in two banks. Since 2012, Adriatic Slovenica also offers KD Skladi products in all of its nine regional offices.

As Adriatic Slovenica continues to grow business and revenue, it ensured a foothold in the market of South-eastern Europe back in 2008. It established a subsidiary in Belgrade AS neživotno osiguranje a.d.o. Beograd (Serbia), a public limited company authorised to sell non-life and health insurance in Serbia. On 24 November 2011, Adriatic Slovenica registered a fully owned company specialised for debt collection Prospera d.o.o., Koper, with the aim to make debt collection more effective in a long term. The company was entered into the court register on 16 December 2011. On 14 May 2012, Adriatic Slovenica established Viz d.o.o., the first company in Slovenia to introduce an efficient car insurance web portal www.wiz.si. On 15 May 2014, the insurance company concluded the purchase of Croatian life insurance company KD životno osiguranje d.d., and, as the only owner, became an indirect parent company to Permanens d.o.o. subsidiary.

Short history of the company

1990

The insurance company Adriatic d. d., Koper was established back in 1990 and it took it just a couple of years to achieve its goal - to put in place an extensive distribution network across Slovenia and Istria. The first branches were opened in 1991 in Koper, Pula, Ljubljana, Celje and Kranj, followed by the branches established in 1992 in Postojna, Nova Gorica, Novo mesto and Maribor and the branch in Murska Sobota established in 1993. Adriatic transformed the branch office established in Pula into a legal entity Adria Pula in 1992 and had a majority interest in the new company only to sell it in 1996 in line with a new business strategy and the situation in the market.

1999

Adriatic acquired the controlling stake in Slovenica d. d. in 1999 (51.2 per cent). From the ISA, it obtained the licence to engage in all types of insurance services. The market share of Adriatic d. d. in 2004 in terms of aggregate gross written premium was 9 per cent and positioned it in the fourth place among all insurance companies in Slovenia, and the second place in the supplementary health insurance business having an 18 per cent market share

2005

The insurance company registered as Zavarovalniška hiša SLOVENICA d. d., Ljubljana, was incorporated at the end of 1992. KD Holding d. d., Ljubljana became in 1996 its majority shareholder and in 1999 KD Holding d.d. acquired the majority stake also in the insurance company Adriatic d. d. In 2004, life insurance business was carved out and spun off to a new life insurer SLOVENICA ŽIVLJENJE, d. d. The new life insurer started to operate on 3 January 2005. Before the merger, SLOVENICA d. d. had the authorisation to provide all other classes of insurance except life. The market share measured by gross premium written by Zavarovalniška hiša Slovenica d. d., Ljubljana excluding the insurance business spun off to the life insurer Slovenica Življenje was 4 per cent in 2004 and it earned Slovenica the fifth place among all insurance companies in Slovenia. On 22 August 2007, the life insurance company Slovenica Življenje d. d. changed its name to KD Življenje, zavarovalnica d. d.

2010

On 20 November 2010, Adriatic Slovenica celebrated its 20th anniversary in the insurance business, marked by continuous growth. The merger of Adriatic and Slovenica back in 2005 has resulted in a strong insurance company capable of delivering a higher level of safety to the persons insured, is in a position to provide better services, and continues to develop modern insurance operations in the field of marketing and distribution, human resources and informatics. Growth is demonstrated also through product innovation, and on many occasions, Adriatic Slovenica has been the leader in the Slovenian insurance market with new insurance solutions and accessibility of insurance.

2013

On 1 October 2013, in a split-off process, Adriatic Slovenica took over the employees and the entire portfolio of its sister insurance company KD Življenje. The latter was in 2012 in the fourth place on the Slovene life insurance market with a premium of 51.3 million euros and 8.85 per cent market share. With the merger with KD Življenje, Adriatic Slovenica expanded the selection of insurance packages and services, and offered its clients secure, competitive, comfortable and modern services under one umbrella. It has also strengthened its position as the second largest insurance company on the Slovene market – at the end of 2013, it had a 15.6 per cent market share with 306 million euros of gross premium (in the year before the merger, the market share of AS was 13.2 per cent, and in 2011, it was 12.68 per cent) or 2.5 percentage points more than in the previous year. By acquiring the life insurance portfolio, the market share of AS in this segment increased to 10.5 per cent of Slovene market, while the market share of non-life insurance market share decreased by 0.1 percentage point, compared to 2012 and reached 17.5 per cent. Principally due to the take-over of KDŽ portfolio, AS ended 2013 with 13.7 percent higher premium, while the total premium of Slovene market fell by 4.4 per cent (2.7 per cent in 2012).

2014

On 15 May 2014, Adriatic Slovenica closed the purchase of the Croatian life insurance company KD životno osiguranje d.d. and, as the 100 per cent owner, became the indirect parent company of its subsidiary, Permanens d.o.o., engaged in life insurance sales. In 2014, Adriatic Slovenica increased its investment in KD životno osiguranje d.d. subsidiary after decisions of the general meeting, in the total amount of 774,332 euros, and started the activities for establishing a new branch on the Croatian market.

2.2 ADRIATIC SLOVENICA GROUP

Apart from the parent company Adriatic Slovenica Zavarovalna družba d.d., the group consists of the following subsidiaries: AS neživotno osiguranje a.d.o. Beograd, Prospera d.o.o. and Viz d.o.o., headquartered in Koper, and KD životno osiguranje d.d. and the indirect subsidiary Permanens d.o.o. in Zagreb.

AS neživotno osiguranje a.d.o. Beograd

Registered company name, head office and address:	AS neživotno osiguranje a.d.o. Beograd Bulevar Milutina Milankovića 7v 11000 Novi Beograd, Serbia Telephone: + 381 11 260 86 76 Fax: +381 11 31 21 689
E-mail:	info@as-osiguranje.rs
Website:	www.as-osiguranje.rs
Company registration number:	20384166
VAT identification number:	105510418
Company objects:	Property / non-life business
Share capital: …………..	5,241,063 euros
Participation of the parent company in subsidiary's capital:	97.27 %
Registration date:	28 January 2008

Management and supervision authorities:

General Director: .... Aleksandar Mitrović (since 1 October 2014)

Board of Directors (31 December 2014):

Aleksandar Mitrović, President, Executive Director

Bojana Svilar, Member, Executive Director

Willem Jacob Westerlaken, Member, Non-executive Director

Tomaž Peternelj, Member, Non-executive Director (since 4 November 2014)

Audit Committee (since 1 July 2012):

Matjaž Rizman, President

Jadranka Maček, Member

Matej Cergolj, Member

Presentation of subsidiary AS neživotno osiguranje a.d.o. Beograd

In December 2007, Adriatic Slovenica d.d. established a new organisational unit Tuji trgi (Foreign markets) which began to fulfil the conditions for expanding the business to markets of the former Yugoslavia.

With the permission of the National Bank of Serbia, on 28 January 2008, the AS neživotno osiguranje a.d.o. Beograd subsidiary was established for marketing of non-life insurance in Serbia. The company began its operations on 5 September 2008. As early as on 18 December 2008, AS neživotno osiguranje a.d.o. opened its first subsidiary in Novi Sad, the capital of Vojvodina. In 2009, it was followed by intense development of sales network by opening subsidiaries in Čačak, Niš, and branch offices in Šabac and Kruševac. AS neživotno osiguranje a.d.o. Beograd began to gradually position itself on Serbian insurance market. At the beginning of 2010, due to the increased business volume, the central headquarters of the company and its business unit in Beograd moved to new business premises. From 2012 to 2014, the company, in line with its mid-term strategy, aimed at further restructuring of its insurance portfolio in the favour of non-life insurance and lowering the share of motor vehicle liability insurance, and consolidation of operations with an emphasis on optimisation. At the end of 2012, the company closed its office in Vojvodina and remained present on the wide area around Beograd and in southern Serbia.

The headquarters of the company and the Beograd business unit moved to smaller premises in autumn of 2013. Together with partners, they established information systems support for travel and assistance insurance which are available to clients online under “AS Direct” trademark. They have also provided infrastructural solutions and a web application, as well as support for all back-office processes related to new products. They developed two new types of car assistance insurance and, as the first insurance company in Serbia, the possibility of online taking out health insurance abroad and car assistance AS Direct. Clients can take out insurance on any mobile device and pay with credit cards, via mobile banking or SMS if they are subscribed to Telekom Srbije network.

In June 2014, the insurance company again carried out a reorganisation and optimised the number of employees. At the end of 2014, the decision was made to focus only on non-life insurance sales and retain a minimal volume of motor vehicle liability insurance with the aim of maintaining the full licence for performing non-life insurance operations while fulfilling regulatory requirements.

Prospera d.o.o.

Registered company name, head office and address: ……..................... Prospera družba za izterjavo d.o.o.
Ljubljanska cesta 3
6000 Koper
Telephone: (05) 6643 100
Fax: (05) 6643 480

Company registration number: 6074618000

VAT identification number: .... SI 34037616

Company objects: ....Other unallocated financial services operations apart from insurance operations and pension fund operations

Share capital:..100,000.00 euros

Participation of the parent company in subsidiary's capital:...................100.00 %

Registration date:...16 December 2011

Management and supervision authorities:

Director: .... Bojana Merše

Procurator: ……………..……………………………………..……………..Savo Marinšek

Presentation of subsidiary Prospera d.o.o.

At the end of 2011, Adriatic Slovenica d.d. decided that the legal and insolvency proceedings part of debt collection process be outsourced to an external partner. With the aim of optimisation of collection process, and also from the viewpoint of operating risks, the parent company established a subsidiary with limited liability, named Prospera d.o.o., on 24 November 2011. The company was entered in the register of companies on 16 December 2011 and classified as "Other unallocated financial services operations apart from insurance operations and pension fund operations", which includes debt collection.

The principal activity of the company is debt collection, especially in the legal and insolvency proceedings part, with the aim of optimisation of collection process, also from the risk management viewpoint. After the initial purchase of a large part of enforced recourse receivables towards the parent company in total gross amount of 24.1 million euros in 2011, in the years from 2012 to 2014, Prospera purchased additional 24.7 million euros of receivables from unpaid insurance premium, recourse, and receivables from insolvency procedures. The key money for additional purchases in 2012 and 2013 in total amount of 4.5 million euros was entirely provided from the surplus of current business assets. Prospera will also provide from its own resources the key money for the purchase in 2014 in the amount of 1.3 million euros, with due date 30 June 2015.

Since its establishment, for the second year, Prospera has closed the business year with net profit. In 2013, the net profit was 260 thousand euros, and in 2012, it amounted to 263 thousand euros, which reflects the stable and successful operations. All of the net profit was paid to the partner.

In the business year of 2014, Prospera was operating successfully and exceeded the plans. In 2015 as well, the principal direction of Prospera will be to proceed with purchases of receivables from the parent company. At the same time, it will participate in a targeted debt collection process for KD Group. Potentially, also some sample purchases of receivables on the open market will be made.

Viz d.o.o.

Registered company name, head office and address: .... Viz zavarovalno zastopništvo d.o.o.
Ljubljanska cesta 3 a
6000 Koper
Toll-free phone: 080 11 24
Website: www.wiz.si

Company registration number: 6161456000

VAT identification number: SI87410206

Company objects.. Operations of insurance agents

Share capital: .... 350,000.00 euros

Participation of the parent company in subsidiary's capital: .... 100.00 %

Registration date:.. 14 May 2012

Presentation of subsidiary Viz d.o.o.

Viz d.o.o. is in charge of development, processing and support processes for WIZ insurance, which is on the market since 28 May 2012 exclusively via the www.wiz.si website. Visitors of the website can, apart from the mandatory motor vehicle liability insurance, choose among coverages "WIZ voznik" (WIZ driver - motor third-party liability plus), "WIZ Kasko" (full hull insurance), "WIZ Asistent" (WIZ Assistant - car assistance) and "WIZ Nezgoda" (accident insurance in case of death), "WIZ Zdravje" (supplementary health insurance) and "WIZ Zdravje plus" (a combination of first-rate health and accident insurance).

Among the most important business events in 2014 are certainly the additional offers of "WIZ Zdravje" and "WIZ Zdravje plus" products, and the recapitalisation by the company's only partner, Adriatic Slovenica, in the amount of 72,500 euros.

In May 2012, within the WIZ zavarovanje trademark, Adriatic Slovenica offered the first internet-focused car insurance. It is a simple, affordable and quality insurance for people with a dynamic lifestyle who utilise modern ways of business on a daily basis.

In 2014, there were almost 140,000 visitors of www.wiz.si website, and over 4,000 new and renewed car insurance and supplementary health insurance policies were taken out via the website.

KD životno osiguranje d. d.

Registered company name, head office and address: …....................... KD životno osiguranje a. d.
Draškovićeva 10
10000 Zagreb, Croatia
Telephone: +385 1 6285 101

Fax: +385 1 6197 456

Website:…………….……………………………………………………..….. www.kd-life.hr

Company registration number: 080655516

VAT identification number: 01695526582

Company objects:... Life insurance

Share capital:.. 6,571,559.16 euros

Participation of the parent company in subsidiary's capital:........................100.00 %

Registration date:.. 5 May 2008

Management and supervision authorities:

Director/President of the Management Board: .... Neven Tišma

Management Board Member: …....…………………………………….……. Zvjezdan Karlić

Presentation of subsidiary KD životno osiguranje d.d.

KD životno osiguranje insurance company, which sells a rich variety of life insurance packages, is the leading provider of unit-linked life insurance on the Croatian market. In 2014, it operated in Zagreb (headquarters), Osijek, Varaždin and Split. The company also cooperates with twenty insurance agencies on the Croatian market, which discovered the best way to save money for the third age. Marketing is done via the company's own sales network and also in its subsidiary, Permanens agency. The successful sales of unit-linked life insurance will be strengthened even further in the next five years by expanding the company's own sales network and adding new insurance packages. The five-year plan also includes converting the subsidiary into a branch office which will also sell non-life insurance.

Subsidiary Permanens d.o.o.

Registered company name, head office and address: .... Permanens d.o.o.

Draškovićeva 10

10000 Zagreb, Croatia

Company registration number: 080666730

VAT identification number: 56019896671

Company objects:.. Operations of agents and dealers

Share capital:.. 142,347.87 euros

Participation of the parent company in subsidiary's capital:....................... 100.00 %

Registration date:.. 27 June 2008

Management and supervision authorities:

Director: .... Nikolina Vidović Turković

Presentation of subsidiary Permanens d. o. o.

Permanens was established in 2008 as the key sales channel of KD životno osiguranje company. In 2013, there was a change in legislation which enabled KD životno osiguranje to become the formal owner of Permanens. Today, Permanens has ten employees and operates in Zagreb.

3. OUR VISION AND VALUES

Adriatic Slovenica is part of KD Group which has established a new development strategy in 2012. The circumstances determined the considerations about future course of business to optimise the company's financial structure and strengthen its financial robustness. With the new strategy that is based on the target industry, that is insurance, accompanied with services of high-quality wealth management and investment products, a solid foundation for cost-effective business, growth and development was laid. The final aim of the new strategy is establishment of a group which would in three to five years become one of the leading insurance groups with its main market in Slovenia. The company in charge of the group will be Adriatic Slovenica insurance company. Its aim, that is additional sales growth at home and on foreign markets, will be reached by means of organisational restructuring, concurrently with optimisation of product portfolio. As the company in charge of KD Group, Adriatic Slovenica unified its vision to agree with the new strategy of the group.

Our vision

Adriatic Slovenica aims to become one of the leading insurance and finance groups with its main market in Slovenia and subsidiaries on the Balkans territory. The insurance company will promote life, non-life and health insurance, accompanied with high-quality wealth management and investment products. At Adriatic Slovenica, we place the policyholder at the core of our activities and are committed to offer clients quality and competitive solutions – products, services and sales channels.

Corporate, management and employees' values

In order to adapt to the market even more effectively, and to successfully follow the business goals, we have thoroughly revised our values in 2012. They are followed by all of us, including the management, which lives up to them and represents a model for the employees. Our values are the basis of our relationships inside the company and are reflected in our relationships with the clients and other stakeholders in the environment.

Responsibility

With our deeds, we give out the message that our practice is reliable. Stakeholders can rely on us because we act with due care and attention and keep our promises. We fulfil the expectations of our customers, environment and employees.

Trust

We build trust on high ethical standards that are based on open relationships and ensure coordinated operations. Through trust, we create an environment of growth and overcome obstacles with respect and mutual help. Our attitude and actions are reliable because we respect mutual agreements.

Proaction

We constantly reconsider our upcoming steps because we have the courage and experience to make changes. We look towards the future. Our proactive actions are directed towards reaching our aims in terms of business results as well as the satisfaction of our clients, owners and employees.

Passion and pleasure

We love our business, therefore, we radiate passion and pleasure doing our work. We accept challenges with optimism because we believe that we can make a change. Passion and pleasure in what we do give us the drive to not stop halfway through, but to continue on the way to our goal.

Winners' attitude

With our work and results, we prove that we are winners. Our success is the result of team work, cooperation and enthusiasm of the winning team of over a thousand employees. We believe in our success because we are led by high moral standards and respect for the integrity of every individual.

4. MANAGEMENT AND CORPORATE GOVERNANCE OF ADRIATIC SLOVENICA D.D.

4.1 SUPERVISORY BOARD

Chairman:

Matjaž Gantar, MSc

Members:

Sergej Racman (until 22 May 2014)

Aljoša Tomaž

Tomaž Butina

Aleksander Sekavčnik

Members – representatives of employees:

Viljem Kopše

Matjaž Pavlin

Ljuba Miljušević (until 22 July 2014)

4.2 MANAGEMENT BOARD

President: Gabrijel Škof

Member of the Management Board: Willem Jacob Westerlaken

Member of the Management Board: Varja Dolenc, MSc (since 13 January 2014)

Member of the Management Board: Matija Šenk (since 31 January 2014)

4.2.1 Meet the members of the Management Board

Gabrijel Škof, President of the Management Board

Born in 1960 in Ljubljana.

Education and professional training:

- Graduated from the Faculty of Law, Boris Kidrič University in Ljubljana 1986 (LL.B.).
- Passed the bar exam on 25 October 1989 before the Republic Secretariat for Justice and Administration of the Republic of Slovenia having completed one year law internship at the Higher Court of Ljubljana.

Professional experience record:

1986 – to date in the insurance business, Executive Director for non-life insurance, Member of the Management Board, Adviser to the Management Board, Director of the Ljubljana Branch (Zavarovalnica Triglav d. d.).

Adriatic Slovenica d. d.

- 9 November 2006 to 30 September 2007 – Member of the Management Board.
- 1 October 2007 to date – President of the Management Board.

Membership of and functions in professional organisations and associations and bodies of enterprises and Institutions:

- Member of the Board of Directors of KD Group d.d.,
- Executive Director of KD Group d.d.,
- Member of the Supervisory Board of Sarajevo osiguranje (since 9 September 2014),
- Member of the Council of the Slovenian Insurance Association,
- Member of the Supervisory Board of the Nuclear Insurance and Reinsurance Pool,
- Member of the Organising Committee for the preparation and performance of the Insurance Days since 1999 to date, and President of the Organising Committee in 2014,
- Member of the Board of Directors of the Chamber of Commerce and Industry of Primorska,
- Member of the Manager's Association of Slovenia.

Willem Jacob Westerlaken, Member of the Management Board

Born in 1967 in Delft, the Netherlands.

Education and professional training:

- Mathematical Engineering, TU Delft, the Netherlands, Engineer of Mathematics, 1991,
- Actuarial Science, Amsterdam, the Netherlands, specialisation in actuarial science, 1995,
- INSEAD, training "Finance for Executives", 2004.

Professional experience record:

- January 1994 to May 1995 – Brans&co, May 1995 to September 1996 – Reaal, September 1995 to December 1998 – Stichting Performance, January 1999 to March 2000 – Amev / Fortis,
- March 2000 to May 2005 – Senior Vice president in ABN / Amro,
- May 2005 to December 2007 – CEO for Europe of Fortis Insurance International,
- December 2007 to February 2009 – CEO of Rosgosstrauh insurance company,
- October 2009 to August 2011 – Partner in Financial Access Consulting Services.

Adriatic Slovenica d. d.

- Since 1 October 2011 – Adviser to the Management Board,
- Since 25 November 2011 – Member of the Management Board.

Membership of and functions in professional organisations and associations and bodies of enterprises and Institutions:

- Executive Director of KD Group d.d.,
- Chairman of the Supervisory Board of KD Skladi,
- Member (Non-executive Director) of the Board of Directors of AS neživotno osiguranje Beograd,
- Member of the Supervisory Board of KD životno osiguranje, Croatia (since 20 June 2014),
- Member of the Dutch Actuarial Association,
- Member of the Manager's Association of Slovenia.

Varja Dolenc, MSc, Member of the Management Board

Born in 1971 in Ljubljana.

Education and professional training:

- Faculty of Economics at the University of Ljubljana, BSc in Economics; money and finance, 1995.

- Master's degree studies at the University of Reading, Great Britain, MSc. in International Securities, Investment and Banking, 1999.

Professional experience record:

From 1996 to 2013 in banking. Assistant to the Management Board in charge of an asset management centralisation project within the NLB Group in Slovenia. Executive Director of Marketing, Client Segments and Development. Back-Office Services Director for treasury operations and investment banking (NLB d.d. Ljubljana). Chairman of the Supervisory Board of NLB Skladi, asset management. Member of the Supervisory Board of Skupna pokojninska družba.

Adriatic Slovenica d.d.

- Since 1 January 2013 Adviser to the Management Board.
- Since 13 January 2014 Member of the Management Board.

Membership of and functions in professional organisations and associations and bodies of enterprises and Institutions:

- Director of KD IT,
- Member of the Slovenian Directors' Association,
- Member of the Association Of Female Managers FAM,
- Member of the Manager's Association of Slovenia.

Matija Šenk, Member of the Management Board

Born in 1962 in Ljubljana.

Education and professional training:

- Faculty of Mathematics and Physics at the University of Ljubljana, BSc. Engineer of Mathematics, 1992.
- Faculty of Economics at the University of Ljubljana in cooperation with the Faculty of actuaries, Great Britain, authorised actuary, 2000.

Professional experience record:

- 1990 to 1996 – teacher of mathematics at the Šubičeva Grammar School in Ljubljana,
- 1996 to 2002 – active participation in establishing Generali zavarovalnica d.d. insurance company in Slovenia,
- 2002 to 2005 – Member and President of the Management Board of Slovenica, zavarovalniška hiša d.d.,
- 2005 d to o 2006 – President of the Management Board of Slovenica Življenje d.d.,
- 19 February 2007 to 1 October 2013 – President of the Management Board of KD Življenje d.d.,
- 3 February 2009 to 16 November 2009 – Member of the Management Board of KD Group d.d.,
- 1 October 2013 to 30 January 2014 – Director of KD IT.

Adriatic Slovenica d.d.

- From 2006 to 2007 Member of the Management Board and Deputy President,
- Since 31 January 2014 Member of the Management Board.

Membership of and functions in professional organisations and associations and bodies of enterprises and Institutions:

- Executive Director of KD Group d.d.,
- Deputy President of the Supervisory Board of KD Skladi,
- President of the Supervisory Board of KD životno osiguranje, Croatia,
- President of the Advisory board of the European Actuarial Academy,
- Regular lecturer at annual meetings of the Chief Risk Officer Assembly within the Geneva Association.

4.3 SHAREHOLDER STRUCTURE OF THE PARENT COMPANY

Adriatic Slovenica d.d.

Shareholder structure as at 31 December 2014

Shareholder	No. of shares	Shareholding
KD Group d. d.	10,304,407	100 %
Total	**10,304,407**	**100 %**

The share capital of Adriatic Slovenica insurance company as at 31 December 2014 amounted to 42,999,529.80 euros.

4.4 SHAREHOLDER STRUCTURE OF SUBSIDIARIES

AS neživotno osiguranje a.d.o. Beograd

Shareholder structure of the subsidiary as at 31 December 2014

Shareholder	No. of shares	Shareholding
Adriatic Slovenica d. d.	197,165	97.27%
KD Kvart	5,537	2.73%
Total	**169,752**	**100.00%**

Prospera d.o.o.

Shareholder structure of the subsidiary as at 31 December 2014

Shareholder	Shareholding
Adriatic Slovenica d. d.	100%
Total	**100.00%**

Viz d.o.o.

Shareholder structure of the subsidiary as at 31 December 2014

Shareholder	Shareholding
Adriatic Slovenica d. d.	100%
Total	**100.00%**

KD životno osiguranje a. d.

Shareholder structure of the subsidiary as at 31 December 2014

Shareholder	No. of shares	Shareholding
Adriatic Slovenica d. d.	503,250	100 %
Total	**503,250**	**100.00 %**

KD životno osiguranje a.d. is also the 100-per-cent owner of a small subsidiary Permanens d.o.o.

4.5 ORGANISATION AND ORGANISATIONAL STRUCTURE OF ADRIATIC SLOVENICA D.D. AND THE GROUP

The internal organisation of the company complies with the technologic needs of business processes and demands for effectiveness, competitiveness and profitability of business operations. It encourages employees to efficiently perform business processes and pursue strategic and developmental goals. We plan, design and implement our business processes in order to ensure strategic development and profitable performance for the company and quality insurance services for the policyholders. We build corporate policy on the organisational culture, based on our values.

The company executes business processes within its central macro-organisation units and business units. The business system of Adriatic Slovenica comprises nine business units (area branches) and it is run from the corporate headquarters set up in Koper where the departments (expert services) carry out insurance and other professional tasks for the branch offices and the Group as a whole.

The pillars of the distribution network are the nine business units (area branches) located in all major towns of the Slovenian administrative regions: Celje, Koper, Kranj, Ljubljana, Maribor, Murska Sobota, Nova Gorica, Novo mesto and Postojna. Below the area branch level, there are five branches located in Domžale, Idrija, Krško, Slovenj Gradec and Grgar, and 37 representative offices. Within a network of contractual points-of-sale (agencies), insurance services are also available at 134 agencies and 166 complementary points-of-sale. Altogether, the insurance services of Adriatic Slovenica were at the end of 2014 available at 351 points-of-sale and in two banks. Since 2012, Adriatic Slovenica also offers KD Skladi products in all of its nine regional offices.

AS neživotno osiguranje a.d.o. operates in Serbia with three business units: Beograd (where also the central headquarters are), Čačak and Niš, 2 branch offices (Vranje and Leskovac) and 2 points-of-sale (Bor and Subotica). In 2014, the company cooperated with 9 insurance representative agencies, 10 insurance intermediary agencies and 8 technical inspection companies.

KD životno osiguranje d.d., Croatia, operates in Zagreb, where it is also headquartered. Other sales offices are in Osijek, Varaždin and Split. KD životno osiguranje also cooperates with approximately 20 insurance agencies, therefore, its services are available almost across the whole country, since the sales network covers approximately 90 per cent of Croatia.

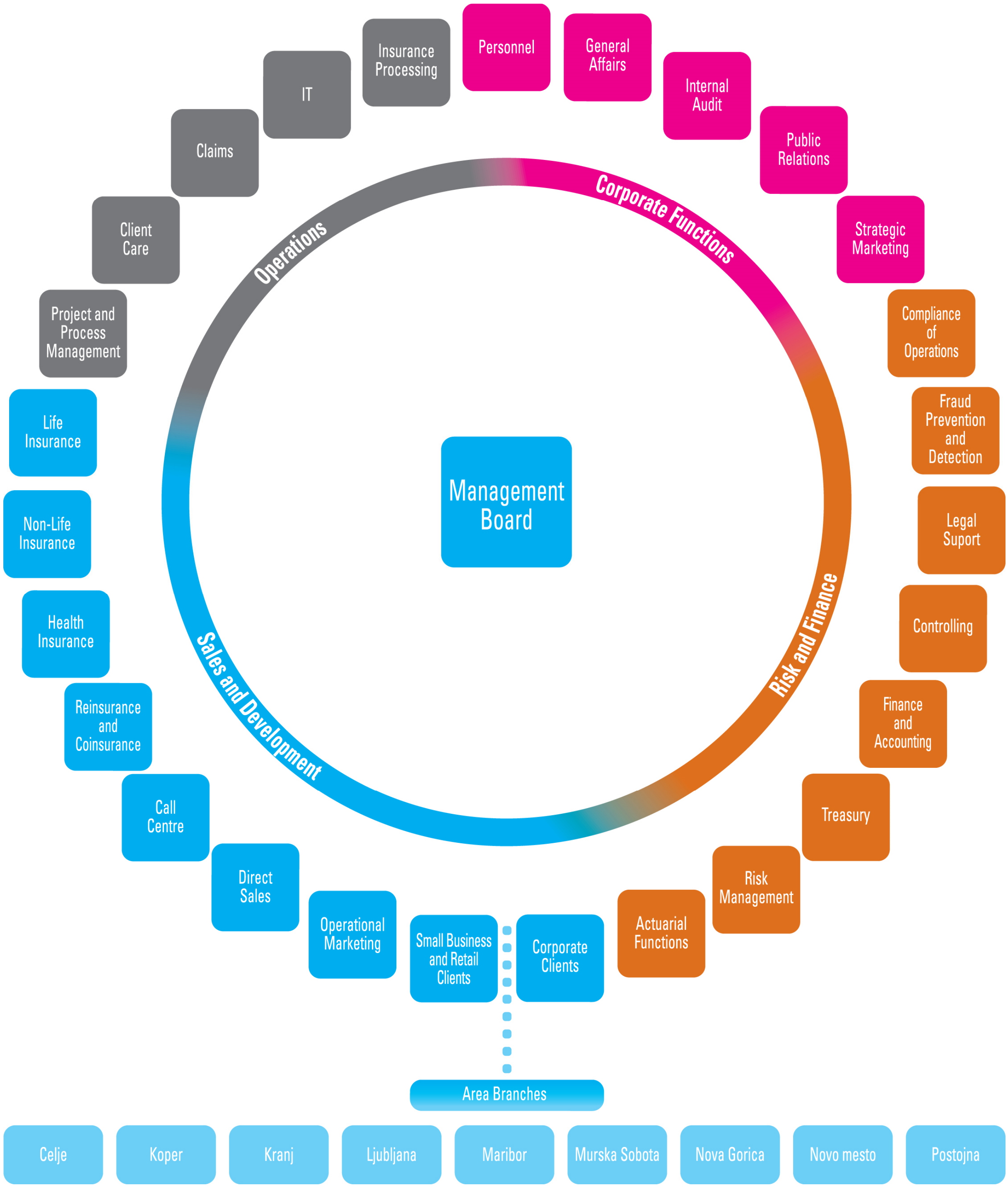
Prospera d.o.o. subsidiary was established by Adriatic Slovenica in 2011, and it is specialised in debt collection. The establishment of a debt collection company was important for the parent company because the parent company could from then on focus on its principal activity. At the end of 2014, Prospera had 49 employees (8 full-time employees and 41 part-time in Prospera / part-time in AS).

In 2012, Adriatic Slovenica established the subsidiary **VIZ d.o.o.** to which the management of WIZ trademark was transferred. WIZ insurance provides car insurance products, and since 2014, also health insurance, available for online subscription via an internet portal. At the end of 2014, VIZ d.o.o. had 5 employees.

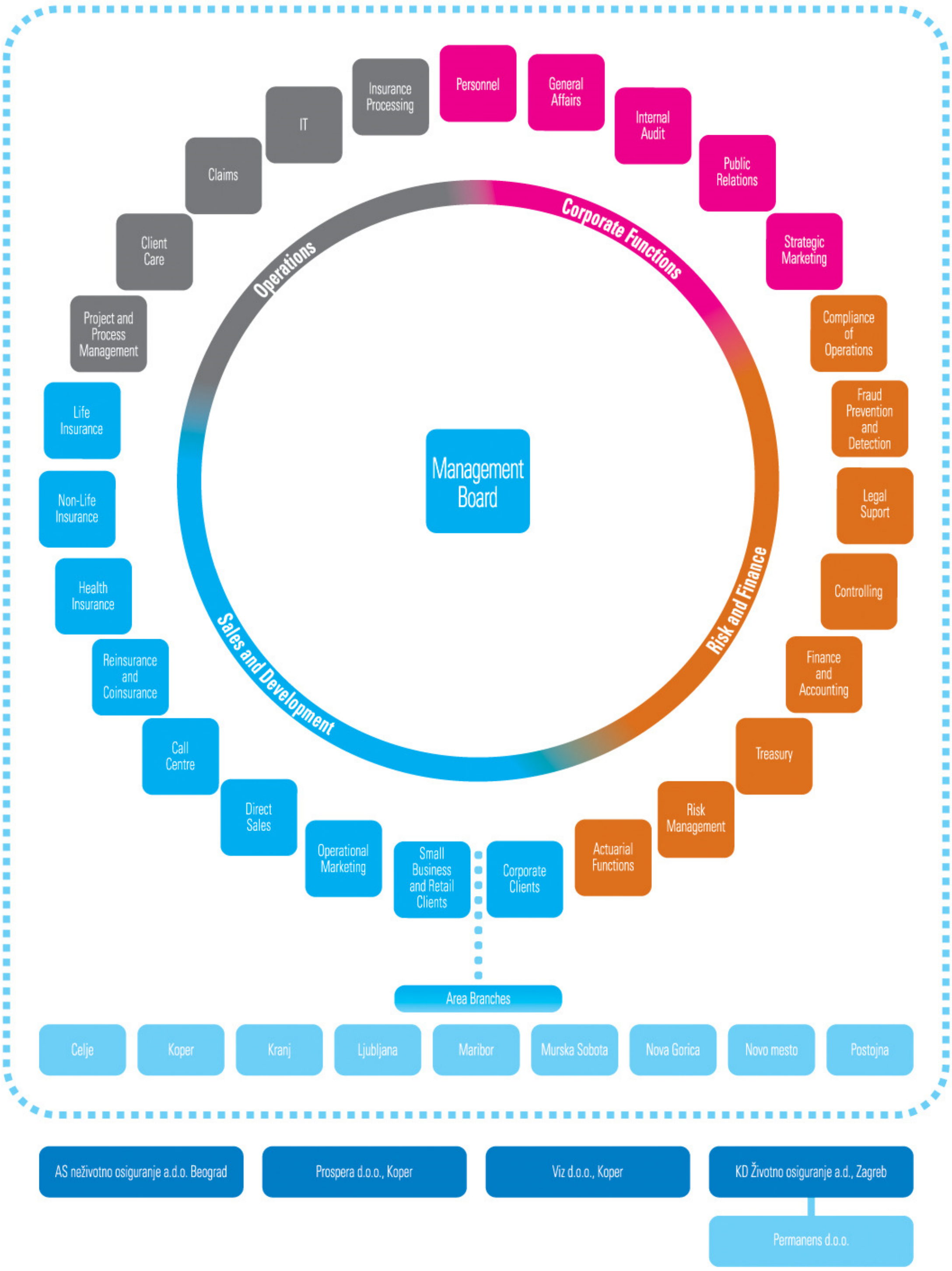
In line with the KD Group strategy, which puts insurance business in the forefront of its operations, Adriatic Slovenica is assuming the leading role within KD Group. The regional insurance group will ensure a long-term growth and development of the Group.

In 2013, the parent company carried out an internal change of organisation, with an emphasis on process approach. Consequently, team work and work flexibility became the basic guidelines for all employees, which enables greater adaptability and a better focus on fulfilling the needs of our clients.

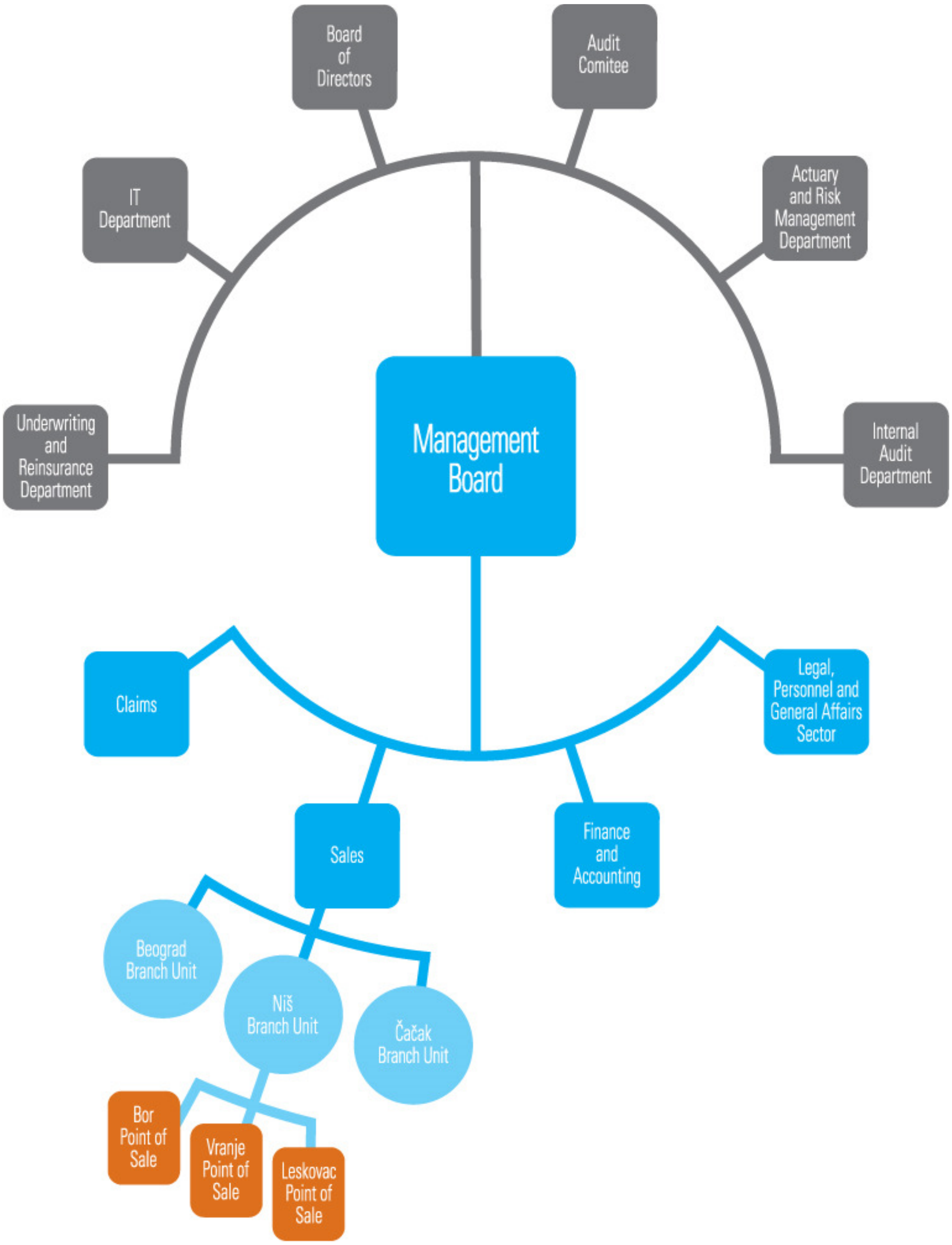
Organisational scheme of the parent company Adriatic Slovenica d.d.



Organisational scheme of the Adriatic Slovenica Group

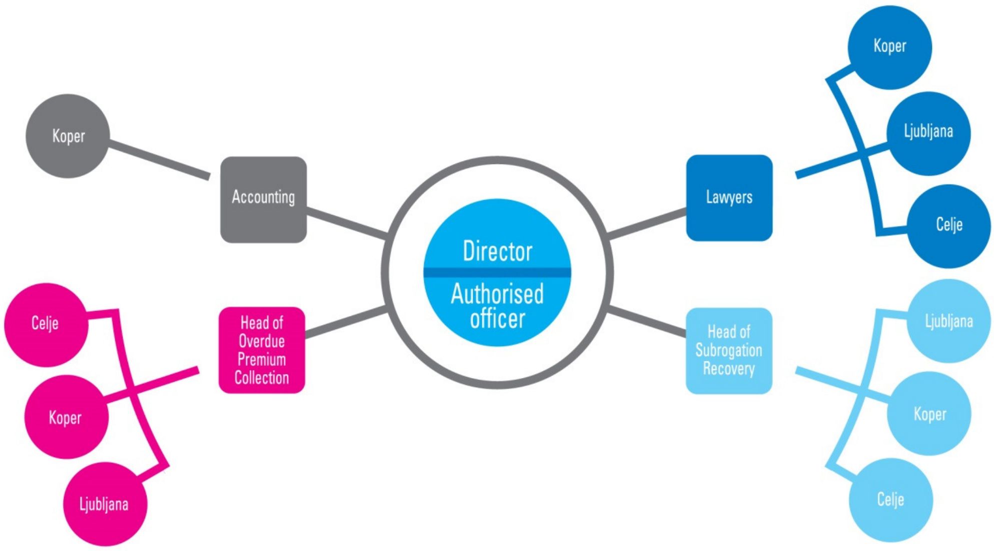


Organisational scheme of the subsidiary AS neživotno osiguranje a.d.o. Beograd

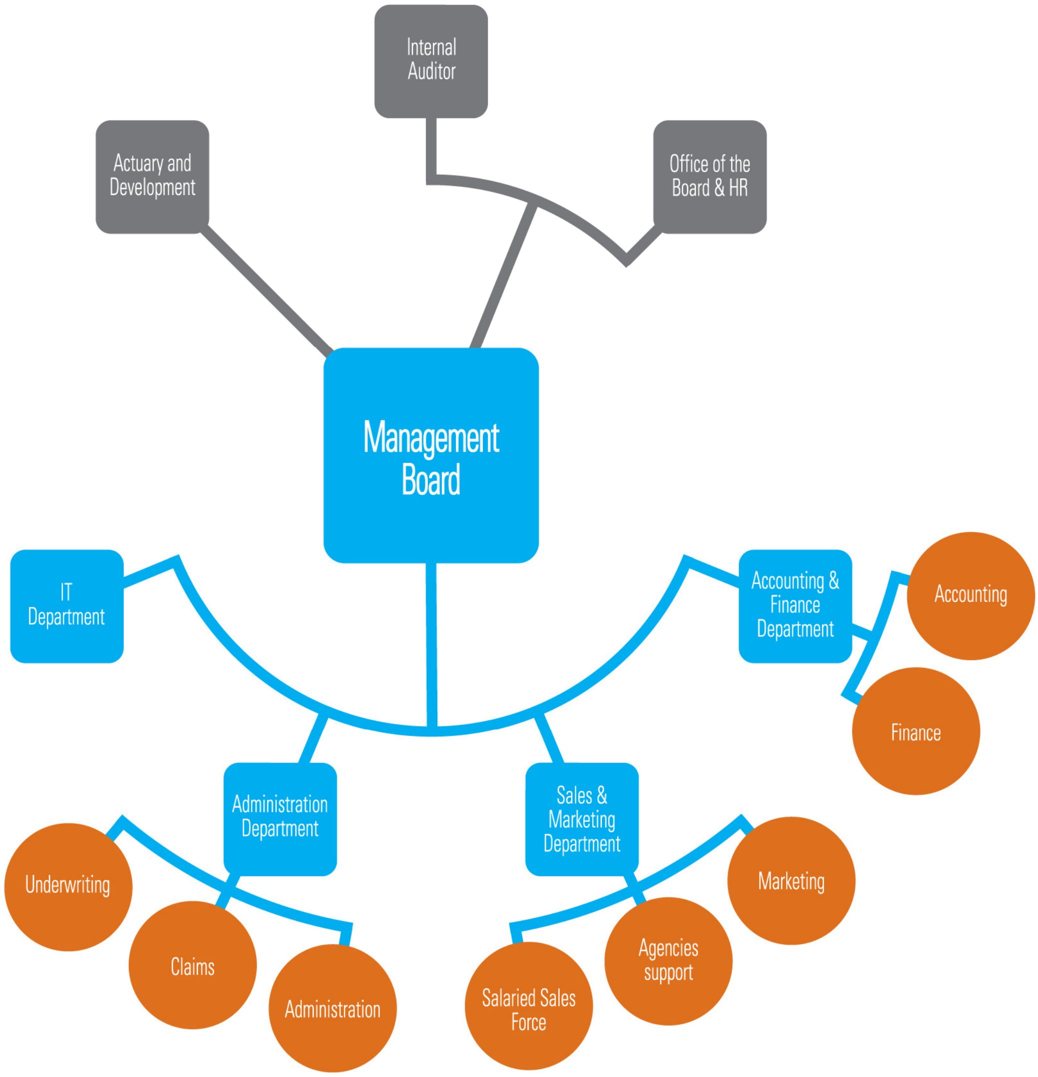


Organisational scheme of the subsidiary VIZ d.o.o.

Organisational scheme of the subsidiary Prospera d.o.o.



Organisational scheme of the subsidiary KD životno osiguranje a.d.

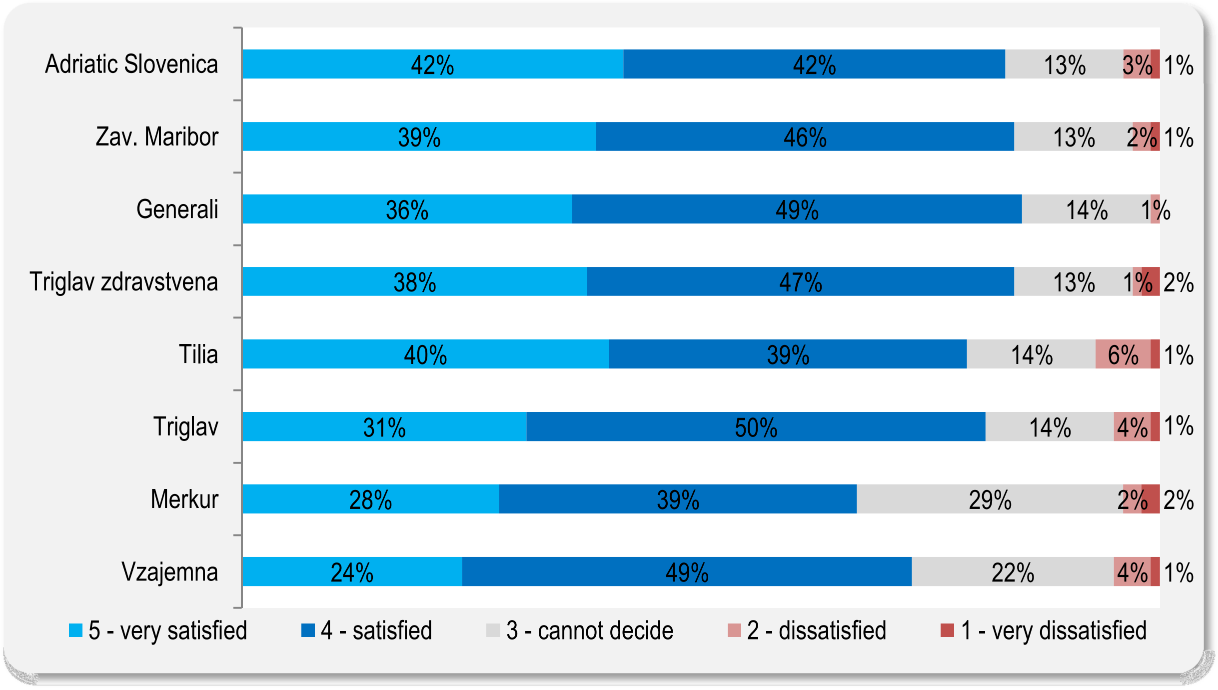


4.6 INSURANTS' SATISFACTION, NET PROMOTER SCORE (NPS), VISIBILITY AND REPUTATION OF ADRIATIC SLOVENICA D.D.

The insurance company constantly and systematically monitors the satisfaction of insurants and potential insurants, visibility and reputation of the company by conducting internal and external surveys, performed by independent research institutions. The analyses of the survey results are key elements for inventing and developing insurance products, services and business processes, the aim of which is a satisfied insurant and successful operations of the insurance company.

In 2014, the insurance company has participated in two prominent surveys, conducted by external research institutions. The first one was "**Ugled"** (Company reputation) survey (Kline & Partner, 2014), polling 800 representatives of the professional community, screened 60 of the best-known and largest companies on Slovenia. The survey has revealed that the visibility of Adriatic Slovenica among the members of professional community, compared to other companies, included in the survey, ranked 14th. The visibility of Adriatic Slovenica among the companies in the same line of industry ranked 2nd, which corresponds to our market share. Compared to other companies in Slovenia, included in the survey, the professional community placed Adriatic Slovenica in the 26th place and among the companies with above-average reputation. Compared to 2013, Adriatic Slovenica made the most progress among the insurance companies screened, moving up 7 places on the scale of the most reputable companies. The **"Zavarovalniški monitor"** (Insurance monitor) survey (2014) is a continuous insurance market survey, polling the general public (conducted Slovenia since 2001). Adriatic Slovenica comes to minds of the respondents in the 3rd place when asked to enumerate insurance companies. Even more important is the information which shows the satisfaction of Adriatic Slovenica insurants. They are the most satisfied with their insurance company (Graph 1), which placed the company in the first place with an average score of 4.2 (on a scale from 1 to 5). Among all the included companies, Adriatic Slovenica also had the largest percentage of very satisfied insurants – 42 % (score 5 on a scale from 1 to 5), and only 1 % (score 1) of very dissatisfied insurants.

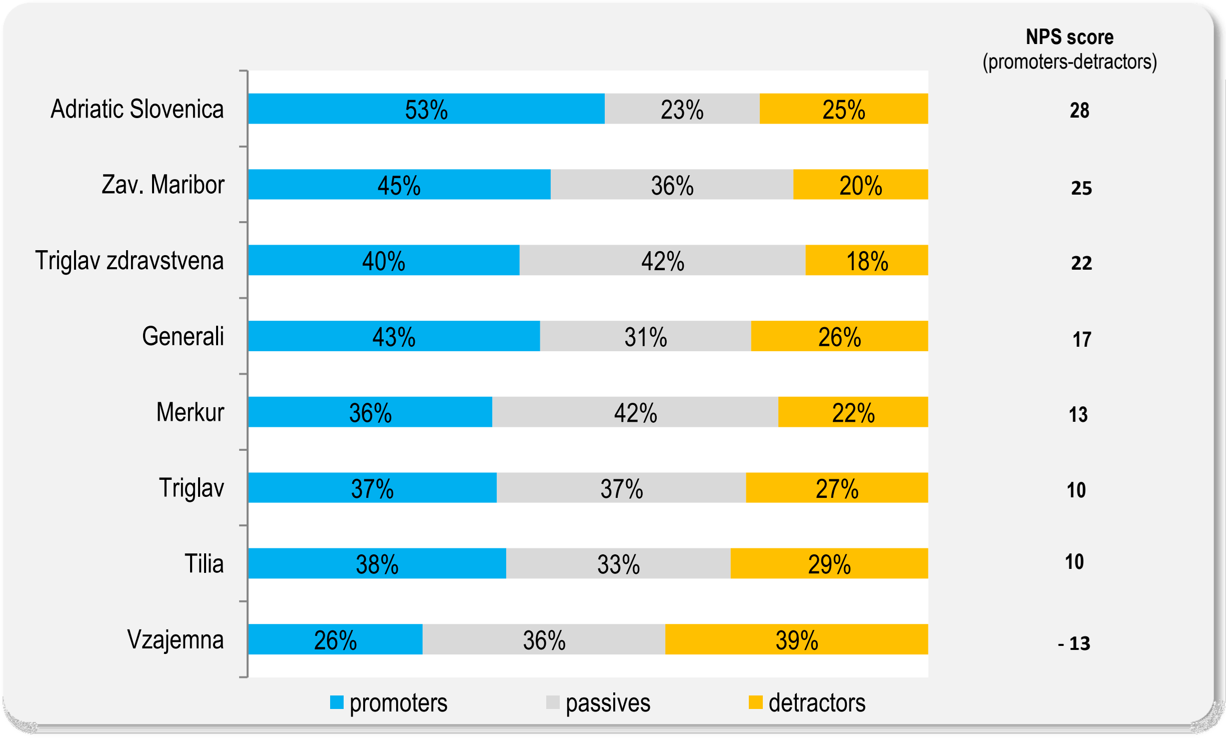
Graph 1: Satisfaction with insurance company (source: Zavarovalniški monitor 2014 survey, Gfk Slovenija)



In the most recent surveys of client satisfaction, an increasingly important index is the Net Promoter Score (NPS), which demonstrates more than just the satisfaction of clients. The NPS is an internationally recognised methodology which shows the position of the company from the customer loyalty perspective, in other words, the perspective of the company through the eyes of its clients. The NPS index assumes that clients of each company can be divided into three groups: promoters, passives and detractors.

By posing a simple question "How likely is it that you would recommend the company to your friends and acquaintances?", we can divide the clients to the three groups. A scale from 0 to 10 is used for assessment; 0 or 1 means that the client would absolutely not recommend the company, while 10 means that it is most likely that they would recommend the company to their friends and acquaintances. The promoters (score 9 or 10) are loyal enthusiasts who will use the company's services or products in the future and will actively make recommendations to other people. The passives (score 7 or 8) are otherwise satisfied clients, but are not enthusiasts and can be persuaded by offers of the competition. The detractors (score 0 to 6) are dissatisfied clients who can, by spreading their negative opinion, damage the company's reputation and discourage others from choosing the company's services or products. The NPS index therefore presents a clear indication of a company's success through the eyes of its clients because it is calculated by deducing the percentage of detractors from the percentage of promoters. For the third year, the NPS is monitored by the **"Zavarovalniški monitor"**. In 2014, Adriatic Slovenica made a progress from NPS value -4 in 2013 to NPS value of +28 and got ahead of all other insurance companies. It is also important to point out that the company has as many as 53 per cent of promoters among its insurants (Graph 2).

Graph 2: Recommendations (NPS)

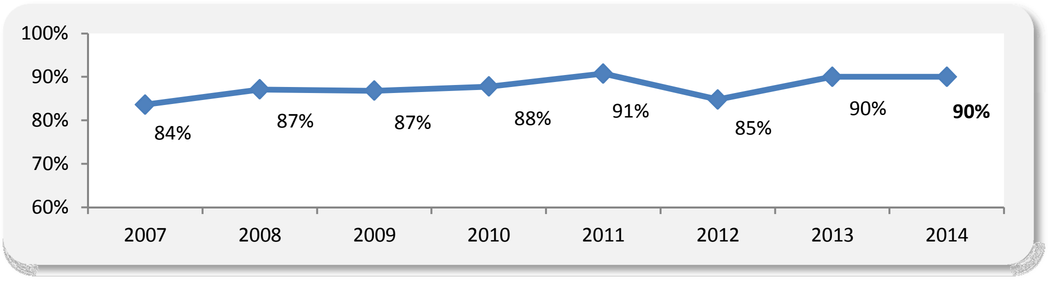


Source: Zavarovalniški Monitor 2014 survey, Gfk Slovenija

Results of the internal client satisfaction surveys

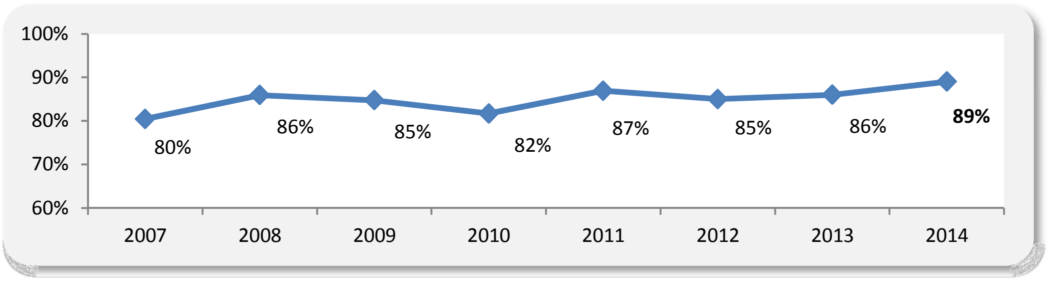
The internal survey on satisfaction of clients in the process of claim resolution was conducted for the eighth time in 2014. Among our existing and potential insurants, we have selected a representative sample of 586 individuals who have received compensation for their insured accident or loss in August or September. As in the past, also this year, the results are excellent. They show that more than 90 % of insurants have been satisfied (Graph 3). 89 % of insurants rate our insurance products to be of high quality, up-to-date and well suited to their needs (Graph 4).

Graph 3: The results of the internal survey in response to the statement: I am satisfied with the Adriatic Slovenica insurance company.



Source: The internal survey on the process of claim resolution 2014

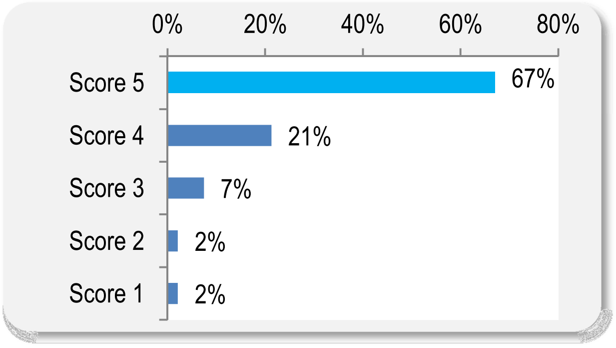
Graph 4: The results of the internal survey in response to the statement: The insurance products are of high quality, up-to-date and well suited to my needs.



Source: The internal survey on the process of claim resolution 2014

The results of the survey show the satisfaction of respondents and the fulfilment of their expectations in the case they suffered a loss or accident. More than 88 % of the respondents agreed (score 4 or 5) with the statement that the reported loss or accident claim was resolved quickly, and as many as 67 % of them rewarded the top score (5) to this statement (Graph 5).

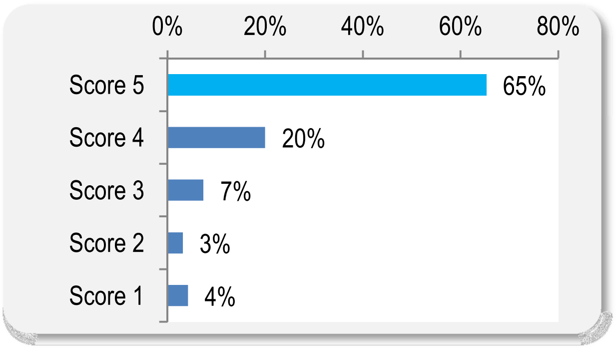
Graph 5: The results of the internal survey in response to the statement: The reported loss or accident was resolved quickly.



Source: The internal survey on the process of claim resolution 2014

In our internal research, we have also analysed the insurants' satisfaction with claims resolution. As many as 85 % of respondents agreed with the statement "As regards handling and settlement of a claim filed after a loss or accident, my expectations have been fulfilled", and 65 % of the respondents who received a compensation or a benefit awarded the top score to this segment (Graph 6).

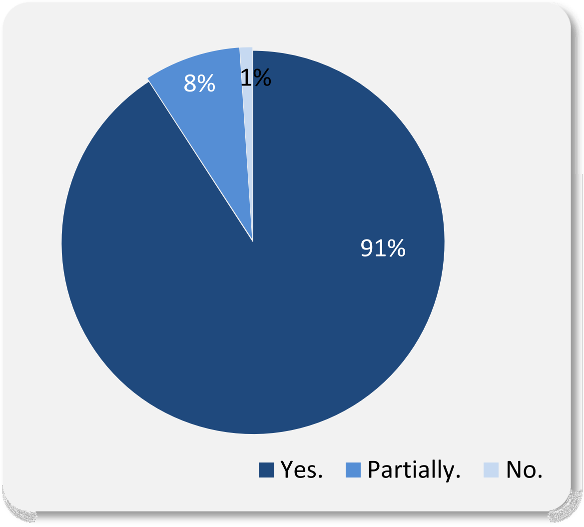
Graph 6: The results of the internal survey in response to the statement: In the field of damage or loss claim resolution, my expectations have been fulfilled.



Source: The internal survey on the process of claim resolution 2014

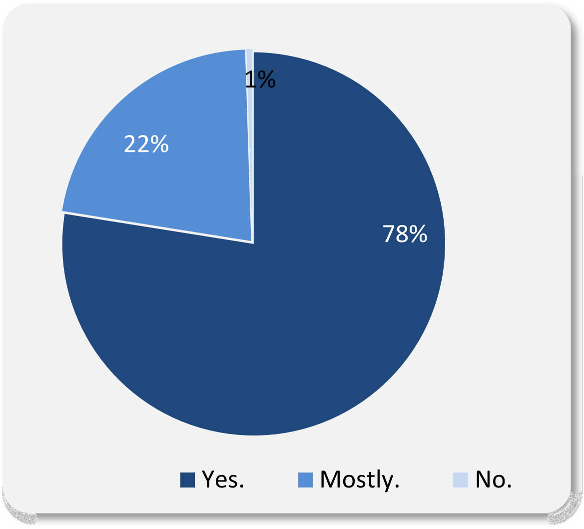
The Survey on satisfaction of insurants with the process of taking out insurance was conducted for the third time in 2014. We have selected a representative sample of individuals who recently took out insurance with Adriatic Slovenica. The results of this survey, too, were excellent. They show that on average, the expectations of insurants regarding taking out insurance were fulfilled in the opinion of 92 % of the respondents (Graph 7). Almost 78 % of insurants agreed that the insurance products are of high quality, up-to-date and well suited to their needs (Graph 8).

Graph 7: The results of the internal survey in response to the statement: Were your expectations in the process of taking out insurance fulfilled?



Source: The internal survey on satisfaction of insurants with the process of taking out insurance 2014

Graph 8: The results of the internal survey in response to the statement: Dou you think that the insurance products are of high quality, up-to-date and well suited to my needs?



Source: The internal survey on satisfaction of insurants with the process of taking out insurance 2014

5. BUSINESS OVERVIEW

5.1 ECONOMIC LANDSCAPE IN 2014

Macroeconomic environment and the Slovene insurance market in 2014

The recovery of economic activity was strengthening steadily in 2014. On a mid-year level, GDP was consequently 2.6 % higher. In the opinion of the professional public, this is mainly a result of the further growth of export of goods and improvement of consumer confidence, which is, among other factors, a consequence of a lesser insecurity after the recovery of the banking system and the related improved conditions for state financing. The generators and triggers of GDP growth in 2015 will be similar to those in the year before.

The gradual raise of purchasing power is also a consequence of low inflation. At the end of 2014, it reached 0.2 %, which is the lowest since Slovenia's declaration of independence. The low inflation rate was enabled principally by lower prices of energy products, food and durable goods. The retained aggregate demand and the lower prices of goods will have an effect on slight price movements also in the future.

In the past period, together with the economic recovery, also the registered unemployment rate fell to 12.8 %. In the year before us, it is expected that, based on the lower amount of assets for performing the active employment policy, the unemployment rate will continue to fall, but at a slower pace than in 2014. After two years of nominal stagnation, the average gross salary per employee increased by 1.2 %. It will go in the same direction in 2015, but the increase will be smaller.

The Slovene insurance market is one of the small ones on a larger scale. According to the latest official data published (Statistični zavarovalniški bilten 2014, Sigma No3/2014), the gross written premiums in 2013 amounted to 1,977 million euros, which makes up for 0.17 % of European market. Due to the small size of the Slovene market, it is more adequate to use relative indexes like gross written premium per resident and insurance penetration. The gross written premium per resident in Slovenia in 2013 was 1,805 euros. The insurance penetration reached 5.6 %, which is comparable to Spain or Austria, but still way below the Western-European countries average (7.88 %).

According to the data provided by the Slovenian Insurance Association, traditional insurance companies (excluding premium of Craftsmen and Entrepreneurs Fund) in 2014 collected 1,934.2 million euros of premium, from which, 1,402.2 million euros (72.5 %) of non-life, and 532.0 million euros (27.5 %) of life insurance premium. The business volume of the traditional insurance companies therefore decreased by 40.4 million euros (2.0 %). The further shrinking of insurance volume was caused by long-time unfavourable economic conditions, which additionally lowered the decreasing of available revenue, and consequently, the financial welfare of the population. The drop in written premium was therefore significantly affected by 3.3 % decrease in life insurance market (18.0 million euros), while the market of other types of insurance decreased by 22.4 million euros, which makes up for 1.6 % setback of the observed market.

Apart from the above mentioned factors, in 2014, the Slovene insurance market was marked by a high level of concentration. Three of the biggest insurance companies controlled over 59.0 % of insurance market. With its 15.4 % market share, Adriatic Slovenica strengthened its second place among composite insurance companies. The growth levels of gross written premium in 2014, compared to the previous year, are evident especially in insurance companies with the majority of foreign capital. These secure around 11.0 % of the insurance market.

Macroeconomic environment and the Serbian insurance market in 2014

After Serbia had one of the highest GDP growth rates in the region in 2013, its GDP is estimated to fall by 2 % in 2014 due to extensive flooding in spring which had a negative effect on mining sector, energy sector, agriculture, infrastructure and households, and lower external demand. Future mid-term movements and the related growth will be mainly related to recovery of the euro zone, in which Serbia is integrated with its accession negotiations and the consequent increased economic cooperation.

In 2014, the inflation rate was below the upper level of tolerance range. The low growth of controlled prices and lower prices of farm products and fuels are the main factors which formed the average level of price growth in the economic environment at 1.8 %. In the future, the essential elements of deflation movement will be low aggregate demand and effects of the fiscal consolidation measures.

At the end of 2014, the unemployment rate was estimated at 17.6 %. In the observed year, net salaries increased by 2.6 % or in real terms by 0.3 % compared to the previous year.

In the third quarter of 2014, the premium written on Serbian insurance market amounted to 432 million euros, which makes up for 5.2 % more than the year before. The premium in non-life insurance amounted to 341.7 million euros, which is 2.5 % more than the year before, while 20.9 % of total insurance premium (90.3 million euros) was collected from life insurance, which increased by 16.9 % compared to 2013.

In the third quarter of 2014, the structure of insurance remained the same as in the year before. During this period, again, motor vehicle liability insurance is the most important with 30.5 %, followed by fire insurance and hull insurance.

The insurance market is heavily concentrated. It consists of 23 active insurance companies, divided into three groups, depending on their share of premium written. The first comprises two insurance companies with 47.5 % share of total premium, followed by the second group of six companies with 40.3 % of premium, and the third group of 15 insurance companies with 12.2 % of total premium.

Macroeconomic environment and the Croatian insurance market in 2014

In 2014, the decline in private and investment consumption continued and the positive trends of macroeconomic indicators were recognised only in export of goods and services. Therefore, the real GDP value of the observed year, especially due to lower business activity in construction sector, industry and trade, decreased for the sixth year in a row, this year by 0.5 %. In the opinion of the professional public, there is an upcoming period of stagnation or minimal growth of GDP – only up to 0.2 %.

Lowering of food supplies prices on the international market, the rapid decrease in prices of oil products, and to a smaller extent the weaker domestic economic activity, are the factors which contributed to the calculated deflation of 0.2 %, while, based on weak pressure on the demand side, and mild effects of the external circumstances, 0.2 % inflation is expected for 2015.

The number of employed population remained on the same level in 2014, while the number of unemployed was lowering, mostly due to removal from the register of unemployed persons, whose status was not in line with legal requirements. In 2015, the registered unemployment rate will be the same as in the observed year (19.7 %). Salaries were stagnating in 2014, while for 2015, it is forecasted that the amount of gross salaries will remain the same and net work done will increase by 2.4 % as a consequence of amendments of the legislation on remuneration tax.

The Croatian insurance market shrank by 5.68 % in 2014. Insurance companies collected a total of 1,117.8 million euros of premium which is 71.3 million euros less than the year before. The reason for this was mainly the non-life insurance, representing 69.2 % or 773.3 million euros in the total premium written. The amount of non-life insurance premium written fell by 9.4 %. Despite the unfavourable macroeconomic indicators and poor interest in unit-linked insurance, the life insurance segment grew by 3.9 %. Amounting to 344.4 million euros, this segment represents 30.8 % of total written premium.

5.2 LONG-TERM PLANS FOR 2015

5.2.1 Long-term plans and targets of the parent company

Among the business targets of the company for 2015, we would like to stress the following:

- Achieving premium growth in the segments of non-life and life insurance, and attaining higher growth, compared to our main competitors on the market;
- Maintaining cost-effectiveness of business operations, increasing profitability and return on capital;
- Upgrading the existing insurance products and developing cross-selling;
- Developing insurance products, adapted to the needs of the market and individual clients: developing innovative life and health insurance products, upgrading the existing life and non-life insurance products, particularly developing unified and additional new types of package insurance, development of additional and better assistance services, adapting products to target groups and development of new after-sales activities. The key development goal in the field of insurance offers is the development of insurance for the second and third pension pillar in the segment of life insurance, upgrade of assistance services for health insurance, and in the non-life insurance segment, most attention will be devoted to development of package insurance for entrepreneurs;
- Development and upgrading of the existing sales network: Adriatic Slovenica plans to maintain and develop the existing sales channels, increase effectiveness of own agent network and further development of insurance sales via modern sales channels;
- Preparing the insurance company for fulfilment of requirements and risk measurement as per the Solvency II methodology;
- Active participation in the discussion on the reform of Slovene health system: Adriatic Slovenica wants to remain an important party in financing the Slovene health system.

In 2015, the main tasks of the **non-life insurance** segment will be directed in increasing sales and process optimisation. The emphasis in 2015 is not on new products, but on packaging the existing ones, educating of sales network and standardisation. We will continue the database integration for car insurance, support the technology for co-insurance and fronting, and participate in major projects of the company in order to follow strategic policies of the company.

In the segment of **life and pension insurance**, we will be focused especially on insurance products for various target groups of the population (the elderly, children, active population) and on development of additional coverages which increase insurance protection of individuals. Our offer will be aligned with the market situation of the moment based on the needs of the clients. We will reinforce our activity in the field of performance, sales and development of life insurance and possibilities of combinations with other insurance groups, together with health and non-life insurance. At the same time, by implementing comprehensive support for paperless insurance subscription, the offer of life insurance will be merged and optimised. In the segment of pension insurance, the emphasis will be on active marketing with the aim of acquiring an important market share in this segment. Voluntary additional pension insurance will face implementation of adjusted provisions of pension plans which were legally adopted on 31 December 2012, with an adjustment period of two years. For the marketing of collective and individual pension plans and pension plan for annuity, we will use various combinations of package offers, which will result in increasing our competitive advantage compared to other providers of pension insurance. The principal aim is the adaptation to the new pension reform, since after the reform, the second pension pillar will become more interesting for the wider public. Regarding long-term saving, it enables a more suitable investment policy and results in a stricter definition of the second pillar as an extension to the mandatory pension insurance, with a clearer definition of saving for the retirement period (disabling withdrawals, purchase of retirement annuity). All the above opens new opportunities for Adriatic Slovenica to prove itself as a supplier of a comprehensive solution for filling the pension gap which is widening due to the reduced rights from the first pension pillar. Therefore, also the offer of annuity insurance for various stages in life will be expanded in 2015. Due to lower maximum interest rate that the insurance company can use for valuation of non-current liabilities from insurance contracts from 1 July 2015 on, all insurance products, which use the guaranteed interest rate for premium and liabilities calculation, will be adjusted.

In the segment of **health and accident insurance**, we mainly focus on modern needs of insurants. We want to take care of their security throughout their life, especially when they cannot take care of themselves or their loved ones due to illness or accident. The supplementary health insurance will remain to provide the primary security in the health care system, and will be in 2015 enriched in connection with modern and new additional health and accident insurance we are about to offer. Also in the future, there will be the need for maintaining or even increasing the amount of private funding in order to provide a stable financing of the health system. Contractual health insurance which is based on the reciprocity principle ensures the greatest support for the solidarity and social insurance. Supplementary health insurance will remain a stable and clear way of financing the network of public health operations. Exercising the rights arising from mandatory health insurance is related to additional payments which can be extremely expensive for an individual without supplementary health insurance.

In the field of **claims resolution**, we will maintain our focus on client satisfaction, therefore, apart from the fair, quick and effective process of handling with claims, we will also provide the clients with a network of selected providers (services) that will, in addition to car service, provide replacement cars to clients with damage on their cars. As well as elsewhere, we will keep improving information systems in order to provide more effective paperless business in the field of claims. We will also devote special attention to resolution of complicated and extensive loss events.

In relation to **finance, accounting and payment transactions**, the company will be focused on unifying the finance and accounting processes in the parent company and the planned subsidiary in Croatia. In the long term, it will be necessary to ensure adequate recording of business events from the bookkeeping perspective, drawing up financial statements and smooth payment transactions in two currencies. In the field of payment transactions, we will proceed with activities related to segmentation of payment instruments with the aim of achieving a high proportion of low-risk payment instruments.

In 2015, the insurance company will **continue the integration of paperless business operations** within the DIGIT AS project, also in the field of outgoing mail. We are also planning to integrate Business Connect document system together with Arhiviraj.si archive system, which will ensure long-term retention of the company's archives.

In the field of **information technology**, the insurance company will cover two models of operation which will ensure reliability, but also swift adaptability to the business environment. In 2015 and in the coming years, we will optimise and unify support processes for life insurance and provide the possibility of online subscription to life insurance for our employees and partners. We will upgrade information systems in order to approach the 360° view of the customer. Related to the IS architecture components, we will seek for solutions for the support of client loyalty rating and the loyalty scheme, and upgrade mechanisms for providing information to clients via different channels.

Supervision systems will be upgraded with new functionalities and expanded to the level of business services and to the environments of subsidiaries within the group. The business continuity system will be expanded to business units and refreshed by new services. We will provide subsidiaries and sister companies with support in establishing the business continuity concept, upgrade the Group's private cloud and optimise its management. We will continue performing security reviews and ensuring compliance with the Solvency II regulative.

The **education process** within the company has been thoroughly updated in the past two years in order to, apart from supporting the company's interests, fulfil also the developmental needs of the employees. The novelty that is in preparation in 2015, is a project of professional seminars on the topic of workspace health promotion and compliance with the measures which arise from the requirements of the Family Friendly Enterprise Certificate. To achieve greater satisfaction of our clients, we are planning intensive knowledge upgrading activities in order to accomplish sales excellence on all levels of sales.

In 2015, the company is also planning energy and construction renewals on several of our buildings and additional purchases of business premises for better customer support in our business units, further development of telecommunications/telephony system, and updating our vehicle fleet by buying energy-saving, eco-friendly cars.

5.2.2 Long-term plans and targets of the subsidiaries

AS neživotno osiguranje

The vision of the insurance company is to become the best insurance company with a variety of modern and competitive non-life insurance products for SMEs and individuals, which is aligned with the mid-term strategy of the company that is based on a stable portfolio growth and sustainability of business operations.

In the business year 2015, AS neživotno osiguranje a.d.o. Beograd plans to continue the optimisation on all business segments and creating good conditions for successful realisation of its business vision. It includes updating and development of new insurance products by following the example of the parent company, upgrading of information technology and strengthening the sales network. The disposal of motor vehicle liability insurance will in 2015 reflect in halving the premium amount, therefore, the company will focus on retaining and minimal growth of non-life portfolio. The development of insurance portfolio will be based on a better utilisation of the company's own resources in the existing business units and sales points, and directed towards increasing the amount of business with external sales channels. In 2015, the company will devote special attention to educating its employees and its sales network, and work on raising the brand visibility and the products the company offers. The long-term goal is to develop and provide a comprehensive offer of insurance for the selected target groups.

Prospera

In 2015, as well as in the next three years, Prospera will be focused on further receivables purchases from the parent company, the Group and the external market. An important goal is also finishing the company's information support system.

To reach its strategic goals, the company will follow the guidelines of cost-effectiveness, achieving the optimum results in line with the planned categories and innovation in the collection process.

Debt collection will be conducted on a highly professional level, taking into consideration the code of ethics and the applicable legislation. Prospera will follow the vision to become a highly professional company, specialised in debt collection. Automation of collection procedures will ensure an above-average efficiency and rewarding of employees in line with the achieved results. The vision of the company is also to integrate paperless operations to a large extent in the next two years.

Viz

Viz wishes to become the most popular insurance agency in Slovenia, trusted by its clients for its enthusiasm, diligence, flexibility and friendliness. In 2015, they are planning further growth of revenue from received commissions for WIZ insurance sales at a minimum rise of costs, since they want to begin generating profit by 2020. The goals and plans of Viz d.o.o. company are tightly connected to the development and visibility of WIZ zavarovanje trademark.

KD životno osiguranje

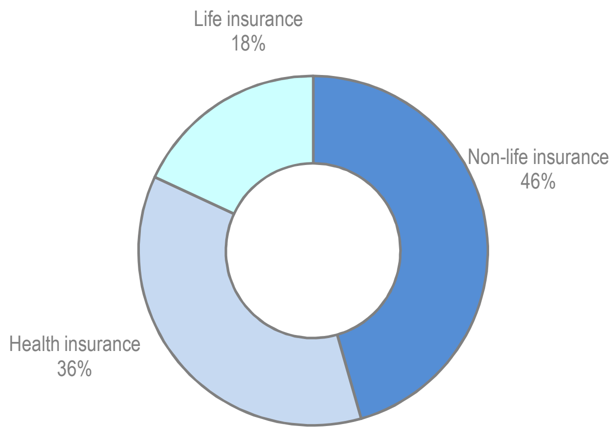
In accordance with its business plan, KD životno osiguranje intends to remain the leading Fondpolica insurer on the Croatian life insurance market. They want to realise 23 % growth and retain a similar growth of premium in the next five years. They will do so by strengthening of their sales network, opening new offices and introducing new and interesting products, tailored to clients' needs. Costs will be kept on the current level, therefore, it is expected that as early as in 2017, the company will operate with profit.

In 2015, also an organisational change is planned, namely the KD životno osiguranje company will become a branch office of a mother company in Croatia. The new branch will keep providing life insurance services, especially Fondpolica. It will also enable the business to expand to non-life insurance market by providing motor vehicle liability insurance.

5.3 BUSINESS PERFORMANCE, DEVELOPMENT AND MAIN FEATURES OF INSURANCE CLASSES OF ADRIATIC SLOVENICA D.D.

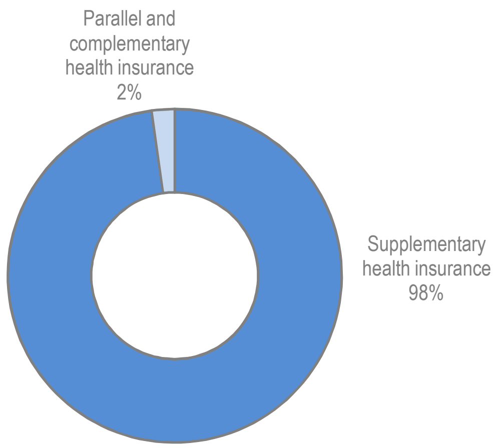
At the end of 2014, the market share of Adriatic Slovenica was 15.4 % (source: Slovenian Insurance Association - SIA, data on market shares), which puts the insurance company in second place on the Slovene insurance market. Considering its premium income, also in 2014, the largest segment is non-life insurance, followed by health insurance and life insurance.

The structure of premium by class of insurance business – parent company



5.3.1 Health insurance – parent company

The structure of premium written in health insurance segment

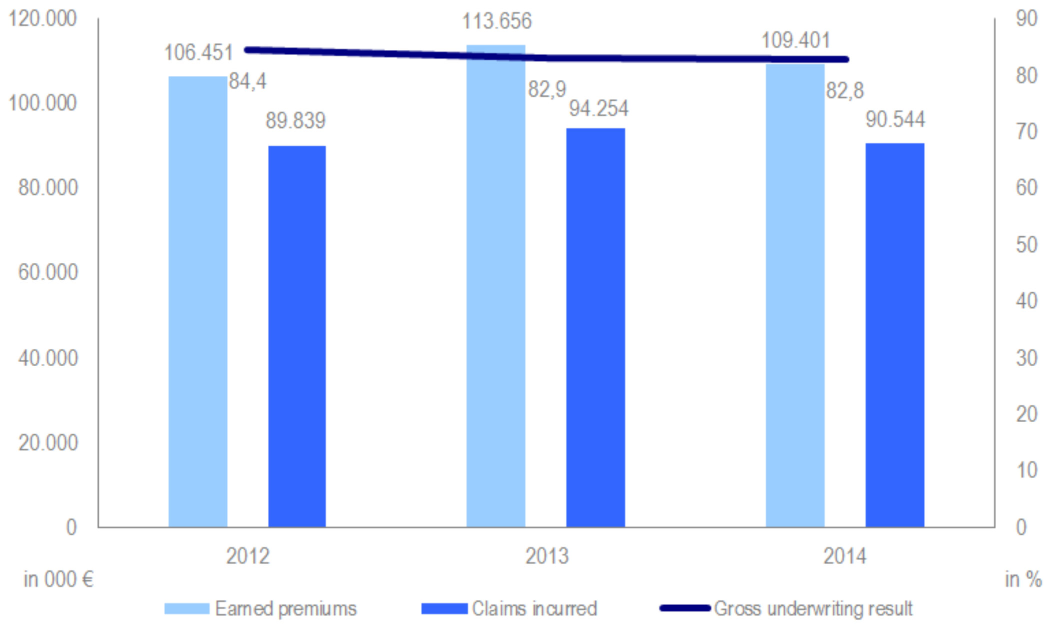


Operating performance in 2014

By providing a variety of supplementary, additional and parallel health insurance and accident insurance, Adriatic Slovenica remains one of the prominent health insurers in Slovenia. In 2014, its market share in this segment was 22.9 % (source: SIA). With the development of new additional, parallel and accident insurance, the company will continue to actively respond to its insurants' wishes and maintain its long-time role of the biggest provider of these insurance products in the Slovene insurance market.

Due to lowering of premium in mid-2014 and transitions of insurants among supplementary health insurance providers, the written premium of the company fell by 3.9 percentage point compared to 2013. The whole Slovene health insurance market was in decline – the average decrease on the market was 2.1 %. At the same time, the company lowered the total amount of gross claims incurred by 3.9 percentage points, mainly due to the extended list of medicinal products of therapeutical groups, supervision of medical examinations and lower number of policies during the year.

Earned premiums, claims incurred, and gross underwriting result of the health insurance segment in 2014*



* Incurred claims amounts (claims paid plus change in technical reserves) do not include costs of claims settlement.

Supplementary health insurance

Supplementary health insurance continues to be the primary health insurance product, which is at the same time the basis for selling other health and personal insurance. Since 1 June 2014, we have lowered the premium of supplementary health insurance and rewarded all 320,000 insurants with complimentary “Prehodna oskrba zaradi nezgode” (Transitional care after accident) health insurance which includes coverages for home assistance and transportation to hospital for medical check-ups.

In 2014, we worked on improving the business processes of management and operations in the segment of supplementary health insurance, the aim of which was a rationalisation of costs and standardisation of core processes.

To assist the supplementary health insurance sales process, we provided intensive training and collaborated in preparation and execution of marketing campaigns for various sales channels and various target groups. We prepared several innovative first-rate packages of health and accident insurance with the goal to increase sales of supplementary health insurance.

To further improve the claims result of supplementary health insurance, we have in 2014 adopted measures for supervision of health services providers. For the purpose of determining correctness of medical services settlement on the account of supplementary health insurance, Adriatic Slovenica purchased a new program tool SPSS (IBM).

Development

Supplementary health insurance is our primary health insurance product, therefore, we will maintain the factors which differentiate our offer from the competitors, which is at the same time the basis for development of other health, accident and life insurance. This is also the case if there would be any potential system changes, for which the supplementary health insurance would have to be changed. In our management of the existing supplementary health insurance products, we will remain focused on standardisation of business processes and supervision of health services providers. The key element for establishment of an efficient abuse and fraud prevention system in health insurance is the implementation of the new SPSS package to production environment in 2015.

An individual's social and financial security is unstable in a long term after a serious illness, surgery or serious accident because after the medical treatment (costs of the treatment are sufficiently covered), there is a long period of time when the person does not have sufficient and stable income (low disability pensions and compensations, adapting living conditions, food, alternative healing). Employers are at a disadvantage as well when an employee is on a sick leave. And this very gap is filled by additional fixed-sums health insurance. In 2015, we will continue to develop competitive and innovative offers, paying attention to employees', as well as employers' security. We will therefore present the new collective health insurance product "Poklicna invalidnost zaradi bolezni ali zaradi nezgode" (Work disability due to illness or accident), and enrich the insurance products related to assistance services.

Main features

This insurance covers the costs of additional payments for health services which are not entirely covered by compulsory insurance. The amount of additional payments, covered by supplementary health insurance, is defined in the Health Care and Health Insurance Act, Article 23.

Additional and parallel health insurance

The main goal in 2014, apart from expanding of supplementary health insurance offer and reaching a differentiating offer for sales promotion of supplementary health insurance, which is still the primary insurance class, was to offer the insurants comprehensive security in case of accident, illness or loss of income. We have renewed all the packages for sports persons.

In 2014, within the assistance services integration project, we have launched two new products: Insurance for temporary disability care due to accident and Insurance for temporary disability care due to illness or accident. These two products include coverage for home assistance, transportation to hospital for medical check-ups and transportation to hospital for chemotherapy.

Additional health insurance

As the leader in the additional health insurance market, we offer the widest range of insurance coverages for payment of health services and medicinal products which are not covered by compulsory insurance, as well as additional financial resources that are indispensable in the event of illness or accident.

Additional health insurance comprises Insurance for serious illnesses and surgical procedures, Insurance covering medicinal products, Insurance covering superior accommodation in health spas, and the new assistance products Insurance for temporary disability care due to accident and Insurance for temporary disability care due to illness or accident. The latter two contain coverage for home assistance, transportation to hospital for medical check-ups and transportation to hospital for chemotherapy. The "home assistance" coverage ensures an agreed number of hours of assistance with main domestic chores, supporting domestic tasks and day care for the insurant's children. The "transportation to hospital for medical check-ups" coverage includes (per insurance case) an agreed number of assisted transports to medical check-ups and transport of insurant to their home after medical treatment. The "transportation to hospital for chemotherapy" coverage includes (per insurance case) an agreed number of assisted transports to hospital for chemotherapy or radiotherapy.

Parallel health insurance

Parallel health insurance covers healthcare expenses and related services and the supply of medicinal products and medical technical aids for medical treatment to which a policyholder is entitled under compulsory health insurance, but in line with alternative procedures and under different conditions. We offer insurance coverage for self-funding services in specialist clinics which enables quick access to specialists who can make the right diagnosis and provide quality treatment without undue waiting time, typical of the public healthcare system.

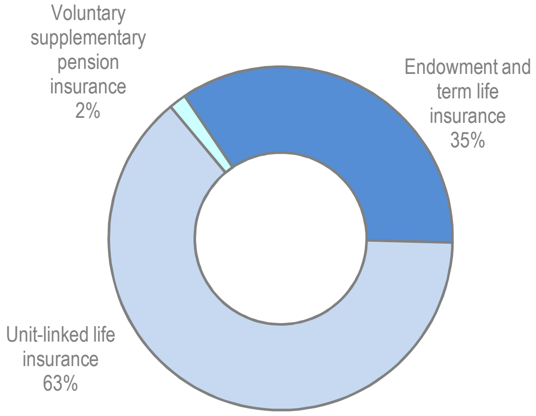
Already in 2013, we have developed two additional health insurance products covering critical illnesses of the "second generation" for the active population between 18 and 55 years of age, named ONA AS ZDRAVJE for women and ON AS ZDRAVJE for men. Both include the following coverages: "coverage in case of female or male cancer" relates to different types of cancer, specific for women or men; "coverage in case of other types of cancer" relates to diagnoses with other types of cancer (e.g. lung, intestinal cancer …); and "coverage in case of death" (bereavement allowance) relates to death from any cause.

5.3.2 Life insurance – parent company

The amount of premium from life insurance on the Slovene insurance market was plummeting still in 2014. The life insurance market has been shrinking since 2011 and in 2014, it fell by 3.3 % on average. In 2014, the market share of the insurance company was 10.1 %, which puts us in the 4th place. The largest four insurance companies in Slovenia had as much as 68.8 % market share, which means that there is still a high level of concentration on the market.

Longer life expectancy, indebtedness, a relatively small size of Slovene households and worsening social, health and pension security indicate a possibility of higher demand for life insurance in the future. On the other hand, the general economic situation, higher unemployment and anticipation of lower income do not encourage a higher demand, although the needs for basic insurance protection are increasing. Therefore, the stress was on life insurance products, by which, we would like to satisfy the needs of the population in a particular stage of life and expanding our offer of additional insurance with innovative services. The key task was to adapt to the new pension reform by developing products for the second and third pension pillar.

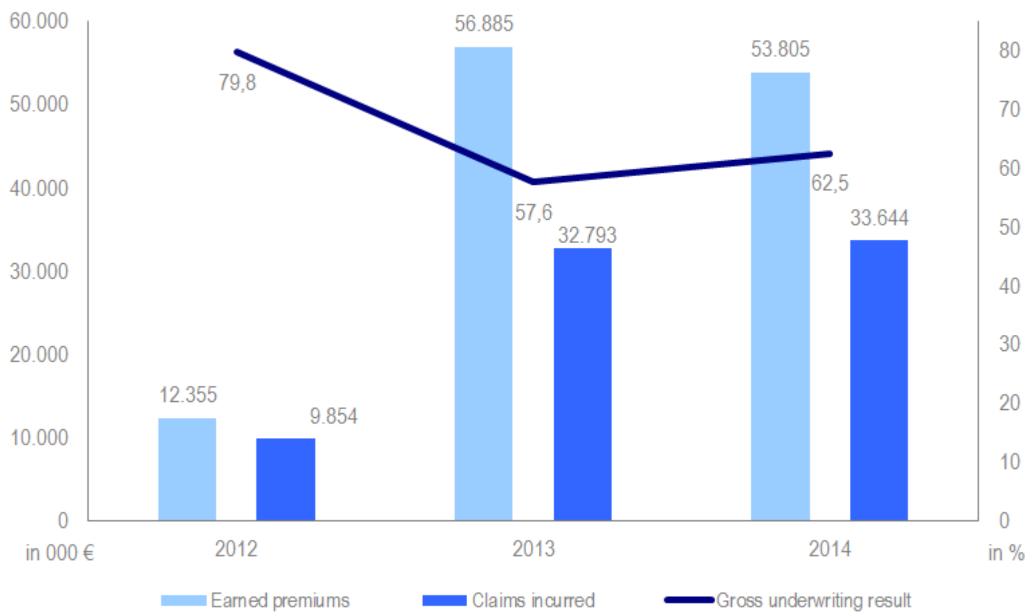
The structure of premium written in life insurance segment



Operating performance in 2014

In 2014, the insurance company collected 53.8 million euros of life and pension insurance premiums, which is 5.4 % less than the year before. The main reason for this are the lower average premiums of life insurance policies due to changes in life insurance portfolio structure and a larger extent of endowment due to ageing of the existing portfolio. Despite the lower number of life insurance policy terminations compared to the previous year, in 2014, early terminations still affect the volume of gross written premium and gross claims in life insurance segment. The ageing of the existing portfolio and the consequently larger extent of endowment additionally affects the increasing of life insurance claims result in 2014.

Earned premiums, claims incurred, and gross underwriting result of the life insurance segment in 2014*



* Incurred claims amounts (claims paid plus change in technical reserves) do not include costs of claims settlement.

Development

In 2015, the key task in life insurance development will still be adapting the products to the current market conditions, and especially satisfying the clients' needs in various stages in life by providing new services, additional insurance products and possible combinations with other insurance groups in the framework of a more comprehensive offer, together with health and non-life insurance. Marketing of second and third pension pillar products will be key, in combination with other insurance packages. While enforcing investment policies for long-term saving, we will utilise the potentials within the group. In 2015, we intend to expand the segment of annuity insurance, renew life insurance for different population segments, and endowment life insurance. An emphasis will also be on the development of unit-linked life insurance with a deferred premium and one-off premium payment. Due to lower maximum interest rate that the insurance company can use for valuation of non-current liabilities from insurance contracts from 1 July 2015 on, all insurance products, which use the guaranteed interest rate for premium and liabilities calculation, will be adjusted for all relevant products. We will also introduce taking out insurance via an electronic contract, which will have a significant impact on optimisation and improvement of procedures in this field of work.

Main features

Actively marketed life insurance is divided into the following groups: life insurance with death benefit, unit-linked life insurance, mixed life insurance and pension insurance. Additional insurance products taken out together with life insurance only increase insurance protection of any individual.

Life insurance with death benefit

Comprehensive life insurance – Asistenca življenja (life assistance) is a life insurance with death benefit providing high insurance protection and opportunity for additional insurance services for the enhanced security of the insured, their children and family members in case of unforeseen events, and additional coverage in case of illness. Additional accident insurance comprises enhanced coverage for permanent disability, accident annuity, sum insured for broken bones, daily accident allowance and accident insurance of children. The additional insurance covers multiple payments – compensations for health treatments in one-off payment, or in the form of health annuity, and covers 21 critical diseases, allocated in 4 groups. Additional insurance can be agreed to cover a preventive health service with three different DNA analyses. Moreover, an additional insurance to be exempt from premium payments in case of disability due to illness or injury can be added to life insurance, and it ensures that the insurant does not have to pay the premium for life insurance and additional coverages.

Decreasing comprehensive life insurance is a life insurance product with death benefit, designed for borrowers. The insurance covers repayment obligations of the borrower up to the agreed sum insured and, in addition, offers security for the borrower's family members in the worst case.

Life insurance product TOP ŽIVLJENJE (TOP LIFE) covers the payment of the agreed sum insured in case of death in the five-year term of insurance. The product includes coverage for serious permanent disability and occurrence of a critical illness such as: cancer, heart attack, stroke and coma. This insurance product provides the insured and their family with basic social and financial security for just EUR 0.30 per day and is appropriate to be marketed through complementary sales channels and direct mail.

Priporočena varnost do 65 let (Recommended safety up to 65 years) and **Priporočena varnost nad 65 let** (Recommended safety above 65 years) are insurance products known for a simple way of subscribing and ensuring the basic insurance security for an affordable premium.

"Priporočena varnost do 65 let" is an affordable, simple and easily understandable basic package of life insurance products which comprises coverages for four most frequent and long-term serious illnesses (cancer, heart attack, stroke and coma). "Priporočena varnost nad 65 let" is a life insurance with no questions asked about health condition, which lasts for a lifetime. In case of death of the insured person in the first two years of insurance, the insurance company reimburses the premium paid. However, in case of death in an accident, the sum insured is paid also in the first two years. These two products can be purchased within the Priporočena varnost package, which is intended for marketing via the Post of Slovenia sales channel. The Priporočena varnost do 65 let package is promoted also via direct sales.

Life insurance products with affordable premiums are suitable for direct mailing sale. The **insurance package ZASE** (FOR ONESELF) has been adjusted for such sale. It comprises life insurance with death benefit and additional coverage for accidental death, traffic accident death, permanent disability due to accident and broken bones; short-term care in case of illness or injury may be added. The insurance package ZASE provides the insured and their family with basic social and financial security. The same is true of the Vita AS 50+ life insurance product, available to persons between 50 and 60 years of age. The product has been designed for persons who remain active into their mature years and offers a broad range of additional accident covers.

The **Vita AS 60+** product covers the needs of the senior target group as a whole life insurance with death benefit intended to cover funeral costs and hospitalisation due to an accident. The product is available to persons up to 80 years of age.

Unit-linked life insurance

Aktivna renta AS (Variable AS annuity) is a unit-linked life insurance product that, after expiry of the saving term, provides the agreed guaranteed annuities for a defined period of time as an additional retirement income or scholarship. The product is composed of a guaranteed and variable portion and the greatest advantage of the variable AS annuity is the opportunity offered to the insured to generate their annuity according to their wishes since the product allows for saving in shorter periods or payment of lifetime annuities. The insured can actively decide on investment policy. In addition to the part of premium invested into "Zajamčeni paket AS" (Guaranteed package AS), the rest of the premium may be invested into one of the investment packages (active, balanced and conservative) or into maximum 4 investment funds from among the current offer of Adriatic Slovenica. The insured may even change the ratio between the guaranteed part and other investments under the variable AS annuity, which depends on their wishes and financial capacity.

The annuity always remains safe regardless of unpredictable life events. In case of sudden life events, such as death, unemployment or temporary disability the insurance company takes care of premium payments and guarantees that the insured will receive the agreed annuity after the expiry of the insurance. In addition, the insurance even covers monthly compensation in case of unemployment or disability and guarantees the payment of the sum insured in case of serious disease or accident.

Enkratna priložnost AS (Unique opportunity AS) is a life insurance product with one-off premium payment, which presents a unique opportunity for saving and increasing asset value. Investment in Enkratna priložnost AS is attached partially or in full to the units of Aktivni naložbeni paket, and to these, the insurance company adds a bonus. Up to 70 % of the one-off premium is bound to "Zajamčeni AS" investment, in which, the insurance company ensures a minimum guaranteed annual yield of 2.25 %. In case the actual investment yield is higher than the guaranteed yield, the insurance company also attributes the surplus. Enkratna priložnost AS is a limited offer – it is available only until 31 March 2014.

Unit-linked life insurance policy **Fondpolica** can provide life-long comprehensive insurance protection and offer diverse investment opportunities. Fondpolica in adjusted to the needs of people in various stages of life as indicated in the names of product varieties: Fondpolica DRUŽINA (FAMILY), Fondpolica OTROK (CHILD), Fondpolica POKOJNINA (PENSION BENEFIT), Fondpolica ZLATA LETA (GOLDEN YEARS) (for persons above 60 years of age), Fondpolica KLASIKA (CLASSIC) which is a flexible form and/or upgrade of mixed life insurance, and Fondpolica PERSPEKTIVNE VREDNOSTI (PROSPECTIVE VALUES) with possibility to invest in precious metals.

By taking out a Fondpolica, the policyholders achieve high level of financial and social security for themselves and their families since the policy provides a guaranteed death benefit and possible addition of a broad range of additional insurance coverage, such as: additional life insurance with death benefit, additional accident insurance, additional critical illness insurance, premium exemption insurance, additional accident insurance for up to three children on one policy, and additional life insurance product called "Boljše življenje" (Better Life). The latter increases the sum insured under the life insurance with death benefit by 10% and at the same time clients may choose between different preventive DNA services depending on their wishes and needs (DNA analysis for selected diseases, DNA analysis for medications, child, manager and general DNA analysis). The flexibility of Fondpolica allows the clients to adapt it to new situations in their lives. During the insured period, they can, according to the changed needs, align the investment policy (once per calendar year free of charge), premium, premium payment period, sum insured and additional insurance products.

Mixed life insurance

Vita AS Royal and **Vita AS Royal Plus** are endowment life insurance products providing death and survival benefit, plus accident and health insurance throughout the active life of the insured until 65 years of age. The death benefit insurance can be upgraded with a higher death cover. The revised accident insurance product enables the insured persons to choose from seven different covers. Furthermore, they can include the insurance for their children on the same policy for a favourable premium. This insurance product is highly flexible since the insured can change the amount of the premium during the life of the contract, modify the scope and content of the covers and the amount of the sums insured, get an advance, convert insurance into a death benefit insurance, cover the premium from the automatically approved advance during the period in which they are unable to pay premiums, etc. Both insurance products can be extended and combined with insurance cover while travelling abroad (Tujina AS), and with CORIS assistance and TBO (with health insurance for serious illnesses and surgical procedures from the additional health insurance offer).

Pension insurance

Pension insurance of the second pillar is intended as saving for additional retirement income. With tax reliefs, the system of voluntary additional insurance provides an incentive for collective and individual additional insurance with the aim to become eligible for early additional retirement income in the form of pension annuity. At the moment, the insurance company is selling voluntary additional pension insurance under a collective pension scheme. Adjusted to the revised pension legislation, Adriatic Slovenica will offer both collective and individual voluntary additional pension insurance.

Development

In 2014, in line with the new Pension and Disability Insurance Act (ZPIZ-2), there was an ongoing renewal of voluntary additional pension insurance. Apart from the amended collective pension plan, we have also prepared a pension plan for individual insurants. We have submitted all the necessary documentation to the regulator in December 2013. In 2015, we will begin selling the individual and collective voluntary additional pension insurance. We will also launch new pension annuity products on the market in 2015.

Main features

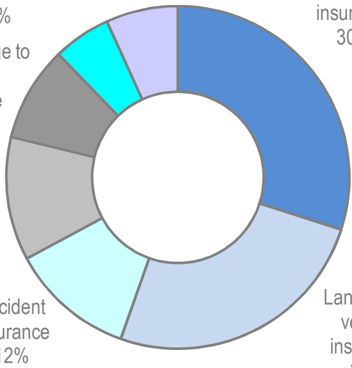
By adapting the products to the amended pension legislation, the insurance company will offer collective as well as individual voluntary additional pension insurance.

The collective Pension saving AS is intended as saving for additional pension via the employer. Premiums can be paid by the employer and the employee. With the collective pension saving, the company takes care for the financial and social security of its employees in the third age, and optimise its business operations. An additional advantage for the company is that it can benefit from tax relief.

The individual Pension saving AS enables the insurants to regularly and gradually save money in order to be financially secure in their elderly age. The individual pension saving is available to all employees who want to save for additional pension with their own contributions. The saved assets are collected and enriched on their personal accounts. By saving for additional pension, the clients benefit from a special additional tax relief of 5.844 % of their gross salary, since the premium paid is deducted in the yearly personal income tax calculation.

5.3.3 Non-life insurance

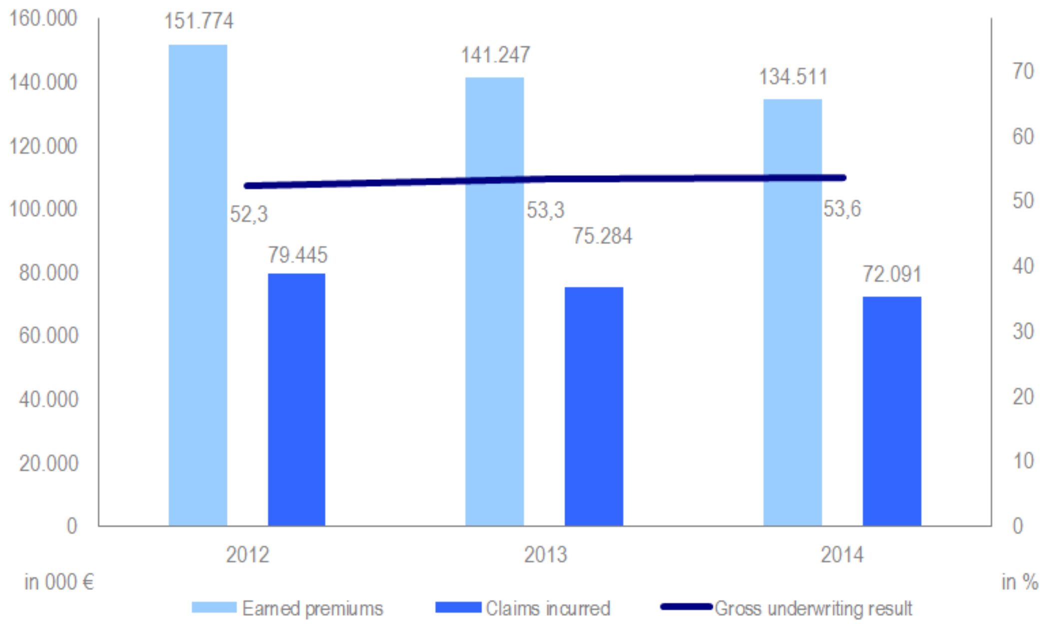
The structure of premium written in non-life insurance segment – parent company



Operating performance in 2014

The Slovene non-life insurance market shrank by 1.1 % in 2014 and the negative trends are calming after several years of stagnation. The premium income of Adriatic Slovenica in the segment of non-life (other) insurance only fell by 0.9 % in 2014. In the same year, the market share of Adriatic Slovenica in this segment grew and reached 14.6 %.

Earned premiums, claims incurred, and gross underwriting result of the non-life insurance segment in 2014*



* Incurred claims amounts (claims paid plus change in technical reserves) do not include costs of claims settlement. .

5.3.3.1 Accident insurance

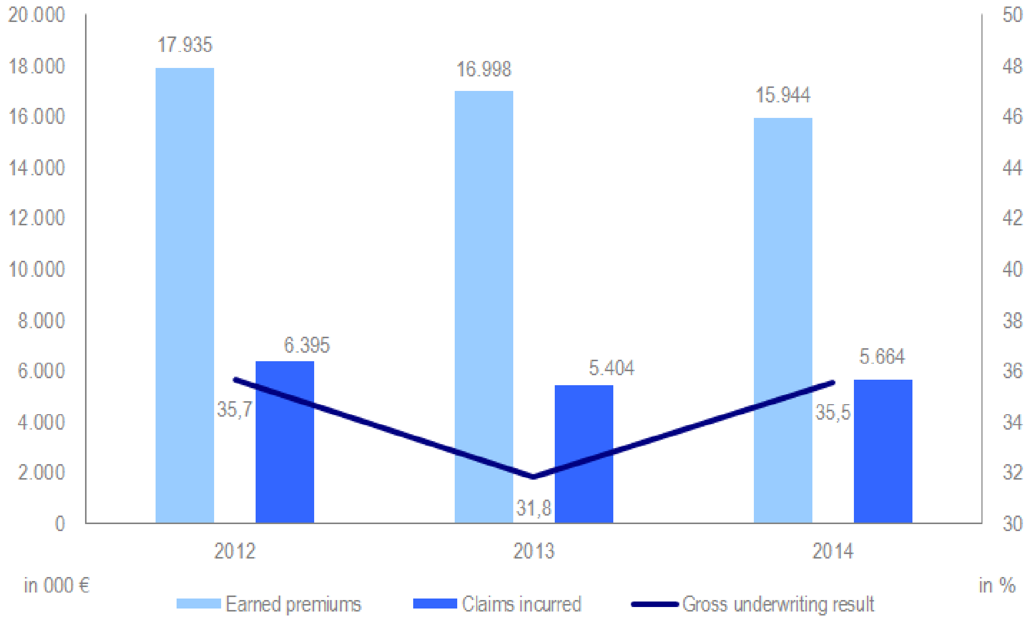
Operating performance in 2014

Accident insurance accounts for 12 % of the non-life insurance portfolio. Collective accident insurance contracts account for close to 50% of this class of insurance and 26% falls to driver accident insurance under MTPL+. The majority share is taken by accident insurance for persons in vehicles and accident insurance of pre-school and school children.

In accident insurance, we recorded a fall in total premiums written compared to 2013, which is mainly a result of the lowered driver insurance premium within the MTPL+. In segmenting car insurance, we have lowered the additional premium for motor third party liability insurance with additional coverage (MTPL+), but the share of persons who, in addition to MTPL, also decide to take out a MTPL+ has not yet sufficiently increased to cover the premium discount.

Compared to 2013, the earned premiums plummeted by almost 6 %, and the gross underwriting result fell by 3.7 percentage points. In 2014, we have witnessed an increased number of school accidents claims, in number as well as in scale, due to the higher number of coverages (especially coverage for broken bones), which had been introduced in 2013.

Accident insurance: Earned premiums, claims incurred, and gross underwriting result in 2014



Development

In 2014, we have refreshed the product, as well as the processes of taking out accident insurance for children and youth. For all supplementary health insurance policyholders, we have developed a new product in the framework of accident insurance, namely the Supplementary health insurance premium payment exemption in case of permanent disability due to accident. The insurance company takes on the supplementary health insurance premium payments up to 75 years of age for insurants who become permanently disabled persons due to accident in the period insured.

For insurants between 65 and 85 years of age, we have prepared a new whole life insurance, called Nezgoda za mlade po srcu (Accident for the young at heart). We have also developed three new coverages for the active insurants between 14 and 64 years of age: coverage for disability with fourfold progression in case of 50 % or higher disability level, coverage for fractures, dislocations and burns, and coverage for surgical procedures.

Main features

Accident insurance comprises several sub-categories, such as accident insurance of persons during their occupational activity and outside it, accident insurance for persons in vehicles, accident insurance of passengers, accident insurance of pre-school and school children. In case of an accident, the insurance alleviates its financial consequences and provides for financial safety of both the insured and their loved ones. In addition to the basic risks insured, such as disability, death, daily accident benefits, daily benefits for the time spent in hospital while undergoing medical treatment, and daily benefits for the time spent in a health spa undergoing medical treatment after an accident, policyholders can opt for additional coverage, such as surgical procedures due to accident, fractures, dislocations and burns, disability with progression, home assistance and transportation to hospital for medical check-ups due to accident.

5.3.3.2 Motor vehicle liability insurance (MTPL)

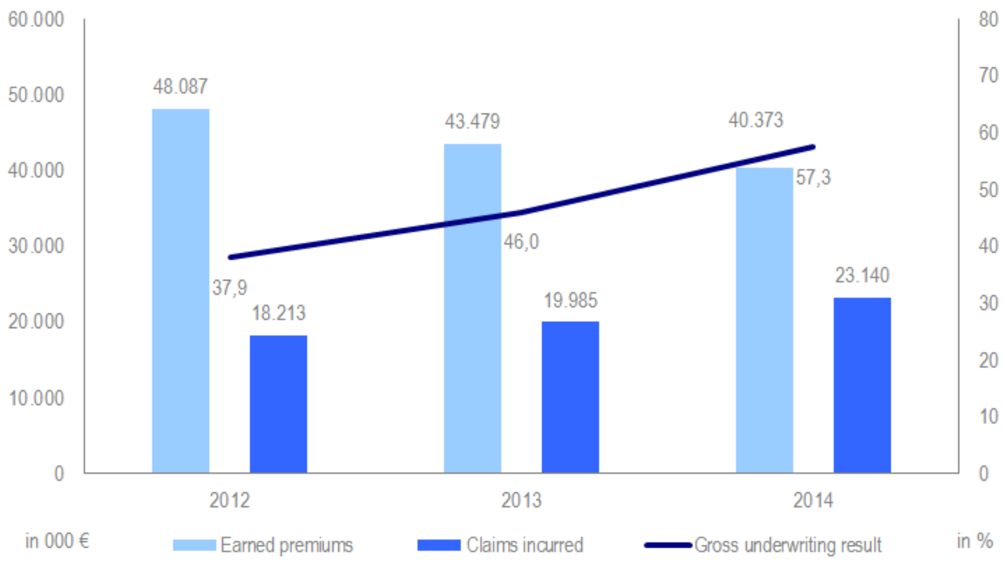
Operating performance in 2014

Premiums under the motor vehicle liability insurance account for 30 % of all non-life premiums written. Due to severe price competition, the average premium is down year after year. At the 2014 year-end, the premium was below the premium written in 2013 by 3 %. The shortfall of MTPL premium is a reflection of the lower average premium. However, it is true that sales of cars that actually stayed in Slovenia fell in 2014, since many newly bought cars were immediately exported, therefore, the whole MTPL market was facing a downturn.

During the year, AS was adjusting to the competition with different sales campaigns. The most visible one was "Olimpijski popust" (Olympic discount), in which, we offered the new insurants without claims events up to 30 % discount. The segmented price list is still a good basis for the choice about which group of insurants have the characteristics that make it sensible to offer them an additional discount, and for which group it is not sensible to make the effort if the price falls below the acceptable level.

The MTPL earned premiums are lowering each year, primarily due to the fall in the average premium on the market and the segmented price list, according to which, the premium for less risky groups of insurants is lower. The earned premiums have fallen by 8 % compared to 2013, and claims incurred have increased by 16 %. Since MTPL is an insurance product with a long tail, the segmentation effect is not as obvious as with hull insurance. Due to some large loss events, reported in 2014, and raised allowances due to bodily injuries in claims from past periods, the gross underwriting result worsened from 46 % to 57 %; one of the large loss events contributed to this result as much as 4 %.

Motor vehicle liability insurance: Earned premiums, claims incurred, and gross underwriting result in 2014



The change in 2012 is a consequence of the quota share reinsurance treaty coming into effect.

Development

In 2015, we will continue with client segmentation, having the whole year's segmented price list data available. Segmentation is a process which needs to be monitored and adjusted. Due to changes in interpretation of the scope of coverage for MTPL, we will adapt the conditions and premium system in order to enable insuring groups of vehicles, which are otherwise not within the mandatory liability insurance. Within the SIA, we will continue to collaborate in connecting to the external databases RAZ, RSK and MRVL. By doing this, we will enable a simplified control over claims situation in cases of new insurants coming from other insurance companies, and identification and collection of data about vehicles. The next step will be a simplification of acquiring data about vehicles and persons in order to ensure a quick and accurate entry into claim files.

Main features

Motor third-party liability insurance falls under the category of compulsory insurance in road traffic. This means that every vehicle owner must purchase this insurance before hitting the road, provided that registration is required for that vehicle. The policyholder and authorised users of the vehicle are insured against payment of damages accidentally caused to third parties while using the insured vehicle in the amount of the sum insured. Insurance policies are concluded for the sum insured that has been statutory set and currently amounts to 5,000,000 euros for personal injuries and 1,000,000 euros for damage to property.

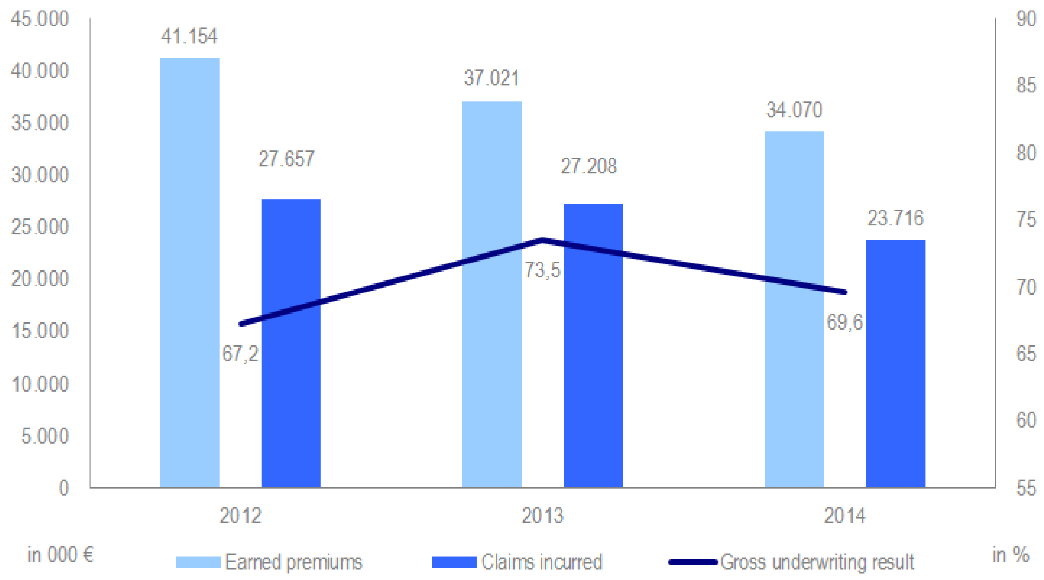
5.3.3.3 Land motor vehicle insurance

Operating performance in 2014

The premiums written in land motor vehicle insurance account for 25 % of non-life insurance premiums. Premiums written for hull insurance are falling year after year and were lower than in 2013 by 2.3 %. The economic crisis has affected hull insurance since fewer clients decide to take out insurance for their second car. The market of new vehicles has officially remained at the last year level, but car dealers believe such statistical data to be the result of one-day registration of re-exported vehicles. Some car dealers even talk about a sales drop of 20 to 30 % which is heavily reflected in the insurance business. The sales shortfall in hull insurance is a result of fierce competition and decline in the number of insurance contracts.

The fall of earned premiums in land motor vehicle insurance continues and compared to 2013, the difference was 8.3 %. Claims incurred lowered as well, by 12.8 %, which is a reflection of lower reparation costs, as well as the segmented price list and limitations on number of compensated claims per individual coverage. As a consequence, there is a slight improvement in gross underwriting result from 73.5 % to 69.6 %.

Land motor vehicle insurance: Earned premiums, claims incurred, and gross underwriting result in 2014



The change in 2012 is a consequence of the quota share reinsurance treaty coming into effect.

Development

In the first half of 2015, we will prepare a product for hull insurance of older vehicles. We have discovered that this group presents a potential that has not been treated as much as it should be. We will also proceed with the process of segmentation for other types of vehicles.

Main features

Hull insurance covers the perils of road traffic and natural disasters, theft and fire, malicious and other acts that could result in partial or complete loss of value of motor vehicles. Apart from cars, hull insurance also includes trucks, buses, motorbikes …

The insurance product is of modular structure and the policyholder may select among the following coverages: hull coverages – traffic events, collision, severe damage; fire, theft and special events, additional insurance coverages (D coverages), insurance of additional equipment, additional machine breakage insurance and insurance of vehicles in repair shops.

Adriatic Slovenica sells car insurance in the framework of two basic products. The product for insurance of motor vehicles is particularly intended for insurance of vehicles belonging to individuals or sole proprietors/small companies, and the product for group insurance is intended for insuring vehicle fleets in companies. The information systems support and ways of taking out insurance are adapted to this principle. It is true for both products that it is possible to insure within one policy the mandatory vehicle liability, as well as hull insurance and many others, such as MTPL+ driver accident, passenger accident insurance and car assistance. Hull insurance accounts for 25 %, and MTPL for 30 % of non-life insurance premium. By coverage, both products are mostly comparable with other products on the market, but the advantage of Adriatic Slovenica is that clients can also opt for “Moja prva polica” (My first policy) for young drivers and compensation liability insurance – two products that are not offered by all insurance companies.

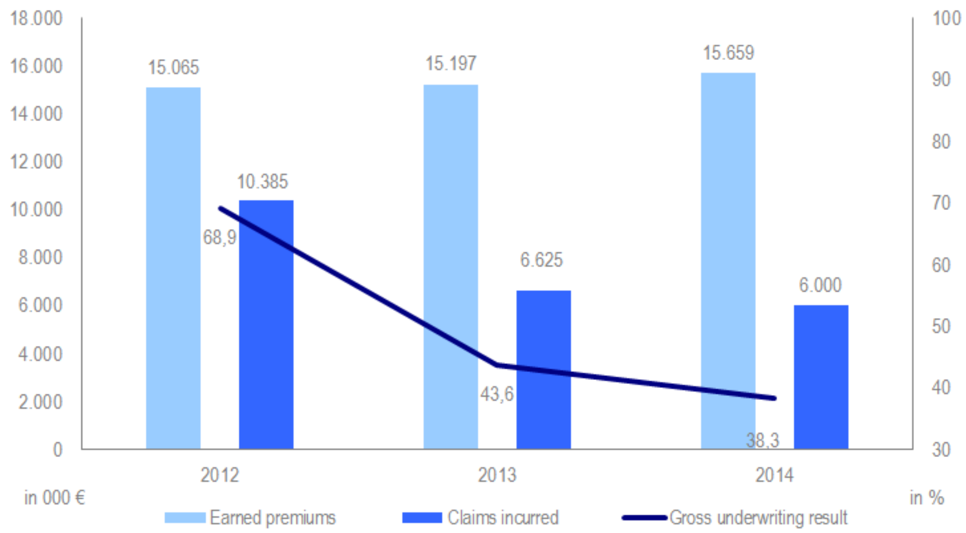
5.3.3.4 Fire and natural forces insurance

Operating performance in 2014

Premiums written in this category are constantly increasing. In 2014, the premium was 3.4 % higher than the year before. In the non-life premium structure, this class of insurance accounts for 12%. The majority, an 84% share of this premium falls under subcategory of fire insurance apart from trade and industry which includes premiums of the home insurance Dom AS (Home AS) product. Premium increase was predominantly achieved in the part of fire insurance related to residential buildings under the Dom AS product. At the beginning of 2014, we renewed the Dom AS product slightly, which triggered a favourable response from the market, and a constant growth of premium.

The earned premiums of these insurance products are slowly increasing through the years, and have grown by 2.6 % in 2014. The increase in premium is a consequence of intense sales of Dom AS product and a number of new contracts signed with new, large clients. Claims incurred went down by 10 % and the gross underwriting result improved from 43.6 % to 38.3 %. Despite the floods and glaze ice disaster in early 2014, the underwriting result did not decrease.

Fire and natural forces insurance: Earned premiums, claims incurred, and gross underwriting result in 2014



Development

We have included fire insurance in Podjetnik AS (Entrepreneur AS), a new product for entrepreneurs and sole proprietors. As far as flood insurance is concerned, a premium rate correction is in preparation since premiums are too low considering the more and more often natural disasters, which also occurred in 2014.

Main features

The fire and natural forces insurance covers damage or loss on real estate and movable property. It includes coverage in case of fire, lightning, explosion, storm, hail, and a hit by a motor vehicle or movable working machine, fall of an aircraft, manifestations and demonstrations. By special arrangement, fire insurance can also cover additional hazards of flooding, accidental discharge or overflow of water, avalanche and landslide, snow mass, fluid leakage, discharge of glowing mass, self-ignition of inventories, inflow of meteoric water, indirect lighting strike, vandalism and earthquake. The residential part of real estate and movable property are covered within the Dom AS home insurance product, and fire perils in small companies and sole trader establishments will be covered within the new product Podjetnik AS.

5.3.3.5 Other damage to property insurance

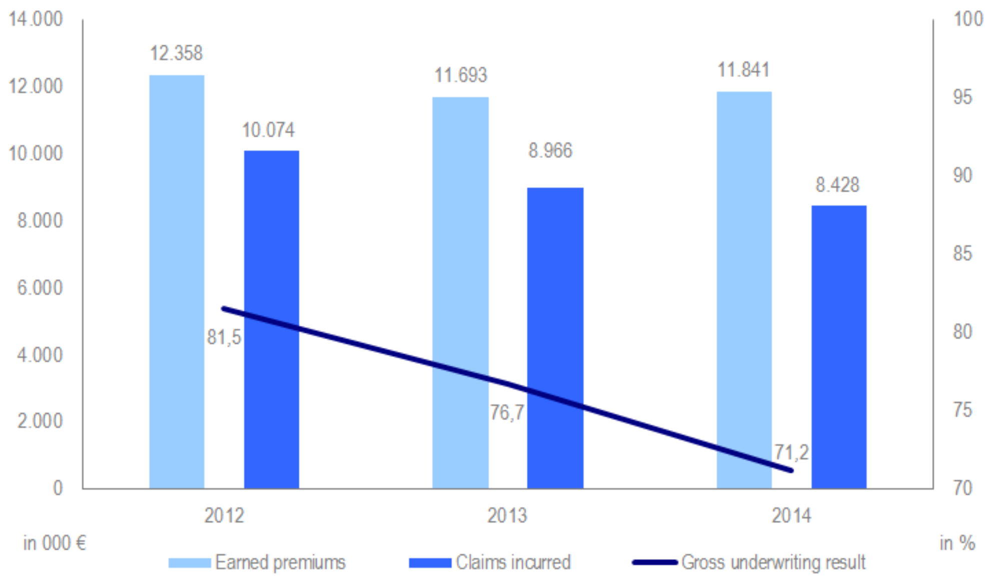
Operating performance in 2014

The class of insurance called other damage to property is composed of several insurance subcategories. It accounts for 9 % of the premium structure in non-life insurance. The majority of premiums written, i.e. more than 55 % of premium from this class of insurance is generated by home contents and machinery breakdown insurance. This class of insurance also comprises crops and livestock insurance, construction and erection insurance, burglary insurance, glass breakage insurance, computer insurance, and the new product, launched in early 2013, called Multirisk.

In 2013, home insurance premium continued its constant growth of 3.5 %. Premiums in machinery breakdown insurance was on the level of 2013, which is a consequence of premium calculation based on the claims result of the client – the more strict rules for calculating bonuses and maluses started to show results. The premium in burglary insurance and livestock insurance grew as well, compared to 2013 by 3.5 %. The premium in construction and erection insurance, however, fell by 12 % since the crisis in the construction sector is still not over.

Earned premiums of other damage to property insurance grew by 1 % in 2014. This includes a large number of various insurance products, among which is the new tourist insurance, which was launched in 2014 and contributed to the higher premium. Despite the floods, claims incurred remained on the same level, therefore, the gross underwriting result improved from 76.7 % to 71.2 %.

Other damage to property insurance: Earned premiums, claims incurred, and gross underwriting result in 2014



Development

In 2015, we will further develop the Podjetnik AS (Entrepreneur AS) product for entrepreneurs and sole proprietors dealing with trade/craftsmanship or industry activities. Sales of an entirely new product on the Slovene market will begin in the first quarter of the year. The product is called “Oprostitev plačila premije (OPP) zaradi brezposelnosti ali invalidnosti” (Premium payment exemption in case of unemployment or disability). This coverage, which will be added to some mass products, will enable the insurance, to which it is added (for example Dom AS), to continue without interruptions in case of the insurant’s unemployment. It is a low-premium product, which will be successful only if sold together with mass insurance products.

Main features

In terms of premiums written, housing units insurance is the largest insurance subcategory under the other damage to property class of insurance. Adriatic Slovenica provides this type of insurance as the home insurance Dom AS package in which both home and its contents can be insured against a number of different hazards threatening the assets of the insured. In addition, the same policy can also provide accident cover for family members, farm risks and home pets; provide liability insurance, and many more. The second largest insurance subcategory constitutes the machinery breakdown insurance that covers damages in case of malfunction or breakdown of equipment, machinery and installations. This subcategory also comprises construction and erection insurance, burglary and robbery insurance, glass breakage insurance, computer insurance, livestock and crops insurance, and others.

5.3.3.6 General liability insurance

Operating performance in 2014

Liability insurance accounts for 5 % in the non-life insurance structure. This class of insurance comprises a rather diverse range of liability insurance coverages: general civil liability, manufacturer liability, various mandatory and optional professional liabilities, and forwarders liability. In 2014, the premium reached 12 % growth, attributable to growth in insurance of general civil liability, manufacturer liability and some other smaller classes, such as attorney liability, and all other liability insurance.

Development

General liability insurance will be revised and simplified in the second half of 2015. This year, we will focus on education and training of the sales network. The general liability insurance will be integrated in products, such as Podjetnik AS, also in the future, since this segment in our opinion still offers great opportunities for sales growth.

Main features

Liability insurance covers losses due to third-party civil claims against a policyholder due to a sudden and unexpected damage event (accident) arising from the hazard source stated on the policy that has resulted in bodily injury or damage to property. The hazard source may be an activity, profession, product, etc., and that source of hazard characterises the type of insurance. Of major importance are the needs to insure the manufacturer’s liability of companies that sell their products abroad, especially if they export them to the USA. Professional liability insurance is compulsory for many professionals, such as notaries, lawyers, designers, physicians, insurance brokers etc.

5.3.3.7 Other non-life insurance

Operating performance in 2014

Other non-life insurance (comprising goods in transit insurance, financial losses insurance, loan and suretyship insurance, legal costs insurance and assistance insurance) accounts for more than 6 % of total non-life insurance premium. In 2014, suretyship insurance and car assistance insurance registered the highest increase. Compared to 2013, lowering of premium written was noted in hull vessel insurance, while the vessel owner liability insurance remained on 2013 level. Despite the crisis, insurance of goods in transit achieved a 3 % growth in premium.

Development

In 2015, we will continue with development of assistance insurance for different target groups (e.g. electrical energy users, members of different associations), which could be in a broader form also promoted via banks, post offices or other sales channels. We will proceed with development of income loss due to illness insurance, which will especially be suitable for sole proprietors whose income and capability to cover fixed costs are most affected in case of illness or accident. We will renew insurance bases for suretyship insurance because we have assessed that there is high demand for such insurance.

Main features

Transportation insurance segment comprises aircraft and vessel third-party liability insurance, forwarder and carrier third party liability insurance, comprehensive goods in transit insurance, as well as aircraft hull insurance and vessel hull insurance. Assistance insurance is included in three classes of insurance: car assistance, medical assistance abroad and other assistance insurance. Financial loss insurance comprises event insurance, loss of income due to fire or machinery breakdown, travel cancellation insurance, and others. Suretyship insurance consists of various bonds, such as tender bond, performance bond, warranty bond, etc.

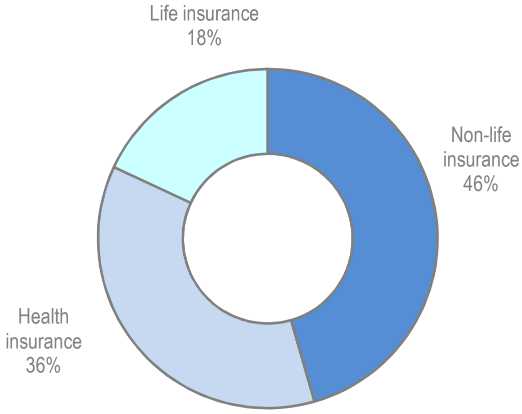
The number of insured persons and insurance contracts issued by class of insurance in 2014

Insurance class	Adriatic Slovenica		Group
	The number of insured persons 2014	The number of insurance contracts issued 2014	The number of insurance contracts issued 2014
Accident insurance	2,952,242	413,606	423,694
Health insurance	722,454	385,944	386,708
Land motor vehicle insurance	142,218	142,218	145,798
Railway rolling stock insurance	1	1	1
Aircraft insurance	12	12	12
Marine loss insurance	1,930	1,930	1,930
Transportation (goods in transit) insurance	2,120	2,120	2,210
Fire and natural disaster insurance	81,168	81,168	81,787
Other damage to property insurance	91,904	91,904	92,677
Motor vehicle liability insurance (MTPL)	274,349	274,349	298,351
Aircraft liability insurance	24	24	24
Ship/boat liability insurance	5,953	5,953	5,953
General liability insurance	11,758	11,758	11,994
Credit insurance	251	251	251
Suretyship insurance	333	333	333
Miscellaneous financial loss insurance	1,911	1,911	1,924
Legal expenses insurance	6,990	6,990	6,990
Insurance of assistance	187,496	187,496	191,331
Life insurance	59,465	57,013	57,342
Unit-linked life insurance	85,527	82,825	87,308
Insurance with capitalised payments	2,467	2,467	2,467

Note: The number of insurance policies sold is from 1 January 2009 aligned with the Decision on reporting the statistical insurance data. The relevant indicator is the number of signed insurance contracts at the level of insurance sub-category as reported in the past using St forms. A long-term policy is taken into account each year of its duration.

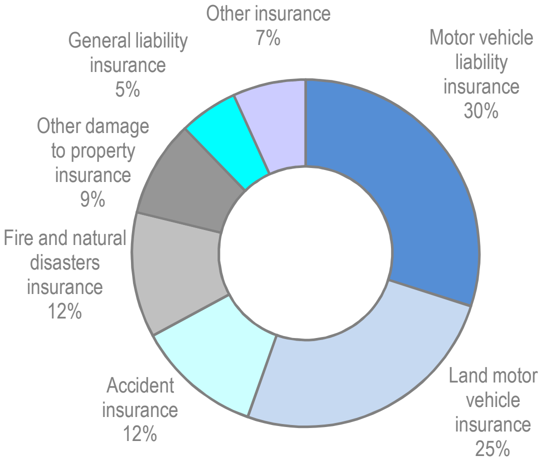
5.4 OPERATING PERFORMANCE AND MAIN FEATURES OF THE INSURANCE CLASSES OF THE GROUP

The largest proportion of the Group's premium was collected in the non-life insurance segment, followed by health insurance, in 2014 accounting for 36 % share, and life insurance with 18 % share. Compared to 2013, the premium structure was rather unchanged. AS neživotno osiguranje and Viz subsidiaries sell non-life insurance, and KD životno osiguranje only sells life insurance.



Premium structure of the group by insurance class

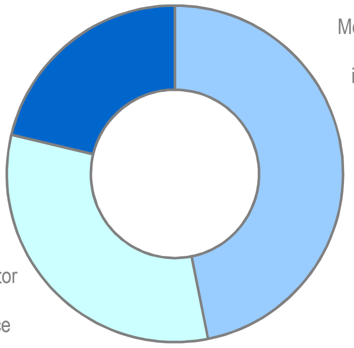
In the non-life insurance premium structure, car insurance prevails with 55 % share, followed by accident, fire and other damage insurance.



AS neživotno osiguranje: operating performance and main features of insurance classes

Premium structure of AS neživotno osiguranje by insurance class

The largest portion of premium in the portfolio structure pertains to car insurance, while other insurance accounts for approximately one fifth of premium.



Land motor vehicle insurance

Operating performance in 2014

Land motor vehicle insurance, or car hull insurance, is by its volume the second largest insurance class, in which, we have collected 595,732 euros of gross premiums. This is 10 % less than the year before, which is a consequence of harsh competition on the Serbian hull insurance market, and an important downturn of new vehicle sales.

To maintain and ensure one of the basic conditions for hull insurance portfolio growth, in 2015, we will have to introduce a modern and competitive car hull insurance product, and improve and broaden the scope of collaboration with external sales channels.

Main features

Hull insurance provides comprehensive security for all types of motor vehicles and their parts from a broad range of insured perils. It contains coverages for the following situations: traffic events, falling or hitting by an object, fire, explosion, external heat or chemical activity, lightning strike, storm, hail, landslide/avalanche, fall of an aircraft, manifestations, demonstrations, and aggressive or malicious actions of third parties which could lead to partial or complete loss of value of motor vehicles. Insurants can attach additional coverages to the basic hull insurance, such as coverage for vehicle theft and theft of vehicle parts.

Motor vehicle liability insurance (MTPL)

Operating performance in 2014

In 2014, in the MTPL insurance class, AS osiguranje reduced the volume of business operations in line with the changed business strategy and collected 874,872 euros of gross premiums, which is almost 43 % less than in 2013.

It is our assessment that in 2015, the disposal of MTPL insurance will reflect in halving the amount of insurance premium in this insurance class.

Main features

Motor third-party liability insurance falls under the category of compulsory insurance in road traffic. This means that every vehicle owner must purchase this insurance before hitting the road, provided that registration is required for that vehicle. The policyholder and authorised users of the vehicle are insured against payment of damages accidentally caused to third parties while using the insured vehicle in the amount of the sum insured.

Fire and natural forces insurance, and other property insurance

Operating performance in 2014

Related to this insurance class, the descending of purchasing capacity of the economy and the Serbian population that is saving more and more also on the account of insurance, continued in 2014. The company managed to collect 128,571 euros of gross premiums in the fire and other perils insurance class, which is approximately 7 % less than in the previous year.

Main features

By taking out fire insurance, we can insure buildings with the associated equipment and installations, machinery and stocks, buildings under construction, items in the possession of employees, items of third persons that are in reparation or processing, money, securities etc. The basic package includes coverage in case of fire, lightning strike, explosion, storm, hail, and a hit by a motor vehicle or movable working machine, manifestations and demonstrations, and fall of an aircraft,. By special arrangement, fire insurance can also cover additional hazards of flooding, avalanche, fluid leakage, self-ignition of inventories, etc. The residential part of real estate and movable property is covered within the basic, optimum and above-standard packages.

General liability insurance

Operating performance in 2014

In 2014, the gross premiums within this insurance class amounted to 81,510 euros, which presents a 29 % growth in gross premiums, compared to the previous year.

Main features

Liability insurance covers losses due to third-party civil claims against a policyholder due to a sudden and unexpected damage event (accident) arising from the hazard source stated on the policy that has resulted in bodily injury or damage to property. The hazard source may be an activity, profession, product, etc., and that source of hazard characterises the type of insurance.

Accident insurance

Operating performance in 2014

In AS Osiguranje in 2014, the gross premiums in the accident insurance class amounted to 58,974 euros, which is almost 29 % less than in 2013. The major part of the accident insurance portfolio structure pertains to collective accident insurance of employees. The main reasons for the significant decrease in premium are the continuous trend of closing business entities and optimisation of workforce (redundancy) in the companies that operate in the Republic of Serbia.

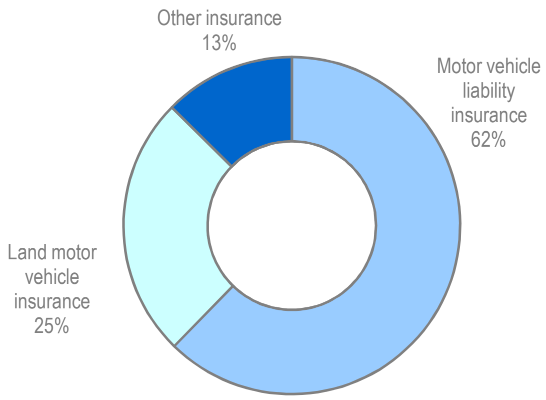
Main features

Accident insurance comprises two basic coverages – death and disability due to accident. Other coverages are additional coverages: e.g. coverage for death due to illness, temporary disability due to accident (daily compensation), medical treatment costs and daily benefits for the time spent in hospital due to accident. Within the mandatory insurance, we can also insure income loss due to accident and rescue costs within the accident insurance for members of alpine association.

Viz: operating performance and main features of insurance classes

Viz premium structure per insurance class

The prevalent insurance class in Viz premium structure is car insurance, whereas the share of other classes of insurance increased by 2 % compared to 2013.



Motor vehicle liability insurance (MTPL)

Operating performance in 2014

In order to take out any type of WIZ car insurance, insurants have to take out the MTPL insurance as well. In 2014, the gross premiums amounted to 559,450 euros, which is almost two thirds of the total gross written premium.

Main features

Motor third-party liability insurance falls under the category of compulsory insurance in road traffic. This means that every vehicle owner must purchase this insurance before hitting the road, provided that registration is required for that vehicle. The policyholder and authorised users of the vehicle are insured against payment of damages accidentally caused to third parties while using the insured vehicle in the amount of the sum insured. WIZ insurance includes coverage for a single sum insured, covering injuries/damage on persons or items.

Land motor vehicle insurance

Operating performance in 2014

In 2014, within the land motor vehicle insurance class (WIZ hull insurance), WIZ collected 224,981 euros of gross premiums, accounting for one quarter of the total premium in 2014.

Main features

Hull insurance provides comprehensive security for all types of motor vehicles and their parts from a broad range of insured perils. It contains coverages for the following situations: traffic events, falling or hitting by an object, fire, explosion, external heat or chemical activity, lightning strike, storm, hail, landslide/avalanche, fall of an aircraft, manifestations, demonstrations, and aggressive or malicious actions of third parties which could lead to partial or complete loss of value of motor vehicles. WIZ insurants can choose the deductible on their own – in the amount of 100, 300, 600 or 900 euros.

Accident insurance

Operating performance in 2014

The gross premium income in accident insurance (WIZ Nezgoda and WIZ Voznik) in 2014 amounted to 70,199 euros.

Main features

The MTPL+ insurance (WIZ Voznik) covers the damage that the driver, as the person responsible for an accident, suffers due to bodily injuries. The sum insured is limited to 51,000 euros. Accident insurance provides death benefits for the driver and the passengers in the insurant's car in case of a traffic accident. The coverage is provided regardless of the medical condition or age of the passengers. The sum insured is 20,000 euros per person.

Assistance insurance

Operating performance in 2014

In 2014, the gross premium income in WIZ assistance insurance class (WIZ Asistent) amounted to 43,270 euros.

Main features

Viz provides assistance insurance in case of breakdown, damage or disappearance of the insurant's car. A 24-hour organisation and assistance costs are covered. The limitation of total costs per individual case is 2,000 euros, and the limitation of total costs per policy in one insured year is 4,000 euros.

Supplementary health insurance (WIZ Zdravje)

Operating performance in 2014

The WIZ Zdravje supplementary health insurance product was launched in August 2014, and by the end of the year, the premium income reached 31,221 euros.

Main features

WIZ Zdravje is a supplementary health insurance product, covering the additional payments of health services which would otherwise have to be paid by the insurant. This insurance is intended for everybody who has a valid compulsory health insurance policy and has to pay additional charges for health services.

Health insurance and accident insurance (WIZ Zdravje +)

Operating performance in 2014

In combination with WIZ Zdravje (supplementary health insurance), the clients can opt for an additional WIZ Zdravje plus coverage for a monthly premium of 0.99 euros. Since August 2014 until the end of the year, the premium income was 326 euros.

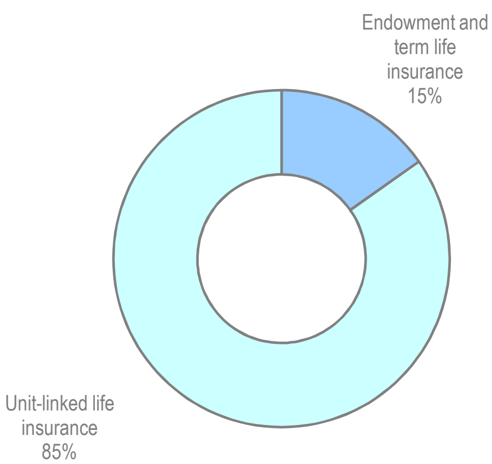
Main features

Wiz Zdravje plus is a health insurance product which covers organisation, assistance at home and compensation for costs and transportation in case of injury or illness. It also includes accident insurance, which in case of permanent disability due to accident offers exemption of WIZ Zdravje premium payment.

KD životno osiguranje: operating performance and main features of insurance classes

KD životno osiguranje premium structure

The prevailing segment in the portfolio structure is unit-linked life insurance with 85 % share.



KD životno osiguranje operating performance and main features of insurance classes

Life insurance provided by KD životno osiguranje is divided into two large groups – the so-called mixed and risk life insurance, and life insurance in which the policyholders bear the investment risk (unit-linked insurance). Additional insurance products can be attached to these packages. The first group includes endowment life insurance (mixed life insurance) and additional life insurance with death benefit (risk insurance). The second group, unit-linked insurance, comprises Fondpolica and Fondpolica ZLATA PALICA IN DRUŽINSKO SREBRO (Fondpolica GOLDEN BAR AND FAMILY SILVER).

The total gross premium income in this segment amounted to 2,232,420 euros; 1,892,535 euros from unit-linked life insurance, 214,678 euros from life insurance and 125,207 euros from additional insurance.

Mixed life insurance

Main features

Mixed life insurance (in case of endowment) provides the insured person with insurance security in their active period. This insurance is available to persons from 14 to 65 years of age (who do not exceed 75 years of age at the end of insured period). The insurance company pays the agreed sum insured to the beneficiary immediately after death of the insured person if they pass away during the insured period, or the sum insured for endowment if the insured person (both persons insured in case of mutual insurance) lives up to the agreed date of insurance maturity. Premium can be paid in one-off payment or in phases; premiums and sums insured are denominated in euros. Life insurance can be supplemented by additional accident insurance and other additional insurance products (additional insurance with death benefit and critical illnesses).

Additional life insurance with death benefit (risk insurance)

Main features

Life insurance with death benefit (risk insurance) is an additional life insurance without the insurant's participation in surplus distribution. Risk life insurance covers the occurrence of death of the insured person in the insured period when the beneficiary receives the agreed sum insured.

Additional critical illness insurance

Main features

Critical illness insurance is an additional insurance to take out with life insurance. In case of critical illness, the sum insured of additional insurance is paid out and the additional critical illness insurance is no longer valid, while the life insurance policy is still valid until its agreed maturity date.

Unit-linked life insurance

Main features

Under the name Fondpolica, we have collected various unit-linked life insurance products which provide insurance security in different stages of life and the possibilities of investments, adapted to them. The first **Fondpolica** (until December 2012) is a life insurance product, in which the policyholder bears the investment risk, and the policy provides a comprehensive insurance security for the insurant and their family, namely a guaranteed insurance sum in case of death of the insurant, and compensation in the amount of property/asset value at the end of the insured period (upon endowment). Apart from this, the insurants can opt for additional accident insurance and other additional insurance products. The **Fondpolica** product that is available since 1 December 2012, is a whole life insurance, linked to units of investment funds or to some other reference value, for which the policyholder bears the investment risk, and the insurance company pays the death benefit to the beneficiary in case of the insurant's death. This type of Fondpolica, as well, allows for taking out additional accident insurance and other additional insurance products (additional insurance in case of death or critical illness).

Fondpolica ZLATA PALICA IN DRUŽINSKO SREBRO (Fondpolica GOLDEN BAR AND FAMILY SILVER) are whole life insurance products in which the policyholder bears the investment risk in the insured period and in case of surrendering the policy. In case of death of the insured person, the beneficiary receives the sum insured for case of death, and in case of surrendering the policy, the insurer gets the redemption value of the insurance. Both types of insurance allow for taking out additional accident insurance and other additional insurance products. All insurance products with investment risk contain an insurance component (sum insured for case of death) and are therefore classified as insurance products in line with the International Financial Reporting Standard 4.

Additional accident insurance

Main features

Additional accident insurance alleviates financial consequences of accidents and ensures additional financial security of the insured person and their loved ones. It can be taken out together with life insurance and provides various coverages. The beneficiary receives the insured sum in case of death, and the insured person is granted a high level of security in case of 100 % or partial disability due to accident. In case of 100% disability, the insurance company pays 150 % of the sum insured for the case of permanent disability. The insured person can also opt for coverage of daily benefits for the time spent in hospital due to accident

5.5 ANALYSIS OF OPERATIONS, PRESENTATION OF THE FINANCIAL RESULT AND FINANCIAL POSITION OF ADRIATIC SLOVENICA D.D. IN 2014

FINANCIAL RESULT

In the harsh market conditions of 2014, Adriatic Slovenica d.d. reported a strong operating performance which resulted in net profit at year-end. With the net profit of 18.8 million euros (which is 5.3 million euros or 38.8 % more than the year before), its return on equity reached 18.9 % in 2014.

The statement of financial results by product segments shows positive results in all three insurance segments. Net profit has been generated from: non-life insurance (2014: 12.5 million euros, 130.6 % growth), life insurance (2014: 4.9 million euros, 77.1 % growth) and health insurance (2014: 1.5 million euros, 72.9 % decrease).

Summary of income statement

In 000 EUR	Life insurance	Non-life insurance	Health insurance	2014	Life insurance	Non-life insurance	Health insurance	2013 (adjusted)	Index 14/13	Absolute difference
Gross written premiums	53,753	135,933	108,193	297,880	56,836	136,960	112,603	306,399	97.2	-8,519
Written premium ceeded to reinsurers/coinsurers	-1,271	-46,986	0	-48,257	-984	-50,388	0	-51,372	93.9	3,115
Change in provision for unearned premiums	45	-951	1,208	302	78	4,609	1,053	5,741	5.3	-5,439
Net earned premiums	**52,527**	**87,997**	**109,401**	**249,925**	**55,931**	**91,181**	**113,656**	**260,768**	**95.8**	**-10,844**
Gross claims and benefits paid	-35,491	-80,633	-92,712	-208,836	-33,865	-87,559	-96,169	-217,593	96.0	8,757
Reinsurers'/coinsurers' share	334	23,268	0	23,602	292	24,970	0	25,261	93.4	-1,659
Change in outstanding claims provisions	685	7,967	527	9,179	367	10,490	443	11,299	81.2	-2,120
Net claims and benefits paid	**-34,471**	**-49,398**	**-92,186**	**-176,055**	**-33,207**	**-52,100**	**-95,727**	**-181,033**	**97.3**	**4,978**
Change in other technical provisions and change in liabilities from investment contracts	-1,884	1,123	-476	-1,237	3,286	298	7	3,590	-34.5	-4,828
Change in other technical provisions for the benefit of life policyholders who bear investment risk	-42,397	-	-	-42,397	-10,604	-	-	-10,604	399.8	-31,793
Acquisition costs	-6,683	-15,491	-2,040	-24,214	-5,858	-16,208	-1,791	-23,857	101.5	-358
Other operating costs	-10,479	-22,541	-12,772	-45,791	-11,419	-24,853	-10,278	-46,550	98.4	759
Net financial profit/(loss) from investing activities	47,064	6,075	714	53,852	4,122	-4,478	1,262	906	5,943.8	52,946
Other revenues / expenses	2,287	7,079	-831	8,535	1,025	12,415	-740	12,700	67.2	-4,165
Profit/(loss) before taxes	**5,963**	**14,844**	**1,810**	**22,616**	**3,276**	**6,256**	**6,389**	**15,921**	**142.1**	**6,696**
Taxes	-1,045	-2,377	-345	-3,767	-498	-850	-989	-2,338	161.2	-1,430
Net profit/(loss) for the reporting period	**4,918**	**12,466**	**1,465**	**18,849**	**2,777**	**5,406**	**5,400**	**13,583**	**138.8**	**5,266**

Revenue from insurance premiums, claims expenses and operating costs

In the reported period, gross written premiums of the company amounted to 297.9 million euros, which is 8.5 million (2.8 %) less than the year before. By taking into account the premiums ceded to reinsurers and changes in unearned premiums, the company collected 249.9 million euros of net insurance premiums, which is 4.2 % less than in 2013. The ceded reinsurance premium was 6.1 % lower and amounted to 48.3 million euros, while the release of unearned premiums in 2014 had an insignificant effect on net operating revenue – the drawdown of this type of deferred revenue only amounted to 301.7 thousand euros.

In the structure of net revenue from insurance premiums, which remains unchanged, the predominant segment is health insurance. In 2014, it reached 109.4 million euros, accounting for 43.8 % share, which is 2.2 million euros (2.0 %) less than in 2013. Health insurance segment is followed by non-life insurance with 88.0 million euros (3.5 % less than in 2013) of net revenue, and life insurance with 52.5 million euros and 21.0 % structural share.

In 2014, the net expenses for claims paid, taking into consideration the changes in claims provisions (2014: 9.2 million euros), amounted to 176.1 million euros, which presents a 2.7 % fall, compared to the previous year. One of the main reasons for this is revenue from recourse receivables in the amount of 3.9 million euros. The reinsurers' shares in the net expenses for claims paid, amounting to 23.6 million euros (13.4 % share) were 6.6 % lower than the year before.

The biggest release of claims provisions was in the non-life insurance segment (8.0 million euros), while in the life insurance segment, the provisions amounted to 685.0 thousand, and in health insurance to 527.0 thousand euros.

In the structure of net expenses for claims paid, health insurance is the prevailing segment with 52.4 % share (92.2 million euros), and it decreased by 3.7 % (3.5 million euros) in 2014, compared to 2013. Net expenses for claims paid in the non-life segment faced a downturn by 5.2 % and amounted to 49.4 million euros. Net expenses for claims in life insurance stood at 34.5 million euros with 19.6 % structural share.

The ratio between net expenses for claims paid and net revenue from insurance premiums improved by 8.5 % or 5.0 percentage points – it went down from 58.0 % to 53.0 %.

Operating costs, excluding revenue from reinsurance commissions, amounted to 57.9 million euros, having increased by 1.6 % (934 thousand euros) compared to the year before. On the basis of a detailed analysis of structure and movements, we can conclude that the rise was caused by acquisition costs in the amount of 24.2 million (infra-annual movement dynamic: +1.5 %) and labour costs in the amount of 23.2 million euros (infra-annual movement dynamic: +3.2 %), which are prevalent by volume. Costs of materials and amortisation were around the same level as in 2013 because it was possible to realise the savings related to energy consumption and office supplies, and keep the amortisation level on the account of lower realised investments in fixed assets of insurance operations.

Net financial result

The company achieved a net financial result from investing activities in the amount of 53.9 million euros, exceeding the result from 2013 by 52.9 million euros. The main contribution to this was on the part of financial revenue, which was 193.1 % (39.0 million euros) higher and amounted to 59.3 million euros. The advance is related to growth of net unrealised gains of unit-linked life insurance investments, profits from disposal of assets, and accrued interest to other companies. On the other side, financial expenses were 13.9 million euros (72.0 %) lower and amounted to 5.4 million euros, which can be connected to lower net unrealised losses of unit-linked life insurance investments, as well as to lower revaluation financial expenses and expenses for asset and interest management.

Other revenue/expenses

In 2014, the net result of other revenue and expenses totalled 8.5 million euros and was 32.8 % lower than in the previous comparable period. The slip back results from other expenses, as well as other revenues. The latter were in 2014 lower by 6.6 million euros, but the structure remained the same. The decrease was, however, affected by lowering of other insurance revenue (-9.7 %) to 13.2 million euros, and other revenue (-44.3 %) to 6.6 million euros. At the same time, in 2014, also other expenses were lower than the year before by 2.5 million euros, while their structure did not change. The decrease was a consequence of other insurance expenses (-32.6 %) reduced to 6.5 million euros, and growth of other expenses (16.2 %) to 4.7 million euros.

Revenue and expenses of the business year by insurance classes of the parent company

in 000 euros	2014	
Name of insurance class	Revenues	Expenses
Accident insurance	17,571	-14,050
Health insurance	110,854	-109,817
Land motor vehicle insurance	53,552	-53,477
Railway rolling stock insurance	0	0
Aircraft insurance	14	-51
Marine (ship) insurance	1,130	-1,961
Cargo and goods in transit insurance	1,410	-1,214
Fire and natural forces insurance	17,008	-17,492
Other damage to property insurance	12,742	-15,152
Motor vehicle liability insurance	63,410	-55,935
Aircraft liability insurance	17	-18
Liability for ship insurance	608	-402
General liability insurance	7,814	-3,854
Credit insurance	1,416	-584
Suretyship insurance	221	-69
Miscellaneous financial loss insurance	860	-807
Legal expenses insurance	156	-118
Travel assistance insurance	6,389	-5,135
Life insurance	29,721	-25,156
Unit-linked life insurance	77,259	-76,474
Insurance with capitalised payments	1,247	-1,450

Changes in technical provisions

In 2014, mathematical/technical provisions of policyholders who bear the investment risk were changed in volume by 42.4 million euros due to the increased asset unit value. Other technical provisions with changed liabilities from financial contracts climbed by 1.2 million euros in 2014. Within the life insurance segment, they were 1.9 million euros higher, while in the non-life segment, there was a release of provisions for unexpired risks in the amount of 1.1 million euros; at the same time, in health insurance, due to a similar reason, provisions increased by 476.4 euros.

FINANCIAL POSITION

As at 31 December 2014, the total assets of the insurance company stood at 687.2 million euros, which is a 1.6 % decrease, compared to the previous year. The decrease is to a large extent a consequence of settlement of receivables and liabilities from quota share reinsurance treaty. The major part of assets at the end of the year is accounted for by life insurance assets (56.9 %), 39.4 % of assets are used for non-life insurance operations, and the rest (4.6 %) for health insurance.

Structure of assets

in 000 EUR	31/12/2014	Structure in %	31.12.2013 (adjusted)	Structure in %	31/12/2012	Structure in %
Intangible assets	4,381	0.6%	4,597	0.7%	3,614	0.9%
Property, plant and equipment	27,317	4.0%	27,153	3.9%	24,907	3.9%
Non-current assets held for sale	0	0.0%	0	0.0%	0	0.0%
Deferred tax assets	3,622	0.5%	3,816	0.5%	3,777	1.7%
Investment properties	29,376	4.3%	28,357	4.1%	30,430	6.1%
Financial investments in subsidiaries and associates	27,419	4.0%	21,973	3.1%	21,428	4.8%
Financial investments	253,114	36.8%	258,536	37.0%	239,412	56.8%
Unit-linked investments of policyholders	257,519	37.5%	213,926	30.6%	24,606	5.5%
Amounts of technical provisions ceded to reinsurer	29,081	4.2%	26,252	3.8%	23,714	2.5%
Assets from investment contracts	0	0.0%	0	0.0%	0	4.8%
Receivables	39,181	5.7%	97,073	13.9%	58,838	9.7%
Other assets	5,469	0.8%	6,291	0.9%	5,928	1.2%
Cash and cash equivalents	10,712	1.6%	10,099	1.4%	11,520	2.2%
Total Assets	**687,192**	**100%**	**698,072**	**100%**	**448,173**	**100%**

As at 31 December 2014, on the assets side, investments were recognised as the most important category. It accounted for 567.4 million euros or 82.6 % of total assets (31 December 2013: 522.8 million euros). Compared to the previous year, the volume of investments expanded by 8.5 %. Within the category, there was 257.5 million euros of assets of policyholders who bear the investment risk, 253.1 million euros of other financial investments, 29.4 million euros of investment property and 27.4 million euros of financial investments in companies within the Group. Due to growth of asset unit value, the assets of policyholders who bear the investment risk increased by 20.4 % compared to the previous year, and accounted for 37.5 % share of total assets as at 31 December 2014 (31 December 2013: 30.6 % share).

As at 31 December 2014, receivables amounted to 39.2 million euros, accounting for 5.7 % of total assets, decreased by 59.6 % compared to the year before. This is a consequence of lower amounts in two major categories of receivables. Receivables for reinsurers' shares in claims shrank by 84.8 % to 6.3 million euros due to settlement of receivables from quota share reinsurance treaty, while other short-term receivables from insurance operations (reinsurance commission) totalled 7.9 million euros at 2014 year-end (31 December 2013: 30.1 million euros). Receivables from policyholders (receivables from direct insurance operations) remained on the same level as in 2013.

As at 31 December 2014, tangible fixed assets and long-term intangible assets totalled 31.7 million euros. Tangible fixed assets accounted for 4.0 % and long-term intangible assets accounted for 0.6 % share of total assets. The structural share of both remained unchanged, compared to the previous year.

The amount of technical provisions transferred to reinsurance/coinsurance grew by 2.8 million euros - to 29.1 million euros. The subject of formation, as well as the reason for the increase originate from unearned premiums and especially claims provisions.

Structure of liabilities

in 000 EUR	31/12/2014	Structure in %	31.12.2013 (adjusted)	Structure in %	31/12/2012	Structure in %
Equity	106,778	15.5%	93,188	13.3%	86,573	20.5%
Subordinated liabilities	0	0.0%	0	0.0%	0	0.0%
Technical provisions	274,379	39.9%	279,545	40.0%	263,207	63.9%
Insurance technical provisions for unit-linked insurance	254,230	37.0%	211,833	30.3%	24,009	4.6%
Other provisions	3,127	0.5%	2,767	0.4%	2,831	0.6%
Deferred tax liabilities	1,195	0.2%	27	0.0%	48	0.0%
Liabilities from investment contracts	0	0.0%	0	0.0%	0	4.8%
Other financial liabilities	756	0.1%	1,093	0.2%	3,987	0.1%
Operating liabilities	21,990	3.2%	92,887	13.3%	51,203	1.6%
Other liabilities	24,737	3.6%	16,732	2.4%	16,316	3.9%
Total Equity and liabilities	**687,192**	**100%**	**698,072**	**100%**	**448,173**	**100%**

As at 31 December 2014, the total amount of equity was 106.8 million euros, which is 14.6 % more than the year before. The percentage of capital in the balance sheet total went up by 2.2 percentage points and stood at 15.5 % as at 31 December 2014. The share capital, consisting of 10,304,407 ordinary registered shares, remained unchanged again in 2014, ant totalled 43.0 million euros at year-end. The revaluation surplus amount improved due to relatively favourable conditions on financial markets, and reached a positive value of 5.8 million euros at 2014 year-end. The distributable profit, which includes the net profit or loss from previous periods and net profit or loss for the current period, amounted to 38.0 million euros at year-end. Compared to the previous year, it has increased by the amount of net profit for the current period in the amount of 18.9 million euros, less the change in profit reserves in the amount of 437.5 thousand euros and dividends paid in the amount of 13.4 million euros.

Technical provisions totalled 528.6 million euros at 2014 year-end, which presents a 7.6 % increase compared to the previous year. This means that there has been an increase of 6.5 percentage points in the structural share of technical provisions in the balance sheet total to 76.9 % at the end of 2014. Within the category of technical provisions, the technical provisions of policyholders who bear the investment risk grew by 20.0 % to 254.3 million euros, however, other technical provisions have fallen slightly by 1.8 % and amounted to 274.4 million euros.

As at 31 December 2014, operating liabilities stood at 22.0 million euros. Compared to the year before, there was a drop of 76.3 % due to the settlement of payables from quota share reinsurance treaty, and consequently, the structural share fell to 3.2 %. Other liabilities strengthened in volume by 8.0 million, to 24.7 million euros.

5.6 ANALYSIS OF OPERATIONS, PRESENTATION OF THE FINANCIAL RESULT AND FINANCIAL POSITION OF THE GROUP IN 2014

Consolidated financial statements of the Group comprise financial statements of the parent company Adriatic Slovenica d.d. and the subsidiaries: insurance company AS neživotno osiguranje a.d.o. Beograd, insurance company KD životno osiguranje d.d. Zagreb, Prospera d.o.o., VIZ d.o.o and the indirect subsidiary Permanens d.o.o Zagreb. A substantial value of economic categories of the Group includes assets, liabilities, revenue and expenses of the parent insurance company Adriatic Slovenica.

FINANCIAL RESULT

Adriatic Slovenica Group operated successfully in the adverse market conditions and closed the year with net profit in the amount of 18.5 million euros (that is 43.8 % more or 5.6 million euros more than the year before), while the return on equity stood at 17.9 % at the end of 2014.

The statement of financial result per product segments shows positive numbers in all three segments. Net profit has been generated from: non-life insurance (2014: 12.7 million euros, 172.1 % growth), life insurance (2014: 4.2 million euros, 52.3 % growth) and health insurance (2014: 1.5 million euros, 71.6 % decrease).

Summary of income statement of the Group

in EUR thousand	Life insurance	Non-life insurance	Health insurance	2014	Life insurance	Non-life insurance	Health insurance	2013 (adjusted)	Index 14/13	Absolute difference
Gross written premiums	55,985	137,885	108,193	302,064	56,836	139,635	112,603	309,074	97.7	-7,010
Premiums ceded to reinsurers and coinsurers	-1,276	-47,192	0	-48,468	-984	-50,808	0	-51,792	93.6	3,323
Change in unearned premiums	45	-473	1,208	780	78	4,355	1,053	5,486	14.2	-4,706
Net premium income	**54,754**	**90,221**	**109,401**	**254,376**	**55,931**	**93,182**	**113,656**	**262,769**	**96.8**	**-8,393**
Gross amounts of claims and benefits paid	-35,931	-84,851	-92,712	-213,495	-33,865	-89,662	-96,169	-219,696	97.2	6,201
Reinsurers'/coinsurers' shares	336	26,007	0	26,343	292	25,795	0	26,086	101.0	257
Change in claims provisions	701	8,030	527	9,257	367	10,918	443	11,727	78.9	-2,470
Net expenses for claims and benefits paid	**-34,894**	**-50,815**	**-92,186**	**-177,894**	**-33,207**	**-52,949**	**-95,727**	**-181,883**	**97.8**	**3,989**
Change in insurance technical provisions and liabilities arising from financial contracts with DPF	-1,954	1,244	-476	-1,186	3,286	266	7	3,559	-33.3	-4,744
Change in insurance technical provisions for unit-linked insurance policyholders	-43,166	-	-	-43,166	-10,604	-	-	-10,604	407.1	-32,562
Acquisition costs	-7,393	-15,486	-2,040	-24,919	-5,858	-16,255	-1,791	-23,904	104.2	-1,016
Other operating expenses	-11,521	-25,928	-12,772	-50,221	-11,419	-28,823	-10,278	-50,520	99.4	299
Net profit/(loss) from investing activities	47,140	8,797	784	56,721	4,122	-3,414	1,262	1,970	2,878.8	54,751
Other revenues/expenses	2,309	7,117	-831	8,595	1,025	13,590	-740	13,874	61.9	-5,279
Profit/(loss) before tax	**5,276**	**15,150**	**1,880**	**22,306**	**3,276**	**5,596**	**6,389**	**15,264**	**146.1**	**7,042**
Corporate income tax	-1,045	-2,426	-345	-3,816	-498	-920	-989	-2,407	158.5	-1,409
Net profit for the reporting period	**4,231**	**12,724**	**1,535**	**18,489**	**2,777**	**4,677**	**5,400**	**12,857**	**143.8**	**5,633**
Minority interest	0	-15	0	-15	0	-38	0	-38		
Interest of parent company	4,231	12,739	1,465	18,505	2,777	4,714	5,400	12,894		

*Net profit/loss for the period after consolidation adjustments

Revenue from insurance premiums, claims expenses and operating costs

In the reported period, gross written premiums of the company amounted to 302.1 million euros, which is 7.0 million (2.3 %) less than the year before. By taking into account the premiums ceded to reinsurers and changes in unearned premiums, the company collected 254.4 million euros of net insurance premiums, which is 3.2 % less than in 2013. The ceded reinsurance premium was lower and amounted to 48.5 million euros, while the release of unearned premiums in 2014 had an insignificant effect on net operating revenue – the drawdown of this type of deferred revenue only amounted to 780.9 thousand euros.

In the structure of net revenue from insurance premiums, which remains unchanged, the predominant segment is health insurance. In 2014, it reached 109.4 million euros, accounting for 43.0 % share, which is 3.7 % less than in 2013. Health insurance segment is followed by non-life insurance with 90.2 million euros (3.2 % less than in 2013) of net revenue, and life insurance with 54.8 million euros and 21.5 % structural share.

In 2014, the net expenses for claims paid, taking into consideration the changes in claims provisions (2014: 9.3 million euros), amounted to 177.9 million euros, which presents a 2.2 % fall, compared to the previous year. One of the main reasons for this is revenue from recourse receivables in the amount of 4.0 million euros. The reinsurers' shares in the net expenses for claims paid, amounting to 26.3 million euros (14.8 % share) were 1.0 % higher than the year before (mostly in non-life insurance).

The biggest release of claims provisions was in the non-life insurance segment (8.0 million euros), while in the life insurance segment, the provisions only amounted to 701.2 thousand, and in health insurance to 526.5 thousand euros.

In the structure of net expenses for claims paid, health insurance is the prevailing segment with 51.8 % share, totalling 92.2 million euros, and it decreased by 3.7 % (3.5 million euros) in 2014, compared to 2013. Net expenses for claims paid in the non-life segment faced a downturn by 4.0 % and amounted to 50.8 million euros. Net expenses for claims in life insurance stood at 34.9 million euros with 19.6 % structural share.

The ratio between net expenses for claims paid and net revenue from insurance premiums deteriorated by 1.0 % or 0.7 percentage points – it increased from 69.2 % to 69.9 %.

Operating costs, excluding revenue from reinsurance commissions, amounted to 63.0 million euros, having increased by 3.5 % (2.1 million euros) compared to the year before. On the basis of a detailed analysis of structure and movements, we can conclude that the rise was caused by acquisition costs in the amount of 24.9 million (infra-annual movement dynamic: +4.2 %) and labour costs in the amount of 25.8 million euros (infra-annual movement dynamic: +4.2 %),

Net financial result

The Group achieved a net financial result from investing activities in the amount of 56.7 million euros, exceeding the result from 2013 by 54.8 million euros. The main contribution to this was on the part of financial revenue, which was 196 % (40.4 million euros) higher and amounted to 61.1 million euros. The advance is related to growth of net unrealised gains of unit-linked life insurance investments, profits from disposal of assets, and accrued interest to other companies. On the other side, financial expenses were 14.2 million euros (76.3 %) lower and amounted to 4.4 million euros, which can be connected to lower net unrealised losses of unit-linked life insurance investments, as well as to lower revaluation financial expenses and expenses for asset and interest management.

Other revenue/expenses

In 2014, the net result of other revenue and expenses totalled 8.6 million euros and was 38.1 % lower than in the previous comparable period. The slip back results from other expenses, as well as other revenues. The latter were in 2014 lower by 7.6 million euros, but the structure remained the same. The decrease was, however, affected by lowering of other insurance revenue (-9.4 %) to 13.2 million euros, and other revenue (-42.6 %) to 8.4 million euros. At the same time, in 2014, also other expenses were lower than the year before by 2.3 million euros, while their structure did not change. The decrease was a consequence of other insurance expenses (-32.3 %) reduced to 6.7 million euros, and growth of other expenses (16.2 %) to 6.3 million euros.

Changes in technical provisions

In 2014, mathematical/technical provisions of policyholders who bear the investment risk were changed in volume by 43.2 million euros due to the increased asset unit value. Other technical provisions with changed liabilities from financial contracts climbed by 1.2 million euros in 2014. Within the life insurance segment, they were 2.0 million euros higher, while in the non-life segment, there was a release of provisions for unexpired risks in the amount of 1.2 million euros; at the same time, in health insurance, due to a similar reason, provisions increased by 476.2 euros.

FINANCIAL POSITION

As at 31 December 2014, the total assets of the Group stood at 697.5 million euros, which is a 1.1 % decrease, compared to the previous year. The decrease is to a large extent a consequence of settlement of receivables and liabilities from quota share reinsurance treaty.

Summary of balance sheet of the Group

in EUR thousand	31 Dec 2014	Structure in %	31 Dec 2013 (adjusted)	Structure in %
Assets	**697,491**	**100%**	**705,508**	**100%**
Intangible assets	5,407	1%	4,827	1%
Property, plant and equipment	27,497	4%	27,408	4%
Deferred tax assets	3,958	1%	3,954	1%
Investments in properties	29,376	4%	28,357	4%
Financial investments in associates	12,151	2%	12,155	2%
Financial investments	263,899	38%	265,857	38%
Unit-linked investments of policyholders	260,566	37%	213,926	30%
Amounts of technical provisions ceded to reinsurers	29,362	4%	26,470	4%
Receivables	47,942	7%	105,760	15%
Other assets	5,518	1%	6,354	1%
Cach and cash equivalents	11,816	2%	10,439	1%
Equity and liability	**697,491**	**100%**	**705,508**	**100%**
Equity	109,582	16%	96,573	14%
Share capital	109,444	16%	96,414	14%
Minority interest	139	0%	160	0%
Technical provisions	277,590	40%	283,046	40%
Technical provisions for the benefit of unit-linked insurance policyholders	257,277	37%	211,833	30%
Other provisions	3,294	0%	2,937	0%
Deferred tax liabilities	1,195	0%	27	0%
Other financial liabilities	712	0%	742	0%
Operating liabilities	22,301	3%	93,076	13%
Other liabilities	25,541	4%	17,273	2%

Structure of assets

As at 31 December 2014, on the assets side, investments were recognised as the most important category. It accounted for 566.0 million euros or 81.1 % of total assets (31 December 2013: 520.3 million euros). Compared to the previous year, the volume of investments expanded by 8.8 %. Within the category, there was 260.6 million euros of assets of policyholders who bear the investment risk, 263.9 million euros of other financial investments, 29.4 million euros of investment property and 12.2 million euros of financial investments in companies within the Group. Due to growth of asset unit value, the assets of policyholders who bear the investment risk increased by 21.8 % compared to the previous year, and accounted for 37.4 % share of total assets as at 31 December 2014 (31 December 2013: 30.3 % share).

As at 31 December 2014, receivables amounted to 47.9 million euros, accounting for 6.9 % of total assets, decreased by 54.7 % compared to the year before. This is a consequence of lower amounts in two major categories of receivables. Receivables for reinsurers' shares in claims shrank by 84.8 % to 6.3 million euros due to settlement of receivables from quota share reinsurance treaty, while other short-term receivables from insurance operations totalled 15.1 million euros at 2014 year-end (31 December 2013: 36.4 million euros). Receivables from policyholders (receivables from direct insurance operations) remained on the same level as in 2013.

As at 31 December 2014, tangible fixed assets and long-term intangible assets totalled 32.9 million euros. Tangible fixed assets accounted for 3.9 % and long-term intangible assets accounted for 0.8 % share of total assets. The structural share of both remained unchanged, compared to the previous year.

The amount of technical provisions transferred to reinsurance/coinsurance grew by 2.9 million euros - to 29.4 million euros. The subject of formation, as well as the reason for the increase originate from unearned premiums and especially claims provisions.

Structure of liabilities

As at 31 December 2014, the total amount of equity was 109.6 million euros, which is 13.5 % more than the year before. The percentage of capital in the balance sheet total went up by 2.0 percentage points and totalled 109.4 million euros or 15.7 % as at 31 December 2014. The revaluation surplus amount improved due to relatively favourable conditions on financial markets, and reached a positive value of 6.1 million euros at 2014 year-end. The distributable profit, which includes the net profit or loss from previous periods and net profit or loss for the current period, amounted to 42.2 million euros at year-end. Compared to the previous year, it has increased by the amount of net profit for the current period in the amount of 18.5 million euros, less the change in profit reserves in the amount of 437.5 thousand euros and dividends paid in the amount of 13.4 million euros.

Technical provisions totalled 534.9 million euros at 2014 year-end, which presents a 8.1 % increase compared to the previous year. This means that there has been an increase of 6.5 percentage points in the structural share of technical provisions in the balance sheet total, to 76.7 % at the end of 2014. Within the category of technical provisions, the technical provisions of policyholders who bear the investment risk grew by 21.5 % to 257.3 million euros, however, other technical provisions have fallen slightly by 1.9 % and amounted to 277.6 million euros.

As at 31 December 2014, operating liabilities stood at 22.3 million euros. Compared to the year before, there was a drop of 76.0 % due to the settlement of payables from quota share reinsurance treaty, and consequently, the structural share fell to 3.2 %. Other liabilities strengthened in volume by 8.3 million, to 25.5 million euros.

5.7 MARKETING AND SALES NETWORK OF ADRIATIC SLOVENICA D.D. AND ITS SUBSIDIARIES

5.7.1 Marketing strategy of the parent company

The primary goal of our strategy in 2014 was to improve the insurance protection of our clients. An important competitive advantage of the company is that we can provide comprehensive insurance protection in one place, from non-life insurance to health, life and pension insurance. The wishes and needs of our insurants are our main guideline. We develop insurance products and services that provide security for our insurants of all ages. We deliver the services via modern sales channels and provide a complete offer with a comprehensive sales and post-sales services and efficient claims settlement.

Marketing activities in 2014

In January and February, as the official insurance company of Slovene Olympic teams, we connected our marketing activities to the Sochi Olympic Games. All new insurants were given 30 % discount on car and homeowners insurance within our Olympic offer.

In March, we informed the public about the refreshed Dom AS insurance and successfully communicated the importance of property insurance.

In April, we prepared an extensive direct mail campaign, in which, we informed all our health insurants about the lower premium of supplementary health insurance, and offered them free-of-charge temporary care and home assistance insurance for three years.

In May and June, we were promoting accident insurance for children and youth. We put a special emphasis on long-term insurance that brings the benefit of same premium amount throughout the child's schooling years, and at the same time significant savings for the insurance company.

On 22 June, we prepared a sports-social event for our insurants, business partners and employees in Arboretum Volčji Potok. We attracted the Olympic Committee of Slovenia and Football Association of Slovenia (AS is their sponsor for over 20 years) to participate and made it possible for all the visitors to experience sports challenges with Slovene Olympians. The main part of the event was a game of football in which the Olympians played against the players of the Football Association. Tina Maze proved that apart from the white slopes, she is also excellent on the grass, since she scored four goals for the OKS team. The day was closed with a RTV Slovenija Symphonic Orchestra concert.

In autumn, we started the introduction of the new communication and graphic platform, called Krog varnosti (Circle of safety). Again, we gave the insurants the opportunity of 30 % discount on car insurance. For the first time via the WIZ trademark, we have offered a supplementary health insurance product, communicated under the slogan "Ni obvezno, je pa nujno" (It is not mandatory, but it is absolutely necessary).

Adriatic Slovenica is addressing more and more clients also via the **AS Klub ugodnosti** (AS Bonus club), which was established on 1 July 2013 by renaming the former Klub KD plus. Adriatic Slovenica, being the co-founder of the club together with KD Skladi, took over the management of the club. Activities of the club in 2014 are directed toward active sales support in the field of individuals and corporate entities, attractive offers for members of both companies and partner firms, and toward increase of its members. With its various special offers, AS Klub promotes and rewards purchases in both founding companies and other partner companies of the club. At the end of 2014, the club had 93.611 members.

5.7.2 Sales network of the parent company Adriatic Slovenica d.d.

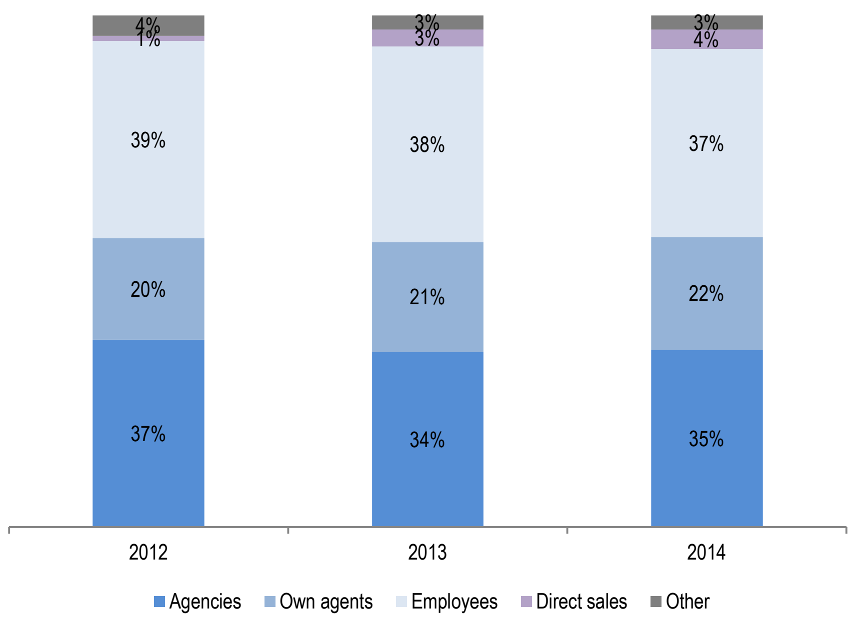
Nine business units in the biggest regional centres present the essential sales points: Celje, Koper, Kranj, Ljubljana, Maribor, Murska Sobota, Nova Gorica, Novo mesto and Postojna. Business units have five smaller attached units: in Domžale, Idrija, Krško, Slovenj Gradec and Grgar, and 37 representative offices. At the end of 2014, 266 insurance agents were employed in Adriatic Slovenica. With the contractual network of insurance agencies, our insurance services are available also in 134 points-of-sale and in the network of 166 complementary points-of-sale.

Altogether, the insurance services of Adriatic Slovenica were at the end of 2014 available at 351 points-of-sale and in two banks. Since 2012, Adriatic Slovenica also offers KD Skladi products in all of its nine regional offices. Apart from investing in knowledge of the company's employees, we also invest heavily in training of all other sales persons and contractual partners, who communicate with the clients directly or indirectly. Our goal is a good long-term relationship with clients.

We provide more accessible and quality insurance services also by constant improvements of business processes, enhancing the after-sales services, and the sales network that is growing every year. For several years, our clients have the opportunity to take out insurance online, and as the first insurance company in Slovenia, we have also enabled taking out insurance via mobile devices, where our offer is growing broader constantly.

Apart from the "classic" sales channels, the proportion of direct sales is growing constantly. It was encouraged by the launch of the WIZ.si internet platform in 2012 (Graph below).

Graph: Development of distribution channels (in % of gross written premium)



Information on business units as at 31 December 2014

Celje Business Unit, Director Srečko Dobelšek

Lava 7, 3000 Celje

Telephone: 00386 3 425 35 15

Koper Business Unit, Director Borut Širca

Ljubljanska cesta 3a, 6503 Koper

Telephone: 00386 5 664 30 10, Fax: ++5 664 30 99

Kranj Business Unit, Director Franci Strniša (until 31 Dec 2014)*

Kidričeva cesta 2, 4000 Kranj

Telephone: 00386 4 281 70 11, Fax: ++4 281 70 10

*** Director Biljana Cvjetičanin** (since 1 Jan 2015)

Ljubljana Business Unit, Director Borut Završan

Celovška 206, 1000 Ljubljana

Telephone: 00386 1 582 48 01

Maribor Business Unit, Director Vinko Prislan (until 31 Dec 2014)*

Ulica Eve Lovše 15, 2000 Maribor

Telephone: 00386 2 320 81 12

*** Director David Perko (since 1 Jan 2015)**

Nova Gorica Business Unit, Director Rok Filipič

Erjavčeva 19, 5000 Nova Gorica

Telephone: 00386 5 330 95 12

Novo mesto Business Unit, Director Jasminka Kovačič

Novi trg 1, 8000 Novo mesto

Telephone: 00386 7 373 06 20, Fax: ++7 332 27 62

Murska Sobota Business Unit, Director Milena Grah

Arhitekta Novaka 13, 9000 Murska Sobota

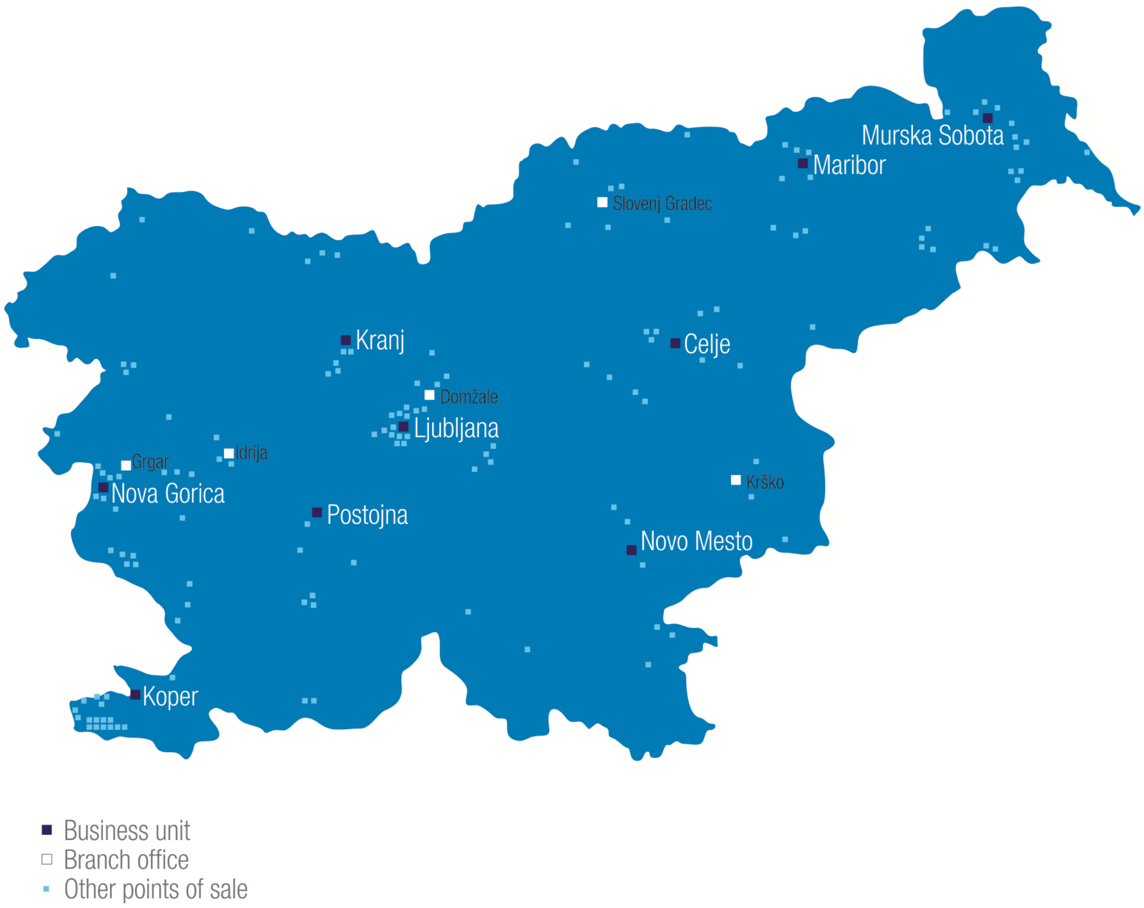
Telephone: 00386 2 539 10 11, Fax: ++2 539 10 40

Postojna Business Unit, Director Anton Marušič

Novi trg 6, 6230 Postojna

Telephone: 00386 5 700 30 10

Sales network map of the parent company Adriatic Slovenica d.d.



Website: www.as.si, www.as-skupina.si

Toll-free phone: 080 11 10

5.7.3 Sales network of subsidiary AS neživotno osiguranje

The central units of the subsidiary's sales network are business units in Serbia's regional centres. As the year before, also in 2014, the insurance company provided insurance services in three business units: Beograd, Čačak and Niš, and in three point-of-sale: Bor, Vranje, Leskovac. In 2014, the company was cooperating with 9 insurance agencies, 8 intermediaries and 17 complementary points-of-sale (technical inspection points). The sales network of the company was in 2014 adapting to the changed business strategy, which especially reflected in a more scarce presence in the technical inspection points (two thirds less), since in the Republic of Serbia, only MTPL insurance can be sold there.

Sales network map of the subsidiary AS neživotno osiguranje

5.7.4 Sales network of subsidiary KD životno osiguranje

The sales network of KD životno osiguranje consists of three channels: own agent network, Permanens agency that is under its ownership, and independent agencies. In total, there are approximately 60 to 80 sales persons. Branch offices are in Zagreb, where the company has its headquarters, Osijek, Varaždin and Split. The whole network is focused on sales of Fondpolica since it is the only network for Fondpolica sales in Croatia. KD životno osiguranje also cooperates with approximately 20 insurance agencies, therefore, its services are available almost across the whole country, since the sales network covers 90 % of Croatian territory.

Sales network map of the subsidiary KD životno osiguranje

5.8 RISK MANAGEMENT

Strategic risk

On a daily basis, insurance companies are faced with various risks that may jeopardise our long-term financial soundness, that is, our solvency. At Adriatic Slovenica, we are well aware of these risks and work in the best way we can to control and minimise them. By constant optimisation and expansion of risk management function, the company enhances its effectiveness in managing risks, and at the same time remains ready for the risks to come with future business operations. The pending implementation of the Solvency II Directive which has been postponed several times and is expected to become mandatory at the beginning of 2016, is teaching us how important risks are and how essential it is to manage our exposure to them. The new Directive imposes tighter, risk-weighted capital requirements, as well as the need to have in place a centralised procedure for the identification, measurement and control of risks. At Adriatic Slovenica, we have been preparing for the new requirements for the past few years. We have established a centralised risk management function and a comprehensive strategy of risk management. The strategy includes all the necessary operating limitations and organisational measures to ensure effective execution of risk management process. We have also collected a comprehensive list of all present risks, made an evaluation of potential future risks and established a tool for constant monitoring of effects of the executed measures.

Based on the preparation guidelines for Solvency II, we have in 2014 upgraded the process of risk management in the company and made an even clearer segregation of competences and responsibilities in the process. We began to prepare policies for management of individual key risks, which will serve as guidance and include measures for control of these risks. Moreover, we began to implement information systems support for reporting in line with Solvency II. It will facilitate and speed up the process of calculating capital requirements within the first pillar of Solvency II. At the same time, it will cater for performance of stress testing and scenarios within our own risk assessment process. In this way, we will ensure up-to-date information about the company's solvency to support the Management Board's decisions.

In the year before the final implementation of the directive, we will also have to recast the general strategy of risk management in the company based on the business strategy for the upcoming mid-term period, the accepted risk appetite and the final consolidated policies for risk management. Before the first regulatory reporting, we will complete the implementation of the Solvency II information systems support and perform our own risk and solvency assessments.

In the next set of paragraphs, we outline the main risk groups and ways of dealing with them. They are described and analysed in further detail in the Notes to the financial statements.

Insurance risks

Insurance risks are all possible risks which the insurance company faces during its principal activity, that is acceptance of risk from a policyholder. Given the nature of insurance contracts, insurance risk is random and unpredictable. It can be realised in any phase of the company's principal activity, be it the formation of insurance product (risk of the product being improperly constructed), the formation of price (risk of the amount of premium being insufficient to cover contractual obligations and compensations) or accepting risks of insurance (wrong decisions about risk acceptance, non-compliance with the price list and terms of insurance, signing insurance contracts based on incorrect data, improper reinsurance for particular risks, improper valuation of potential maximum damage, insurance for concentrated risks (e.g. geographic concentration), insufficient employee qualifications for risk assessment).

When accepting risks for insurance, the following risks can occur as well: the risk of insufficient technical provisions, damage or loss risk (the risk that the reported number or amount of claims will exceed the expected values and that the self-coverage will be too high due to improper reinsurance security, especially in case of catastrophic events), the risk of change in policyholder behaviour (which reflects especially in the number of insurance fraud attempts) and, last but not least, the risk of changes in the economic environment, which can lead to a lower number of policies signed due to a lower purchasing capacity and to a higher number of cancelled contracts and claims.

The company manages insurance risk primarily through effective implementation of internal controls over strict implementation of internal rules, internal auditing, through forming adequate technical provisions to cover future liabilities from already issued insurance contracts and appropriate reinsurance. We largely devote our attention to development of new products and ensure that already in the process of product development, we carefully observe the relevant statistics, confirming the appropriateness of the considered assumptions. After the implementation of a product, we constantly monitor the underwriting results according to insurance segments, analyse any deterioration and correct premium rates or terms of insurance if necessary. The other area, critical for the realisation of insurance risks, is the acceptance of risks to be insured. The company controls this risk by means of instructions on accepting the risks to be insured, enforced criteria and procedures on risk acceptance, especially for high insurance sums and coverage. Specialised departments in charge of high risks (in the field of non-life insurance) monitor the developments of particular insurance contracts and may deny renewal of contracts or re-assess the accepted risk. Reinsurance security is an important means of insurance risk management.

Financial (market) risks

The insurance company is exposed to market risks through its financial assets and liabilities, reinsurance assets and obligations from insurance contracts. Market risks are reflected primarily in the threat of future changes in market terms that could negatively affect the value of the company's financial assets, or the threat that the financial liabilities of opposite parties towards the company would not be fulfilled (credit risk). This could lead to cash inflows not being sufficient for coverage of outflows related to insurance and financial contracts.

The main components of market risk are liquidity risk, credit risk, risk of changes in prices of equity securities, interest rate risk, currency risk and risk of changes in other prices.

In the frame of its investment policy, Adriatic Slovenica actively manages and controls all risks to which it is exposed with its assets and liabilities. These activities include regular monitoring of cash flows, ensuring sufficient float to settle its obligations at all times, investing in such a manner that the assets reach a long-term profitability that is higher than the profitability of insured liabilities, reconciliation of tenor of the financial assets with financial liabilities and ensuring adequacy of financial assets.

Operational, strategic and other risks

In recent years, but even more so since the introduction of the Solvency II Directive, operational risk has become one of the most important risks. It mostly includes the risk of loss as a result of ineffectiveness, failure or errors in the business process implementation, malfunction or non-existence of internal controls, unprofessional, inappropriate or harmful employee behaviour, system or infrastructure malfunction or any other external factors, including amendments to legislation, business interruptions due to natural catastrophes or epidemics, competition, etc.

The key moment for management of operational risks is their identification and assessment, and in the second stage the execution of measures for their minimisation and uninterrupted monitoring of other risks. For the past several years, Adriatic Slovenica has been maintaining a register of existing risks, which has been further developed content-wise in 2014. We have also established continued reporting of certain key risk indicators, which, together with the system of internal control reviews, serves a mechanism for (early) detection of risks and prevention of new ones from occurring. In 2014, we have also updated the company's business continuity strategy, which is now aligned with the current organisational and process structure of the company, and is directed toward an as quick as possible recovery of critical business processes.

Strategic risks can also be treated as a special form of operational risks. They can occur in the early stages of strategy planning, strategy execution, management and strategic decision-making and supervision of the insurance company. The realisation of these risks can crucially affect the ability of the company to reach its strategic goals. In order to eliminate these risks, it is of utmost importance that the company has clearly determined responsibilities and competences, an effective communication and reporting system, and constant monitoring of fulfilment of the set goals. In order to manage the strategic risks as effectively as possible, we started to incorporate the risk-based principle into the process of business plan preparation. This means that the operating categories of the business plan will be designed in line with the company's accepted appetite toward the risk, and the derived risk tolerance levels and operating limits. Before the final approval, the business plan will be tested in order to find out if the risk appetite and capital adequacy, as required by the Solvency II principles, are reached.

In the course of our operations, we are exposed also to risk associated with the business relationship with subsidiaries AS neživotno osiguranje a.d.o., incorporated in Belgrade, and KD životno osiguranje a.d., headquartered in Zagreb, where exposure to risks is managed through the bodies of management and corporate governance. Due to the investments in subsidiaries, the parent company is also exposed to currency risk, but the risk is not actively managed since the share of these investments is insignificant within the parent company's investment portfolio.

The insurance company will stay focused on the insurance and market (financial) risks since these risks crucially affect the company's solvency and bring the largest portion of capital requirements. One of the company's most important missions, which is also required by law, is ensuring an adequate amount of capital (solvency margin) commensurate to the scale and type of its insurance business, aligned with the risks to which it is exposed. Based on its equity management policy, the company maintains the determined available capital surplus above the required (by the existing legislation), which provides it with security against unpredictable events, ensures business continuity and coverage of potential operating loss. While reviewing the capital adequacy as per Solvency II, in line with the incorporation of the risk-based principle, we will test mid-term business strategies, as well as individual strategic policies that can affect the company's capital adequacy.

5.9 COMMUNICATION WITH STAKEHOLDERS

5.9.1 Communication with clients in the parent company

Client service

The Client Service Centre Team is a network of five teams that – individually and as a whole – strive for insurants' satisfaction. They are available to clients via e-mail and telephone and devote special attention to personal contact, which is the basis for successful business. With their professional attitude, friendliness and openness to people, they provide comprehensive answers to clients' questions and seek for the best possible solutions, which is then reflected in the clients' satisfaction, as well as in the satisfaction of the team members. All of this contributes to the success of the company, and most importantly, to the satisfaction and long-term relationships with insurants in all insurance segments.

The **Client Support Team - contracts and marketing campaigns**, communicating with the clients via different communication channels, had 246,074 telephone calls with clients in 2014, which is 10 % more than the year before. The clients can call our toll-free number 080 11 10 every day from 8 am to 6 pm. We are also available on e-mail address **info@as.si**, to which, we have received e-mails from 33,789 insurants. The questions, posed by the clients, are very diverse and their complexity grows every year. The clients are aware of their rights and are becoming more informed. In 2014, written communication with clients (by means of which they receive feedback and notifications about the requested changes in their policies) increased by as much as 30 %. The team in charge of contracts and marketing campaigns support was in the past year successful also with collection of debt, arising from some clients' inability to pay their premiums. This team's field of work has been upgraded with sales promotion, and agents have been appointed to visit the interested clients at their home.

Call centre

The **Call Centre Team** worked on direct sales promotion, made arrangements for agent visits and surveys. With direct sales promotion, they are offering additional life insurance to the existing and potential clients so as to increase their financial security in the case of an unpleasant event. The operator arranges the exact time and place for the visit and describes to the client, what the consultant will present to them during their visit. The aim of acquiring appointment dates is to inform clients in person of new products and benefits and to maintain personal contact. The Call Centre is also engaged in conducting surveys, the main aim of which is monitoring client satisfaction. In 2014, the Call Centre made 921,817 phone calls, concluded 9,483 insurance contracts and arranged 11,340 appointments.

Client Assistance – Insurance Contracts

This team makes sure that the clients can exercise their rights from above-standard health insurance, among which are the shorter queue coverage and above-standard accommodation in spa and hospital treatment, in health institutions quickly and appropriately. We always make sure that every client in need of specialist examination in the shortest time, or in need of some other medical service, has their appointment arranged as soon as possible. We have arranged as many as 1,369 such authorisations in 2014. We also take care of the clients' rights related to the new home assistance insurance, where we had 46 insurance cases.

Agent Network and Employee Support

We are available to all employees for any questions regarding insurance contracts and for assistance with complex questions, tasks in IS that they cannot do on their own, doubts about novelties, etc. In 2014, we have answered 7,411 calls and replied to 2,079 e-mails.

Client Support – Life Insurance

The Life insurance client support team members provide information to clients, answer their calls and in a personal conversation find a suitable solution. Every person is treated individually and with effort to find the most suitable solution, using our knowledge and experience. Apart from professional knowledge about insurance and the insurance market, the key thing in client communication is the ability to empathise. We make the client feel understood and respected, and strive to build mutual trust. Fair relationship with the client is the basis for successful business, because we realise that people's trust in the insurance company and its credibility is the key condition for long-term and successful relationship. In 2014, 23,566 insurants asked for our help. We have closed the year successfully since we have retained 7,022 policies in the portfolio by presenting to the clients the advantages of keeping the existing insurance, providing advice to complex debtors and arranging all the necessary changes in their policies.

The insurance company presents its services and special offers on the so-called sales website, **www.as.si**, where it is also possible to take out insurance and report claims online. In May, we began to publish advice for insurants on our web page and Facebook profile, and received great feedback about it from the public. The "AS Svetuje" (AS Advice) category had from its launch to the end of 2014 an average monthly growth of 172 % on the website, and excellent response on the Facebook page.

Since 1 December 2014, our insurants, the media, potential employees and other interested parties can find more detailed, corporate information about the company on our new web page **www.as-skupina.si**, which is a platform for communication with the general public that is different from the "product" web page.

Client communication in the subsidiaries

AS neživotno osiguranje

Employees from sales department and business units communicate directly with the clients. They are also available via e-mail address info@as-osiguranje.rs.

Viz

The first point of contact for WIZ insurance is the **www.wiz.si** web page, which is operating since 28 May 2012 and was renovated entirely in July 2014. On this web page, the clients can easily look into insurance pricing, take out car insurance or supplementary health insurance 24 hours a day, any day of the year. The procedure of taking out insurance is closed by sending the insurance policy via e-mail. Vehicle owners can therefore also extend their vehicle registration certificate on e-uprava (e-government) portal and carry out all the necessary errands without even visiting the insurance company or the technical service.

Client care: Viz d.o.o. provides help and support to all WIZ insurants and visitors of **www.wiz.si** web site. Our call centre is available every workday from 7 am to 5 pm via different communication channels – telephone, mail and e-mail, web chat and messages on social networks. Our employees help the clients by answering their questions, assist them with taking out insurance and submitting claims.

Web chat: Together with the new web page, we have also enabled web chat as one of the fastest ways to communicate with clients. Phone calls are still the most frequently used way of client communication, but web chat is gaining popularity. The possibility of a quick conversation or answer to questions during the process of taking out insurance is becoming more and more important for clients and affects the number of new insurance contracts.

E-mail: it is the basic channel of written communication with clients. Moreover, all the new insurance policies are immediately sent to the client via e-mail.

Toll-free phone number: despite the fact that e-mail is the main communication channel, clients prefer to use the toll-free number. Every workday from 7 am to 5 pm, approximately 50 calls are made. The agents are available to solve clients' problems related to taking out insurance and resolving claims, but also to provide them with basic information on different insurance products.

KD životno osiguranje

The company is working on increasing the satisfaction of insurants, insurers, beneficiaries and other persons who use the company's services. Ensuring quality and professional services are the greatest values, therefore, they have introduced a special client communication procedure. Their main aim is to offer comprehensive answers to all the clients' questions that can be asked via telephone, web form or e-mail. They are doing their best to answer all clients' questions within 24 hours and to achieve this, (if necessary) all the departments are included, and appointments with agents can be made if needed.

5.9.2 Communication with employees in the parent company

Good internal communication with employees is important just as much as communication with clients, therefore, in 2014, it has been upgraded and promoted on all levels of the company, and by doing so, we have also realised the company's values. ASnet, the internal communication system that was in use since 2004, has been supplemented by a new, more contemporary and more interactive portal named KompAS. It has many new functions and will gradually assume the key connectivity tasks of internal communication in the company.

The electronic "internal newspaper" AS novice (AS news) will ass well be upgraded in the next phase of KompAS design. It will be performed in the beginning of 2015, and from then on, the employees and contractual agencies will receive the news in a modern form, by providing them with links to the new intranet portal. Since the news will no longer be published on a weekly basis, but daily, its content will be more current. However, the employees will still receive a weekly newsletter – the latest news with links to published contents they may be interested in. Despite the new form, the internal electronic news will still inform the employees about all important events, and its archive will build the company's history.

The SiOK 2013 survey results (in which AS novice got the average score of 3.73) and the latest survey on organisational climate OCS 2014 show that AS novice are very popular among the employees. Of all the information channels in the company, AS novice and meetings with the management are their preferred sources of information. This shows that the information is clear and topical, and the employees' score given to AS novice even increased by 0.13 % (to 3.86 %) in 2014.

AS novice is being published in its electronic form for the last 10 days, since January 2004. It was designed for quick and direct providing of information to the employees. At the end of 2005, we have transformed it to e-news for employees in both companies (Adriatic and Slovenica), and in the beginning of 2006 to unified electronic news for all employees. Since 2010, AS novice is a weekly publication, issued every Monday. When significant events occur, additional editions are issued. In 2014, there were 42 issues of AS novice and we have expanded the group of recipients with those employees of subsidiaries who subscribed. We are informing the employees about important news within the insurance sector, business goals, operating results, important claims events, sales activities and events, organised by the company for employees and clients. With the emerging of modern technologies, the circle of employees who submit news, photos and reports about events in the company, the trade union, the works council and Pravi ASi sports society, is expanding.

Employees in the Public Relations Team prepare weekly AS novice and take care of the latest contents on the new KompAS. From 2009 to 2014, the PR team was in charge of ASnet general administration, but since this year, the new portal is project-led, which means that the latest content is now in the domain of teams that lead and create processes in the insurance company. The name **KompAS** symbolises the portal's content: it is a signpost, showing the guidelines for our work and the position of the company in the competitive environment and industry. It contributes to the employees' being well informed and up to date with the important activities of the company, marketing and promotional campaigns, sales network activities and development of insurance and services. As member of KD Group, the company is also active in KD Group intranet with its information on special offers, as well as in AS Klub ugodnosti (AS Bonus club) news. In 2013, AS Klub ugodnosti was taken over from KD by the insurance company and we have supplemented it with additional content and bonuses for its members.

In autumn 2012, major organisational changes within the **Projekt vetrnica** (Pinwheel Project) began to be implemented in internal communication. On the basis of this project, the Management Board and the project team introduced to the employees a new strategy and changes in the Company's organisational structure by consolidating new corporate values. In its messages, the Management Board explained the changes and the time schedule for their implementation. The project team informed the employees of concrete changes at the organisational level of the Company. The first phase ended with the first amendment to the Rules on Internal Organisation, while the second phase was finalised in October 2013 by the second amendment to these Rules. For communication purposes, a new symbol was introduced – the pinwheel, which represents the Company's values and is well accepted and recognised among the employees. In December, a survey was conducted among employees on the changed organisational structure. They were informed of five project goals: adaptable and flexible organisational structure, efficient teams in a flat and lean structure, awareness that the client is the focus of all activities, managers being aware of the responsibility of creating integrated, client-focused processes and, last but not least, the entire organisation and teams carry out their activities in accordance with the Company's values. At the end of 2014, a year after the implementation of the new internal organisation, the employees were again surveyed to assess the improvements of the new organisation and expressed their opinion on what further improvements are needed. It is important to point out that a significantly higher number of employees responded (402, compared to 187 in 2013), which again shows that the management takes their opinions into consideration. The results of the survey show that the employees are well aware of the company's values, defined by attitude toward their work, their co-workers and the clients. Very importantly, the survey also shows that also out clients to a large extent feel the presence of our values. To a larger extent than last year, the participants in the survey think that the new organisational structure is adjustable, flexible and allows for quick responses to the challenges of the environment – also to the wishes of our clients. A significantly higher score than last year was given to the efficiency of the teams in the existing organisational structure, and to the awareness that the client is in the centre of all our processes, activities and decisions.

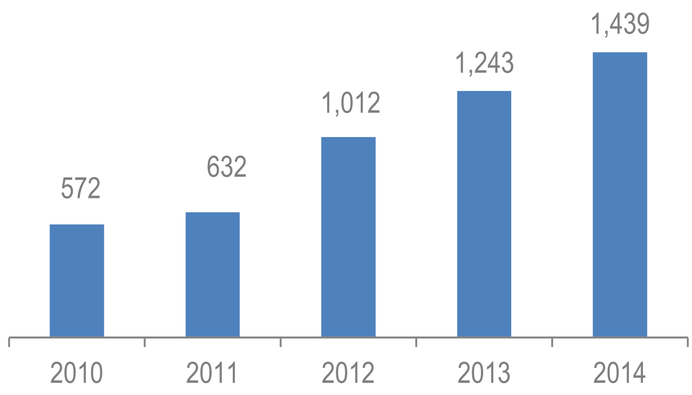
The **ASnet intranet portal** has been in 2014, after 10 years of successful operation, partially renovated and since 1 October 2014, we began to gradually substitute this key tool for internal communications with a modern communication platform. The new intranet, called KompAS, offers an abundance of new features after the first implementation phase. For now, there are still all the existing functionalities and contents of the old intranet (access to documentation and internal acts, different applications and access to useful knowledge and content). An important enrichment to the content on the new platform is video content from business and other events. The management of the company gives out more and more content to the employees via this channel, too. Since the launch of KompAS in October 2014, we have published as many as 357 videos (including archive ones) there, which have been viewed 6355 times. The design of the new platform is fresh and modern, and it will in 2015 absorb all the functions of the old system and enable their improvement. A very important task of KompAS team members and administrators is to maintain and update the content and make sure that there is always topical information available.

The intranet portal provides the sales network with professional support, ensures efficient information flow about changes in work procedures and bears an educational role. It enables the employees to quickly access all information and documents, useful for their work, and the fastest access to business applications that are their operating tools. From the business perspective, it is of paramount importance to have permanent access to the entire database of internal documentation and archive of old documents. The biggest advantage of intranet is that the information is constantly updated.

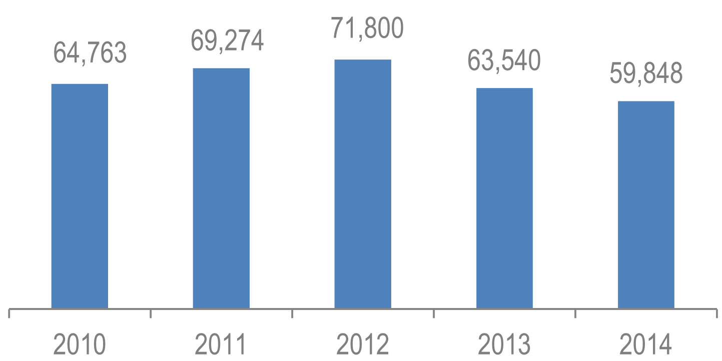
In 2014, ASnet was in one month on average used by 1,439 users (compared to 1,243 in 2013), who made 59,848 visits (compared to 63,540 in 2013) and viewed 146,799 pages (163,609 in 2013). Please refer to graphs 1, 2 and 3.

ASnet and KompAS are also in use in subsidiaries Viz and Prospera.

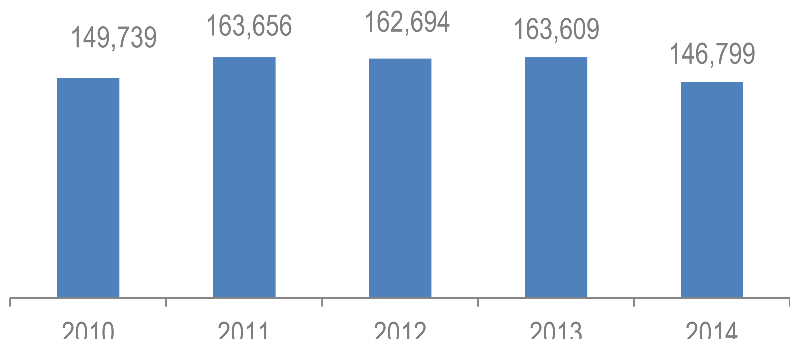
Graph 1: Average monthly number of intranet users



Graph 2: Average monthly number of intranet visits



Graph 3: Average monthly number of pages visited on the intranet



Corporate events for employees significantly enhance working relationships while fostering interpersonal relationships between more than thousand geographically dispersed employees. They continually strengthen corporate identity and values as well as increase employee motivation and loyalty in the long-term, which is why they are an important form of communication.

Until this year, we have organised sports games events for employees and colleagues from partner agencies every year (except for 2007 when the event was cancelled due to the company's activities after the natural disaster in Železniki and the day of mourning). Until 2013, we have organised 21 such events. However, in 2014, we have organised a merged event for business partners, insurants, employees and agency colleagues, which took place in Arboretum Volčji potok under the name of Olimpijski dan s Športnimi ASI (Olympic day with sports aces). During the year, there are several other events for employees, organised by business units and teams for their employees, which make a significant impact on the team spirit in the company (trainings, motivational workshops, field trips and gatherings at the end of the year). All the employees – from the parent company, as well as from all the subsidiaries, gathered on 28 November 2014 in Cvetličarna club in Ljubljana to celebrate the 20th anniversary of KD Group.

Communication with employees in the subsidiaries

Communication with employees in subsidiaries **Prospera** and **Viz** is incorporated within the parent company since they use the same KompAS portal, receive AS novice and visit events for employees of the parent company.

AS neživotno osiguranje

The management of the company is in charge of regularly and personally informing the employees about important aspects of the company's operations. They also communicate with the employees through informal socialising events like annual sports games and year-end gatherings.

KD životno osiguranje

Effective communication with employees is the basis for development of organisational culture and also for existence in an always changing environment. It is carried out formally, as well as informally, and the most important ways of communication are weekly meetings, monthly trainings, e-mail notifications and different theme gatherings.

5.9.3 Communication with business partners, the broader social environment and the media – parent company

Meetings with business partners are an established form of communication with major business partners and policyholders. They are held independently, in cooperation with other KD Group companies, while individual business units occasionally organise professional and other meetings for smaller business partners in their regions.

On 27 January, as a sponsor of RTV Slovenija Symphony Orchestra, we invited important business partners of companies within KD Group to a Duo Silence concert in Cankarjev dom, Ljubljana. For the past several years, we have been organising interesting music events for our business partners to attend and socialise there.

On 12 March, as a sponsor of the “500 Businesswomen” event in Ljubljana, we have presented our special offer for businesspeople and designed a special folded leaflet for this target group.

In April, we made a reservation of a theatre performance Udar po moško in Špas teater in Mengeš. We invited our business partners from complementary sales network and insurance clerks from AS business units to visit the performance and socialise.

On 22 June, we have organised an unforgettable event Olimpijski dan s športnimi asi in Arboretum Volčji potok, attended by business partners, insurants and employees of all companies within KD Group. The event, which was also a celebration of 20th anniversary of KD Group and the International Olympic Day, was rich with sports activities and musical performances. For our business partners who are golf players, we have also organised the fourth charity golf tournament and collected 2 thousand euros to support the humanitarian project Podari malico (Donate a snack).

On 17 September, we invited our business partners to attend the premiere of Slovene musical “Cvetje v jeseni”, the theme of which was connected to our new pension insurance product. We invited the representatives of companies with whom we cooperate in the field of pension insurance.

On 25 and 26 September, as a sponsor of “Managerski kongres” (Manager Congress) event, we were given the opportunity to address the prominent Slovene and international economists – the speech was delivered by Gabrijel Škof, President of the Management Board.

On 10 December, we participated at the “Izzivi in priložnosti finančnih trgov” (Challenges and opportunities of financial markets) round table, organised by KD Group upon its 20th anniversary in association with Finance newspaper. Among the renowned speakers were Matjaž Gantar, President of KD Group Administrative Board, Mitja Gaspari, former Secretary of the Treasury and Governor of the Bank of Slovenia, Boštjan Vasle, director of UMAR, Veljko Bole, economist, Gabrijel Škof, President of Adriatic Slovenica Management Board, W. J. Westerlaken, Member of Adriatic Slovenica Management Board, Aljoša Tomaž, Chief Executive Officer of KD Group, and Luka Podlogar, President of KD Skladi Management Board. There were more than 200 attendees at the event.

Communication and co-operation with the wider social environment, where the business policy and strategic goals of Adriatic Slovenica are reflected, are carried out on an ongoing basis. The Company supports pan-Slovene projects and organisations, while at the business unit level it provides support to small-scale regional and local events, associations and other institutions. With sponsorships and donations, Adriatic Slovenica supported numerous initiatives in healthcare, sports, culture and education as well as safety in all areas, while support for the environment is presented in greater detail in Section 6.2.

Communication with the press and the media is in compliance with the strategy and centralised and coordinated with other companies of the KD Group. Communication with journalists is proactive, responding to all the questions posed by the media. The public, the media and journalists are regularly informed of any news related to the Company, its operating results and major business decisions. Policyholders are advised on how to respond in the case of loss events and catastrophic natural disasters.

In 2013, regular press conferences were held for the journalists. From 24 April to 22 May, we have visited six business units, namely Kranj, Novo mesto, Maribor, Nova Gorica, Celje and Murska Sobota, and presented the regional managers with the company's results, targets and news about our business operations. In cooperation with iHelp organisation, we also promoted saving human lives with this application and provided the local communities with defibrillators. By the end of the year, we have equipped all regional centres, where there are AS business units, with defibrillators.

At the traditional press conference for journalists of Primorska region and correspondents of the national media, held at the company's headquarters in Koper on 4 December, we have presented the business operations of the insurance company in 2014 and our plans for the upcoming year. We have informed the public that we evaluate our operations as successful and that the insurance company has a surplus of capital, and is therefore secure and strong. The year was again closed with a donation – we handed 4 thousand euros for the project Podari malice over to Vladimir Balukčič. At this occasion, we also informed the public that we donated 12 defibrillators in 2014.

Media coverage of Adriatic Slovenica is monitored through the Press Clipping company, which specialises in media monitoring and analysis. In 2014, the Company was mentioned in the media 1,138 times (912 times in 2013). The number of commentaries favourable to Adriatic Slovenica prevailed – 675 commentaries or 76.7 % (74 % in 2013 and 66 % in 2012), almost all other commentaries, i.e. 259 or 22.7 % (24 % in 2013), were neutral, while only 7 or 0.6 % (2 % in 2013) of media commentaries were negative. It is evident from the analyses of media coverage that the number of commentaries is constantly growing, and the number of positive commentaries about the company is growing as well.

Communication with business partners, the broader social environment and the media – subsidiaries

AS neživotno osiguranje

The management of the company and the employees in sales department take care of constant personal relationships with business partners. AS neživotno osiguranje is a silver sponsor and the official insurance company of the Serbian Olympic Committee (OKS) in the Olympic period London 2012 – Rio de Janeiro 2016.

In December 2014, the company's representatives attended the traditional event, organised by the OKS, where best sportsmen, sports teams and coaches are selected. They also attended business-social events, organised by Slovene Business Club (SPK).

Viz

Since the company is focused on insurance sales to individuals, it communicates with them directly, and therefore does not organise events for business partners. In communication with the media, the company has the support of the parent company's PR team.

KD životno osiguranje

The two-way communication with business partners is based on promotion of insurance products, services and organisation of the company. The company is successful in maintaining partner communication by organising regular trainings, social events and establishing an all-encompassing information sharing service.

5.10 INTERNAL AUDIT REPORT

The Internal Audit Department (hereinafter: IAD) is organised as an independent organisational unit, directly accountable to the Management Board of the Company. The head of IAD directly reports to the Management Board about its work and operations. Such an organisation ensures organisational and functional independence of the IAD. The core task entrusted to the IAD as set out in the Insurance Act (ZZavar) is to carry out ongoing and comprehensive supervision of the Company's operations in all business segments and to verify whether specific work processes are in compliance with the applicable legislation, implementing regulations and the Company's internal rules.

Internal audits are conducted in accordance with the International Standards for the Professional Practice of Internal Auditing, the Charter and Rules of Operation of the Internal Audit Department in Adriatic Slovenica, the Insurance Act, and other laws and implementing regulations.

External quality assessments of IAD operations were carried out two times in the past, namely in 2008 and 2013. KPMG expressed an opinion that in all material aspects, the IAD operated in accordance with all International Standards for the Professional Practice of Internal Auditing, the Code of International Auditing Principles and the Code of Ethics of Internal Auditors. In the latest assessment, KPMG also stated that the IAD operations in the reviewed period significantly contributed to the added value of the Company.

The IAD carried out auditing activities on the basis of the annual audit plan for 2014 adopted by the Management Board, subject to a prior approval by the Supervisory Board. A significant amount of auditing time was devoted to the following activities: performance of 13 audits, monitoring of recommendation implementation in the parent company and he subsidiary, continual auditing, ongoing supervision as laid down in the ZZavar, business consulting, development tasks and training, and other audit activities.

In addition to the compliance with the regulatory requirements, the IAD focused on the following:

- an internal audit approach focused on reviews of potential high risk areas, consequently resulting in potentially greater damage (loss) or more significant opportunities missed;
- an internal audit approach with an aim to generate added value and, above all, to continue to reduce operating costs (expenses);
- an internal audit approach with an emphasis on identifying major risks and determining whether they are effectively managed and whether the Company's operations are carried out with due care and diligence and in conformity with the internal rules and external regulations;
- internal control system assessment;
- professional advice to the top management of Adriatic Slovenica;
- transfer of best practices from individual organisational units.

After the audits were completed, the IAD issued draft audit reports, which were coordinated with the auditees. The final internal audit reports were considered at Management Board meetings. The decisions adopted by the Management Board included the deadlines for the auditees to prepare their response reports, specifying how the identified irregularities were corrected and how the recommendations received were implemented. Based on the findings of the follow-up reviews, the IAD regularly issued special reports on the elimination of identified irregularities and submitted them to the Management Board for consideration. Since the IAD and the Management Board actively monitored the correction measures taken by the auditees, the share of recommendations implemented by the auditees was high also in 2014.

All reports were also submitted to the Audit Committee after they were examined by the Management Board. Pursuant to the ZZavar and the internal rules on the IAD operation, two interim internal audit reports and one annual internal audit report were drawn up, submitted and presented to the management and supervisory bodies of the Company.

An IAD was established also in AS neživotno osiguranje a.d.o. Beograd. It operates in compliance with the local legislation, international internal audit standards IIA and the methodology of the parent company.

6. REPORT ON SUSTAINABLE DEVELOPMENT

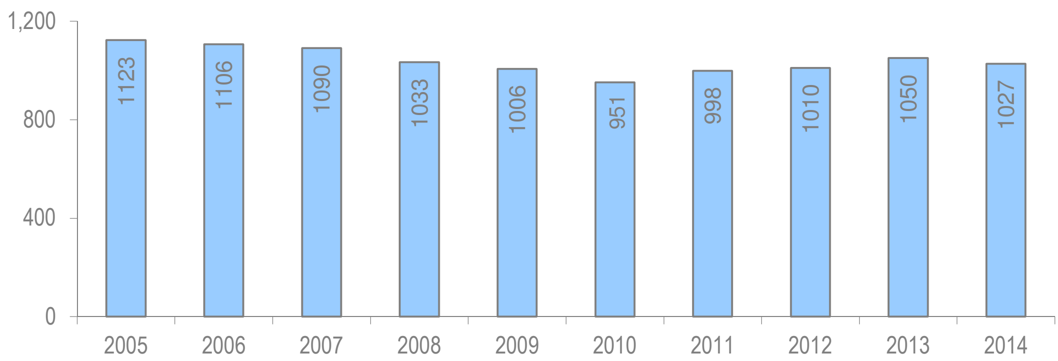
6.1 EMPLOYEES

In 2014, most of our activities were devoted to cost and human resources optimisation with the aim of maximising the efficiency of business processes. We have provided the human resources potential that possesses business innovation, capacity to reach our goals and teamwork abilities. We have successfully retained the key personnel and ensured a high level of professional competence of all employees. In line with our criteria and the Company's business strategy, we have continued our intensive search and selection of adequate persons for different positions in the Company. Among our most important projects is the demanding project of new HR information systems support with integrated database, which was finished in 2014. Moreover, we have regularly reviewed the performance of employee management systems by measuring organisational climate, management systems and employee satisfaction, as well as by monitoring the key human resources indexes and quarterly assessments of all employees' job performance.

6.1.1 Headcount and educational structure of employees – Adriatic Slovenica d.d.

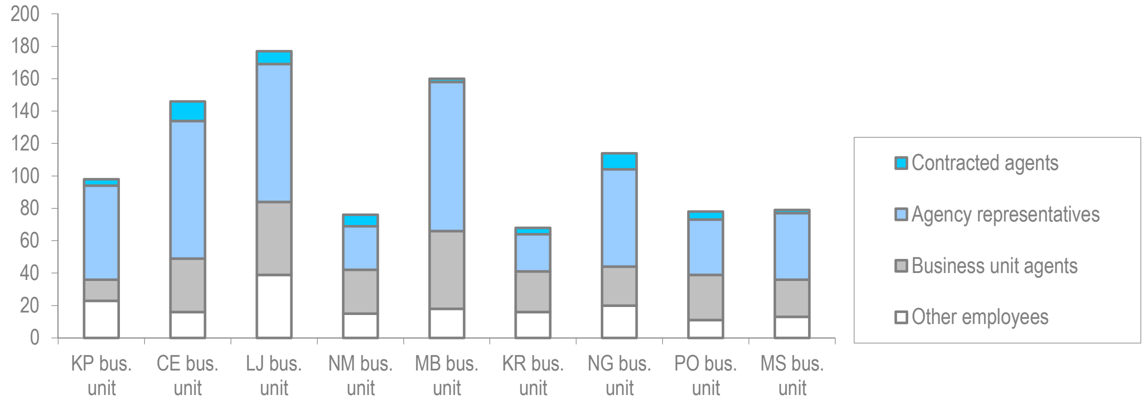
At the end of 2014, Adriatic Slovenica had 1027 employees. Compared to 2013 year-end, the number of employees lowered by 2.2 %, which is mostly due to computerisation and rationalisation of business processes. From among the Adriatic Slovenica staff, women account for 67 % and men for 33 %. The average age of the Company's employees at the end of 2014 was 43.5 years. At the end of 2014, the fixed-term employees accounted for 5 %, their number having decreased by 1 % in comparison with the preceding year.

Number of employees 2005 - 2014



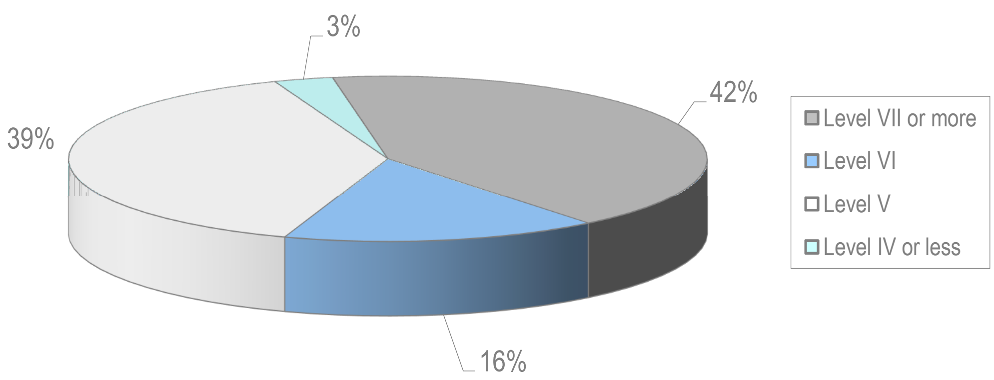
The insurance company boasts a well-branched distribution network in all Slovene regions. As at 31 December 2014, the workforce was composed of 266 insurance agents employed with Adriatic Slovenica, 505 agents selling its insurance products through authorised agencies and 54 contracted agents.

Number of agents in the distribution network in 2014 – Parent company



The biggest share (as much as 42 %) of AS employees has completed level VII or higher education. Due to the nature of the insurance business, employees with level V technical education account for an important share of AS staff – as much as 39 %, since the statutory requirement for insurance agents is completed secondary education.

Educational structure of employees in 2014

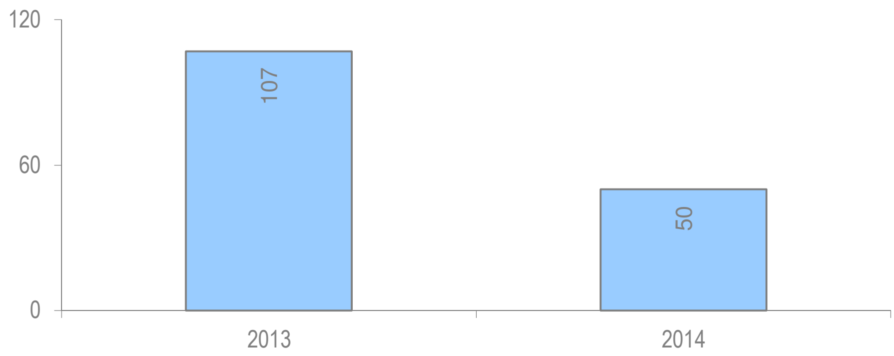


6.1.2 Headcount and educational structure of employees – the Group

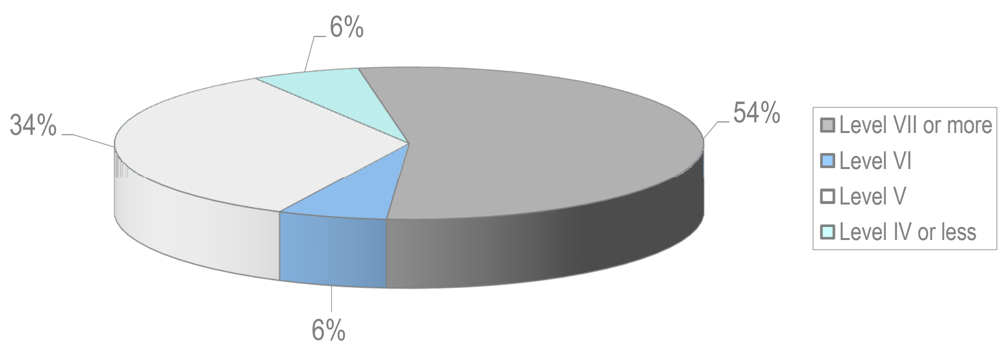
AS neživotno osiguranje

The company has 50 employees, more than half of whom have completed level VII education. More than a third of them have level V education.

Number of employees 2013 - 2014



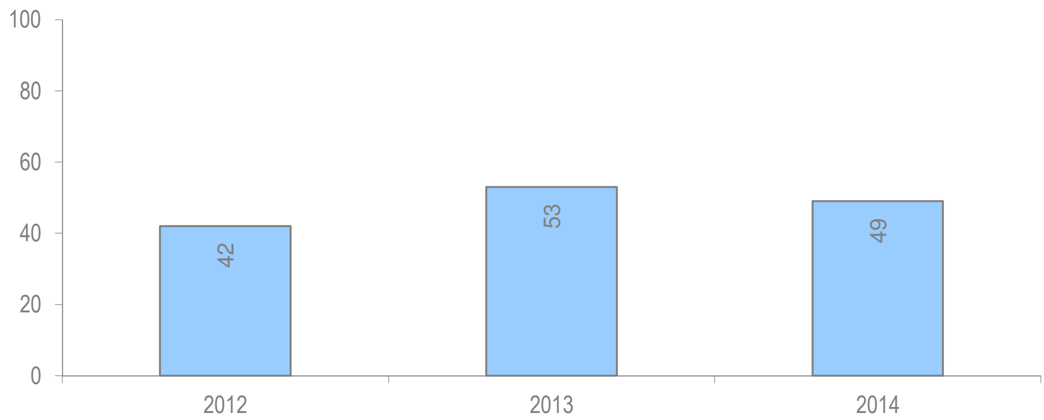
Educational structure of employees in 2014



Prospera

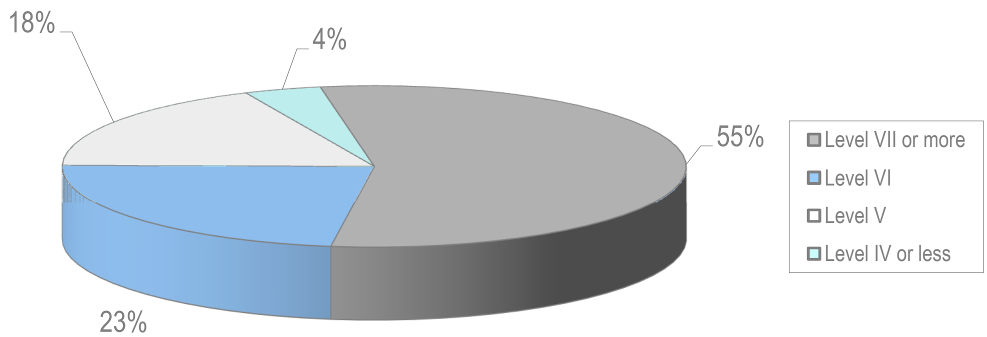
Employees of Prospera are employed there partially, and partially in the parent company.

Number of employees 2012 – 2014 (per person)



As many as 55 % of employees have VII level of education or higher and approximately 25 % have completed VI level of education. 18 % of employees have V level of education and 4 % of employees have IV level of education.

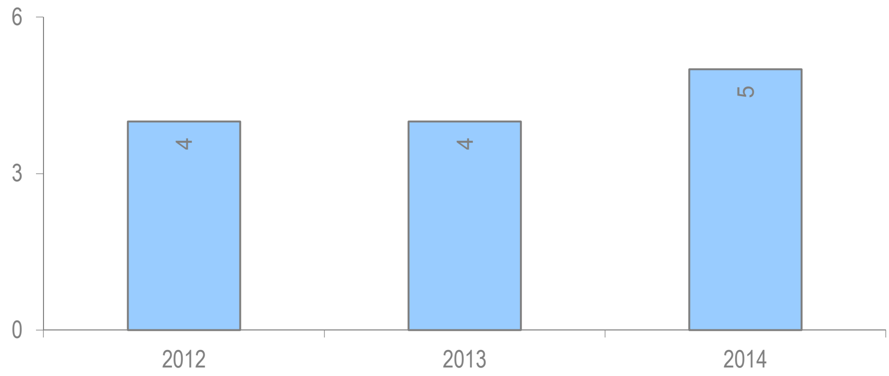
Educational structure of employees in 2014



Viz

The number of employees has in 2014 increased by one employee.

Number of employees 2012 - 2014

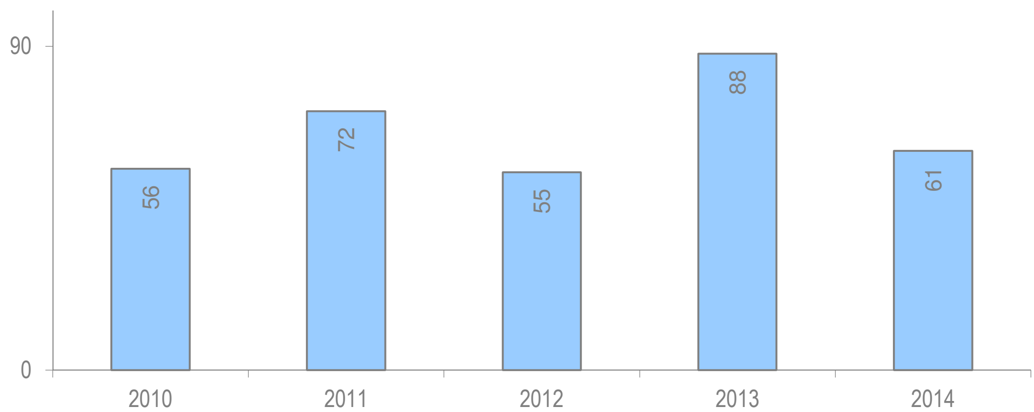


All five employees of Viz d.o.o. have completed VII level of education.

KD životno osiguranje

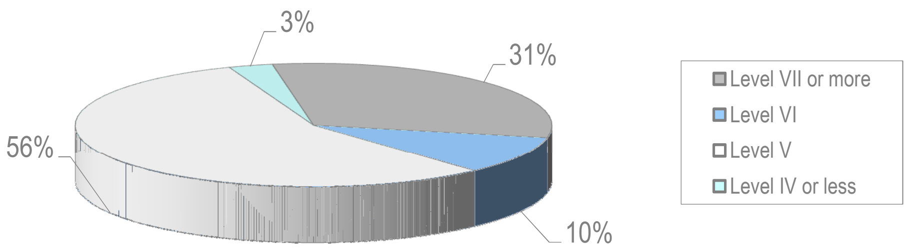
In 2014, the number of employees decreased. At the end of the year, there were 61 employees in this subsidiary.

Number of employees 2010 – 2014

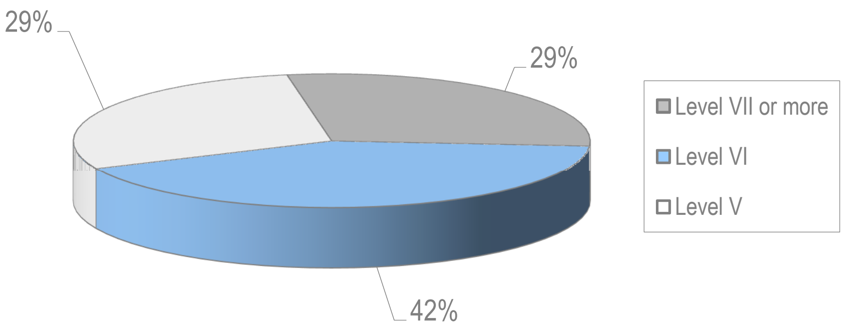


41 % of the employees have high or higher professional education, while 56 % have secondary professional education and 3 % have lower professional education. Of all the employees in the management and administration, 64 % have high education, and the same percentage goes for employees with secondary professional education in sales.

Educational structure of employees in KD življenjsko osiguranje in 2014



Educational structure of employees in subsidiary Permanens d. o. o.



Most employees in Permanens d. o. o. have high professional education (29 %) or higher professional education (43 %), while 29 % of employees have secondary professional education.

6.1.3 Education, training and HR development

Together, we build the culture of mutual trust, respect, constant learning and responsible work. Therefore, we pay much attention to education and practical training. We think that this is our recognised value and competitive advantage. It is planned in line with the Company's goals, which are also goals of the management and also the employees, since education is an important form of non-material employee motivation. Already in 2012, in order to improve the efficiency of education and training for employees, we have renovated the system of internal education within **Akademija AS** and produced the first product materials for **eAkademija AS**.

Education and development of employees is conducted on different professional fields. The priority is on sales and selling skills, personal development, communication, leadership, learning foreign languages, knowledge of our insurance products and use of internal information systems. We are also consistently providing all the professional training and education, required by law, mostly from the field of health and safety at work and also on the topic of ensuring a better security policy and security communication.

In 2014, we have thoroughly remodelled and upgraded the education process in the Company and established the four kay elements for more effective operations. We have renewed the existing Education policy and extended it by providing new content that defines more clearly the process of education in the Company. The most important parts are the rules for rewarding internal lecturers at Akademija AS and co-financing of participation costs for external associates of AS, and additionally also the certifications system and the established standards of internal knowledge sharing.

We have constructed a development framework for web applications to scheduled Akademija AS trainings, which now includes internal, as well as external trainings. We have made a "knowledge book", in which all the acquired internal certificates of employees are collected and outlined the "Katalog Akademije AS" (AS Academy catalogue). We are particularly proud of the fact that we have strengthened the team of internal lecturers at Akademija AS.

Also in 2014, in the education area, we were mostly educating the sales persons in the professional field and the area of social-sales skills with the aim of increasing sales. Special attention was devoted to groups of employees who are in direct contact with the clients, and the executives and expert associates.

Health is the basis for good and successful life and career of an individual, as well as the society. In AS, we strive to maintain and improve our employees' health. We realise that healthy and satisfied workers, working in a safe and stimulating work environment, are more productive and creative. They fall ill less often and are rarely absent from work due to illness. They are also more loyal to the organisation and the employer. Therefore, in 2014, we have made a concept of educational materials to **promote health in the workplace**.

Akademija AS

Akademija AS was established for the benefit of all who wish to build their careers in sales, development or insurance contract processing, become top financial advisers or loss adjusters in non-life insurance, personal insurance, banking services and securities trading (funds). Akademija AS is the right way to develop competencies and expanding knowledge of all employees. Therefore, all the educational programmes of our internal academy are designed for the employees to acquire knowledge and share good practices, use insurance services in practice in the way that enables continuous upgrading of knowledge and accommodates free choice of attendance in educational seminars, in accordance with the individual's needs.

Just as before, in 2014, we have organised numerous in-house technical meetings. Some of the most notable are the traditional Sales conference, the AS legal experts meeting, meetings of the Client Care team, the OIZ team, the Insurance Cases team, the sales network organisers, administrative officers and business secretaries and team building events for teams within the Company. We realise the importance of communication and good relations with our clients, therefore, we organised a special workshop on the topic of raising self-motivation for employees in points-of-sale, and taught them about techniques for handling stressful situations. Since stress is our constant companion, such workshops were also organised for all office administrators, business secretaries and the IT team.

Individual associates participated in a training of interpersonal communication in the workplace. Moreover, we prepared a workshop "Quick and effective communication with an emphasis on communication with the press" for a group of employees. Sales persons participated in numerous trainings for better sales efficiency and additionally in workshops for strengthening their communication skills and business etiquette. A special emphasis was put on seminars about personal financial advisory and own motivation. For the leaders of sales teams, we have organised workshops for better motivation of groups and for achieving excellence in sales. A team of 40 employees participated in a workshop, the aim of which was to master the techniques of goal-oriented, efficient, creative and constructive thinking. We were absolutely enthusiastic about the 6 hats method!

We are proud of all employees who voluntarily attended the training in basic reanimation procedures and the use of defibrillator, and the training in first aid in the workplace.

In accordance with their needs, there were numerous product-sales workshops, led by internal lecturers, organised in individual business units. We have again organised the preparatory training before the testing of knowledge, needed for performing operations of insurance agents.

Our colleague who attended the highest number of internal trainings was rewarded and given a special award for her achievements.

Also in 2014, intensive training was performed to raise the awareness about safety and the security policy. The latter was provided in conjunction with regular training on health and safety at work.

The Company's external partners, too, were regularly involved in all education and training activities related to the changes to insurance products, and special product sales workshops carried out by internal coaches were organised for them.

In 2013, 94% of employees participated in education and training for an average of 40 hours. The majority of educational and training activities, i.e. 59 %, were conducted in-house with internal coaches, while numerous workshops intended for particular employee target groups were organised in cooperation with external providers. Most education and training hours were devoted to the sales staff – insurance agents, who, on average, participated in 29 hours of training. Education and training also resulted in: 26 employees obtaining the authorisation to engage independently in the business of insurance agencies, issued by the Insurance Supervision Agency, 16 employees obtaining the licence to sell investment fund units, issued by the Securities Market Agency, and two employees obtaining the authorisation to engage in activities as a certified actuary, issued by the Insurance Supervision Agency. The co-financing provided by Adriatic Slovenica enabled 27 employees to study in 2014 and 7 employees got a degree this year.

We have also given out two scholarships for studying Financial mathematics at the Faculty of Mathematics, University of Ljubljana. Both scholarships were given to students who in 2014/2015 enrolled in the second year of MSc level 2 study programme.

The new education process is in full swing and in 2015, we continue to pursue its mission. We will be focused on enabling web-based applications for all educational programmes in the annual curriculum of Akademija AS. We will respond to all educational and training needs, as enhancement of knowledge about insurance products, intensive training courses and seminars on selling new insurance products and using information systems and tools, belonging to the regular educational activities. According to the needs, the Company will continue to support employees who wish to upgrade their professional knowledge, be it in Slovene or foreign external education institutions.

eAkademija AS

Our E-training is based on the eAkademija AS web portal which facilitates higher-quality and active learning, tailored to the needs of an individual. The purpose of eAkademija is to grant access to knowledge anywhere and at all times. Employees can use it to refresh their knowledge, verify information, solve exercises and test their knowledge. The web portal contributes to a more flexible and adaptable learning process in terms of time, space and content, and assists in a more efficient and transparent organisation of the educational process.

Since 2013, eAkademija AS consists of numerous e-materials about insurance products, Office tools, BusinessConnect system, insurance legislation and internal information systems (INIS, ES). In 2014, the preparation of professional-product materials continued. We have also laid down the guidelines for priority materials to prepare in 2015 and upgrade of eAkademija with various novelties and improvements.

Education, training and HR development - subsidiaries

AS neživotno osiguranje

Employees are involved in education in line with the needs of the business process.

Prospera

In Prospera, the provided education and training is focused on development of competencies, required for effective work and management, and is most often conducted in the parent company organisation via Akademija AS and eAkademija AS. In 2014, 9 % of employees attended in total 85 hours of training in external education institutions, which presents 2 hours per employee.

Viz

Employees are included in the parent company's education programmes.

KD životno osiguranje

The company organises internal trainings, mostly intended to improve motivation of sales persons. They pay particular attention on educating new employees in sales. Educational programmes are focused on improving sales abilities of employees who are in direct contact with the existing and potential clients.

6.1.4 Care for employees

Adriatic Slovenica is committed to ensuring a safe and healthy work environment, good interpersonal relations and a positive atmosphere to its employees. This endeavour is supported by the activities of the Sports and Culture Club, annual gatherings, sports events, preventive medical check-ups for employees as well as collective accident insurance and voluntary supplementary pension insurance that are co-financed by Adriatic Slovenica for the company staff.

The Sports and Culture Club with the name "Pravi ASi" (True aces) was established in 2010 and has 340 members. Any employee of AS, exclusive agencies or retired ex-employees can join the club. The main goal of the club is to promote employee involvement in sports and cultural activities, thus encouraging them to spend active time together also outside work. In 2014, recreational activities (gym, basketball, volleyball, table tennis, nine-pins, futsal, badminton, bowling, fitness, swimming, spa) were offered to club members at all branches. In addition, the club organised theatre visits (provided season tickets), 6 cycling trips and 3 mountain hikes, encouraged participation of members in winter and summer sports games for the employees of financial institutions (ŠIFO), assisted in the organisation of the social gathering of all employees in Volčji potok to celebrate KD Group's 20th anniversary and participation in the 1st Istria marathon and the Coastal bicycle marathon in Koper.

In 2014, Adriatic Slovenica made it possible for 148 employees and their families to spend quality and affordable vacation in holiday accommodation facilities in Slovenia and Croatia.

In order to foster good relationships and positive climate within the Company, we organised social events for the employees. This year, we gathered in Volčji potok to celebrate the 20th anniversary of KD Group, and at the end of the year at the New Year celebration. The company maintains the tradition of giving out holiday presents to the children of employees. This year, again, the Company co-financed the participation of its employees in the winter and summer sports games for the employees of financial institutions (ŠIFO).

In our care about the health status of employees, we have referred 27 % (282) employees to preliminary, periodic and targeted medical check-ups. As every year, vaccination against seasonal influenza was organised as well.

All Adriatic Slovenica employees are included in collective accident insurance coverage and they can also join the additional voluntary pension insurance scheme, co-financed by the employer, which at the end of 2014 covered 72 % of all employees. The average monthly premium under this pension scheme amounted to 50.01 euros per employee and it is partly co-funded by the employer. The employees of Adriatic Slovenica can take out accident insurance policies also for their preschool children as well as their children of school age. The Company provides to all its employees a special bonus if they decide to purchase the above-standard health insurance coverage "Zdravje AS - Težke bolezni in operacije" (AS Health - Serious illnesses and surgical procedures), and affordable insurance terms for their family members. The coverage provided under this product has been purchased by 967 employees and 366 members of their families.

In 2014, we have initiated the activities to become a certified "Family Friendly Enterprise", for we think that the positive attitude, shown by the company toward the employees' needs, derived from family life, is reflected in satisfaction, motivation, productivity, success, loyalty and flexibility of all employees. In the beginning of 2015 (on 16 January), we have obtained the Basic Family Friendly Enterprise Certificate and determined 9 measures for work process improvement.

Employees of subsidiaries **Prospera** and **Viz** can take advantage of all the above bonuses, too.

AS neživotno osiguranje

In order to maintain good relationships, the employees take part in the annual sports games for all employees of Serbian insurance companies. They also participate in sports games and other events, organised by AS and KD Group. In addition to this, they also gather every year at the New Year celebration.

KD životno osiguranje

Special attention is devoted to maintaining a positive climate among the employees, since it plays a very important role in successful collaboration. The stimulation of positive climate reflects in informal gatherings of employees. There is also the tradition of giving gifts to employees' children before New Year, and the employees receive their Christmas bonus.

6.2 IMPROVEMENTS, INFORMATION SECURITY AND QUALITY

6.2.1 Improvements

The 2014 work programme of the **IT department** followed the guidelines defined in the IT Strategy (adopted in 2011), which, in turn, is based on the company strategy, the business environment, information technology trends, experts' demands and good IT management practices. The IT department has also provided support to the subsidiaries, the information services of which are hosted in the **AS private cloud**, and collaborated with sister companies within KD Group.

In the parent company, there was an ongoing **integration and consolidation of information technology support for life insurance**, which was transferred to AS upon the detachment of KDŽ by AS' take-over. Consequently, in the central register of clients (CRS), we have merged the KDŽ and AS clients and enabled comprehensive view over client portfolios, including life insurance policies from Amarta IS. Moreover, we have implemented in production the new version of **CRS**, which, apart from the entirely renewed user interface, offers numerous new client attributes.

Upon the implementation of MS Dynamics-based solution for **automation of management and supervision over employee activities in the sales network** (AOTM), we have also upgraded the MS Dynamics from 2011 to 2013 version and adjusted the solution used by COS to this version.

We continued to follow the concept of **services-oriented architecture** and prepared services that are available to business partners; for example, our leasing partners can (via web services) now access informative calculations of car insurance, and the Post of Slovenia can get information on insurance products that are marketed via their sales network.

We have imported existing and added new web sites into the Liferay **portal platform**. Apart from AS-klub and tools for Coris and Multirisk products, we have also transferred WIZ web site into the new technologic environment; apart from taking out car insurance, it now also allows for taking out supplementary health insurance. We have established a module for unified registration of clients, via which, the clients will be able to register and use the general **portal** for clients, as well as the **pension portal** of the insurance company.

We have added new content to the **data warehouse**. Among other things, there is now also the life insurance data from Amarta IS. Moreover, since the beginning of 2015, it will be possible to monitor the entire AS portfolio via existing Qlikview applications. We have also added the first applications for the purpose of Key Performance Indicators (KPI) monitoring. We have introduced the IBM SPSS tool for **data mining** and initially implemented it for the purpose of health insurance fraud detection.

Within the DigitAS project, we continued the transition to **paperless business processes** and implemented a contracts module. By means of a process solution, based on Ultimus BPMS tool, we have optimised the **process of posting bank statements**.

We finished with the transition to **Windows 7** and **Office 2010**. Within the highly productive user environment framework, the new **KompAS intranet** was introduced on the new portal platform, and will continue to spread to other companies within the group. We started the implementation of **MS Lync** solution for communication among employees and, among other functionalities, enables video conferencing. We have implemented the **MS Direct Access** solution which caters for secure and simple remote access to the information environment.

We have completed the **monitoring system project**, within which, we have established monitoring mechanisms over functioning of key information technology components, installed SIEM and CMDB systems and updated the backup system. We have also upgraded the infrastructure solution **Oracle Exadata**, on which the key back-office information systems are based, to a newer and more advanced version.

To support the requirements of **Solvency II**, we began to implement Moody's Analytics – Risk Foundation Platform, which, among other functions, will also generate all the reports, required by the regulator.

At the end of the year, we have adapted the information systems to the **changed insurance tax**, supported **e-invoice issuing** and performed a **test switch to the secondary location**.

During the year, we were participating in implementations of information technology solutions, educating users and providing them with support in the use of information technology.

The document system **Business Connect (BC)** comprises six modules (mailroom, HR, internal regulatory framework, invoice settlement, contracts and procurement). After successful testing in the first quarter of 2014, we started using the last two, namely contracts and procurement. Both processes, just like the other four, implemented already in 2013, are entirely digitalised. This means that the design, preparation of materials compliant with the internal regulatory framework, and authorisation of documents in all the above mentioned processes are done solely in electronic form. After the process ends, of course, all the documents are appropriately archived in the electronic folder in the system for long-term data storage.

In the **finance and accounting area**, the company put most of the effort into providing technologic and organisational solutions that ensure successful accounting operations. Consequently, shorter deadlines for preparation of financial statements and other financial reports were reached. Related to payment transactions, there have been upgrades of information systems that will allow for acquiring a greater share of less risky payment instruments in the coming year.

6.2.2 Information security

In the frame of activities seeking to improve the quality, security and reliability of IT, we continued to update the documents within the information security management system. Moreover, we have performed an analysis of information technology risks within the set of activities related to business continuity. On large changes, posing a security risk for the Company and the clients, we performed security testing (on WIZ and Multirisk tool). Within the safety at work seminars on individual business units, we also prepared lessons for raising the employees' awareness and educated them about information security. In relation to the law on personal data protection, we have carried out an analysis of current compliance of information technology solutions with the legal requirements and started constructing a plan of necessary upgrades in order to ensure sufficient logging of access to personal data.

6.2.3 Quality management system

The Quality management system in line with the international standard ISO 9001 was implemented in Adriatic Slovenica already ten years ago (in June 2004), and thus, the Company established a system for quality management and constant improvements of business processes in order to efficiently fulfil clients' requirements and expectations. The quality management system is annually aligned with strategic and operating goals. The employees and the management of the insurance company realise that quality in all aspects is an important competitive advantage.

Business quality in its broadest sense is created and maintained by all employees. One of the most important factors of systematic quality is the centralised system of document management, which has been operating in the company for the last ten years.

We systematically incorporate good business practices into our business processes. In this way, we control and improve our operations and regularly monitor and analyse their efficiency. Following this standard, we follow our core goal – increasing clients' satisfaction, and in doing this, the insurance company has indeed been very successful in 2014, since the independent surveys have shown that Adriatic Slovenica, compared to other insurance companies, has the highest number of satisfied clients.

The quality management system (QMS) process is guided primarily by the system of internal and external audits, management reviews and reviews by the college of area branches related to QMS, by the system of useful suggestions and continuous business improvements: projects, improvements to IT solutions and supplements to the internal regulatory framework. Based on these and other project activities, the Company introduces measures and improvements at all levels of its operations in line with its values, and seeks for efficient and innovative approaches, and thus transfer the quality principles to areas that need improvement. The QMS is not yet established in subsidiaries.

The system of useful suggestions has been in place in the parent company since 2003, and the usefulness and feasibility of suggestions has constantly been increasing. The committee for evaluation of useful suggestions is regularly reviewing the submitted suggestions of employees and until the end of 2014, it received a total of 343 proposals (333 in 2013), 50 of which were assessed as exceptionally useful (49 in 2013) and their authors have been rewarded.

KD životno osiguranje

The company is aware of the importance of achieving and maintaining business quality, therefore, they strive to constantly improve business processes. Among other measures, this is achieved by conducting internal and external audits.

The company is performing most of the supervisory activities, recommended by good practices, and follows the prescribed formal procedures, which is also documented.

In 2014, they carried out numerous activities with the aim of ensuring business continuity. They performed a business impact analysis, which includes definitions of all key business processes and evidence of supported IT resources (on the level of core applications – Amarta and Navision). They have also defined alternative ways of performing processes in case the IT systems were unavailable. A business system training plan and business continuity plan were drawn up. They also performed a risk assessment and documented the security measures. Raising the quality of operations remains to be the subsidiary's goal for the future.

Investments in equipment and office space

The parent company made large investments in equipment and office space in 2014. The investments provide for further development, increase efficiency of business operations and reduce costs.

Over 60 thousand euros have been spent on equipment (excluding computer equipment, such as multifunction devices, mobile telephones, shredders, projectors …) and furniture (rotating chairs, office desks). In the building on Kidričeva cesta in Kranj, where our Kranj business unit is situated, we have bought additional offices, previously owned by Trgoavto company that went bankrupt, and renovated them, so that we can meet there with the clients. The additional space also enabled us to merge all the employees of Kranj business unit in one place – until late December 2014, some employees from the Claims settlement team worked in rented offices on Koroška cesta 53 b in Kranj. The value of the investment was approximately 350 thousand euros.

In the beginning of 2014, we have performed an extended energy audit (REP) on our business premises in Koper and obtained energy performance certificates for our business buildings on Ljubljanska cesta 3 and 3a. The REP results will assist the planned energy-saving building restoration and thorough renovation of the Company's headquarters, planned for 2016.

In the future, we wish to buy two more units of real estate in Murska Sobota and Novo mesto, and thus lower the rental costs and unify the offices of these two business units.

As before, in 2014, we were keeping our vehicle fleet up to date by investing almost 120 thousand euros in it. For 2015, we are planning to invest 218 thousand euros to modernise the vehicle fleet in order to lower the carbon emissions, also by purchasing new hybrid-powered vehicles.

6.3 THE COMPANY'S RESPONSIBILITY TO THE LOCAL COMMUNITY AND THE ENVIRONMENT

Every year, Adriatic Slovenia supports and is involved in a plethora of projects, initiatives and campaigns of national importance as well as less extensive regional and local celebrations and events, contributing to a better quality of life in smaller towns. In 2014, the Company supported over 37 large and 122 smaller projects via our business units.

For more than two decades, Adriatic Slovenica has been promoting projects related to its strategic development orientation, primarily in the fields of **healthcare, education, culture, sports and traffic safety.**

In the area of culture, the Company has been supporting **Portorož Auditorium and the Koper Theatre** since 2002, and the **RTV Slovenija Symphony Orchestra** since 2005.

As a partner of the **Podjetna Primorska** Contest, Adriatic Slovenica has since 2009 been supporting the Best business plan contest, held by the University Incubator of Primorska to stimulate new, modern and knowledge-based enterprises in the Primorska region and contribute to the transfer of knowledge from the university to the real sector.

In 2014, Adriatic Slovenica continued to advance sports at various levels. Top-level national teams could rely on its support as the official insurance company of the Olympic representative teams (Team Slovenia) and the national football team. Ever since 1993, Adriatic Slovenica has been sponsoring the **Olympic Committee of Slovenia**, and on 21 December 2012, it signed a sponsorship contract for the next four-year period until the 2016 Olympic Games in Rio de Janeiro. In June 2014, we have organised an event in Arboretum Volčji potok for our business partners and employees, which was also a celebration of the Olympic day. Members of the national football team and Olympians attended the event as well and played a game of football in front of more than 2 thousand excited visitors.

Adriatic Slovenica has been collaborating with the **Football Association of Slovenia** (NZS) for the last 14 years. On 17 November 2014, they signed a new sponsorship contract for the period until the European Championship in France in 2016. Based on its collaboration with the NZS, the Company developed different services for football players and other sports persons.

The Company furthermore joined the ranks (as Gold Sponsor) of staunch supporters of the **Soške Elektrarne Kayak Club**. In July 2014, the Company signed up as a Silver Sponsor of the **Sailing Federation of Slovenia**, and extended sponsorship of **Vasilij Žbogar**, successful Slovenian sailor in his fourth consecutive Olympic cycle. Other significant sports sponsorships include the four-year-long gold sponsorship of the **men's senior national handball team** (until the end of the 2013/2014 competition season) and cooperation with the **Slovenian Cycling Federation** and the **Rog Cycling Club**.

Another interesting sports event, supported by Adriatic Slovenica, was the 8th international event for children, called **Bodi športnik – igraj se z mano** (Be a sportsman – play with me) in October. Together with sports persons and musicians, we contributed to a delightful event for around 700 children and young people with special needs from Ljubljana and abroad.

As part of our annual school accident insurance marketing campaign, the Company has been since 2010 rewarding young football enthusiasts from 5 to 12 years of age with visits to football matches of the Slovene representative team.

In health insurance management, Adriatic Slovenica cooperates with approximately 1,700 medical services providers and supports education and initiatives raising the profile of medical professionals. For the 13th time in a row, the Company has acted as the main sponsor of the **Moj zdravnik** (My Doctor) campaign singling out the best and most reputable Slovene doctors. We have also supported the Postojna Hospital, contributing funds for the purchase of a new ultrasound machine and the Piran Health Centre, where we co-financed the new ECG device. To the Elvira Vatovec children and youth care centre in Strunjan, we have donated funds for the purchase of two lift platforms for the disabled which facilitate their mobility and make the work easier for the employees of the centre. As far as charity is concerned, in 2014, we have given most to the Podari Malico project, within which, 1,651 meals were given out to schools and other institutions, for children from socially deprived environments.

In 2014, the Company continued its partnership with the iHELP project. In order to assist the highest possible number of people, save lives and reduce the number of cardiac arrest victims and victims of other sudden incidents, young innovators have developed the iHELP mobile application which is simple to use and sends an SOS alert to lay people and paramedics who can provide prompt assistance to the victim. With just one touch on the mobile phone, this free-of-charge application can thus save your life and the lives of your family members, friends or strangers. The SOS notification activates the safety network of people entered as emergency contacts (family and friends), paramedics and all iHELP users in the vicinity. The safety network is activated in no more than 20 seconds, which reduces the time of rescue by six- to tenfold, increasing the chance of survival. Together with iHelp, we have promoted the application in press conferences, among our employees and at the Olympic day event in Arboretum, and equipped 12 cities with new defibrillators.

At the end of September, we have supported the organisation of the Manager Congress in Portorož, which opened a current issue of trust in Slovene managers.

Together with other KD Group companies, the insurance company assists in the work of KD Fundacija (KD Foundation, previously known as Ajda Fundacija), which was founded on 4 November 1995 and has since offered scholarships to exceptionally talented students. On 1 July 2014, KD Foundation changed its name to AS Foundation. Since then, it has continued to support its successful protégés and welcomed under its umbrella a promising young singing talent. On 9 May, Žiga Pirnat, a protégé of AS Foundation since January 2011, finished his studies with a Summa Cum Laude diploma in modern writing, production and film composition at the Berklee College of Music in Boston. Mr Pirnat was ranked as one of the college’s most successful students, and he is also the most successful student supported by AS Foundation. The new protégé of AS Foundation, Ajda Stina Turek, was admitted to the same College, which also granted her one of the highest scholarships to finance her studies, and AS Foundation will contribute to cover additional costs of her living during her studies. Since 2010, AS Foundation also supports Eva Nina Kozmus, a young Slovene virtuoso on flute who is attending the last year of her 2nd cycle Bologna studies (Master) at the French music conservatory Conservatoire national supérieur de musique et de danse de Lyon. Rok Zalokar, a protégé of AS Foundation since 2013, is a jazz piano student who successfully finished his first year, and is in 2014/2015 attending the second year of jazz piano studies at the Rotterdam Codarts Academy of Music in the Netherlands. Petra Koprivec, also supported by AS Foundation since 2013, is a piano student, successfully continuing on her academic path as a second-year student in a three-year postgraduate course at the Royal Conservatory of Brussels in Belgium. AS Foundation remains a supporter of Šalej brothers. Jakob is a successful second-year student at the Faculty of Computer and Information Science, University of Ljubljana, and Matija will finish Poljane grammar school in Ljubljana in the school year 2014/2015. In 2014, AS Foundation also helped Saša Nunar, a versatile young musician, and made it possible for him to buy a professional instrument baritone. The Foundation also funded an independent retrospective exhibition by artist Darja Lobnikar Lovak, hosted in September and October 2014 in KULT3000 gallery on Metelkova, Ljubljana. On

5 January 2015, following its long-standing tradition, AS Foundation brought presents to the children of the Malči Belič Youth Care Centre. With the assistance of AS insurance company, the Foundation donated some indispensable computer equipment, 10 desktop computers with LCD monitors, 5 laptops and a printer. This equipment will enable the children between 6 and 14 years of age to get more involved in computer literacy activities. It will also be easier for them to write their homework and access information and knowledge on the internet.

In 2012, the Company acquired a rich art collection, which it started to exhibit in 2013 in the AS Galerija gallery at KD Group headquarters at Dunajska 63 in Ljubljana. In 2014, the collection has been supplemented by several new pieces of art, created by Slovene and foreign artists, in the total amount of almost 13.500 euros. We are also planning to prepare an exhibition of amateur works of art, created by our employees. The gallery regularly hosts theme exhibitions of artwork owned by the Company, and in 2014, we have organised a resounding and extensive documentary exhibition, celebrating the 20th anniversary of KD Group. The documentary exhibition is also available on the web, in a virtual form.

The ecological behaviour of the company and its employees is on a high level and the employees are ecologically aware and active. Although the business of the Company does not result in direct environmental burden, we are making an effort to gradually reduce carbon emissions in different ways. The most important are electricity and paper saving due to digitalised business operations in BC system and collecting waste paper in separate containers. In 2014, for the second time in a row, we have participated in the "Star papir za novo upanje" (Waste paper for new hope) campaign. Another important activity we have been practising for a long time is separation of hazardous waste, toners and ink cartridges. Additionally, we have decided to separately collect batteries in all our business units – the containers are available to employees, as well as our clients. Since 2010, AS Novice e-magazine has been informing employees about ecological issues and solutions in the popular "Eko AS" weekly column. In May 2014, AS made an investment of as much as 10 thousand euros for the renovation of Rupnik water container in Idrija.

The subsidiaries' responsibility to local communities and the environment

AS neživotno osiguranje is a silver sponsor and the official insurance company of the Serbian Olympic Committee (OKS) during the Olympic period London 2012 – Rio (de Janeiro) 2016. In 2014, the subsidiary supported the Slovene Business Club in their organisation of a Christmas fair within their advent activities.

KD životno osiguranje and other subsidiaries did not make important donations or participate in sponsorship activities in 2014.

7. SELECTED ACCOUNTING AND FINANCIAL PERFORMANCE INDICATORS OF ADRIATIC SLOVENICA D.D.

All figures are in euros. The selected accounting indicators were calculated on the basis of the data from the financial statements prepared in compliance with the Decision amending the Decision on Annual Reports and Quarterly Financial Statements of Insurance Companies – SKL 2009 included in Appendix 1.

Growth of gross written premium	Gross written premium in current year	Gross written premium in previous year	Year 2014	Gross written premium in current year	Gross written premium in previous year	Year 2013
	in euros	in euros	index	in euros	in euros	index
1	2	3	4=2/3*100	5	6	7=5/6*100
Results by class of insurance:						
1 Accident insurance	15,877,417	16,650,947	**95**	16,650,947	18,068,815	**92**
2 Health insurance	108,193,279	112,602,959	**96**	112,602,959	107,452,224	**105**
3 Land motor vehicles insurance	34,523,565	35,342,445	**98**	35,342,445	40,069,487	**88**
4 Railway rolling stock insurance	-	11	**0**	11	30	**36**
5 Aircraft insurance	13,024	18,329	**71**	18,329	20,555	**89**
6 Marine loss insurance	609,587	635,629	**96**	635,629	675,023	**94**
7 Goods in transportation insurance	1,453,635	1,410,663	**103**	1,410,663	1,506,709	**94**
8 Fire and natural forces insurance	15,807,261	15,290,285	**103**	15,290,285	15,303,947	**100**
9 Other damage to property insurance	12,156,406	11,605,632	**105**	11,605,632	12,400,637	**94**
10 Motor vehicle liability insurance	40,577,052	41,820,425	**97**	41,820,425	46,828,894	**89**
11 Aircraft liability insurance	14,041	20,912	**67**	20,912	21,521	**97**
12 Liability for ship/boat insurance	586,267	587,623	**100**	587,623	622,735	**94**
13 General liability insurance	7,397,202	6,572,791	**113**	6,572,791	6,527,768	**101**
14 Credit insurance	20,890	61,838	**34**	61,838	116,331	**53**
15 Suretyship insurance	188,392	164,167	**115**	164,167	151,881	**108**
16 Miscellaneous financial loss insurance	790,976	724,835	**109**	724,835	754,086	**96**
17 Legal expenses insurance	134,200	137,385	**98**	137,385	167,331	**82**
18 Assistance insurance	5,380,554	5,677,910	**95**	5,677,910	5,837,241	**97**
19 Life insurance	18,713,529	19,171,334	**98**	19,171,334	7,817,382	**245**
21 Unit-linked life insurance products	34,169,493	37,012,119	**92**	37,012,119	3,844,683	**963**
23 Insurance with capitalised payments	870,294	652,933	**133**	652,933	685,770	**95**
Non-life insurance contracts, excluding health insurance	135,530,469	136,721,827	**99**	136,721,827	149,072,991	**92**
Life insurance contracts	53,753,316	56,836,385	**95**	56,836,385	12,347,835	**460**
Health insurance contracts	108,193,279	112,602,959	**96**	112,602,959	107,452,224	**105**
Total	**297,477,063**	**306,161,171**	**97**	**306,161,171**	**268,873,050**	**114**

Net written premiums as % of gross written premiums	Net written premiums in euros	Gross written premiums in euros	Year 2014 in %	Net written premiums in euros	Gross written premiums in euros	Year 2013 in %
1	2	3	4=2/3*100	5	6	7=5/6*100
Results by class of insurance:						
1 Accident insurance	12,653,423	15,877,417	**80**	12,915,296	16,650,947	**78**
2 Health insurance	108,193,279	108,193,279	**100**	112,602,959	112,602,959	**100**
3 Land motor vehicles insurance	16,706,700	34,523,565	**48**	15,599,959	35,342,445	**44**
4 Railway rolling stock insurance	-	-	**0**	11	11	**0**
5 Aircraft insurance	12,166	13,024	**93**	17,667	18,329	**96**
6 Marine loss insurance	445,726	609,587	**73**	565,618	635,629	**89**
7 Goods in transportation insurance	1,096,996	1,453,635	**75**	1,187,088	1,410,663	**84**
8 Fire and natural forces insurance	12,195,881	15,807,261	**77**	11,756,544	15,290,285	**77**
9 Other damage to property insurance	10,744,685	12,156,406	**88**	10,344,072	11,605,632	**89**
10 Motor vehicle liability insurance	22,626,283	40,577,052	**56**	22,154,530	41,820,425	**53**
11 Aircraft liability insurance	2,069	14,041	**15**	4,716	20,912	**23**
12 Liability for ship/boat insurance	524,845	586,267	**90**	523,025	587,623	**89**
13 General liability insurance	6,769,207	7,397,202	**92**	6,033,655	6,572,791	**92**
14 Credit insurance	20,890	20,890	**100**	61,838	61,838	**100**
15 Suretyship insurance	152,546	188,392	**81**	119,631	164,167	**73**
16 Miscellaneous financial loss insurance	708,257	790,976	**90**	627,835	724,835	**87**
17 Legal expenses insurance	67,987	134,200	**51**	65,079	137,385	**47**
18 Assistance insurance	4,219,765	5,380,554	**78**	4,595,262	5,677,910	**81**
19 Life insurance	17,470,130	18,713,529	**93**	18,187,538	19,171,334	**95**
21 Unit-linked life insurance products	34,141,691	34,169,493	**100**	37,012,119	37,012,119	**100**
23 Insurance with capitalised payments	870,294	870,294	**100**	652,933	652,933	**100**
Non-life insurance contracts, excluding health insurance	88,947,427	135,530,469	**66**	86,571,825	136,721,827	**63**
Life insurance contracts	52,482,116	53,753,316	**98**	55,852,590	56,836,385	**98**
Health insurance contracts	108,193,279	108,193,279	**100**	112,602,959	112,602,959	**100**
Total	**249,622,821**	**297,477,063**	**84**	**255,027,374**	**306,161,171**	**83**

Movement in gross claims and benefits paid	Gross claims and benefits paid in current year in euros	Gross claims and benefits paid in previous year in euros	Year 2014 in %	Gross claims and benefits paid in current year in euros	Gross claims and benefits paid in previous year in euros	Year 2013 in %
1	2	3	4=2/3*100	5	6	7=5/6*100
Results by class of insurance:						
1 Accident insurance	6,897,156	6,781,589	**102**	6,781,589	7,480,695	**91**
2 Health insurance	86,989,783	90,466,507	**96**	90,466,507	85,169,214	**106**
3 Land motor vehicles insurance	25,263,899	28,722,892	**88**	28,722,892	30,520,828	**94**
5 Aircraft insurance	39,701	15,751	**-**	15,751	-	**-**
6 Marine loss insurance	1,208,985	497,182	**243**	497,182	726,511	**68**
7 Goods in transportation insurance	1,509,269	215,271	**701**	215,271	993,676	**22**
8 Fire and natural forces insurance	5,812,345	7,846,035	**74**	7,846,035	8,195,563	**96**
9 Other damage to property insurance	8,637,402	8,464,761	**102**	8,464,761	9,667,225	**88**
10 Motor vehicle liability insurance	25,546,184	26,870,585	**95**	26,870,585	27,575,308	**97**
12 Liability for ship/boat insurance	29,376	53,398	**55**	53,398	126,691	**42**
13 General liability insurance	3,002,664	3,477,292	**86**	3,477,292	3,632,891	**96**
14 Credit insurance	690,693	1,042,025	**66**	1,042,025	1,690,943	**62**
15 Suretyship insurance	12,806	72,324	**18**	72,324	16,204	**446**
16 Miscellaneous financial loss insurance	404,232	353,178	**114**	353,178	538,018	**66**
17 Legal expenses insurance	-	-	**-**	-	-	**-**
18 Assistance insurance	1,988,579	1,898,814	**105**	1,898,814	1,967,500	**97**
19 Life insurance	12,849,957	11,712,565	**110**	11,712,565	5,948,062	**197**
21 Unit-linked life insurance products	21,116,359	20,810,053	**101**	20,810,053	2,987,896	**696**
23 Insurance with capitalised payments	343,964	693,008	**50**	693,008	883,938	**78**
	-	-	**-**			**-**
Non-life insurance contracts, excluding health insurance	81,043,291	86,311,098	**94**	86,311,098	93,132,052	**93**
Life insurance contracts	34,310,280	33,215,626	**103**	33,215,626	9,819,896	**338**
Health insurance contracts	86,989,783	90,466,507	**96**	90,466,507	85,169,214	**106**
Total	**202,343,354**	**209,993,231**	**96**	**209,993,231**	**188,121,162**	**112**

Average claim/benefit paid	Gross claims and benefits paid in euros	Number of claims/loss events	Year 2014	Gross claims and benefits paid in euros	Number of claims/loss events	Year 2013
1	2	3	4=2/3	5	6	7=5/6
Results by class of insurance:						
1 Accident insurance	6,897,156	11,207	**615**	6,781,589	11,003	**616**
2 Health insurance	86,989,783	54,377	**1,600**	90,466,507	50,698	**1,784**
3 Land motor vehicles insurance	25,263,899	36,655	**689**	28,722,892	41,989	**684**
6 Marine loss insurance	1,208,985	185	**6,535**	497,182	194	**2,563**
7 Goods in transportation insurance	1,509,269	1,670	**904**	215,271	1,327	**162**
8 Fire and natural forces insurance	5,812,345	7,234	**803**	7,846,035	6,659	**1,178**
9 Other damage to property insurance	8,637,402	19,101	**452**	8,464,761	17,078	**496**
10 Motor vehicle liability insurance	25,546,184	9,457	**2,701**	26,870,585	9,722	**2,764**
12 Liability for ship/boat insurance	29,376	12	**2,448**	53,398	115	**464**
13 General liability insurance	3,002,664	1,432	**2,097**	3,477,292	1,519	**2,289**
14 Credit insurance	690,693	158	**4,371**	1,042,025	243	**4,288**
15 Suretyship insurance	12,806	2	**6,403**	72,324	7	**10,332**
16 Miscellaneous financial loss insurance	404,232	728	**555**	353,178	709	**498**
17 Legal expenses insurance	-	10		-	10	
18 Assistance insurance	1,988,579	10,106	**197**	1,898,814	9,925	**191**
19 Life insurance	12,849,957	8,321	**1,544**	11,712,565	9,352	**1,252**
21 Unit-linked life insurance products	21,116,359	8,154	**2,590**	20,810,053	9,521	**2,186**
23 Insurance with capitalised payments	343,964	125	**2,752**	693,008	208	**3,332**
Non-life insurance contracts, excluding health insurance	81,043,291	97,958	**827**	86,311,098	100,501	**859**
Life insurance contracts	34,310,280	16,600	**2,067**	33,215,626	19,081	**1,741**
Health insurance contracts	86,989,783	54,377	**1,600**	90,466,507	50,698	**1,784**
Total	**202,343,354**	**168,935**	**1,198**	**209,993,231**	**170,280**	**1,233**

Claims ratio	Gross claims and benefits paid in euros	Gross written premiums in euros	Year 2014 coefficient	Gross claims and benefits paid in euros	Gross written premiums in euros	Year 2013 coefficient
1	2	3	4=2/3	5	6	7=5/6
Results by class of insurance:						
1 Accident insurance	6,897,156	15,877,417	**0.43**	6,781,589	16,650,947	**0.41**
2 Health insurance	86,989,783	108,193,279	**0.80**	90,466,507	112,602,959	**0.80**
3 Land motor vehicles insurance	25,263,899	34,523,565	**0.73**	28,722,892	35,342,445	**0.81**
4 Railway rolling stock insurance	-	-		-	11	**0.00**
5 Aircraft insurance	39,701	13,024	**3.05**	15,751	18,329	**0.86**
6 Marine loss insurance	1,208,985	609,587	**1.98**	497,182	635,629	**0.78**
7 Goods in transportation insurance	1,509,269	1,453,635	**1.04**	215,271	1,410,663	**0.15**
8 Fire and natural forces insurance	5,812,345	15,807,261	**0.37**	7,846,035	15,290,285	**0.51**
9 Other damage to property insurance	8,637,402	12,156,406	**0.71**	8,464,761	11,605,632	**0.73**
10 Motor vehicle liability insurance	25,546,184	40,577,052	**0.63**	26,870,585	41,820,425	**0.64**
11 Aircraft liability insurance	-	14,041	**0.00**	-	20,912	**0.00**
12 Liability for ship/boat insurance	29,376	586,267	**0.05**	53,398	587,623	**0.09**
13 General liability insurance	3,002,664	7,397,202	**0.41**	3,477,292	6,572,791	**0.53**
14 Credit insurance	690,693	20,890	**33.06**	1,042,025	61,838	**16.85**
15 Suretyship insurance	12,806	188,392	**0.07**	72,324	164,167	**0.44**
16 Miscellaneous financial loss insurance	404,232	790,976	**0.51**	353,178	724,835	**0.49**
17 Legal expenses insurance	-	134,200	**0.00**	-	137,385	**0.00**
18 Assistance insurance	1,988,579	5,380,554	**0.37**	1,898,814	5,677,910	**0.33**
19 Life insurance	12,849,957	18,713,529	**0.69**	11,712,565	19,171,334	**0.61**
21 Unit-linked life insurance products	21,116,359	34,169,493	**0.62**	20,810,053	37,012,119	**0.56**
23 Insurance with capitalised payments	343,964	870,294	**0.40**	693,008	652,933	**1.06**
Non-life insurance contracts, excluding health insurance	81,043,291	135,530,469	**0.60**	86,311,098	136,721,827	**0.63**
Life insurance contracts	34,310,280	53,753,316	**0.64**	33,215,626	56,836,385	**0.58**
Health insurance contracts	86,989,783	108,193,279	**0.80**	90,466,507	112,602,959	**0.80**
Total	**202,343,354**	**297,477,063**	**0.68**	**209,993,231**	**306,161,171**	**0.69**

Operating expenses as % of gross written premiums	Operating expenses in euros	Gross written premiums in euros	Year 2014 in %	Operating expenses in euros	Gross written premiums in euros	Year 2013 in %
1	2	3	4=2/3*100	5	6	7=5/6*100
Results by class of insurance:						
1 Accident insurance	4,209,036	15,877,417	**27**	4,551,748	16,650,947	**27**
2 Health insurance	15,061,851	108,193,279	**14**	12,285,075	112,602,959	**11**
3 Land motor vehicles insurance	9,111,232	34,523,565	**26**	10,029,727	35,342,445	**28**
4 Railway rolling stock insurance	1	-	**0**	0	11	**0**
5 Aircraft insurance	3,638	13,024	**28**	4,881	18,329	**27**
6 Marine loss insurance	185,017	609,587	**30**	193,589	635,629	**30**
7 Goods in transportation insurance	324,127	1,453,635	**22**	313,053	1,410,663	**22**
8 Fire and natural forces insurance	6,077,775	15,807,261	**38**	6,307,784	15,290,285	**41**
9 Other damage to property insurance	4,413,548	12,156,406	**36**	4,954,277	11,605,632	**43**
10 Motor vehicle liability insurance	10,329,974	40,577,052	**25**	10,381,423	41,820,425	**25**
11 Aircraft liability insurance	4,658	14,041	**33**	4,459	20,912	**21**
12 Liability for ship/boat insurance	182,184	586,267	**31**	184,988	587,623	**31**
13 General liability insurance	1,959,024	7,397,202	**26**	1,913,485	6,572,791	**29**
14 Credit insurance	47,626	20,890	**228**	80,801	61,838	**131**
15 Suretyship insurance	27,411	188,392	**15**	13,088	164,167	**8**
16 Miscellaneous financial loss insurance	163,871	790,976	**21**	207,340	724,835	**29**
17 Legal expenses insurance	40,047	134,200	**30**	42,966	137,385	**31**
18 Assistance insurance	1,647,470	5,380,554	**31**	2,723,696	5,677,910	**48**
19 Life insurance	7,648,514	18,713,529	**41**	8,755,135	19,171,334	**46**
21 Unit-linked life insurance products	9,477,219	34,169,493	**28**	8,507,477	37,012,119	**23**
23 Insurance with capitalised payments	180,387	870,294	**21**	121,604	652,933	**19**
Non-life insurance contracts, excluding health insurance	38,726,637	135,530,469	**29**	41,907,306	136,721,827	**31**
Life insurance contracts	17,306,120	53,753,316	**32**	17,384,217	56,836,385	**31**
Health insurance contracts	15,061,851	108,193,279	**14**	12,285,075	112,602,959	**11**
Total	**71,094,608**	**297,477,063**	**24**	**71,576,598**	**306,161,171**	**23**

Acquisition costs as % of gross written premiums	Insurance acquisition costs in euros	Gross written premiums in euros	Year 2014 in %	Insurance acquisition costs in euros	Gross written premiums in euros	Year 2013 in %
1	2	3	4=2/3*100	5	6	7=5/6*100
Results by class of insurance:						
1 Accident insurance	1,459,946	15,877,417	**9**	1,510,163	16,650,947	**9**
2 Health insurance	2,032,932	108,193,279	**2**	1,782,953	112,602,959	**2**
3 Land motor vehicles insurance	3,042,719	34,523,565	**9**	3,192,036	35,342,445	**9**
4 Railway rolling stock insurance	-	-	**0**	-	11	**0**
5 Aircraft insurance	916	13,024	**7**	1,311	18,329	**7**
6 Marine loss insurance	82,929	609,587	**14**	88,125	635,629	**14**
7 Goods in transportation insurance	86,940	1,453,635	**6**	92,650	1,410,663	**7**
8 Fire and natural forces insurance	3,593,543	15,807,261	**23**	3,508,915	15,290,285	**23**
9 Other damage to property insurance	2,521,763	12,156,406	**21**	2,340,080	11,605,632	**20**
10 Motor vehicle liability insurance	3,207,247	40,577,052	**8**	3,224,086	41,820,425	**8**
11 Aircraft liability insurance	1,239	14,041	**9**	1,604	20,912	**8**
12 Liability for ship/boat insurance	87,383	586,267	**15**	86,459	587,623	**15**
13 General liability insurance	923,249	7,397,202	**12**	883,624	6,572,791	**13**
14 Credit insurance	5,726	20,890	**27**	13,833	61,838	**22**
15 Suretyship insurance	1,921	188,392	**1**	1,068	164,167	**1**
16 Miscellaneous financial loss insurance	54,928	790,976	**7**	64,392	724,835	**9**
17 Legal expenses insurance	14,486	134,200	**11**	17,183	137,385	**13**
18 Assistance insurance	561,514	5,380,554	**10**	982,027	5,677,910	**17**
19 Life insurance	4,537,658	18,713,529	**24**	4,098,571	19,171,334	**21**
21 Unit-linked life insurance products	2,472,577	34,169,493	**7**	1,378,634	37,012,119	**4**
23 Insurance with capitalised payments	1,963	870,294	**0**	743	652,933	**0**
Non-life insurance contracts, excluding health insurance	15,646,450	135,530,469	**12**	16,007,556	136,721,827	**12**
Life insurance contracts	7,012,197	53,753,316	**13**	5,477,949	56,836,385	**10**
Health insurance contracts	2,032,932	108,193,279	**2**	1,782,953	112,602,959	**2**
Total	**24,691,579**	**297,477,063**	**8**	**23,268,457**	**306,161,171**	**8**

Investment return as % of average investments	Return on investments in euros	(Balance of investments at beginning of year + balance of investments at year-end)/2 in euros	Year 2014 in %	Return on investments in euros	(Balance of investments at beginning of year + balance of investments at year-end)/2 in euros	Year 2013 in %
1	2	3	4=2/3*100	5	6	7=5/6*100
Investments of fund covering mathematical provisions for life insurance	7,843,505	101,442,668	**7.7**	2,131,726	101,645,642	**2.1**
Investments of fund covering mathematical provisions for life insurance where policyholder bears investment risk	4,250,607	27,800,728	**15.3**	1,280,157	25,413,352	**5.0**
Investments of fund covering mathematical provisions for life insurance where policyholder bears investment risk - Fond Polica	29,543,733	168,016,612	**17.6**	633,079	148,467,781	**0.4**
Investments of fund covering mathematical provisions for life insurance where policyholder bears investment risk - FP Dirigent	1,727,505	11,977,607	**14.4**	(26,387)	10,623,654	**-0.2**
Investments of fund covering mathematical provisions for life insurance where policyholder bears investment risk - FP Aktivni paket	1,908,218	15,405,584	**12.4**	(57,942)	8,451,310	**-0.7**
Investments of fund covering mathematical provisions for life insurance where policyholder bears investment risk - KD Vrhunski	1,581,285	12,521,892	**12.6**	(104,480)	11,249,141	**-0.9**
Investments of fund covering mathematical provisions for pension insurance during saving period	294,276	6,350,645	**4.6**	157,566	5,700,345	**2.8**
Investments of fund covering pension insurance provisions during pay out	38,211	481,531	**7.9**	26,705	424,875	**6.3**
Investments of fund covering mathematical provisions without the fund	4,064,666	133,857,475	**3.0**	(4,706,318)	152,289,821	**-3.1**
Investments of fund covering provisions for supplementary health insurance products	10,365	9,116,963	**0.1**	557,604	9,132,377	**6.1**
Investments of fund covering other health insurance products	78,586	510,696	**15.4**	4,419	464,555	**1.0**
Accidents long-term business fund	-	226,845	**0.0**	-	-	**-**
Investments of own sources of funding	2,497,933	66,219,220	**3.8**	956,694	49,128,583	**1.9**
Total	**53,838,890**	**553,928,467**	**9.7**	**852,823**	**522,991,437**	**0.2**

Net provisions for claims outstanding as % of net income from insurance premiums	Net provisions for claims outstanding in euros	Net earned premiums in euros	Year 2014 in %	Net provisions for claims outstanding in euros	Net earned premiums in euros	Year 2013 in %
1	2	3	4=2/3*100	5	6	7=5/6*100
Results by class of insurance:						
1 Accident insurance	9,973,654	12,703,917	**79**	11,208,168	13,277,269	**84**
2 Health insurance	5,564,511	109,401,173	**5**	6,091,059	113,656,286	**5**
3 Land motor vehicles insurance	4,287,099	16,229,278	**26**	4,725,352	17,331,668	**27**
4 Railway rolling stock insurance	-	0	**0**	-	11	**0**
5 Aircraft insurance	5,465	13,161	**42**	-	19,801	**0**
6 Marine loss insurance	518,026	459,985	**113**	485,749	556,799	**87**
7 Goods in transportation insurance	483,298	1,097,240	**44**	803,096	1,206,645	**67**
8 Fire and natural forces insurance	4,077,079	12,056,998	**34**	3,657,085	11,668,081	**31**
9 Other damage to property insurance	4,641,677	10,461,590	**44**	4,465,606	10,415,974	**43**
10 Motor vehicle liability insurance	42,620,926	22,419,768	**190**	47,277,097	23,811,377	**199**
11 Aircraft liability insurance	-	3,560	**0**	-	5,661	**0**
12 Liability for ship/boat insurance	428,071	524,338	**82**	334,337	533,451	**63**
13 General liability insurance	16,777,392	6,434,771	**261**	18,803,085	5,926,235	**317**
14 Credit insurance	75,318	548,995	**14**	158,583	1,066,843	**15**
15 Suretyship insurance	70,438	118,073	**60**	79,873	101,018	**79**
16 Miscellaneous financial loss insurance	115,672	663,169	**17**	56,892	620,448	**9**
17 Legal expenses insurance	26,335	66,575	**40**	24,073	72,668	**33**
18 Assistance insurance	250,879	4,195,298	**6**	239,432	4,567,066	**5**
19 Life insurance	5,451,245	17,514,665	**31**	6,218,524	18,265,785	**34**
21 Unit-linked life insurance products	326,627	34,141,691	**1**	244,820	37,012,119	**1**
23 Insurance with capitalised payments	-	870,294	**0**	-	652,933	**0**
Non-life insurance contracts, excluding health insurance	84,351,330	87,996,717	**96**	92,318,429	91,181,016	**101**
Life insurance contracts	5,777,872	52,526,650	**11**	6,463,345	55,930,837	**12**
Health insurance contracts	5,564,511	109,401,173	**5**	6,091,059	113,656,286	**5**
Total	**95,693,713**	**249,924,541**	**38**	**104,872,832**	**260,768,139**	**40**

Gross profit, i.e. loss, of the current year as % of net written premiums	Gross profit, i.e. loss, of the current year in euros	Net written premiums in euros	Year 2014 in %	Gross profit, i.e. loss, of the current year in euros	Net written premiums in euros	Year 2013 in %
1	2	3	4=2/3*100	2	3	4=2/3*100
Non-life insurance contracts, excluding health insurance	14,843,572	88,947,427	**17**	6,255,776	86,571,825	**7**
Life insurance contracts	5,963,120	52,482,116	**11**	3,275,811	55,852,590	**6**
Health insurance contracts	1,809,767	108,193,279	**2**	6,389,016	112,602,959	**6**
Total	**22,616,458**	**249,622,821**	**9**	**15,920,603**	**255,027,374**	**6**

Gross profit, i.e. loss, of the current year as % of average capital	Gross profit, i.e. loss, of the current year in euros	(Capital at beginning of year + capital at year-end)/2 in euros	Year 2014 in %	Gross profit, i.e. loss, of the current year in euros	(Capital at beginning of year + capital at year-end)/2 in euros	Year 2013 in %
1	2	3	4=2/3*100	2	3	4=2/3*100
Non-life insurance contracts	16,653,338	82,568,832	**20**	12,644,792	80,740,480	**16**
Life insurance contracts	5,963,120	17,414,337	**34**	3,275,811	9,140,214	**36**
Total	**22,616,458**	**99,983,169**	**23**	**15,920,603**	**89,880,694**	**18**

Gross profit, i.e. loss, of the current year as % of average assets	Gross profit, i.e. loss, of the current year in euros	(Assets at beginning of year + assets at year-end)/2 in euros	Year 2014 in %	Gross profit, i.e. loss, of the current year in euros	(Assets at beginning of year + assets at year-end)/2 in euros	Year 2013 in %
1	2	3	4=2/3*100	2	3	4=2/3*100
Non-life insurance contracts	16,653,338	335,684,453	**5**	12,644,792	359,185,054	**4**
Life insurance contracts	5,963,120	371,094,579	**2**	3,275,811	226,725,891	**1**
Total	**22,616,458**	**692,632,177**	**3**	**15,920,603**	**573,122,911**	**3**

Gross profit, i.e. loss, of the current year per share	Gross profit in euros	Number of shares	Year 2014	Gross profit in euros	Number of shares	Year 2013
1	2	3	4=2/3	2	3	4=2/3
Non-life insurance contracts	16,653,338	10,304,407	**1.6**	12,644,792	10,304,407	**1.2**
Life insurance contracts	5,963,120	10,304,407	**0.6**	3,275,811	10,304,407	**0.3**
Total	**22,616,458**	**10,304,407**	**2.2**	**15,920,603**	**10,304,407**	**1.5**

Gross profit, i.e. loss, as % of average capital	Net profit in euros	(Capital at beginning of year + capital at year-end)/2 in euros	Year 2014 in %	Net profit in euros	(Capital at beginning of year + capital at year-end)/2 in euros	Year 2013 in %
1	2	3	4=2/3*100	2	3	4=2/3*100
Aggregate insurance business - total	18,849,006	99,983,169	**19**	13,583,099	89,880,694	**15**

The insurer's eligible capital as % of the insurer's net earned premiums	The insurer's eligible capital in euros	Net earned premiums in euros	Year 2014 in %	The insurer's eligible capital in euros	Net earned premiums in euros	Year 2013 in %
1	2	3	4=2/3*100	2	3	4=2/3*100
Non-life insurance contracts	52,517,603	197,140,705	**27**	55,230,639	199,174,784	**28**
Life insurance contracts	12,769,962	52,482,116	**24**	12,479,003	55,852,590	**22**
Total	**65,287,565**	**249,622,821**	**26**	**67,709,643**	**255,027,374**	**27**

The insurer's eligible capital as % of the insurer's minimum capital	The insurer's eligible capital in euros	The insurer's minimum capital in euros	Year 2014 in %	The insurer's eligible capital in euros	The insurer's minimum capital in euros	Year 2013 in %
1	2	3	4=2/3*100	2	3	4=2/3*100
Non-life insurance contracts	52,517,603	25,993,169	**202**	55,230,639	28,158,098	**196**
Life insurance contracts	12,769,962	11,035,049	**116**	12,479,003	10,516,263	**119**
Total	**65,287,565**	**37,028,218**	**176**	**67,709,643**	**38,674,362**	**175**

The insurer's eligible capital as % of the insurer's technical provisions	The insurer's eligible capital in euros	Technical provisions in euros	Year 2014 in %	The insurer's eligible capital in euros	Technical provisions in euros	Year 2013 in %
1	2	3	4=2/3*100	2	3	4=2/3*100
Non-life insurance contracts	52,517,603	170,401,156	**31**	55,230,639	176,981,690	**31**
Life insurance contracts	12,769,962	358,208,197	**4**	12,479,003	314,396,320	**4**
Total	**65,287,565**	**528,609,353**	**12**	**67,709,643**	**491,378,011**	**14**

The insurer's eligible capital as % of receivables from reinsurance and technical provisions attributable to reinsurers	The insurer's eligible capital in euros	Receivables from reinsurance and technical provisions attributable to reinsurers in euros	Year 2014 in %	The insurer's eligible capital in euros	Receivables from reinsurance and technical provisions attributable to reinsurers in euros	Year 2013 in %
1	2	3	4=2/3*100	2	3	4=2/3*100
Non-life insurance contracts	52,517,603	35,015,882	**150**	55,230,639	67,071,021	**82**
Life insurance contracts	12,769,962	234,180	**5453**	12,479,003	465,914	**2678**
Total	**65,287,565**	**35,250,061**	**185**	**67,709,643**	**67,536,935**	**100**

Incurred loss ratio	Net expenses for claims and benefits paid in euros	Net earned premiums in euros	Year 2014 coefficient	Net expenses for claims and benefits paid in euros	Net earned premiums in euros	Year 2013 coefficient
1	2	3	4=2/3	2	3	4=2/3
Non-life insurance contracts, excluding health insurance	49,397,756	87,996,717	**0.56**	52,099,557	91,181,016	**0.57**
Life insurance contracts	34,471,471	52,526,650	**0.66**	33,206,728	55,930,837	**0.59**
Health insurance contracts	92,185,688	109,401,173	**0.84**	95,726,554	113,656,286	**0.84**
Total	**176,054,916**	**249,924,541**	**0.70**	**181,032,840**	**260,768,139**	**0.69**

Net written premiums as % of average capital and technical provisions	Net written premiums in euros	Average capital + average balance of technical provisions in euros	Year 2014 in %	Net written premiums in euros	Average capital + average balance of technical provisions in euros	Year 2013 in %
1	2	3	4=2/3*100	2	3	4=2/3*100
Non-life insurance contracts	197,140,705	256,260,255	**77**	199,174,784	264,973,667	**75**
Life insurance contracts	52,482,116	353,716,596	**15**	55,852,590	214,204,037	**26**
Total	**249,622,821**	**609,976,851**	**41**	**255,027,374**	**479,177,704**	**53**

Net written premiums as % of average capital	Net written premiums in euros	Average capital in euros	Year 2014 in %	Net written premiums in euros	Average capital in euros	Year 2013 in %
1	2	3	4=2/3*100	2	3	4=2/3*100
Non-life insurance contracts	197,140,705	82,568,832	**239**	199,174,784	80,740,480	**247**
Life insurance contracts	52,482,116	17,414,337	**301**	55,852,590	9,140,214	**611**
Total	**249,622,821**	**99,983,169**	**250**	**255,027,374**	**89,880,694**	**284**

Average balance of net technical provisions as % of net revenues from insurance premiums	Average balance of net technical provisions in euros	Net revenues from insurance premiums in euros	Year 2014 in %	Average balance of net technical provisions in euros	Net revenues from insurance premiums in euros	Year 2013 in %
1	2	3	4=2/3*100	2	3	4=2/3*100
Non-life insurance contracts	146,240,466	197,397,890	**74**	159,388,816	204,837,301	**78**
Life insurance contracts	336,086,333	52,526,650	**640**	204,924,794	55,930,837	**366**
Total	**482,326,799**	**249,924,541**	**193**	**364,313,609**	**260,768,139**	**140**

Capital as % of net unearned premiums	Capital in euros	Net unearned premiums in euros	Year 2014 in %	Capital in euros	Net unearned premiums in euros	Year 2013 in %
1	2	3	4=2/3*100	2	3	4=2/3*100
Non-life insurance contracts	84,993,348	49,818,438	**171**	80,144,316	50,075,622	**160**
Life insurance contracts	21,784,944	408,161	**5,337**	13,043,731	452,695	**2,881**
Total	**106,778,292**	**50,226,598**	**213**	**93,188,047**	**50,528,318**	**184**

Capital as % of liabilities to sources of funding	Capital in euros	Liabilities to sources of funding in euros	Year 2014 in %	Capital in euros	Liabilities to sources of funding in euros	Year 2013 in %
1	2	3	4=2/3*100	2	3	4=2/3*100
Non-life insurance contracts	84,993,348	304,263,896	**28**	80,144,316	367,105,010	**22**
Life insurance contracts	21,784,944	391,111,665	**6**	13,043,731	351,077,493	**4**
Total	**106,778,292**	**687,191,980**	**16**	**93,188,047**	**698,072,375**	**13**

Net technical provisions as % of liabilities to sources of funding	Net technical provisions in euros	Liabilities to sources of funding in euros	Year 2014 in %	Net technical provisions in euros	Liabilities to sources of funding in euros	Year 2013 in %
1	2	3	4=2/3*100	2	3	4=2/3*100
Non-life insurance contracts	141,541,743	304,263,896	**47**	150,939,189	367,105,010	**41**
Life insurance contracts	357,986,166	391,111,665	**92**	314,186,501	351,077,493	**89**
Total	**499,527,909**	**687,191,980**	**73**	**465,125,690**	**698,072,375**	**67**

Net provisions (mathematical reserves) as % of net technical provisions	Net provisions (mathematical reserves) in euros	Net technical provisions in euros	Year 2014 in %	Net provisions (mathematical reserves) in euros	Net technical provisions in euros	Year 2013 in %
1	2	3	4=2/3*100	2	3	4=2/3*100
Aggregate insurance business - total	351,482,441	499,527,909	**70**	306,807,834	465,125,690	**66**

Underwritten gross insurance premium as % of number of full-time employees	Gross written premiums in euros	Number of full-time employees	Year 2014	Gross written premiums in euros	Number of full-time employees	Year 2013
1	2	3	4=2/3	2	3	4=2/3
Aggregate insurance business - total	297,477,063	1,027	**289,656**	306,161,171	1,050	**291,582**

8. SELECTED ACCOUNTING AND FINANCIAL PERFORMANCE INDICATORS OF ADRIATIC SLOVENICA GROUP

Growth of gross written premium (GROWTH INDEX (ratio between gross written insurance premiums for the current and the previous year)	Adriatic Slovenica		Group	
	2014	2013	2014	2013
Total insurance contracts	97	114	98	114
Non-life insurance contracts, excluding health insurance	99	92	99	92
Life insurance contracts	95	460	99	460
Health insurance contracts	96	105	96	105

Loss ratio (net claims incurred as a % of net premium income)	Adriatic Slovenica		Group	
	2014	2013	2014	2013
Total insurance contracts	70%	69%	70%	69%
Non-life insurance contracts, excluding health insurance	56%	57%	56%	57%
Life insurance contracts	66%	59%	64%	59%
Health insurance contracts	84%	84%	84%	84%

Operating costs as a % of gross written insurance premium	Adriatic Slovenica		Group	
	2014	2013	2014	2013
Total insurance contracts	24%	23%	25%	24%
Non-life insurance contracts, excluding health insurance	29%	31%	30%	32%
Life insurance contracts	32%	31%	35%	30%
Health insurance contracts	14%	11%	14%	11%

Gross profit/loss for the year as a % of net premium income	Adriatic Slovenica		Group	
	2014	2013	2014	2013
Total insurance contracts	9%	6%	9%	6%
Non-life insurance contracts, excluding health insurance	17%	7%	17%	6%
Life insurance contracts	11%	6%	10%	6%
Health insurance contracts	2%	6%	2%	6%

Gross profit/loss for the year as a % of average total assets	Adriatic Slovenica		Group	
	2014	2013 (adjusted)	2014	2013 (adjusted)
Total insurance contracts	3%	3%	3%	3%
Non-life insurance contracts	5%	4%	5%	3%
Life insurance contracts	2%	1%	1%	1%

Return on equity (net profit/loss for the year as a % of average total equity)	Adriatic Slovenica		Group	
	2014	2013	2014	2013
Total insurance contracts	19%	15%	18%	14%

FINANCIAL STATEMENTS FOR 2014

Adriatic Slovenica d.d.

CONTENT

1. FINANCIAL STATEMENTS

1.1 BALANCE SHEET

Balance sheet as at 31 December 2014

in EUR	Note	31 Dec 2014	31 Dec 2013 adjusted
Assets		**687,191,980**	**698,072,375**
A. Intangible assets	8.1	**4,381,313**	**4,596,902**
B. Property, plant and equipment	8.2	**27,316,753**	**27,152,680**
D. Deferred tax assets	8.25	**3,622,498**	**3,816,023**
E. Investment properties	8.3	**29,375,722**	**28,356,692**
F. Financial investments in subsidiaries and associates	8.4	**27,418,592**	**21,973,193**
G. Financial investments	8.5	**253,113,696**	**258,535,548**
1.In loans and deposits		**52,005,422**	57,846,472
2. In held-to-maturity financial assets		**33,163,813**	38,096,356
3. In available-for-sale financial assets		**137,099,819**	126,219,317
4. In financial assets measured at fair value		**30,844,643**	36,373,403
H. Unit-linked investments of policyholders	8.6	**257,518,981**	**213,925,868**
I. Amounts of technical provisions ceded to reinsurers	8.7	**29,081,444**	**26,252,320**
J. Assets from investment contracts		-	-
K. Receivables	8.8	**39,181,499**	**97,073,456**
1. Receivables from direct insurance business		**21,410,211**	23,243,104
2. Receivables from reinsurance and coinsurance		**6,304,768**	41,423,147
3. Income tax receivables		**3,531,447**	2,259,833
4. Other receivables		**7,935,073**	30,147,372
L. Other assets	8.9	**5,469,459**	**6,291,066**
M. Cash and cash equivalents	8.10	**10,712,024**	**10,098,627**
Equity and liabilities		**687,191,980**	**698,072,375**
A. Equity	8.11	**106,778,292**	**93,188,047**
1. Share capital		42,999,530	42,999,530
2. Capital reserves		4,211,782	4,211,782
3. Reserve from profit		15,771,095	15,333,563
4. Revaluation surplus		5,797,421	(2,343,818)
5. Retained net earnings		19,496,509	22,576,176
6. Net profit or loss for the financial year		18,501,956	10,410,814
C. Technical provisions	8.12	**274,379,478**	**279,545,399**
1. Unearned premiums		51,105,883	51,316,179
2. Mathematical provisions		97,252,566	94,975,222
3. Outstanding claims provisions		123,895,871	130,337,291
4. Other technical provisions		2,125,157	2,916,708
D. Insurance technical provisions for unit-linked insurance	8.13	**254,229,875**	**211,832,611**
E. Other provisions	8.14	**3,126,745**	**2,766,811**
G. Deferred tax liabilities	8.25	**1,194,632**	**27,011**
H. Liabilities from investment contracts		-	-
I. Other financial liabilities	8.15	**755,781**	**1,092,790**
J. Operating liabilities	8.16	**21,990,287**	**92,887,490**
1. Liabilities from direct insurance contracts		4,543,005	6,037,334
2. Liabilities from reinsurance and coinsurance contracts		11,491,980	84,425,515
3. Income tax liabilities		5,955,302	2,424,641
K. Other liabilities	8.17	**24,736,890**	**16,732,215**

The accounting policies and notes set out on pages from 156 to 264 are an integral part of the financial statements.

1.2 INCOME STATEMENT

Income statement for the period from 1 January 2014 to 31 December 2014

in EUR	Note	2014	2013 adjusted
I. NET PREMIUM INCOME	**8.18**	**249,924,540**	**260,768,138**
Gross written premiums		297,879,905	306,399,078
Premiums ceded to reinsurers and coinsurers		(48,257,084)	(51,371,704)
Change in unearned premiums		301,719	5,740,764
III. INCOME FROM INVESTMENTS	**8.18**	**59,260,803**	**20,218,978**
IV. OTHER INCOME FROM INSURANCE OPERATIONS, of which	**8.18**	**13,183,642**	**14,599,638**
- fee and commission income		13,183,642	14,599,638
V. OTHER INCOME	**8.18**	**6,577,652**	**11,810,927**
VI. NET EXPENSES FOR CLAIMS AND BENEFITS PAID	**8.19**	**(176,054,916)**	**(181,032,840)**
Gross amounts of claims and benefits paid		(208,836,049)	(217,593,248)
Reinsurers'/coinsurers' shares		23,602,014	25,261,473
Change in claims provisions		9,179,119	11,298,935
VII. CHANGE IN OTHER TECHNICAL PROVISIONS	**8.12**	**(1,239,366)**	**3,374,417**
VIII. CHANGE IN TECHNICAL PROVISIONS FOR THE BENEFIT OF UNIT-LINKED INSURANCE POLICYHOLDERS	**8.13**	**(42,397,264)**	**(10,604,186)**
X. EXPENSES FOR BONUSES AND DISCOUNTS		**2,088**	**215,687**
XI. OPERATING EXPENSES, of which	**8.20**	**(70,005,906)**	**(70,406,765)**
- acquisition costs		(24,214,427)	(23,856,776)
XII. EXPENSES FROM INVESTMENTS IN ASSOCIATES, of which	**8.18**	**(984,741)**	**(643,978)**
- impairment losses of financial assets not measured at fair value through profit or loss		(984,741)	(643,978)
XIII. EXPENSES INVESTMENTS, of which	**8.18**	**(4,424,185)**	**(18,668,986)**
- impairment losses of financial assets not measured at fair value through profit or loss		(3,092,069)	(12,745,084)
XIV. OTHER INSURANCE EXPENSES	**8.21**	**(6,495,725)**	**(9,640,669)**
XV. OTHER EXPENSES	**8.22**	**(4,730,163)**	**(4,069,759)**
XVI. PROFIT/(LOSS) BEFORE TAX		**22,616,458**	**15,920,603**
XVII. CORPORATE INCOME TAX	**8.24**	**(3,767,452)**	**(2,337,504)**
XVIII. NET PROFIT FOR THE REPORTING PERIOD		**18,849,006**	**13,583,099**
Basic net earnings/loss per share	**8.26**	**1.83**	**1.38**
Diluted net earnings/loss per share		**1.83**	**1.38**

The accounting policies and notes set out on pages from 156 to 264 are an integral part of the financial statements.

1.3 STATEMENT OF COMPREHENSIVE INCOME

Statement of comprehensive income for the period from 1 January 2014 to 31 December 2014

in EUR	Pojasnilo	2014	2013 prilagojeno
I. NET PROFIT OR LOSS FOR THE FINANCIAL YEAR AFTER TAXATION		**18,849,006**	**13,583,099**
II. OTHER COMPREHENSIVE INCOME AFTER TAXATION (a + b)	**8.11**	**8,141,238**	**(1,185,915)**
b) Items that may be allocated to profit or loss in subsequent periods (1+2+3+4+5)	**8.11**	8,141,238	(1,185,915)
1. Net gain/loss from re-measurement of available-for-sale financial assets		9,808,802	(1,445,504)
1.1. Gain/loss, recognised in revaluation surplus		**14,723,379**	**(11,171,185)**
1.2. Transfer of gain/loss from revaluation surplus to income statement		(4,914,578)	9,725,681
5. Tax on items that may be allocated to profit or loss in subsequent periods		(1,667,563)	259,589
III. TOTAL COMPREHENSIVE INCOME FOR THE YEAR, AFTER TAXATION (I + II)		**26,990,245**	**12,397,184**

The adjustment of statement of comprehensive income is a consequence of the change in the prescribed structure of the statement, stipulated by the Insurance Supervision Agency (change of Decision on annual report and quarterly financial statements of insurance companies – SKL 2009, Official Gazette of Slovenia No 89/2014), while there were no changes in the content.

The accounting policies and notes set out on pages from 156 to 264 are an integral part of the financial statements.

1.4 STATEMENT OF CHANGES IN EQUITY

Statement of changes in equity for the period from 1 January 2014 to 31 December 2014

in EUR	Note	I. Share capital 1.	II. Capital reserve 2.	III. Reserves from profit: Legal abd statutory 4.	Credit risk 6.	Catastrophic loss reserves 7.	Other reserves 8.	IV. Revaluation surplus 9.	V. Retained earnings 10.	VI. Net profit/loss 11.	TOTAL EQUITY 13.
1. Total amount at the end of previous financial year		**42,999,530**	**4,211,782**	**1,519,600**	**1,011,998**	**3,363,797**	**9,438,167**	**(2,343,817)**	**22,576,175**	**10,410,814**	**93,188,047**
4. OPENING BALANCE IN THE FINANCIAL PERIOD		42,999,530	4,211,782	1,519,600	1,011,998	3,363,797	9,438,167	(2,343,817)	22,576,175	10,410,814	93,188,047
5. Comprehensive income net of tax	8.11	-	-	-	-	-	-	**8,141,238**	-	**18,849,006**	**26,990,245**
5.a. Net profit/loss for the year		-	-	-	-	-	-	-	-	18,849,006	18,849,006
5.b Other comprehensive income	8.11	-	-	-	-	-	-	8,141,238	-	-	8,141,238
8. Allocation of net profit/loss for the preceeding year to retained profit/loss		-	-	-	-	-	-	-	10,410,814	(10,410,814)	-
11. Payment (accounting) of dividends	8.27	-	-	-	-	-	-	-	(13,400,000)	-	(13,400,000)
13. Settlement of loss incurred in preceding years	8.11	-	-	-	-	-	-	-	(90,481)	90,481	-
14. Setting up and using reserves for credit risk and for catastrophic losses		-	-	-	2,507	435,025	-	-	-	(437,532)	-
16. CLOSING BALANCE AS AT 31 DECEMBER		42,999,530	4,211,782	1,519,600	1,014,505	3,798,823	9,438,167	5,797,421	19,496,508	18,501,956	106,778,292

The accounting policies and notes set out on page 229 are an integral part of the statement of changes in equity.

Statement of changes in equity for the period from 1 January 2013 to 31 December 2013 – Adjusted

in EUR	Note	I. Share capital	II. Capital reserve	III. Reserves from profit: Legal abd statutory	III. Reserves from profit: Credit risk	III. Reserves from profit: Catastrophic loss reserves	III. Reserves from profit: Other reserves	IV. Revaluation surplus	V. Retained earnings	VI. Net profit/loss	TOTAL EQUITY
		1.	2.	4.	6.	7.	8.	9.	10.	11.	13.
1. Total amount at the end of previous financial year		**40,338,758**	**2,514,276**	**1,519,600**	**1,004,578**	**2,958,631**	**9,438,167**	**(664,988)**	**17,499,646**	**11,964,675**	**86,573,342**
Recalculations for previous financial year		**2,660,772**	**3,049,664**	**-**	**-**	**-**	**-**	**(492,914)**	**-**	**-**	**5,217,522**
OPENING BALANCE IN THE FINANCIAL PERIOD		**42,999,530**	**5,563,940**	**1,519,600**	**1,004,578**	**2,958,631**	**9,438,167**	**(1,157,902)**	**17,499,646**	**11,964,675**	**91,790,864**
2. Comprehensive income net of tax	**8.11**	**-**	**-**	**-**	**-**	**-**	**-**	**(1,185,915)**	**-**	**13,583,099**	**12,397,184**
2.a. Net profit/loss for the year		-	-	-	-	-	-	-	-	13,583,099	13,583,099
2.b Other comprehensive income	**8.11**	-	-	-	-	-	-	(1,185,915)	-	-	(1,185,915)
5. Allocation of net profit/loss for the preceeding year to retained profit/loss		-	-	-	-	-	-	-	11,964,675	(11,964,675)	-
8. Payment (accounting) of dividends	**8.27**	-	-	-	-	-	-	-	(11,000,000)	-	(11,000,000)
10. Settlement of loss incurred in preceding years	**8.11**	-	(1,352,158)	-	-	-	-	-	4,111,855	(2,759,698)	(0)
11. Setting up and using reserves for credit risk and for catastrophic losses		-	-	-	7,421	405,166	-	-	-	(412,587)	-
13. CLOSING BALANCE AS AT 31 DECEMBER		**42,999,530**	**4,211,782**	**1,519,600**	**1,011,998**	**3,363,797**	**9,438,167**	**(2,343,817)**	**22,576,175**	**10,410,814**	**93,188,047**

The accounting policies and notes set out on page 229 are an integral part of the statement of changes in equity.

Adjustments in the statement of changes in equity are due to elimination of the column and transfer of other reserves for priority coverage of losses from supplementary health insurance to other reserves.

The insurance company records separately net profit or loss carried forward and net profit or loss for its life, non-life and health insurance business. In accordance with the provisions laid down in the Slovenian Companies Act, the insurance company uses the current profit to cover attributable loss carried forward separately for its life, non-life and health insurance business.

1.5 STATEMENT OF CASH FLOWS

Statement of cash flows for the period from 1 January 2014 to 31 December 2014

in EUR	Note	2014	2013
A. Cash flows from operating activities		**16,211,632**	**27,097,338**
a) Items from the income statement		**25,952,559**	**22,505,784**
1. Net premiums written in the reporting period		249,622,821	255,027,374
2. Income from investments (other than financial income), financed from:		*23,845,016*	21,451,243
- *insurance technical provisions*		*20,022,086*	18,812,745
- *other investments*		*3,822,930*	2,638,498
3. Other income from ordinary activities (other than income arising from revaluation and decrease in provisions) and		18,067,001	19,113,785
4. Net claims and benefits paid in the reporting period		(185,234,035)	(186,169,475)
6. Net operating costs, other than depreciation costs and change in deferred acquisition costs		(66,607,332)	(72,429,691)
7. Investment charges (excluding depreciation and financial expenses), financed from:		*(4,462,835)*	(7,404,486)
- *insurance technical provisions*		*(4,183,688)*	(7,021,226)
- *other investments*		*(279,147)*	(383,260)
8. Other operating costs excluding depreciation (other than for revaluation and without increase in provisions)		(5,229,707)	(5,311,148)
9. Corporate income tax and other taxes not included in operating costs		(4,048,370)	(1,771,818)
b) Changes in net current assets (receivables for insurance, other receivables, other assets		**(9,740,927)**	**4,591,554**
1. Opening less closing balance of operating receivables from direct insurance business		*250,699*	2,418,213
2. Opening less closing balance of receivables from reinsurance		*35,026,137*	(22,324,875)
3. Opening less closing balance of other receivables from (re)insurance contracts		*20,958,818*	(17,296,007)
4. Opening less closing balance of other receivables and assets		*2,471,527*	3,437,631
5. Opening less closing balance of deferred tax assets		*193,526*	659,575
6. Opening less closing balance of inventories		*(12,539)*	7,238
7. Closing less opening balance of debts/liabilities from direct insurance business		*(1,492,085)*	(479,592)
8. Closing less opening balance of debts/liabilities from reinsurance		*(72,933,534)*	39,109,675
9. Closing less opening balance of other operating debts/liabilities		*3,947,114*	(2,774,118)
10. Closing less opening liabilities (other than unearned premiums)		*619,347*	2,749,063
11. Closing less opening deferred tax liabilities		*1,230,064*	(915,249)
c) Net cash from operating activities (a + b)		**16,211,632**	**27,097,338**
B. Cash flows from investing activities		**(2,197,373)**	**(19,447,799)**
a) Cash receipts from investing activities		*166,371,762*	**130,352,869**
1. Cash receipts from interest received from investing activities and from:		*7,515,148*	11,818,037
- *investments financed from insurance technical provisions*		*6,332,696*	10,332,127
- *other investments*		*1,182,452*	1,485,910
2. Cash receipts from dividends and participations in profit of others relating to		*1,284,927*	1,008,425
- *investments financed from insurance technical provisions*		*569,657*	428,245
- *other investments*		*715,269*	580,179
5. Cash receipts from disposal of long-term financial investments, financed from:		*86,260,674*	83,867,072
- *insurance technical provisions*		*57,956,595*	73,863,469
- *other investments*		*28,304,079*	10,003,604
6. Cash receipts from disposal of short-term financial investments, financed from:		*71,311,014*	33,659,335
- *insurance technical provisions*		*61,022,107*	37,058,958
- *other investments*		*10,288,906*	(3,399,623)
b) Cash disbursements from investing activities		***(168,569,136)***	**(149,800,668)**
1. Cash disbursements to acquire intangible assets		*(2,078,873)*	(2,064,847)
2. Cash disbursements to acquire property, plant and equipment, financed from:		*(768,825)*	(3,144,489)
- *other investments*		*(768,825)*	(3,144,489)
3. Cash disbursements to acquire long-term financial investments, financed from:		*(126,792,716)*	(98,487,225)
- *insurance technical provisions*		*(92,089,032)*	(80,222,040)
- *other investments*		*(34,703,684)*	(18,265,185)
4. Cash disbursements to acquire short-term financial investments, financed from:		*(38,928,722)*	(46,104,107)
- *insurance technical provisions*		*(22,130,579)*	(27,994,075)
- *other investments*		*(16,798,144)*	(18,110,032)
c) Net cash from investing activities (a + b)		***(2,197,373)***	**(19,447,799)**
C. Cash receipts from financing activities		(13,400,862)	**(11,002,658)**
b) Cash disbursements from financing activities		*(13,400,862)*	**(11,002,658)**
1. Cash disbursements for interest paid		*(862)*	(2,658)
5. Cash disbursements to pay out dividends and other participations in profit		*(13,400,000)*	(11,000,000)
c) Net cash from financing activities (a + b)		*(13,400,862)*	**(11,002,658)**
Č. Closing balance of cash and cash equivalents	**8.10**	**10,712,024**	**10,098,627**
x)) Cash flow for the reporting period (sum of net cash flows Ac, Bc and Cc)		613,397	**(3,353,120)**
y) Opening balance of cash and cash equivalents	**8.10**	**10,098,627**	**13,451,747**
Changes as at 1 January 2013		-	8,060,020
Closing balance of cash and cash equivalents as at 31 December 2012		**-**	**5,391,727**

The accounting policies and notes set out on pages from 156 to 264 are an integral part of the financial statements.

1.6 STATEMENT OF DISTRIBUTABLE PROFIT

Statement of distributable profit for 2014

in EUR	Note	Total 2014	Total 2013
a) Net profit/(loss) for the financial year		**18,849,006**	**13,583,099**
b) Net profit carried forward (+) / net loss carried forward (-)	**8.11**	**19,586,990**	**18,464,320**
- result for the current year under effective standards		19,586,990	18,464,320
c) Decrease in reserves	**8.11**	-	1,352,158
d) Increase in other reserves under the decision of the Management Board and of the Supervisory Board		**437,532**	**412,587**
e) Balance-sheet profit (a + b + c − č − d) allocated by the Annual General Meeting as follows:		**37,998,464**	**32,986,990**
− to the shareholder		-	13,400,000

The accounting policies and notes set out on pages from 156 to 264 are an integral part of the financial statements.

By the end of the financial statements audit process, the shareholders had not yet passed the decision about the distribution of the distributable profit. The initial and adjusted net profit per share in 2013 amounted to 1.38 euros per share and did not change after the adjustment.

2. GENERAL INFORMATION

The insurance company Adriatic Slovenica d.d. is a public limited company with registered office in Koper, Ljubljanska cesta 3a, Slovenia. The Company is entered in the Companies Register kept by the Court Register of the Koper District Court, entry number 1/015555/00.

The insurance company Adriatic Slovenica d.d. (parent company) together with the subsidiaries AS neživotno osiguranje a.d.o., PROSPERA družba za izterjavo d.o.o. (hereinafter: PROSPERA d.o.o.), VIZ zavarovalno zastopništvo d.o.o. (hereinafter: VIZ d.o.o.) and KD životno osiguranje d.d. forms the Adriatic Slovenica Group for which the parent, in addition to separate financial statements and the annual report, also prepares the consolidated financial statements and explanatory notes to the consolidated financial statements for the year ended 31 December 2014. The separate financial statements and notes, which refer only to the insurance company Adriatic Slovenica d. d., are set forth below. The consolidated financial statements can be obtained at the head office of the insurance company Adriatic Slovenica and can be accessed at the company website.

Adriatic Slovenica zavarovalna družba d. d. is not listed on a stock exchange and its shares are not traded in a regulated capital market.

Access to consolidated annual reports and financial statements

The Adriatic Slovenica Group is included in the consolidated financial statements of the controlling company KD Group d.d. and those consolidated financial statements are available for inspection at the registered office of KD Group d. d. at Dunajska cesta 63, 1000 Ljubljana, Slovenija. The controlling company which prepares the consolidated annual report for the broadest group of the related companies is KD d.d. at Dunajska cesta 63, 1000 Ljubljana, Slovenija, The consolidated financial statements of the KD Group d.d. have been drawn up in line with the International Financial Reporting Standards (hereinafter: the IFRS). Consolidated annual reports are available at the registered head offices of the companies.

Management and supervisory bodies

Management Board of Adriatic Slovenica d.d. in 2014:

Gabrijel Škof, President of the Management Board
Willem Jacob Westerlaken, Member of the Management Board
Varja Dolenc, MSc, Member of the Management Board (since 13 January 2014)
Matija Šenk, Member of the Management Board (since 30 January 2014)

The Supervisory Board in 2014:

Matjaž Gantar, MSc, Chairman
Aljoša Tomaž, Member
Sergej Racman, Member (until 22 May 2014)
Tomaž Butina, Member
Aleksander Sekavčnik, Member
Viljem Kopše, Member – employee representative
Matjaž Pavlin, Member – employee representative
Ljuba Miljušević, Member – employee representative (until 22 July 2014)

The Audit Committee in 2014:

Matjaž Gantar, MSc, Chairman
Polona Pergar Guzej, Member (independent expert) (until 26 March 2014)
Milena Georgievski, Member (independent expert)
Mojca Kek, Member (independent expert)
Matjaž Pavlin, Member
Jure Kvaternik, Member (since 26 March 2014)

The shareholders of the Company as at 31 December 2014

Shareholder structure	Number of shares	Share
KD Group d. d.	10,304,407	100.00%
Total	**10,304,407**	**100.00%**

The insurance company Adriatic Slovenica d.d. provides services in two main insurance business segments, that is in non-life and life insurance. The non-life insurance comprises non-life insurance products excluding health, and health insurance. These insurance groups are further divided as follows:

Non-life insurance excluding health insurance:

- motor vehicle liability insurance (MTPL),
- land motor vehicle insurance,
- accident insurance,
- fire insurance and natural forces insurance,
- other damage to property insurance,
- general liability insurance,
- credit and suretyship insurance,
- international travel medical insurance and emergency assistance,
- other non-life insurance.

Life insurance:

- mixed and risk life insurance,
- unit-linked life insurance,
- voluntary supplementary pension insurance.

Health insurance:

- supplementary health insurance,
- parallel and additional insurance.

The insurance company is also registered for the following activities:

- pension funds.

Number of employees at the end of 2014

Data on the number of employees by the level of professional qualification in 2014

	Qualification level					
Number of employees as at	I.- IV.	V.	VI.	VII.	VIII.-IX.	Total
1 January 2014	31	415	171	399	28	1044
31 December 2014	31	400	165	406	25	1027
Average for 2014	**32,6**	**409,5**	**168,2**	**403,7**	**26,0**	**1039,9**

Note: The number of employees at the end of the year under review and the number of employees as at the first day of the next year are not equal since some employees are employed in the Company until 31 December and some are employed starting on 1 January. The number of employees in the above table is provided per person, employed in Adriatic Slovenica as at that day.

Some employees of Adriatic Slovenica are partially employed at Prospera d.o.o. subsidiary, therefore, the number of employees in the insurance company is calculated considering the proportion of employment in individual companies. At the end of 2014, the number of employees of Adriatic Slovenica, taking into consideration these proportion, is 996.98 and is different from the number of employees per person, which was 1027 employees at the end of 2014.

3. NOTES TO THE FINANCIAL STATEMENTS

3.1 BASIS OF PREPARATION

The annual report and accounts (management overview and financial review) prepared by Adriatic Slovenica zavarovalna družba d. d. for the financial year 2014 have been prepared in accordance with the International Financial Reporting Standards (IFRS), as adopted by the European Union, in accordance with the Council Directive on the annual accounts and consolidated accounts of insurance undertakings (91/674/EEC) and in accordance with the provisions of the national legislation, the Slovenian Companies Act (ZGD-1) and its amendments. Furthermore, the annual report and accounts have been prepared using the national secondary legislation: the Decision on annual report and quarterly financial statements of insurance undertakings – SKL 2009, issued by the Insurance Supervision Agency (Official Gazette of the Republic of Slovenia Nos. 119/2007, 47/2009, 99/2010 and 47/2011). The annual accounts have been prepared under the going concern assumption. Secondary legislation issued on the basis of the Insurance Act (hereinafter referred to as the ZZavar) significant for the drawing up of accounting information is also the Decision on the Detailed Method of Valuing Accounting Items and the Drawing up of Financial Statements (Official Gazette of the Republic of Slovenia Nos. 95/2002, 30/2003 and 128/2006).
The reporting period of the insurance company is equal to the calendar year.

3.1.1 Statement on compliance

In the current financial year, the Company has observed all new and revised standards and interpretations issued by the International Accounting Standards Board - IASB and its competent committee (International Financial Reporting Interpretations Committee - IFRIC of the IASB) effective for the periods commencing 1 January 2014 as adopted by the European Union.

The abbreviations used in the text have the following meaning:

IFRS – International Financial Reporting Standards,
IAS – International Accounting Standards,
IFRIC –Interpretations to the International Financial Reporting Standards issued by the competent committee of the Board for IFRS, and
SIC - standards interpretations issued by the Standards Interpretations Committee.

Adoption of the new and amendments to the published IFRSs

The standards shown below, as well as the amendments and interpretations to the standards, are not yet effective and were not implemented in the preparation of annual financial statements as at 31 December 2014:

In accordance with the requirements laid down in International Financial Reporting Standards and the EU, companies will have to observe for the future periods the following amended and modified standards and interpretations:

- **IAS 19 Employee benefits (Amended): Employee Contributions** The amendments are only applicable to programmes with defined benefit plans or fulfilling demands related to employee contributions or third parties. These are contributions which:
    - are defined by formal provisions of the programme;
    - are connected with provided services; and
    - do not depend on number of years of service.
    - In case these conditions are fulfilled, the Company may (but it is not mandatory) treat them as lowering of employment costs in the period when the services in question were provided.

  The amendment is effective for annual periods beginning on 1 February 2015, is retroactive and early adoption is permitted.

  The insurance company assumes that the amendment will not affect its financial statements since there are no programmes with defined benefits related to its employees or third parties.

- **IFRIC 21 Levies** The interpretation provides guidelines for definition of obligating event, based on which a liability is formed, and determination of a time frame in which the liability of levy payment is to be recognised. In line with the interpretation, the obligating event is the one that triggers the levy payment, as defined by the law, and the liability of levy payment is recognised upon occurrence of the event. The liability of levy payment is recognised gradually when the obligating event occurs in the defined time frame. In case the obligating event is reaching the lowest level of activity (like the lowest amount of generated revenue or sales or produced outputs), the corresponding liability is recognised when the lowest level of activity is reached. Furthermore, the interpretation stipulates that a company is not indirectly bound to pay a levy, triggered by operations in the future period if, due to economic reasons, it has to continue with operations in the future period. Effects of this interpretation depend on individual levies that need to be paid and are effective on the day of first adoption.

  The insurance will not implement the interpretation before it comes into effect, therefore, it is difficult to assess the effects of the interpretation on financial statements. The interpretation is effective for annual periods beginning on 17 June 2014, is retroactive and early adoption is permitted.

- **IFRS 3 Business Combinations** The amendment to IFRS 3 Business Combinations (indirectly includes amendments to other standards) clarifies that in case of contingent consideration in a business acquisition, the financial instrument should be recognised as liability or equity, in line with the IAS 32. Furthermore, the interpretation explains that the contingent consideration, recognised as liability or equity, should be measured at fair value on the reporting date.

  The insurance company did not have contingent considerations at the end of 2014.

3.2 TRANSLATION FROM FOREIGN CURRENCIES

3.2.1 Functional and presentation currency

The consolidated financial statements are presented in euros, which is the Company's functional and presentation currency. All financial statement disclosures are also presented in euros. Due to rounding of amounts, differences may be present in sums of certain items.

3.2.2 Foreign currency transactions and accounts of foreign entities

Foreign currency transactions and balances are translated into the functional currency using the reference rate of the European Central Bank (ECB) applicable at the date of financial statements. Translation results are recognised in the income statement as net gains or losses arising from foreign exchange differences.

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies into the functional currency are recognised in the income statement. If the transaction is recognised in equity, exchange differences from the conversion to the functional currency are recognised in other comprehensive income. Exchange differences arising in respect of investments of the parent company in the capital of subsidiaries abroad are recognised directly in equity and are recognised in the income statement only on disposal of the investments.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate applicable at the date of transaction, while non-monetary items that are measured at fair value in a foreign currency are translated using the exchange rate applicable at the date when the fair value was determined.

In the context of changes in the fair value of monetary securities denominated in foreign currency classified as available for sale, translation differences resulting from changes in the amortised cost of the security and other changes in the carrying amount of the security are accounted for separately. Translation differences related to changes in the amortised cost are recognised in profit or loss.

Translation differences on non-monetary financial assets and liabilities, measured at fair value through profit or loss, are reported as part of the fair value gain or loss. Translation differences on non-monetary financial assets, classified as available for sale, are included in the revaluation surplus, together with the effect of fair value measurement in other comprehensive income.

3.3 INSURANCE CONTRACTS

In compliance with IFRS 4, the Company classified all its products under insurance contracts. An insurance contract is a contract with significant insurance risk. A significant insurance risk is defined as the possibility of having to pay significant additional benefits on the occurrence of an insured event. A significant additional benefit is defined as the difference between the benefits payable on the occurrence of an insured event and the benefits payable if the insured event did not occur. The significance of additional benefits is assessed by comparing the maximum difference between the economic value of the payment in the event of the occurrence of an insured event and the payment in the remaining cases. As a general guideline, the Company defines 10% as the limit value for the existence of a significant insurance risk.

Part of insurance contracts held by the Company as of 31 December 2014 in its portfolio includes the option of discretionary participation in the positive result (hereinafter: DPF). Participation in the positive result is defined in the general terms and conditions for life insurance and in the specific Rules. Obligations arising from DPF are fully recognised within mathematical provisions.

According to IFRS 4, the discretionary participation is a contractual right to additional benefits supplementary to guaranteed benefits, namely:

- benefits which are likely to represent a significant share of the total contract benefits;
- benefits whose amount or time frame is specified by the insurer; and
- benefits which are contractually based on:
    - the success of a given category of contracts or certain types of contracts;
    - realised and/or unrealised investment returns on a specified pool of assets held by the issuer, or
    - the profit of the Company, long-term business fund or other entity that issues the contract.

3.3.1 Insurance contracts

The insurance contracts issued by the Company can be classified according to their characteristics into four main groups:

- non-life insurance contracts,
- health insurance contracts,
- life insurance contracts and
- unit-linked life insurance contracts where investment risk is assumed by the insured.

Non-life insurance contracts

This class includes accident (casualty) insurance, insurance of land motor vehicles, fire and other damage or loss insurance, liability insurance, financial loss insurance, goods in transit (transport) insurance, credit and suretyship insurance, insurance of assistance, as well as insurance of legal expenses and litigations costs. This mainly involves short-term insurance contracts, with the exception of credit and construction insurance.

In all of the above contracts premiums are written when they become payable by the policyholder. Premiums contain all costs in addition to premiums, including the agency fee, except taxes. The part of the premiums from valid insurance contracts which refers to unexpired insurance coverage on the balance sheet date, is presented as unearned premium reserve and represents a liability of the insurance company. Accrued premiums less changes in unearned premium reserves are recognised as income.

The amounts of claims (expenses) are recognised when claims as the assessed obligations are incurred. Claims that have not been finally settled, i.e. paid by the balance-sheet date, are recognised as provision for outstanding claims. The benefits paid, decreased by enforced recourses and increased by the amount of change in provision for outstanding claims, are recognised as costs/expenses.

Health insurance contracts

The Company provides three out of four types of voluntary health insurance in accordance with the provisions laid down in the Health Care and Health Insurance Act (hereinafter: the ZZVZZ), specifically supplementary health insurance, additional health insurance and parallel health insurance.

The Company issues long-term insurance contracts based on monthly or annual premiums.

Premiums, benefits paid, revenues and expenses are calculated and recognised in accounting records in the same manner as for non-life insurance contracts.

The insurance companies offering supplementary health insurance are included in equalisation schemes under the Health Care and Health Insurance Act (the ZZVZZ), which offset the differences in the medical costs between different structures of the insured with individual insurance companies with regard to age and gender. The insurance company is a payer under the equalisation scheme and recognises these expenses as expenses for claims and benefits paid.

Life insurance contracts

Long-duration life insurance contracts include in particular: mixed life insurance which offers coverage in the event of maturity and the event of death during the term of the insurance, mixed life insurance with extended coverage for critical illnesses, life insurance for the event of death (either lifelong or for a specified period of time or decreasing term), life insurance in the event of death by cancer disease and lifelong annuity insurance. Some types of life insurance can be bundled with extra accident insurance, extra critical illness insurance and other extra insurance. The Company also carries in this group voluntary supplementary pension insurance under the PN-A01 pension plan and annuity contracts with determined periods for premium and benefit payments. Premiums, benefits paid, revenues and expenses are calculated and recognised in accounting records in the same manner as for non-life insurance contracts.

A mathematical provision is calculated in these contracts by the Company. It is recognised in the amount of the present value of estimated future liabilities based on active insurance contracts, decreased by the present value of the estimated future premiums payments. These liabilities are determined on the basis of assumptions on mortality, reversal of payments, costs and revenues from investments as they are recognised in the products' premium calculations, or safer assumptions are used to provide for the possibility of unfavourable deviation from expectations (safety margin). Changes in mathematical provisions are recognised as an expense of the Company.

Unit-linked life insurance contracts where policyholders bear the investment risk

Long-term unit-linked life insurance where policyholders bear the investment risk combine savings in mutual funds, investment funds or internal long-term business funds selected by the insured, and life insurance in case of the insured person's death with the guaranteed payment of the insurance sum.

Premiums are recognised as revenue when paid. Initiation (front-end) and administrative expenses are deducted from the paid-in premiums. Depending on the insurance product, the insured is charged a monthly management fee, risk premiums for the event of death and in some products also the premium for extra accident insurance. In some products, the risk premium is charged on the premium paid.

Liabilities arising from such contracts are recognised at a fair value. Liabilities arising from long-term insurance contracts where policyholders bear the investment risk include liabilities incurred by the insurer towards its policyholders in accordance with individual insurance contracts and products.

Liabilities are increased by premiums and reduced by costs. In addition, the amount of liabilities includes the changes in asset unit value that are reduced by management fees and risk premiums. In the case of redemption, the liabilities are reduced and the redemption value equals the Company's liabilities, reduced by redemption charges in the event of redemption or upon termination of insurance.

In individual life insurance contracts in which the policyholders bear the investment risk, total liabilities as at the balance sheet date equal the sum of unit values as at the balance sheet date and not evaluated net premiums paid. Depending on the insurance product, the liabilities are increased for any advances paid.

It is assumed that in each time period risk premiums charged in relation to the expected population mortality are sufficient to cover the claims of entitlements in the event of death in excess of the unit values on individual personal accounts of insurants. Additional liabilities are therefore not recognised in terms of these claims, except for individual products in which the risk premium is calculated in a different way.

An insurance contract in which the policyholder bears the investment risk is a contract with the built-in link between the contractual payments and the units of internal or external investment fund chosen by the insured. This built-in link is consistent with the definition of an insurance contract and therefore not stated separately from the main insurance contract.

3.3.2 Reinsurance contracts

The contracts concluded between the Company and the reinsurers that entitle the Company to reimbursement of damages arising under one or more insurance contracts issued by the Company, and meeting the criteria set out in the insurance contracts, are classified as reinsurance contracts.

3.4 CHANGES TO ACCOUNTING POLICIES AND ADJUSTMENTS

In 2014, with the aim of clearer presentation of its financial statements, the insurance company changed the manner of performing set-offs of equivalent mutual receivables and liabilities within long-term business funds and among long-term business funds. By acquiring the spun-off part of KD Življenje insurance company's property in 2013, there were an increased number of long-term business funds. To achieve greater precision, inter-phase set-offs had to be performed, since otherwise, the long-term business funds would not be represented realistically.

Before that, the insurance company in its final statements set off the receivables and liabilities among long-term business funds for all insurance segments (life, non-life and health insurance). Within the shift to inter-phase offsetting, the Company began to perform set-offs in three phases:

- in the first phase, receivables and liabilities within an individual long-term business fund are set off,
- in the second phase, receivables and liabilities among long-term business funds within individual insurance segments (life, non-life, health insurance) are set off, and
- in the third phase, before the final assets and liabilities balance, receivables and liabilities are set off among the insurance segments (life, non-life, health insurance).

Due to the change in accounting policies, the balance sheet total of the comparable year 2013 at year-end decreased by 8,830,395 euros and at the same time, revenue and expenses decreased in the income statement. Within revenue, other insurance revenue fell by 8,681,895 euros and other revenue decreased by 8,016,618 euros, while within expenses, other insurance expenses fell by 16,728,412 euros and other expenses grew by 29.899 euros. The new set-off of management commissions among long-term business funds of life insurance had the biggest effect on lowering of balance sheet total. Management commissions, charged for management of property among long-term business funds of life insurance, in one long-term business fund increase commission revenues and in another the insurance expenses, while raising receivables and liabilities among the funds in the same amount. By setting off equivalent management commissions, the balance sheet total decreased and thus, the display of financial situation is more realistic.

The shift to inter-phase offsetting did not affect the financial result in terms of increasing/decreasing profit or loss.

In the following tables, we are presenting the adjusted comparable year due to the changes in accounting policies due to the shift to inter-phase offsetting and adjustments in 2014.

The effect of changes on the balance sheet

in EUR	31 Dec 2013	Reclassification of items	31 Dec 2013 adjusted
Assets	**706,902,770**	**(8,830,395)**	**698,072,375**
A. Intangible assets	**4,596,902**	**-**	**4,596,902**
B. Property, plant and equipment	**27,152,680**	**-**	**27,152,680**
D. Deferred tax assets	**3,816,023**	**-**	**3,816,023**
E. Investment properties	**28,356,692**	**-**	**28,356,692**
F. Financial investments in subsidiaries and associates	**21,973,193**	**-**	**21,973,193**
G. Financial investments	**258,535,548**	**-**	**258,535,548**
H. Unit-linked investments of policyholders	**213,925,868**	**-**	**213,925,868**
I. Amounts of technical provisions ceded to reinsurers	**26,252,320**	**-**	**26,252,320**
K. Receivables	**105,903,851**	**(8,830,395)**	**97,073,456**
1. Receivables from direct insurance business	23,243,104	-	23,243,104
2. Receivables from reinsurance and coinsurance	41,423,147	-	41,423,147
3. Income tax receivables	2,259,833	-	2,259,833
4. Other receivables	38,977,767	(8,830,395)	30,147,372
L. Other assets	**6,291,066**	**-**	**6,291,066**
M. Cash and cash equivalents	**10,098,627**	**-**	**10,098,627**
Equity and liabilities	**706,902,770**	**(8,830,395)**	**698,072,375**
A. Equity	**93,188,047**	**-**	**93,188,047**
C. Technical provisions	**279,545,399**	**-**	**279,545,399**
1. Unearned premiums	51,316,179	-	51,316,179
2. Mathematical provisions	94,975,222	-	94,975,222
3. Outstanding claims provisions	130,337,291	-	130,337,291
4. Other technical provisions	2,916,708	-	2,916,708
D. Insurance technical provisions for unit-linked insurance policyholders	**211,832,611**	**-**	**211,832,611**
E. Other provisions	**2,766,811**	**-**	**2,766,811**
G. Deferred tax liabilities	**27,011**	**-**	**27,011**
I. Other financial liabilities	**1,092,790**	**-**	**1,092,790**
J. Operating liabilities	**92,887,490**	**-**	**92,887,490**
K. Other liabilities	**25,562,610**	**(8,830,395)**	**16,732,215**

Other changes within the income statement

In 2014, the revenue from life insurance contracts management in the amount of 797,845 euros were reallocated from other insurance revenue category (insurance commissions) to other revenue, and the insurance company records them as other net insurance revenue within other insurance revenue. Due to the reallocation, the change did not affect the 2013 profit/loss.

The effect of changes on the income statement

in EUR	2013	Reclassification of items	2013 adjusted
I. NET PREMIUM INCOME	**260,768,138**	**-**	**260,768,138**
III. INCOME FROM INVESTMENTS	**20,218,978**	**-**	**20,218,978**
IV. OTHER INCOME FROM INSURANCE OPERATIONS, of which	**24,079,378**	**(9,479,740)**	**14,599,638**
- fee and commission income	21,584,161	(6,984,523)	14,599,638
V. OTHER INCOME	**19,991,636**	**(8,180,709)**	**11,810,927**
VI. NET EXPENSES FOR CLAIMS AND BENEFITS PAID	**(181,032,840)**	**-**	**(181,032,840)**
Gross amounts of claims and benefits paid	(217,593,248)	-	(217,593,248)
Reinsurers'/coinsurers' shares	25,261,473	-	25,261,473
Change in claims provisions	11,298,935	-	11,298,935
VII. CHANGE IN OTHER TECHNICAL PROVISIONS	**3,374,417**	**-**	**3,374,417**
VIII. CHANGE IN TECHNICAL PROVISIONS FOR THE BENEFIT OF UNIT-LINKED INSURANCE POLICYHOLDERS	**(10,604,186)**	**-**	**(10,604,186)**
IX. CHANGES IN LIABILITIES ARISING FROM INVESTMENT CONTRACTS	**-**	**-**	**-**
X. EXPENSES FOR BONUSES AND DISCOUNTS	**215,687**	**-**	**215,687**
XI. OPERATING EXPENSES, of which	**(70,406,765)**	**-**	**(70,406,765)**
XII. EXPENSES FROM INVESTMENTS IN ASSOCIATES, of which	**(643,978)**	**-**	**(643,978)**
XIII. EXPENSES INVESTMENTS, of which	**(18,668,986)**	**-**	**(18,668,986)**
XIV. OTHER INSURANCE EXPENSES	**(26,369,081)**	**16,728,412**	**(9,640,669)**
XV. OTHER EXPENSES	**(5,001,796)**	**932,037**	**(4,069,759)**
XVI. PROFIT/(LOSS) BEFORE TAX	**15,920,603**	**-**	**15,920,603**
XVII. CORPORATE INCOME TAX	**(2,337,504)**	**-**	**(2,337,504)**
XVIII. NET PROFIT FOR THE REPORTING PERIOD	**13,583,099**	**-**	**13,583,099**

Changes in accounting policies that did not affect the comparable year

Apart from the mentioned changes, in 2014, there was also a change in recourse receivables recognition in case the amount of benefits paid by the insurance company in an individual case exceeds 30,000 euros. The off-balance recourse receivables toward the policyholder are recognised at maximum in the amount of the estimated payment value, and are as such also recognised in the balance sheet evidence. The recourse receivables are in such cases estimated individually, taking into consideration the individual adjustments of recourse receivables. As a result of this change, at the end of 2014, the off-balance recourse receivables amounted to 557,488 euros. Therefore, also the related revenue/expenses are in the evidence of recourse receivables recognised more realistically and in line with the IAS 18.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies used in the preparation of the annual report and accounts are presented in the text below. These accounting policies have been followed consistently in the preparation of the financial statements for the financial year 2014.

4.1 INTANGIBLE ASSETS

The insurance company values intangible assets at the price paid to acquire them, that is, intangible assets are carried at cost less amortisation and any accumulated impairment losses.

The annual amortisation rates are determined according to the useful life of an individual intangible asset. The insurance company charges amortisation calculated on a straight-line basis over the estimated useful life of the assets. The amortisation of intangible assets is calculated individually by applying the following amortisation rates:

Amortisation rates and useful lives of intangible assets:

Name of intangible asset by amortisation groups	Annual rate of amortisation 2014	Useful life in 2014 in years
Investments in third party intangible assets	20 %	5
Other material rights	10 %	10
Computer software	20 %	5
Other intangible assets	10 %	10

The expected useful lives of all intangible assets are finally determined by the insurance company. The insurance company reviews at least once a year the designated useful lives for all these intangible assets. If the expected useful life of the assets differs from the previous estimates, the amortisation period (amortisation rate) is changed. The change is treated as a change in accounting estimates.

The revaluation of all significant intangible assets is carried out provided that their carrying amount exceeds their recoverable amount. An assessment is performed for all assets whose individual purchase price exceeds 50,000 euros. The determined impairment amount (the asset's carrying amount that exceeds its recoverable amount) is recognised in the income statement as loss due to impairment if the impairment amount exceeds the asset's carrying amount by more than 20%.

The Company derecognises intangible assets when it does not expect to gain any future economic benefits from their use or disposal. Gains or losses arising from derecognition of an intangible asset are recognised as a difference between the net disposal proceeds and the carrying amount of the assets and are recognised in the income statement as revaluation income or revaluation expense.

4.2 PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment are classified according to their nature as property (owner-occupied buildings and land serving insurance activities) and equipment, which are further divided in subcategories on the basis of their purpose. An item of property, plant and equipment is recognised at the time of its acquisition. At initial recognition, an item of property, plant and equipment that qualifies for recognition as an asset is stated at cost, which means at purchase price less accumulated depreciation and accumulated impairment losses. The cost of an item includes its purchase price and all costs directly attributable to bringing the asset to condition necessary for it to be capable of operating. As part of property, plant and equipment, after the asset is capable for operating, the costs incurred to replace parts of property, plant and equipment that help prolong the useful life of the asset are accounted for as well as the costs which increase future economic benefits from its use compared to previously anticipated benefits (modernisation costs, enhancement costs, costs increasing the capability of the fixed asset).

In the event of changed circumstances, which affect the estimated useful life of an item of property, plant and equipment, the effects of such changes in the useful life are recognised in the income statement.

The annual depreciation rates are determined according to the useful life of an individual item of property, plant and equipment. The applied useful life is the management's best estimate based on the expected physical usage and technical and economical ageing of an individual asset. Depreciation is calculated and charged on a straight-line basis over an asset's estimated useful life. Calculating and charging depreciation starts when assets are available for use, i.e. on the first day of the next month.

Depreciation rates and useful lives of property, plant and equipment:

Property, plant and equipment by depreciation groups	Annual rate of depreciation 2014	Useful life in 2014 in years
Buildings	1.3 -1.8 %	56-77
Motor vehicles	12.5-15.5 %	6-8
Computer equipment	33.3 %-50%	3-2
Office equipment	10 -25 %	4-10
Other equipment (furniture, fittings & fixtures)	10 -25 %	4-10

Real property is valued every two years, when the circumstances in which the insurance company operates significantly change or when real property prices significantly fall in the area where they are located. If the insurance company determines that the fair value (recoverable or replacement value) of the real property is more than 20% below its carrying amount, the real property is impaired to recoverable value. The written-down carrying amount is a decrease or a loss due to revaluation and it is treated as operating expenditure.

The carrying amount of an item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use annually as at the balance sheet date. The gain or loss arising from the derecognition of an item of property, plant and equipment is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item, whilst disposal costs are recognised in profit or loss as revaluation surplus or revaluation expenditure.

4.3 INVESTMENT PROPERTIES

Investment properties (land and buildings) are the assets held by the insurance company with the purpose to earn long-term rental income by means of generating yield based on long-term business funds and/or assets held in the long-term business funds. In the case that real estate is classified as investment property, the Management Board takes into account the purpose of the real estate.

Investment properties (land and buildings) are measured initially at their cost, including transaction costs and any directly attributable expenditure. Subsequently, they are measured at cost less any accumulated depreciation and any accumulated impairment losses. The straight-line method is used to calculate depreciation.

Depreciation rates and useful lives of investment properties:

Investment properties	Annual rate of depreciation 2014	Useful life in 2014 in years
Buildings	1.3 -1.8 %	56-77

Due to potential impairments, the fair value of investment properties is checked by accredited independent appraisers qualified to perform valuation of real property at least every two years. For new real property, its purchase price is considered its fair value. Impairment of investment properties to their recoverable value is recognised if it is determined that their fair value (replacement cost) is below their carrying amount, under the same conditions as they are applied to real property classified as property, plant and equipment. Fair values of the insurance company's investment properties are evaluated by an accredited, independent appraiser duly qualified to perform valuation of real property by applying an adequate model for the valuation of real property.

Land and buildings, which the insurance company intends to sell in near future and whose carrying amount will be settled mainly through sale rather than further use, are classified under non-current assets held for sale.

Gains or losses arising from derecognition or disposal of an item of investment property are recognised in the income statement through financial income or expenses.

Rental/lease income from investment property is charged on the basis of issued contracts. Rental income, which refers to the investment property, is stated in the financial statements among other revenues.

4.4 FINANCIAL INVESTMENTS IN SUBSIDIARIES AND ASSOCIATES

4.4.1 Subsidiaries

Subsidiaries are the companies in which the insurance company as the controlling entity directly or indirectly holds more than 50% of voting rights. Regardless of the nature of its participation in a subsidiary, the insurance company particularly assesses whether it controls that company and determines whether the Company is a controlling company or a subsidiary.

The insurance company's investment in its subsidiary is accounted for in separate financial statements using the cost method of accounting which means that the investment is stated at cost less impairment losses. Any needs for impairment are determined at the end of the financial year based on assessed value of subsidiaries or year-on-year if there are any indications of impairment. Appraisals are performed by independent appraisers based on external valuations of company value or using the Embedded Value and Appraisal Value Calculation in case the subsidiary is a life insurance company. Dividends realised in the subsidiary are recognised in the income statement when their payment is approved.

4.4.2 Associates

The insurance company accounts for its investment in a company considered to be an associate provided that it has significant influence, but not control over it. Generally, that is when the insurance company directly or indirectly holds between 20 % and 50 % of voting rights in that company.

After initial recognition, the insurance company measures its investment in an associate at the cost of acquisition and if there is an indication that an investment in an associate may be impaired, tests the investment for impairment. The appraisal is performed by external appraisers based on external valuations of company value.

4.5 FINANCIAL INVESTMENTS

Financial investments are an integral part of the financial instruments of the Company, and they are financial assets held by the insurance company for the purpose of using them to cover future liabilities arising from insurance and investment contracts and any losses associated with risk arising from insurance contracts. Financial investments are recognised by transaction date and upon sale by derecognition date.

Types of financial assets

After initial recognition depending on the purpose for which the investment was acquired, financial assets as classified as:

- loans, deposits and receivables,
- held-to-maturity financial assets,
- available-for-sale financial assets,
- financial assets measured at fair value through profit or loss.

4.5.1 Loans, deposits and receivables

Loans, deposits and receivables are financial assets with fixed or determinable payment amounts and dates that are not quoted in an active market. Loans and receivables are carried at amortised cost using the effective interest method. Interest calculated using the effective interest method is recognised in the income statement.

4.5.2 Held-to-maturity financial assets

Held-to-maturity financial assets are non-derivative financial assets with fixed or determinable payments and fixed maturities, which the insurance company has the positive intention and ability to hold until maturity.

These investments are initially recognised at cost and after initial measurement, held-to-maturity financial assets are measured at amortised cost, using the effective interest method.

The fair value of the long-term securities from this group of financial assets may be lower than their carrying amount for a period of time without resulting in an impairment loss on the investment, except in the case there is a risk of change in the financial position of the issuer.

Interest calculated using the effective interest method is recognised in the income statement.

4.5.3 Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are either classified as available-for-sale (AFS) and are not classified in any of the other categories.

Financial assets are initially recognised at fair value or at transaction cost, assessing the need for impairment (if a security is not quoted in an active market), including all transaction costs. The interest on debt securities related to the available-for-sale financial assets is calculated using the effective interest rate method and recognised through profit or loss. Financial assets designated as available-for-sale are recognised on the transaction date.

Changes in the fair value of securities classified as available-for-sale are recognised in relation to the contents of the occurrence of changes in fair value. The exchange differences on debt securities are recognized in the income statement, and other changes (e.g. change in market price) are recognized directly in other comprehensive income. For equity securities, all changes in fair value are recognized in other comprehensive income. In the sale or impairment of available for-sale securities, the cumulative adjustment in other comprehensive income is removed and the effects are reported in the income statement.

4.5.4 Financial assets measured at fair value through profit or loss

Financial assets measured at fair value through profit or loss are further divided into two subcategories:

- financial assets held for trading where financial assets have been acquired by the insurance company for the purpose of selling them in the near future (within less than 12 months), or if these assets form part of a portfolio, of which purchases and sales have the intention to generate short-term gain, or if they were so classified by the management, and
- financial assets designated at fair value through profit or loss at initial recognition when such designation would significantly reduce measurement inconsistencies, which would arise if derivatives were held for trading and the basic financial instruments were measured at amortised cost for loans and advances to banks and other entities, or issued debt securities. This subcategory also includes investments such as capital investments, managed and measured at fair value in accordance with the endorsed risk management or investment strategy and reporting to key management on this basis, recognised at fair value through profit or loss.

Financial assets classified as assets measured at fair value through profit or loss are recognised initially at fair value, and costs of acquisition are recognised in the income statement. Gains or losses arising from changes in the fair value of these financial assets are included in the income statement during the period in which they occur.

4.5.5 Fair value

Financial assets at initial recognition and available-for-sale financial assets are carried at fair value. Loans, deposits, receivables and held-to-maturity financial assets are stated at amortised cost using the effective interest method, reduced by impairments.

Fair value is reported if it is reliably measurable. For listed financial asset instruments which have a price in an active market, fair value is determined as the product of the units of financial assets and the quoted market price.

In case there is no active market for the relevant financial instruments, various methods of assessing fair value of a financial instrument may be used. The valuation methods involve using the last transaction between knowledgeable, willing parties, if available; comparison with the current fair value of another instrument bearing significantly similar characteristics; and studying discounted cash flows. In case there is no valuation model, the financial assets, for which there is no active market and whose fair value cannot be reliably measured, are measured at cost and the need for impairment is assessed.

4.5.6 Impairment of financial assets

Assets carried at amortised cost

At each balance sheet date it is assessed whether there is any objective evidence that a financial asset or group of financial assets is impaired. A financial asset or group of financial assets is impaired and impairment losses are recognised only if there is objective evidence of impairment as a result of one or more events that have occurred after the initial recognition of financial assets, and that loss event (events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. Objective evidence that a financial asset or group of financial assets is impaired includes observable data that comes to the attention of the holder of the asset about the following events:

- significant financial difficulty of the issuer or borrower,
- a breach of contract, such as a default or delayed payment of interest or principal amount,
- when it is becoming probable that the borrower will enter bankruptcy or other form of financial reorganization,
- when the data indicates that there is a measurable decrease in the future cash flows from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with individual financial assets of the insurance company, including:
- adverse changes in the payment status of the insurance company's borrowers, or
- national or local economic conditions that correlate with defaults on the insurance company's assets.

If there is objective evidence that an impairment loss has been incurred on loans and receivables or held-to-maturity financial assets carried at amortised cost, the amount of the loss incurred due to impairment is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred), discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognised in the income statement as revaluatory financial expense. If a loan or held-to-maturity investment has a variable interest rate, the current effective interest rate determined in the contract is used for discounting cash flows and measuring any impairment loss. Impairment may also be measured on the basis of an instrument's fair value using an observable market price.

To the extent that a loan is uncollectible, it is written off against the related provisions for loan impairment. Loans are considered uncollectible once all necessary collection procedures have been carried out and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off decrease the expenses for loan impairment, recognised in the income statement.

Where at later periods impairment losses for debt securities are decreased and the decrease can be related objectively to an event occurring after the impairment was recognised in the income statement (e.g. improved credit rating of the borrower), such impairment losses are reversed by adjusting the adequate income statement items where the amount of the reversal is recognised.

Assets measured at fair value

The insurance company checks at each balance sheet date for any objective evidence of impairment of financial investments or groups of financial investments classified as available-for-sale, for which it is assessed whether the decline in fair value is significant or prolonged and, consequently, whether the assets are overvalued. In the assessment of a long-lasting decrease in fair value below the original cost of equity securities, the period taken into account is no more than 9 months from the day when the fair value of capital instruments fell below the original cost for the first time and remained

below it for the entire period of 9 months, whereas for the assessment of a significant decrease in fair value the insurance company's management considers at least a 40% decrease in fair value compared to the acquisition cost.
If there are signs of impairment in held-for-sale financial assets, the cumulative loss measured on the basis of the difference between the estimated costs and the current fair value, less impairment losses of the asset previously recognised in the income statement, are recognised, and the impairment is also recognised in the income statement.

Reversal of impairment

If in a subsequent period, the amount of an impairment loss decreases and provided that the decrease can be related objectively to an event occurring after the impairment was recognised, the entity reverses the previously recognised impairment loss by stating a new amount in the value adjustment account. The reversal does not result in a carrying amount of the financial asset exceeding what the amortised cost would have been. The amount of the reversal of impairment for losses is recognised in the income statement, provided it refers to debt securities. For equity securities carried as available-for-sale financial assets, the reversal of impairment through the income statement is not allowed. In such cases, reversal of impairment is done through other comprehensive income.

4.6 ASSETS IN THE UNIT-LINKED FUND

Due to their nature, unit-linked assets are disclosed separately, measured at fair value and classified as financial assets at fair value through profit or loss upon initial recognition. Financial assets at fair value through profit or loss also include policy-based loans from unit-linked insurance, which represent financial instruments. These are disclosed as fund units and carried at the value of the fund units of the unit-linked assets on the basis of which the respective loans were given.

The value of the units of assets of the unit-linked long-term business fund is calculated on the balance sheet date by multiplying the number of units of assets held in the individual investment or mutual fund by the redemption net asset value per unit of the fund on that day. Financial investments for unit-linked insurance contracts are revalued on a monthly basis.

4.7 REINSURERS' SHARE OF TECHNICAL PROVISIONS

The benefits to which the insurance company is entitled under its reinsurance contracts are recognised as reinsurance assets. These assets consist of short-term balances due from reinsurers, as well as long-term receivables that are dependent on the expected claims and benefits arising under the related reinsurance contracts.

The amounts of these reinsurance assets are determined based on estimated losses or reinsurance loss reserves under the reinsurance contracts, taking into account the shares in unearned premiums.

Reinsurance asset recognition is derecognised when the rights from reinsurance contracts expire or are transferred to a third party.

4.8 RECEIVABLES

Recognition of receivables

At initial recognition, receivables are recognised at historical cost on the basis of the issued insurance policy or when policyholders are charged insurance premiums. Reinsurance/co-insurance and other receivables are recognised based on an invoice or other authentic document (e.g. reinsurance settlement). Upon initial recognition, these receivables are recognised at initial value, which is later on reduced for impairment due to adjustments of receivables.

The insurance company can **recourse** a policyholder, i.e. debtor in the amount of the indemnity payment in accordance with the provisions of insurance contracts, when the indemnification, i.e. benefit is calculated, for which it has obtained adequate legal basis or the first payment. In case the indemnity amount in an individual case exceeds 30,000 euros, it is recognised – the recourse receivable toward the policyholder or debtor in the balance sheet evidence cannot exceed the estimated indemnity amount. The recourse receivable is in such cases estimated individually, taking into account individual adjustments of recourse receivables. In forming recourse receivables for car insurance, the insurance company can (based on art. 7 of ZOZP and art. 3 of the General terms) exercise the right of refund of indemnity paid, including late payment interest and expenses in the maximum amount of 12,000 euros, except if the damage is done intentionally and the insurance company claims the refund of the total amount.

The insurance company carries recourse receivables separately, as exercised and unexercised, whereas the unexercised recourse claims are kept as off-balance sheet items and no impairment is formed. The only exception is recourse claims under credit insurance that become exercised immediately after inception. Paid recourse claims are recognised in lowering of claims expenses.

Impairment of receivables

At each reporting date (at least on a quarterly basis), the insurance company reviews whether the estimate of a receivable's fair value or recoverable value is adequate, or it prepares an estimate of the recoverable amount on the basis of the actual realised cash flows over the last observed time period for an individual class of receivables. Where it is not to be expected that claims will be fully settled, the insurance company has set up indicators for impairment (uncollectability) of receivables, which trigger the calculation of the impairment charge against the insurance company's current financial result.

Based on the estimated fair value, i.e. recoverable (collectible) amount of a receivable, adequate adjustments of receivables are made on an individual or collective basis.

The fair value, i.e. the recoverable (collectible) amount of receivables is assessed and adequate impairment of an individual receivable is formed if the aggregate carrying amount of all past-due premium payments of a particular insured person, i.e. policyholder, on the valuation date amounts to EUR 50,000 or more.

Any other receivable may be impaired on individual basis that would otherwise be subject to revaluation in the framework of collective value adjustment.

Receivables for which impairment is not assessed individually are classified in groups having similar characteristics of credit risk. These groups are divided into receivables from individuals and legal entities, where in receivables from individuals, the groups differ based on type of payment.

For each group, the value adjustment for individual receivable is determined depending on its maturity and actual (un)realised percentage of payments in the past period for a particular group.

In the case of receivables due from policyholders in the **life insurance** segment, the insurance company abides by the provisions laid down in the Code of Obligations and general terms and conditions of life insurance contracts. When a policyholder defaults under the contractually determined payment schedule for three instalments, the need to write-down the past-due instalments is recognised. The past-due amounts are impaired in the whole amount (100 %), since the probability that payments will never be made or that such insurance coverage will be capitalised is high. Accordingly, adjustments of receivables are reversed.

As regards receivables for **unit-linked life insurance** contracts, no impairment is recognised since revenues are recognised when premiums are paid.

Impairment losses on **recourse receivables** are recognised on collective basis, whereby collective impairment is formed separately for the secured (mortgage-based) and unsecured receivables. The impairment is made at the percentage equalling the percentage of receivables failed to be recovered in the previous accounting period. For all recourse claims above 10,000 euros, due to the increased default risks, the impairment for a loss is made individually. The percentage of the impairment for an individual recourse receivable is determined again at the beginning of a following financial year only if the average level of their collectability is changed significantly. Accrued and unpaid interest charged on recourse transactions accounted for as accounts receivable are impaired at the same percentage as recourse receivables. Receivables arising from recourse costs that are past due by 30 days are impaired at the same percentage as recourse receivables. For the purpose of assessment and impairment formation, forfeited receivables are treated as recourse receivables.

4.9 OTHER ASSETS

Amongst other assets, the insurance company accounts for inventories, deferred acquisition costs and short-term deferred costs (expenses) and accrued revenues for the cases where the payment of the rendered services refers to a later period.

Deferred acquisition costs

Unearned premiums in the entire amount are recognised, in amounts as they arise from the maturity structure of the amounts under insurance contracts as at the balance sheet date. The portion of already realised expenses under acquisition costs in relation to the calculated amounts that relate to reporting periods after the balance sheet date are recognised in the full amount as a special item of deferred expenses under the asset items in the balance sheet. Deferred acquisition costs are presented on the basis of the calculated share of gross costs for underwriting fees and commissions in gross insurance premiums and gross unearned insurance premiums for every individual insurance class.

4.10 CASH AND CASH EQUIVALENTS

Cash and balances held on the accounts with banks and other financial institutions are treated separately for monetary assets denominated in local currency and separately for monetary assets denominated in foreign currencies, which have to be broken down into monetary assets available immediately and those placed as deposits redeemable at notice (demand deposits). Cash of the insurance company consists of cash and citizens' cheques, while cash equivalents include demand deposits serving to ensure short-term liquidity and short-term deposits placed with maturity up to 3 months.

Revaluation of monetary assets is performed only for the monetary assets denominated in foreign currencies, if after initial recognition the exchange rate of the foreign currency against the euro is changed. The foreign exchange difference is recognised as an ordinary financial expense or financial revenue.

4.11 OFFSETTING FINANCIAL ASSETS AND FINANCIAL LIABILITIES

Assets and liabilities are offset in the balance sheet when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis, namely to realise the asset and settle the liability simultaneously.

At the beginning of the period, receivables and payables arising from internal relationships (between individual long-term business funds or general ledgers) are separately presented in financial statements. At the end of the reporting period, the long-term business fund or own funds are offset in the general ledger, and the balance is presented as receivables or payables, which are offset, i.e. balanced, in the cumulative balance sheet.

4.12 EQUITY

The insurance company as a composite insurance undertaking presents the share capital and other components of capital separately by insurance classes. The starting point for the share split has been determined so as to ensure capital adequacy separately in the non-life insurance portion and in its life insurance operations.

Share capital

Share capital is defined with the amounts invested by the owners and with amounts that have been generated through operations and that belong to the owners. The share capital of Adriatic Slovenica is the nominal value of the called-up and fully paid ordinary no-par value shares denominated in euros.

Capital reserves

Capital reserves (capital surplus) carry the share premium - paid up surplus capital and the amount generated by the elimination of the general capital revaluation adjustment. Capital reserves can be used in accordance with the Companies Act which strictly defines the terms of capital reserves usage for covering net loss of the period, net loss carried forward or increase of equity using the Company's assets.

Reserves from profit

Reserves from profit are divided to contingency reserves, legal and statutory reserves, treasury shares reserve and other reserves from profit. The insurance company forms reserves from profit pursuant to provisions of the Slovenian Companies Act (ZGD-1), legislation governing insurance for establishing legal reserves and on the basis of the decision adopted by the

Management Board and endorsed by the Supervisory Board according to the needs for achieving and preserving the adequate level of capital adequacy (other reserves from retained earnings).

Within the framework of other reserves from profit, reserves for catastrophic losses and equalisation provisions are formed in accordance with the Insurance Act (ZZavar). Equalisation provisions are created through net profit in accordance with a decision passed by the Management Board, i.e. by means of a direct increase of a net loss for the financial year. These provisions are presented in the statement of changes in shareholder equity. The insurance company complies with the provisions of IFRS and recognises equalisation provisions and carries them as a segregated component of the Company's equity, as also set out in the Decision on Annual Reports and Quarterly Financial Statements of Insurance Undertakings – SKL 2009 (including the amendment published in the Official Gazette of the Republic of Slovenia No. 99/2010) This component of equity is accounted for under the assets backing liabilities, which have to be covered by investments.

Furthermore, within the framework of other reserves, the insurance company recognises half of the profits generated before the end of 2013 by supplementary health insurance, as determined in accordance with the Health Care and Health Insurance Act (ZZVZZ-H) and the decision passed by the Insurance Supervision Agency (Decision on detailed instructions for accounting and disclosure of accounting events relating to the implementation of equalisation scheme for supplementary health insurance).

In the event of regulatory changes, the reserves from profit established until then are adequately reallocated within the framework of the balance sheet items.

Revaluation surplus

Revaluation surplus is recognised on the basis of the revaluation of assets performed in the course of the year in a particular reporting period. The insurance company recognises under the revaluation surplus the revaluation adjustment in relation to movement in and valuation of available-for-sale final assets at fair value. The revaluation surplus amount in the income statement is adjusted by the deferred tax amount.

Retained earnings and net profit or loss for the financial year

Retained earnings are composed of the net profit brought forward from previous years, net profit or loss for the financial year and net profit for the current year. The insurance company recognises net profit for the financial year as net profit brought forward once the decision to distribute profit for the financial year is adopted and the amounts for the settlement of previous losses, the amounts for reserves and the appropriations of shareholders are allocated.

4.13 TECHNICAL PROVISIONS

The insurance company must establish appropriate technical provisions for liabilities arising from its business. The purpose of technical provisions is to cover future liabilities arising under insurance and any losses arising from risks, which arise out of insurance contracts. Technical provisions are established in accordance with the Insurance Act (ZZavar), the Decision on detailed rules and minimum standards to be applied in the calculation of technical provisions, and the Rules on the formation of technical provisions.
The insurance company recognises as liabilities gross technical provisions and technical provisions for the received co-insurance. The liabilities reinsured and co-insured are reported under the insurance company's assets.

Unearned premiums

Unearned premiums are formed in the amount of the portion of the written premiums, which refers to the insurance cover for the insurance period after the end of the reporting period for which the provision is calculated.

Unearned premium provisions are calculated for each individual insurance policy, which had valid coverage on the final date of the reporting period. They are also calculated for policies, which become valid after the date of the transfer if a premium was charged before the date of the transfer. In the deferral of charged premium, three different procedures are followed depending on whether the insurance sum is equally distributed across the term of the policy or if it is increasing or decreasing:

- equally distributed insurance sum - majority of insurance classes,
- increasing insurance sum - for building and construction insurance (other damage to property insurance),
- decreasing insurance sum - credit insurance.

Mathematical provisions

Life insurance contracts

Mathematical provisions are established in the amount of the present value of estimated future obligations of the insurance company arising from issued insurance contracts, less the estimated present value of future premiums to be paid on the basis of those insurance contracts. The Zillmer amount for an individual contract does not exceed 3.5 % of the sum insured. Liabilities for every contract are greater than or equal to zero.

For mixed life insurance contracts and life insurance contracts against the risk of death, the future liabilities reflect the payout of agreed insured sums with allocated surpluses in the event of maturity or payout of agreed insured sums with added surpluses in the event of death.

Mathematical provisions for annuity contracts for a limited time are calculated using a prospective net Zillmer method. They are recognised in the amount of the current value of estimated future payments of agreed annuities (with allocated surpluses), including expenses for annuity payment less the estimated present value of future premiums to be paid on the basis of those insurance contracts.

Mathematical provisions for pension insurance of long-term business fund of collective supplementary pension insurance as per PN-A01 are calculated as a product of the value per unit of the long-term business fund and the number of units held as at the day of calculation. The guaranteed liability to policyholders is therefore covered. An additional provision is formed for surplus returns over the guaranteed return (for the allocation of regular and final bonuses). Revaluation reserve of available-for-sale financial assets of long-term business fund of supplementary pension insurance is also recognised in mathematical provisions. Provisions arising from guaranteed premium factors for the calculation of additional old-age pension are formed in the amount of current value of future benefits, which the policyholders can decide to accept upon exercising the right to receive additional old-age pension. These provisions are recognised within the framework of mathematical provision for life insurance long-term business fund.

In annuity insurance, future liabilities of the insurance company (whole life annuity, whole life annuity with guaranteed payouts until the insured person is 78 years old, or guaranteed payout for the period of 10 years) are payments of the agreed annuities, including attributed surpluses and annuity payment costs.

Future liabilities of the insurer are future premiums agreed in the contract.

Once a year (at the end of the year), the amount of profit attributable to the holders of participating policies (the DPF portion) is determined. Mathematical provisions are increased by the amount attributed to eligible policyholders.

The surplus attributed to an individual mixed life insurance policy is considered to represent a one-off premium for the remaining insurance period and it is calculated in an additional insured sum (additional annuity in annuity insurance), which is guaranteed. An additional insured sum is paid out in the event death or endowment. For some insurance products, prompt payment of allocated surplus is possible, while for some insurance products the surplus is allocated to the policy as additional assets in the policyholder’s account.

Unit-linked life insurance contracts

Mathematical provision for unit-linked life insurance represents the value of assets held on the insured person’s policy. The total value of liabilities arising from insurance contracts is the sum of units of an individual fund multiplied by the net asset value per unit of the fund. The aggregate provision for liability is further increased by the amount of the portion of the paid premium, which is allocated to the purchase of units of the fund (there is a time delay between the payment of the premium and purchase order and the actual transfer of the purchased units to the insured's personal account). Depending on the insurance product, provisions are increased by any paid out advances.

Mathematical provisions for health insurance contracts (additional and parallel health insurance)

A mathematical provision is formed for long-term products, for which similar probability tables and calculations are applied as for life insurance products. Mathematical provisions are allocated in the present amount of estimated future liabilities based on concluded insurance contracts, less the present value of future policyholder's premiums arising from those contracts. A prospective net Zillmer method is applied. Liabilities for every contract are greater than or equal to zero.

Mathematical provisions for non-life insurance contracts

The insurance company forms mathematical provisions for long-term accident insurance, for which similar probability tables and calculations are applied as for life insurance products. Mathematical provisions are allocated in the present amount of estimated future liabilities based on concluded insurance contracts, less the present value of future policyholder's premiums arising from those contracts. Liabilities for every contract are greater than or equal to zero.

Claims provisions

Claims provisions are established in the amount of the estimated liabilities which the insurance company is obliged to pay on the basis of insurance contracts, where an insurance event occurs before the end of the reporting period, and specifically regardless whether the insurance event has already been reported, including all costs charged to the insurer on the basis of these contracts.

No method of discounting the claims provisions is applied, except for claims and benefits paid from liability insurance, which are paid out as annuities.

The calculation of claims provisions is divided into two parts based on the nature of the loss file:
For claims reported but not settled by the end of the accounting period, an individual account of all relevant loss files is taken and the value of expected payouts is estimated:

- for claims incurred but not reported by the end of the accounting period (hereinafter IBNR claims – claims incurred but not reported), the estimated ultimate cost of payouts is calculated on the basis of statistical information on similar cases in the past;
- The calculation of IBNR claims was carried out on the basis of insurance classes using different methods: the modified statistical method, the triangle method (the Chain Ladder Method) based on recognised damages or based on accrued claims, and special method for liability insurance annuities. When the method is selected, the characteristics of the insurance class are considered in terms of whether the insurance cases are settled quickly or slowly.

The statistical method is based on the monitoring of reported claims in the past. The number of IBNR claims is calculated on the level of individual insurance class as a product of the estimated number of IBNR claims and the estimated value of IBNR claims. The estimated number of IBNR claims is calculated by multiplying the number of reported claims in preceding year and the average coefficient of incurred and reported claims according to all incurred and reported claims in the last three years. The estimated value of IBNR claims is calculated as the average value of IBNR claims in the preceding year or as the average value of claims paid in the preceding year, if the number of claims was relatively small.

The Chain Ladder Method is based on recognised or calculated claims with monthly or annual development factors, depending on the characteristics of the incidence of loss and claim settlement procedures. The claims are arranged in a triangle where the rows represent the year the claims incurred, and the columns represent the number of years from the time the claims were incurred to recognising or accrual of the claims. It is assumed that the pattern of claims in the future will be similar to the pattern from the past years. The prediction of final claims is based on the calculation of average annual development factors arranged on a falling scale.

The special method for liability insurance annuities is based on assessment of the number and amount of subsequently reported annuity claims, as well as on the assessment of the increased liability for already reported annuity cases.

The claim provision is decreased by estimated expected recourses.

The provisions for appraisal costs and claim settlement costs are included in the gross provisions for claims.

Provisions for bonuses, discounts and cancellations

Provisions for bonuses are formed in the amount of the estimated amount of the expected bonus for those policies, where the policyholder is entitled to bonus reimbursements. Liabilities are calculated on the basis of the bonus reimbursement rule, which is specified in the insurance contract.

The provision for cancellation is formed in the amount of estimated reimbursement to policyholders in the event of premature cancellation of a contract/policy, taking into account the reserved amount in unearned premiums under individual contracts.

Other technical provisions

The insurance company presents provisions for unexpired risk, additional provisions for credit risk and concentration risk among other technical provisions.

Provisions for unexpired risk are established to cover losses and expenses associated with active insurance contracts to be incurred after the accounting period and are not covered under unearned premium provision. Provisions for unexpired risks are calculated at the level of insurance classes. The criterion for their formation is the negative result (loss) of insurance class in the current period and the opinion that the negative result of insurance class is a result of the premium set too low. The provisions for unexpired risk are also formed in other special cases when the insurance company is aware of the acquired liabilities for which it does not have any unearned premiums formed.

Technical provisions for unit-linked life insurance contracts

Provisions for credit risk and concentration risk are established for unit-linked life insurance products, where insurance is tied to compound securities with guaranteed payment upon maturity. The provisions are created for the products for which the insurance company bears the credit risk to the issuer of the security and the concentration risk. They are formed for the risk of separation of compound securities or illiquidity of the issuer of the security to which the warranty is bound.

4.14 OTHER PROVISIONS

Other provisions are formed for present obligations arising from past events to be settled for the period that has not been determined with certainty and whose scale cannot be reliably assessed.

Under accrued and deferred items are carried accrued expenses and deferred revenues that are generated on the basis of straight-line charges to operations or profit and loss as well as inventories with expected costs that still have not been incurred. Costs are accrued and included in annual financial statements in estimated amounts; in interim financial statements, they are spread over shorter accounting periods based on the time factor.

4.14.1 Employee benefits

Employee benefits include provisions for the unused portion of annual leave, provisions for jubilee benefits and provisions for termination benefits at retirement and are presented as a separate item under other provisions and accruals (the long-term portion as long-term provisions and the short-term portion within the framework of accrued expenses).

Post-employment and other long-term employee benefits

The items referring to post-employment and other long-term employee benefits include:

- Termination benefits at retirement and
- Jubilee benefits,

for which provisions for jubilee benefits and termination benefits at retirement are formed. Provisions are recognised in accordance with the Projected Unit Credit Method (PUCM) in accordance with the IAS 19 (the method for calculating benefits in proportion to the work performed), and the calculation takes into account mortality, employee retention, future increase in salaries, expected inflation rate and expected return on investments. In the balance sheet, these liabilities are recognised as net present value of all post-employment liabilities. The discount rate assumption is based on the ECB curve (including all EU countries), by taking into account the average rate according to the expected duration of liabilities arising from termination benefits at retirement and jubilee benefits. The future cash flows are discounted by applying the market rate for investment-grade bonds on the balance-sheet date. The adequacy of the applied actuarial assumptions is reviewed periodically.

For the purpose of forming provisions for jubilee (long-service) benefits, the amount of one to two average gross salaries (depends on the jubilee) in the insurance company is taken into account. Jubilee benefit liability upon reaching the threshold of 10, 20 or 30 years of service of an employee is recognised pro rata with the years of service with the employer.

As a basis for establishing termination benefits at retirement, the amount of three or two gross salaries (set out in an individual employment contract/collective agreement) is taken into account (of the employee or the average salary in the Republic of Slovenia in case it is higher). The liability for termination benefit at retirement is recognised through the entire period of service of the employee.

The liabilities for provisions for termination benefits and jubilee benefits are recognised on the basis of obligations, which arise from the concluded employment contracts and effective labour legislation, also include taxes and contributions of the employer.

4.15 OPERATING LIABILITIES

Operating liabilities are carried at inception at historical cost that arises from appropriate documents. Later on, they are increased in accordance with the documents and decreased on the same basis or based on the payments made.

Amongst operating liabilities, liabilities arising from direct insurance contracts, reinsurance and co-insurance coverage liabilities, and current tax liabilities are recognised. The liabilities for the payment of premiums on the basis of reinsurance contracts are recognised as reinsurance liabilities and accounted for as expenses at maturity.

4.16 OTHER LIABILITIES

Other liabilities include the determined short-term accrued and deferred items that comprise short-term employee benefits, short-term accrued expenses and short-term deferred revenues, liabilities for the payment of dividends and other operating liabilities, such as current liabilities to employees, bonds/securities, liabilities for consumer loans, received advances and other similar items.

Short-term employee benefits

Liabilities for short-term employee benefits are accounted for in nominal value and presented as labour costs in the income statement. Short-term employee benefits represent salaries, holiday pay, etc.

Short-term accrued expenses

Short-term accrued expenses are set up with the intention to spread disbursements over the income statement, even though these expenses have not been incurred. Considering past developments in the Company's operations, the management can estimate the expenses that will incur for the period concerned, even though they did not yet receive appropriate documents. Based on this estimate, the amount is taken into account in the financial statement. When the business event occurs, accrued expenses are decreased and the difference between accrued and actual expenses is recognised through profit or loss. Apart from that, expenses for unused annual leave are carried under short-term accrued expenses.

4.17 REVENUES AND EXPENSES

Revenues include fair value of received fees or receivables for the sale of services under the normal operating conditions of the Company. All categories of revenues and expenses for non-life and life insurance are presented separately. Revenues from insurance services (gross written premiums) are carried at invoiced amounts excluding tax on insurance contracts

(DPZP), refunds, discounts and rebates. An exception to this are revenues from unit-linked insurance services that are disclosed as paid realisation. Other revenues are accounted for at net value excluding value-added tax.

Revenues from insurance premiums

Net revenues from insurance premiums are calculated as gross written premium increased by the premium received under co-insurance and decreased by the premium for ceded co-insurance and reinsurance and decreased by the change in net unearned premiums. The basis for recognising gross insurance premiums are invoiced premiums, except for unit-linked and life insurance, where the basis is the paid premium.

When non-life and health insurance contracts are terminated, the calculated revenues from premiums are decreased by the proportional portion of the unexpired period for which the insurance premium has been calculated. In the books of account, gross insurance premiums and reinsurance and/or co-insurance share are recorded separately.

Revenues from insurance premiums are monitored separately by insurance group and class.

Revenues and expenses from investments

Revenues and expenses from investments include revenues arising from accrued interest, gains/losses from the disposal of investments, dividends, gains and losses from foreign exchange differences, and revenues and expenses at the expense of the reversal of impairment or impairment of financial assets.

Revenues and expenses for interest on investments are recognised through profit or loss upon their occurrence and are calculated in accordance with the effective interest rate method. In the balance sheet, the interest on all debt securities is posted together with the Company's investments.

Profit (loss) arising on disposal of investments is recognised in the income statement through financial revenues and expenses. As regards available-for-sale financial assets recognised at amortised cost, profit or loss is recognised in the income statement when it is realised, when such assets are revalued due to impairments or impairment previously recognised for these assets is reversed.

Gains and losses from exchange difference are calculated for assets in foreign currencies. They are translated at the balance sheet date by applying the reference exchange rate of the European Central Bank published by the Bank of Slovenia. Relevant exchange rates published by the Bank of Slovenia on a monthly basis for business entities can also be used for foreign currency translation.

Dividend income on a capital instrument is recognised in the income statement when the right to receive payment is established.

Impairments and reversal of impairment of financial investments

Losses due to impairment are recognised and assets are revalued if there is objective evidence of impairment due to an event occurring after the initial recognition of the assets and that event has an impact on the estimated future cash flows from the financial asset.

If during the period after a loss on debt securities has been recognised, the amount of impairment loss is decreased and if this decrease can be objectively related to an event that took place after the impairment was recognised, the previously recognised loss on debt securities due to impairment in the income statement is reversed through the revaluation account.

Other insurance revenues

Fee and commission income and other income for insurance contract management are recognised as other insurance revenues.

Other revenues

Under other revenues, other net insurance revenues and revaluatory operating revenues are carried. Furthermore, other revenues include revenues from rentals of the Company's investment properties charged on the basis of the concluded leasehold contracts and other operating revenues such as the recovered amount of previously written-off debt, received fines and damages, and other similar items.

Net expenses for claims and benefits paid

Net expenses for claims and benefits paid are direct expenses arising from the insurance business. They are carried separately by insurance class.

Net expenses for claims and benefits paid are composed of gross calculated claims/losses that include direct appraisal costs and are increased in the income statement by calculated claims for the received co-insurance and decreased by the calculated claims of the ceded co-insurance and reinsurance and increased by the change in net claims provisions.

Net expenses for claims/losses arising from health insurance contracts also include revenues or expenses from equalisation schemes.

Operating expenses

Gross operating expenses are recognised as historical costs by natural and functional groups in the income statement. Appraisal costs are an integral part of expenses for claims paid, while acquisition costs and other operating costs are presented separately. In the disclosures, total operating expenses are presented by natural and functional groups.

Deferred acquisition costs

Acquisition costs are recognised in the income statement when they are incurred. Since these costs refer to the period when contracts are active, they are accrued in the portion that relates to the period after the reporting date. The Company accrues costs for the acquisition of non-life insurance contracts.

Under life insurance contracts with discretionary participation feature and investment contracts with discretionary participation feature, acquisition costs are accrued on the basis of the Zillmer adjustment method when mathematical provisions are calculated.

Other insurance expenses

Other insurance expenses include expenses such as expenses for preventive activity, contributions for settling claims for damage made by uninsured and unidentified vehicles, and other net insurance expenses.

Other expenses

Expenses from investment properties, revaluatory operating expenses, and other operating and financial expenses not arising from investments are carried under other expenses.

4.18 TAXES AND DEFERRED TAXES

Tax expense includes current tax and deferred tax; the tax expense is recognised either in the income statement or in the statement of other comprehensive income, when the taxes refer to revenues or expenses, which are recognised in the statement of other comprehensive income (in equity), i.e. when tax liabilities are recognised as tax assets from prior periods.

Tax assessment

The insurance company charges and pays the insurance business tax in compliance with the Insurance Tax Act with the rate of 6.5 per cent of the taxable amount.

For the taxable part of its operations, the insurance company charges the VAT in compliance with the Law on Value Added Tax and exercises the right to deductible VAT. For its principal activity, the Company has the right to 1 per cent deducted VAT (the rate is controlled annually). For its real estate leasing activities, the Company exercises the right to 100 per cent deducted VAT.

The corporate income tax levied on income is calculated in line with the Corporate Income Tax Act by applying the tax rates effective at the balance sheet date. For the financial year 2014, the corporate tax rate was 17 %.

Deferred taxes

Deferred taxes are effects of the differences between the carrying amount of the posted items in the balance sheet and their tax value, calculated in accordance with the liability method under the balance sheet for all temporary differences. Deferred taxes are accounted for as deferred tax assets or as deferred tax liabilities.

Deferred tax assets and deferred tax liabilities have been established for the financial year under review and for the past financial years to the extent that it is probable that future taxable profit will be available and tax will be paid to the tax authorities (recovered from the tax authorities), by applying the tax rates (and tax regulations) effective as at the balance sheet date. Any deductible temporary differences are recognised, if it is to be expected that disposable taxable income will be posted against which the temporary differences can be utilised. Any deductible temporary differences are recognised by the prescribed tax rate for the year when disposable taxable profit is expected.

Deductible temporary differences are expenses not recognised for tax purposes that arise primarily from provisions set up for employee benefits, calculated depreciation that exceeds the amount of the calculated depreciation at the rates recognised for tax purposes, and revaluation adjustments as a consequence of temporary impairment of receivables and financial investments in the statement of other comprehensive income.

5. SIGNIFICANT ACCOUNTING ESTIMATES, JUDGEMENTS AND ASSUMPTIONS

The insurance company uses estimates and assumptions, which affect the reporting of assets and liabilities in the subsequent financial year. The estimates and considerations are constantly checked and are based on past experience and other factors, which appear relevant in the given circumstances, including expected future events.

5.1 IMPAIRMENTS OF AVAILABLE-FOR-SALE FINANCIAL ASSETS

Available-for-sale financial assets are impaired when the management finds that there is objective evidence of a significant or prolonged decline in the fair value of such assets below their cost. Determining what is a significant and prolonged requires consideration. In the course of this consideration, the insurance company checks, among other factors: the normal volatility of the stock price and how long stocks prices have been falling, the financial position of the issuer, performance of the industry and the sector, changes in technology and in cash flows from operations and financing, and changes in an active market for such a financial asset due to any financial problems of the issuer.

In its accounting policies, the insurance company takes as a criterion of significance that influences the recognition of the relevant portion of impairment of equity securities in the income statement a decline in the fair value below their cost of 40 % or 9 months sustained significant decline in fair value.

For 2014, the management estimated that there had been a longer-term reduction in fair value below cost in relation to certain securities by more than 40 % over the last nine months. On the basis of an expert opinion, and the recommendations and internal accounting policies, the investments that complied with the established significance criteria have been permanently impaired. The total loss arising out of the permanent impairment of the available-for-sale financial investments has been recognised immediately in the income statement, while other revaluations of these assets have been recognised in the statement of other comprehensive income.

5.2 IMPAIRMENT LOSSES ON RECEIVABLES

In determining whether losses from impairment of receivables should be recognised in the profit and loss statement, the management decides whether there are indications of any lowering of future cash flows of a group of receivables. Such indicators can involve changes in the repayment of receivables or economic circumstances which can be linked to a potential halt in the repayment of loans or receivables. The management uses estimates based on past losses. In the financial year 2014, the insurance company applied the same methodology for assessment of appropriateness of fair value calculation (and value adjustments of receivables) as in previous years (refer to Policies, chapter 4.8). For determining the individual assessment of loan impairment value, the insurance company used the internal model in 2014 (explained in chapter Fair value).

5.3 ESTIMATIONS OF TECHNICAL PROVISIONS

Non-life and health insurance contracts

Claims reported but not settled (hereinafter: RBNS)

Provisions for claims outstanding are based on the estimated ultimate cost of claims incurred but not settled, separately for each claim. The material/tangible damages are assessed by claim adjusters employed in the insurance company, while the nonmaterial damages and claims incurred in court proceedings are assessed by lawyers (attorney-at-law) of the insurance company. The assessments are made on the basis of experience by taking into account the expected future trends (inflation, service price inflation, changes in court practice ...). Within the framework of the provision for claims outstanding, the provisions for claims arising from liability insurance contracts were also formed and they are paid out as annuities and namely in the amount of the capitalised value of the annuity by taking into account a 2.75 % interest rate.

Claims incurred but not reported (hereinafter: IBNR)

The majority of provisions for IBNR liabilities were calculated by applying the Chain-Ladder (triangle) method based on the statistical method for recognised losses.

The recognised claims /losses are arranged in a triangle where the lines represent the year of loss occurrence, while the columns represent the number of years lapsed after the year in which the loss occurred until the year in which claims are recognised or paid. The claim recognised in a particular year is the sum of the calculated amounts of claims during the year in which the claim incurred (i) and including the year (i+j) and the amount of the provision for claims outstanding for the reported claims at the end of i+j. Large claims are taken into account in the triangle (chain ladder) only up to the amount of the large claim and this amount is determined for every class of insurance. The development factor represents the relation between the recognised claims for an individual year and the recognised claims for the previous year. In the case that the triangle/chain ladder demonstrates that the development has not been completed, the development factor is also determined. The prediction of ultimate cost of claims is based on the calculation of the average annual development factors.

For every year in which claims are incurred, the IBNR provision is calculated as the difference between the ultimate claim cost and the recognised claims. Any negative amounts are set to zero, During the last year in which claims were incurred, the prediction of the ultimate claims cost is verified by calculating the expected future ultimate claim costs through the estimated result of the insurance class and the premium earned. For the calculation of the IBNR provision for those years, the higher of the two amounts is taken into account.

Provisions for incurred but not reported claims (IBNR) included in outstanding claims provisions

Insurance class in EUR	Provision for incurred but not reported claims (IBNR) 31 December 2014	Provision for incurred but not reported claims (IBNR) 31 December 2013
Accident insurance	8,978,185	9,721,424
Health insurance	4,695,940	5,122,025
Land motor vehicles insurance	1,566,233	1,933,716
Marine loss insurance	108,656	58,731
Goods in transport insurance	223,082	61,383
Fire and natural forces insurance	766,048	1,021,075
Other damage to property insurance	1,430,025	1,195,092
Motor vehicle liability insurance	34,570,275	37,457,267
Liability for ship/boat insurance	18,721	13,515
General liability insurance	11,909,692	12,640,073
Credit insurance	10,691	23,571
Suretyship insurance	194,306	212,432
Miscellaneous financial loss insurance	46,836	42,066
Legal expenses insurance	4,368	2,494
Travel assistance insurance	240,450	216,781
Life insurance	3,924,377	4,610,642
Total	**68,687,886**	**74,332,286**

Estimations of individual claims are regularly reviewed and adjusted if needed due to new information. Liabilities for IBNR present a larger level of insecurity in estimations of liabilities that the insurance company will have to cover due to losses incurred. IBNR provisions are determined by the insurance company based on analysis of past loss events, using different mathematical and statistical methods. The insurance company assumes that claims development in the future will be realised similarly as in the past, and takes into account the perceived trends and variances. Within the calculations of provisions for claims, also assessments of success of future subrogation and level of future claims settlement costs are made. The adequacy of applied assumptions and assessments is periodically reviewed and new conclusions are used in the future valuations.

Loss development – non-life insurance

The triangle depicts how the insurance company changed its assessment of ultimate liabilities for claims in non-life insurance. The amounts in the triangle include claims reserved, as recognised by the insurance company in individual years.

Loss development in non-life insurance

	Accident/loss year								
Cumulative claim payment	before 2007	2007	2008	2009	2010	2011	2012	2013	2014
At the end of loss year	-	108,738,545	120,566,723	117,773,190	106,123,654	103,900,951	109,732,984	90,848,539	92,148,616
1 year after loss year	-	106,372,343	118,496,776	109,844,795	98,882,126	92,331,285	104,142,780	87,477,430	-
2 years after loss year	-	105,968,274	117,455,256	109,454,915	96,330,471	90,568,304	96,570,014	-	-
3 years after loss year	-	105,349,656	117,524,811	107,637,944	95,301,074	89,085,735	-	-	-
4 years after loss year	-	105,958,430	115,587,514	105,953,158	93,622,460	-	-	-	-
5 years after loss year	-	104,800,746	114,800,364	104,876,792	-	-	-	-	-
6 years after loss year	-	103,746,421	113,669,023	-	-	-	-	-	-
7 let po škodnem letu	-	103,449,456	-	-	-	-	-	-	-
Cumulative loss estimate	-	103,449,456	113,669,023	104,876,792	93,622,460	89,085,735	96,570,014	87,477,430	92,148,616
Total losses paid until 31 Dec. 2014	-	100,789,406	109,759,216	99,967,706	88,586,918	80,982,737	87,519,809	72,427,670	50,045,164
Provisions for outstanding claims - balance 31 Dec. 2014	16,816,072	2,660,051	3,909,806	4,909,086	5,035,541	8,102,998	9,050,205	15,049,760	42,103,452

Claims provisions do not include appraisal costs.

Provisions for outstanding claims in non-life insurance (excluding health insurance), as recognised in the balance sheet

	Listing + IBNR	Provisions for valuation costs	Total
Provisions as at 31 December 2013	112,877,536	4,776,897	117,654,433
Provisions as at 31 December 2014	107,636,972	4,768,541	112,405,513

Life insurance contracts

The liabilities, which arise from contracts for traditional life insurance with a discretionary participation feature (DPF), are calculated on the technical assumptions used for the calculation of premiums for the product, i.e., by taking into account more prudent assumptions arising from regulatory requirements or judgements made by the insurance company.

The main assumptions used by the Company are the following:

- future mortality (in the past, the insurance contracts portfolio of the insurance company was too small to be used for own experience; hence mortality estimates are based on statistical tables and specifically: for whole life insurance and endowment insurance, the insurance company uses the Slovenian mortality tables from the year 1992 and 2007, while for annuity insurance German tables from the year 1987 and 1994 are used),
- interest rate in the 2.25 % to 4.0 % bracket,
- the acquisition costs up to the maximum statutory amount
- The assumptions used for the purpose of determining the adequacy of the provisions formed for life insurance contracts, are described in more detail in the section on the liability adequacy test (chapter 5.4).
- In the financial year 2014, the Company did not modify the assumptions used for the calculation of liabilities arising from life insurance contracts.

5.4 ESTIMATES OF FUTURE PAYMENTS UNDER LIFE INSURANCE CONTRACTS

The principal estimates and assumptions used for the calculation of liabilities arising from the issued life insurance contracts refer to expected mortality, cancellation, return on investment, administrative expenses and future premiums. These assumptions are determined when concluding a contract and are used to calculate liabilities in the course of the insurance period. New assessments are prepared at every following reporting period for the purpose of establishing whether previously determined liabilities are adequate. If it is decided that the liabilities are adequate, the assumptions are not changed. If liabilities are not adequate, the assumptions are modified so as to reflect expectations in accordance with the best estimate. A more detailed description of assumptions and the way in which they are determined can be found in the section about the liability adequacy test and in the section on insurance risk.

5.5 EMPLOYEE BENEFITS

Employee benefits are recognised in the financial statements on the basis of estimates of future liabilities that will derive from:

- payments of jubilee benefits to the employees who will fulfil in the future the statutory/legal conditions;
- termination benefits for the employees who will fulfil in the future the conditions for retirement and who will be employed in the Company on that day.

Future liabilities are calculated on the basis of the actuarial calculation assumptions as a discounted value of future cash flows, while taking into account certain assumptions.

Main assumptions included in the calculation of provisions for termination and jubilee benefits:

- discount rate,
- expected salary growth in the Company, including the expected salary increase due to promotion,
- expected mortality expressed in the Slovenian tables 2007,
- the future turnover is determined by taking into account the age of the employees, and specifically for the age group between 20 and 30 years of age, for the age group between 30 and 40 years of age and for the employees aged 40 or and more

6. RISK MANAGEMENT

The Company is already by the nature of its business exposed to insurance risk, since its activity is underwriting insurance contracts with which it assumes risk from its policyholders. As all other financial organisations, the insurance company is also exposed to various financial risks such as liquidity, credit and market risk (interest rate, currency and price risk). In addition to exposure to insurance and financial risks, insurance companies are also exposed to operational risks.

The purpose of risk management is to ensure stable and long-term operations and decrease exposure to individual risks. Risk management is a continuous cyclical process that can be broken down into three stages. In the first stage, potential risks are identified. In the second stage, individual risks are modelled and measured. On the basis of the risk identification and measurement, the Company's management adopts adequate measures to mitigate or control these risks (the third stage). In addition, a continuous monitoring system has been established to assess the effectiveness of the applied measures, to monitor the remaining risks and to early identify potential new risks. The leverage at management's disposal is various and depends on the level of exposure and the type of risk.

In order to be efficient, the risk management system follows the strategy and risk management policy approved by the Company's Management Board. The aim of efficient risk management is not to avoid risks by any means, but rather to accept consciously the adequate risks and to execute appropriate measures to either limit these risks or, if they are realised, limit the economic damage. The insurance company accepts risks, knowing that businesses with higher risk level usually bears higher yield. The optimum balance between risk and yield is crucial for ensuring adequate safety of policyholders and at the same time expanding the value of the Company.

In addition to setting the guidelines regarding the ratio between risks, returns and capital, and the guidelines for the implementation of business policies and strategies for individual areas in the insurance company, the Management Board cares for the promotion of transparent and clear decisions and processes which represent important building blocks of risk awareness culture in the Company. With constant optimisation and expansion of the risk management function, the insurance company remains prepared for the risks in its future business operations.

6.1 CAPITAL ADEQUACY REQUIREMENTS AND CAPITAL MANAGEMENT

One of the Company's most important missions that it is also required by law is ensuring an adequate level of capital (capital adequacy) in line with the volume and types of insurance business and the risks it is exposed to in the course of its operations.

In the framework of its capital management policy, the insurance company pursues the goal of maintaining a certain surplus of available capital above the required level (pursuant to applicable legislation), which provides security against unpredictable adverse events, guarantee for continued operation and coverage for potential losses from current operations while maintaining adequate return on capital.

The Company complies with the regulatory requirements regarding capital adequacy if its eligible capital exceeds the amount of the regulatory minimum capital determined in accordance with the rules for capital adequacy and its calculation. The Company performs the calculation and checks its capital adequacy on a quarterly basis.

At the same time, the Company intensively prepares for the new European insurance regulation Solvency II which brings along a broader concept of risk in insurance business and the related higher capital requirements and, consequently, the need for new measures in capital management. In the past years, Adriatic Slovenica participated in several impact studies and stress tests prescribed by the EIOPA and the national supervisory authority; the impact of different methodologies and calculation parameters on capital adequacy of insurance companies to be calculated in compliance with the Solvency II regime were tested. The Company has applied these methodologies for several years in a row to study the impacts of individual business aspects and decisions on the Company's capital adequacy under the Solvency II regime, and to assess and forecast its capital adequacy in future financial years.

According to the calculations, the Company carries spare available capital surplus exceeding the capital adequacy requirements. Having acquired the knowledge of business decisions impact on calculation results, the Company will direct its further activities concerning capital adequacy under Solvency II primarily into defining an adequate level of target capital adequacy with regard to the Company's strategy and will consequently endeavour with individual business decisions to achieve that target (risk appetite) to the greatest extent possible.

As at 31 December 2014, the insurance company was fully compliant with the capital adequacy requirements, carrying a surplus of eligible capital in the area of non-life insurance in the amount of 26,524,434 euros and in the area of life insurance in the amount of 1,738,920 euros.

Capital adequacy of the insurance company

	As at 31 December 2014		As at 31 December 2013	
v EUR	Life insurance	Non-life insurance	Life insurance	Non-life insurance
Share capital (tier 1)	12,769,962	59,909,359	12,479,003	57,249,497
Regulatory capital	3,700,000	8,664,390	3,700,000	9,386,033
Total core (tier 1) and supplementary (tier 2) capital	12,769,962	59,909,359	12,479,003	57,249,497
Eligible capital of the insurance company	12,769,962	52,517,603	12,479,003	55,230,639
Regulatory minimum capital	11,035,049	25,993,169	10,516,263	28,158,098
Surplus/deficit in eligible capital	**1,734,913**	**26,524,434**	**1,962,740**	**27,072,541**

6.2 TYPES OF RISKS

6.2.1 Insurance risks

Insurance risks are all possible risks which the Company faces during its principal activity - acceptance of risk from a policyholder. Given the nature of insurance contracts, insurance risk is random and unpredictable. It can be realised at any stage of the Company's principal activity, be it the formation of insurance product (the product is improperly designed), the formation of price (the amount of premium is insufficient to cover contractual obligations and compensation of losses) or accepting risks for insurance (wrong decision about risk acceptance, non-compliance with the price list and terms of insurance, signing insurance contracts based on false data, improper reinsurance for particular risks, improper assessment of probable maximum loss (PML), insurance for concentrated risks (e.g. geographic concentration), insufficient employee qualifications for risk assessment). When accepting risks for insurance, the following risks can occur as well: the risk of insufficient technical provisions, damage or loss risk (the risk that the reported number or amount of claims will exceed the expected values and that the retention will be too high due to improper reinsurance security, especially in case of catastrophic events), the risk of change in policyholder behaviour (which reflects especially in the number of insurance fraud attempts) and, last but not least, the risk of changes in the economic environment, which can lead to a lower number of policies signed due to a lower purchasing capacity and a higher number of cancelled contracts and of claims made.

The Company manages insurance risks primarily through effective implementation of internal controls, internal auditing, through forming adequate technical provisions to cover future liabilities from already issued insurance contracts and through appropriate reinsurance. Much attention is devoted to the development of new products to ensure that already in the process of product development; the relevant statistics are carefully observed, confirming the appropriateness of the considered assumptions. After the implementation of a product, the Company constantly monitors the underwriting results by class of insurance, analyses any deterioration and corrects premium rates or terms of insurance, if necessary. The other area, critical for the realisation of insurance risks, is the acceptance of risks to be insured. The company controls this risk by means of instructions on accepting the risks to be insured, stricter criteria and procedures for risk acceptance, especially for high sums insured and comprehensive coverage. Specialised departments in charge of high risks (in the field of non-life insurance) monitor the development of particular insurance contracts and may deny renewal of contracts or re-assess the accepted risk. Reinsurance security is an important means of insurance risk management and will be described in further detail in the following text.

Concentration of insurance risk

Concentration of insurance risk can arise from a single insurance contract or from a number of insurance contracts covering low-probability events with high damage potential, such as insurance against earthquakes or other natural disasters.

The concentration of insurance risk is managed by means of various types of reinsurance per risk, per event and in annual aggregate, and all these types are complementary.

The table below presents possible concentration of insurance risk, and specifically the Company's exposure to large policyholders and beneficiaries.

Insurance risk concentration arising from the largest policyholders as at 31 December 2014

In EUR	Aggregate premium – 10 largest policyholders	As share of insurance group aggregate premium	Aggregate premium – 100 largest policyholders	As share of insurance group aggregate premium
Life insurance	38,805	0.21%	102,499	0.55%
Unit-linked insurance	306,725	0.90%	1,110,380	3.25%
Health insurance	380,600	0.35%	539,826	0.50%
Non-life insurance	10,568,582	7.80%	22,102,251	16.31%
Total	**11,294,712**	**3.80%**	**23,854,956**	**8.02%**

Insurance risk concentration arising from the largest policyholders as at 31 December 2013

In EUR	Aggregate premium – 10 largest policyholders	As share of insurance group aggregate premium	Aggregate premium – 100 largest policyholders	As share of insurance group aggregate premium
Life insurance	47,478	0.30%	183,910	1.16%
Unit-linked insurance	230,465	0.58%	914,435	2.29%
Health insurance	306,489	0.27%	446,532	0.40%
Non-life insurance	11,651,295	8.52%	22,271,805	16.29%
Total	**12,235,727**	**4.00%**	**23,816,682**	**7.79%**

In the light of the fact that the share of the top 10 and top 100 largest policyholders and beneficiaries in proportion to the entire portfolio is relatively small, we can draw a conclusion that the concentration of large policyholders does not expose the Company to high risk.

Non-life insurance contracts

As regards non-life insurance, the insurance company is exposed to various types of risk associated with the sectors of the economy in which policyholders engage in business activities. The table shown below presents the concentration of liabilities arising from non-life insurance business by industry in which the policyholders operate; the table shows the ultimate loss (maximum sum insured) broken down according to the sum insured in four categories.

Concentration of liabilities from non-life insurance by industry as at 31 December 2014

Sum insured	Up to 300,000 euros		Over 300,000 up to 1,000,000 euros		Over 1.000.000 euros	
in EUR	Net of reinsurance	With reinsurance	Net of reinsurance	With reinsurance	Net of reinsurance	With reinsurance
Construction risks	6,813,722	6,402,532	25,433,864	7,680,000	78,339,276	3,720,000
Manufacturing risks	279,312,568	268,447,119	378,012,267	264,263,591	3,678,964,840	269,520,000
Commercial risks	4,721,023,458	4,715,292,881	1,765,253,556	1,694,101,841	5,993,567,929	677,070,000
Household risks	5,932,383,772	5,930,007,772	443,702,927	424,065,460	297,015,889	35,490,000
Total	**10,939,533,519**	**10,920,150,304**	**2,612,402,614**	**2,390,110,892**	**10,047,887,934**	**985,800,000**

Concentration of liabilities from non-life insurance by industry as at 31 December 2013

Sum insured	Up to 300,000 euros		Over 300,000 up to 1,000,000 euros		Over 1.000.000 euros	
in EUR	Net of reinsurance	With reinsurance	Net of reinsurance	With reinsurance	Net of reinsurance	With reinsurance
Construction risks	9,216,359	7,118,230	13,749,753	5,280,000	159,086,371	3,960,000
Manufacturing risks	276,232,075	263,118,312	368,862,914	255,698,788	3,555,351,605	252,240,000
Commercial risks	4,105,840,601	4,098,873,140	1,646,639,787	1,630,262,381	6,399,683,522	804,930,000
Household risks	5,127,579,087	5,124,876,204	412,833,494	407,775,595	320,049,691	42,150,000
Total	**9,518,868,122**	**9,493,985,886**	**2,442,085,947**	**2,299,016,764**	**10,434,171,188**	**1,103,280,000**

To provide a realistic insight into the Company's exposures, the concentration of liabilities arising from non-life insurance contracts presents only total insured sums for basic hazards, since, as a rule, they represent the highest exposure to potential losses on a policy. Since the coverage of earthquake hazards is additional insurance, it has not been included in the above table. In 2013 and 2014, earthquake insurance contracts were ceded to reinsurers on a proportionate basis at the rate of 80 %.

Life insurance

The table below shows the concentration of insurance risk arising from life insurance contracts, and specifically the aggregate underwritten sum insured slotted into five categories according to the amount of the sum insured under a separate insurance contract.

Aggregate underwritten sum insured under all contracts

in EUR	Net of reinsurance 2014	With reinsurance 2014	Net of reinsurance 2013	With reinsurance 2013
0–9,999 euros	285,695,663	252,727,514	404,114,330	385,254,121
10,000–29,999 euros	821,669,305	722,270,494	920,025,611	828,998,497
30,000–59,999 euros	706,344,618	507,191,885	587,523,311	381,110,548
60,000–99,999 euros	357,003,681	182,217,347	200,762,968	79,734,931
Over 100,000 euros	213,107,528	105,972,783	96,344,146	30,471,750
Total	**2,383,820,794**	**1,770,380,022**	**2,208,770,367**	**1,705,569,848**

For annuity insurance risk concentration is presented with total annual annuities classified into five categories, depending on the amount of the annual annuity per individual insured. Annual annuity is considered to be the amount, which the insured would receive if the payments under the contract were due.

Structure of annually paid annuities

in EUR	TOTAL ANNUAL ANNUITY PAYMENTS IN 2014		TOTAL ANNUAL ANNUITY PAYMENTS IN 2013	
Annual annuity payments to the insured person as at 31 December	amount	%	amount	%
0–9,999 euros	626,944	14.21%	661,540	14.28%
10,000–29,999 euros	1,590,857	36.05%	1,655,813	35.74%
30,000–59,999 euros	897,960	20.35%	957,963	20.68%
60,000–99,999 euros	534,640	12.12%	552,560	11.93%
Over 100,000 euros	762,302	17.28%	804,450	17.37%
Total	**4,412,703**	**100%**	**4,632,326**	**100%**

Concentrations of insurance risk with respect to the Company's annuity business remains at the same level as in 2013 and the highest number of annuity payments made on a yearly basis falling in the 1,000 euros to 2,000 euros bracket.

Liability adequacy test for insurance contracts

The insurance company carries out a liability adequacy test (LAT-test) with the aim to determine whether its provisions set up at the balance sheet date are sufficient to cover its liabilities. The test is carried out by calculating the best estimate of provisions such as the current value of all cash flows arising from the in-force insurance contracts. The calculation for the test is made by using the current estimates of future cash flows. At the balance sheet date, this calculation is compared with the technical provisions formed.

If the liability adequacy test shows a deficiency in the carrying amount of liabilities, the Company recognises such deficiency as increased liability in the income statement.

The liability adequacy test is carried out separately for the life and non-life business.

Life insurance

For the purpose of establishing whether provisions for life insurance are adequate, the Company combines lines of insurance business in homogenous groups, and specifically:

- life insurance;
- unit-linked life insurance contracts;
- voluntary supplementary pension insurance.

The expected cash flows are generated under:

- premiums (life insurance and additional accident cover),
- claims paid (death, endowment, annuities, surrender, accident claims),
- expenses (other payments of fees and commissions, administrative costs, costs of losses).
- any other expected cash flows from insurance contracts.

With regard to individual cash flows, the following assumptions have been taken into account:

- covenants in individual insurance policies (amount of the premium, the schedule of premium payments, the sum insured for death and at maturity, amount of annuities),
- technical bases of the relevant products (tables of mortality/morbidity, interest rate, costs of front-end fees, other administrative expenses),
- assumptions (mortality rates, redemption rates, future inflation, claims paid under accident policies, etc.). The assumptions used are explained separately.

The cash flows for individual years are discounted on the last day of the reporting (accounting) period.

Economic and operating assumptions

Risk discount rate

For the purpose of calculating the present value of the expected future cash flows, the discount rate used is presented by the curve in the graph "AAA-rated euro area central government bonds" AAA- credit rating for investment-grade government bonds in the euro area as of 2 January 2015.

Inflation

The assessment of expected expenses takes into account the expected inflation rate for the first two years in line with the autumn forecast of UMAR (Institute of Macroeconomic Analysis and Development) and at the rate of 1,5 % for all following years.

Costs/expenses

The costs of contract administration, claims handling, and asset management have been included in the calculation based on the Company's experience from the past years. The estimated future costs are divided into fixed costs that increase depending on the forecasted inflation, and variable costs. Specific features of individual insurance products are taken into consideration when dividing the costs.

Mortality rates

The estimations of mortality rates are based on analyses of the Company's own life insurance portfolio. However, for annuity insurance, the Slovene population's mortality ratio has been considered, namely the Slovenian annuity tables 2010.

Surrender rates

The relevant surrender rates are based on the analysis of redemptions and other early cancellations of the Company's own portfolio in the past years, divided according to insurance categories and insurance duration. The assumptions are revised and adjusted annually.

Claims arising from additional (extra) accident coverage

These claims are estimated on the basis of historical claims ratio from such insurance contracts in the Company's portfolio in the past years.

Results of the life insurance liability adequacy test for the financial year 2014

The liability adequacy test (LAT) results of 31 December 2014, showed no deficiencies in any class of life insurance.

Non-life insurance and health insurance

The Company has tested the adequacy of the provisioning for unearned premiums for non-life insurance and health insurance contracts. The provisions for losses and provisions for bonuses, discounts and cancellations are calculated on the basis of current estimates; hence, it is deemed that the provisions for these liabilities have been made in the adequate amount.

The liability adequacy test is thus limited to the unexpired portion of active (unexpired) contracts. It is performed by examining the difference between the expected amount of claims for losses and the expenses attributable to the unexpired portion of policies still in force at the balance sheet date and the amount of the formed provision for unearned premiums.

Under the classes of insurance where inadequate amount of unearned premium provisions in relation to the expected loss events, has been determined, the Company forms additional provisions for unexpired risks and recognises them in the financial statements as liabilities within the framework of other technical provisions.

Results of the non-life insurance liability adequacy test for the financial year 2014

As at 31 December 2014, the Company formed provisions for unexpired risks in the following insurance classes and in this way ensured an adequate amount of provisions:

In health insurance in the amount of 476,372 euros, in land motor vehicle insurance (231,639 euros), aircraft insurance (1,250 euros), vessel insurance (209,963 euros), other damage to property insurance (456,792 euros) and credit insurance (33,575 euros).

Sensitivity analysis

The Company performs the sensitivity analysis to measure the changes in performance indicators (parameters) set out below on its profit or loss as at the last day of the financial year.

Sensitivity test – parameters

Sensitivity factor	Description of the sensitivity factor
Interest rate (insurance contracts)	The impact of a change in technical interest rate by ±1 %
Costs/expenses	The impact of an increase/reduction of all expenses other than acquisition expenses by ±5 %
Assurance mortality/morbidity	The impact of an increase in mortality/morbidity rates by 5 %
Annuitant mortality	The impact of a reduction in mortality rates by 5 %
Loss ratio in relation to premium	The impact of an increase in loss ratios by 5 %

Individual calculations presented in the tables below have been made so as to take into account the modification to a particular sensitivity factor while other assumptions are left unchanged.

Impact on net profit before tax generated by the insurance company

in EUR	31 December 2014	31 December 2013
Factor		
Costs/expenses +5 %	(2,735,782)	(2,848,848)
Costs/expenses -5 %	2,735,782	2,848,848
Interest rates +1 %	14,681,946	10,216,196
Interest rates -1 %	(15,699,310)	(11,938,944)
Assurance mortality +5 %	(93,070)	(120,115)
Annuitant mortality -5 %	(353,835)	(190,022)
Loss ratio +5 %	(12,496,227)	(13,038,407)
Loss ratio -5 %	12,496,227	13,038,407

Adriatic Slovenica is prudent in its risk management operations. The role of reinsurance is important in the process as an additional risk-hedging tool that contributes to a more secure insurance risk management policy.

6.2.2 Insurance risk management through reinsurance protection

Purpose and objectives of reinsurance protection

Insurance risks are managed by reinsurance protection programme, ensuring solvency and liquidity of operations, stability of operating results and financial soundness. In concluding reinsurance contracts, we only collaborate with reinsurers with the highest ratings.

The type, form, scope and structure of the reinsurance purchases are planned on the basis of the amount of the maximum own shares of the Company and the volume, uniformity, quality and types of the insurance portfolio, considering the characteristics and specifics of individual classes of insurance. In this context, the Company focuses on the establishment and provision of the optimum reinsurance protection both against individual large losses and against aggregated exposure of the Company's portfolio of insurance business to natural forces – either by individual insurance event, as well as by annual aggregate.

Reinsurance contracts provide the insurance company with automatic reinsurance coverage for the majority of the risks assumed up to the agreed limit and under the agreed conditions, and in some cases even coverage against possible errors in risk assessment.

For exceptional risks, which exceed the contractual reinsurance protection by scale or content of the cover provisions, the Company provides special optional reinsurance protection. The program of the planned reinsurance is composed of traditional proportional and non-proportional forms of reinsurance protection.

Within the operational risk management, in the year under review, the insurance company upgraded the control mechanisms in the information system that prevent concluding insurance with insurance sums that exceed reinsurance contract limits without prior approval of the Reinsurance Team, that the optional reinsurance protection has been provided or that the optional reinsurance protection is not needed.

Analysis of the Company's portfolio from the aspect of reinsurance risk

Earthquake risk presents the highest concentration of Adriatic Slovenica's insurance risk. The reinsurance protection for catastrophic perils is therefore formed considering the millennial return period, based on the modelling results of our exposure to earthquake risk as per the AIR model, which is performed by our reinsurance intermediary Guy Carpenter. The earthquake exposure is managed by proportional reinsurance, supplemented by non-proportional reinsurance after the event and reinsurance coverage of annual claims aggregate.

The catastrophic perils reinsurance protection also covers the perils of floods, storm, hail and other natural disasters.

In 2014, there were several events of large proportions, for example glaze in February and flooding in November, but their extent did not exceed the threshold for enforcement of reinsurance protection.

In the Company's portfolio, the largest portion of premiums is from car insurance. Apart from non-proportional reinsurance for individual insurance classes, there was also a quota reinsurance contract for car insurance in 2014.

Health insurance presents a much dispersed risk, therefore, for the existing extent of insurance coverage, the equalisation is performed within the Company. The life insurance portfolio is homogenous, with a small portion of risks exceeding the Company's maximum retention; hence it is covered with a proportional, and in the event of mass losses, with an additional (extra) non-proportional contractual reinsurance protection.

The structure of the reinsurance programme is comparable with 2013 since in the past years, it has responded adequately to loss events exceeding own shares, calculated for individual insurance classes.

Reinsurance concentration in the financial year 2014

Type of reinsurance in EUR	Reinsurance premium	Structure of reinsurance premium	Reinsurance policy fees	Written reinsurance claims/losses	Change in unearned premiums for reinsurance	Change in outstanding claims provisions for reinsurance	Impact of reinsurance result on profit
Motor QS	(37,668,321)	78.23%	12,245,461	21,371,636	-	1,991,310	(2,059,914)
Quota share reinsurance of earthquake risk	(1,806,513)	3.75%	467,355	6,113	21,444	339	(1,311,262)
Non-life Gross Risk XL reinsurance	(1,535,131)	3.19%	-	-	-	299,472	(1,235,659)
Engineering Risk XL reinsurance	(159,567)	0.33%	-	42,531	-	(43,800)	(160,836)
Non-life Cat XL reinsurance	(1,532,781)	3.18%	-	135,548	-	(480,017)	(1,877,251)
Non-life, i.e. annual aggregate Cat XL losses	(790,000)	1.64%	-	465	(27,049)	(465)	(817,049)
XL reinsurance motor vehicle liability insurance and green cards	(627,204)	1.30%	-	424,631	-	1,603,592	1,401,020
XL reinsurance of comprehensive automobile insurance (casco)	(45,449)	0.09%	-	42,392	-	-	(3,057)
Other non-life insurance	**(2,715,453)**	**5.64%**	**193,438**	**1,255,930**	**110,485**	**(649,640)**	**(1,805,240)**
Health insurance	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Life insurance	**(1,271,200)**	**2.64%**	**328,592**	**334,092**	**(7,310)**	**19,521**	**(596,306)**
Total reinsurance in the financial year	**(48,151,620)**	**100%**	**13,234,846**	**23,613,339**	**97,570**	**2,740,312**	**(8,465,554)**
Co-insurance provided	**(105,463)**	**0.00%**	**23,801**	**1,257**	**(6,147)**	**(2,612)**	**(89,165)**
Co-insurance received	**402,841**	**0.00%**	**(75,005)**	**(12,581)**	**(30,414)**	**(22,715)**	**262,126**
Total Re(co)insurance	**(47,854,242)**	**0.00%**	**13,183,642**	**23,602,014**	**61,010**	**2,714,985**	**(8,292,593)**

Reinsurance concentration in the financial year 2013

Type of reinsurance in EUR	Reinsurance premium	Structure of reinsurance premium	Reinsurance policy fees	Written reinsurance claims/losses	Change in unearned premiums for reinsurance	Change in outstanding claims provisions for reinsurance	Impact of reinsurance result on profit
Motor QS	(41,519,734)	80.99%	13,859,857	22,711,475	-	2,895,434	(2,052,968)
Quota share reinsurance of earthquake risk	(1,767,777)	3.45%	481,931	1,446	(4,782)	(2,221)	(1,291,402)
Non-life Gross Risk XL reinsurance	(1,568,633)	3.06%	-	324,613	-	-	(1,244,019)
Engineering Risk XL reinsurance	(142,758)	0.28%	-	-	-	73,800	(68,958)
Non-life Cat XL reinsurance	(1,608,622)	3.14%	-	911,173	-	(1,256,955)	(1,954,404)
Non-life, i.e. annual aggregate Cat XL losses	(917,927)	1.79%	-	103,235	82,076	(107,103)	(839,718)
XL reinsurance motor vehicle liability insurance and green cards	(645,300)	1.26%	-	250,114	-	250,079	(145,106)
XL reinsurance of comprehensive automobile insurance (casco)	(46,100)	0.09%	-	-	-	-	(46,100)
Other non-life insurance	**(2,065,554)**	**4.03%**	**140,214**	**682,124**	**18,303**	**445,561**	**(732,322)**
Health insurance	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Life insurance	**(983,796)**	**1.92%**	**131,513**	**291,520**	**29,474**	**(56,180)**	**(587,468)**
Total reinsurance in the financial year	**(51,266,199)**	**100%**	**14,613,514**	**25,275,700**	**125,071**	**2,242,416**	**(8,962,466)**
Co-insurance provided	**(105,505)**	**0.00%**	**25,035**	**8,169**	**(1,788)**	**3,854**	**(70,235)**
Co-insurance received	**237,907**	**0.00%**	**(38,912)**	**(22,397)**	**(9,876)**	**(47,031)**	**119,692**
Total Re(co)insurance	**(51,133,797)**	**0.00%**	**14,599,638**	**25,261,473**	**113,407**	**2,199,239**	**(8,913,009)**

The above table shows the reinsurance concentration for all contracts.

Reinsurance premium accounted for 16.2 % of gross written premium of all insurance segments in 2014, and amounted to 48,151,620 euros. Within this amount, the quota share reinsurance premium of car insurance accounts for 78 %. In 2013, the reinsurance premium presented 16.7 % of gross written premium of all segments and totalled 51,266,199 euros (of which, quota share reinsurance premium of car insurance accounted for 81 %).

In 2014, Adriatic Slovenica recorded only a few individual loss events, for which the non-proportional reinsurance protection was pursued. From reinsurers' shares in claims, there was a total of 23,613,339 euros (2013: 26,252,320 euros), out of which, as much as 21,371,636 euros (2013: 26,252,320 euros) from car insurance quota, and in other insurance classes, there were 2,241,703 euros (2013: 22.711.475 euros) of claims.

6.2.3 Financial (market) risks

The Company is exposed to market risks through its financial assets and liabilities, and reinsurance assets and liabilities arising from its insurance contracts. The key market risk that the Company faces is that the future market changes will reflect on the value of the Company's financial assets, meaning that the receivables from insurance contracts will not be covered by counterparties (credit risk), which could eventually lead to a situation when the inflows from financial investments will not suffice for covering the outflows, arising from insurance and financial contracts.

The most important components of market risk are:

- liquidity risk,
- credit risk,
- risk of change in prices of debt securities,
- interest risk,
- currency risk and
- risk of change in other prices.

The insurance company, within its investment policy, actively manages and controls all risks to which it is exposed with its assets and liabilities by constant monitoring of cash flows and ensuring that it always has enough liquid assets at its disposal to settle its liabilities, by investing its assets in a manner which ensures stable long-term returns which exceed the amount of returns on insurance liabilities, by matching the terms of financial assets against financial liabilities, and by ensuring adequacy of financial assets.

In the disclosures related to the presentation of financial risk management, the assets and liabilities of life insurance long-term business funds where the policyholder bears the investment risk, since the financial risks are entirely assumed by the policyholders. In 2014, these assets totalled 261,958,391 euros (2013: 224,029,384 euros), out of which, 257,518,981 euros (2013: 213,925,868 euros) of assets from the balance sheet are related to the category of assets of policyholders who bear investment risk, and 4,439,410 euros (2013: 10,103,516 euros) to other balance sheet categories of long-term business funds of policyholders who bear investment risk.

The following tables show how the insurance company manages and controls market risks. All the risks are monitored by the Company at the level of individual long-term business funds, i.e. assets backing liabilities, while the analysis of assets and liabilities (ALM – asset liability management) for financial risk management at the insurance contract level.

The first table presents the balance of all assets and liabilities by individual items and how the amount of particular financial assets and of aggregate assets by insurance class and investment contracts matches the amount of liabilities. The tables containing the results of the asset and liability analysis for financial risk management for 2014 and 2013 show that the sum of assets and liabilities is not equal to the sum of individual amounts by insurance class, since in the category "financial receivables, other operating receivables, other assets and liabilities" assets and liabilities were offset also at the level of the aggregate sum.

Analysis of assets and liabilities for financial risk management as at 31 December 2014

in EUR	Non-life insurance contracts, excluding health insurance	Health insurance contracts	Life insurance contracts	Total
ASSETS				
Financial assets at fair value through profit or loss	**22,222,522**	**998,949**	**4,391,715**	**27,613,186**
- listed	14,040,623	938,948	4,224,799	19,204,369
Government bonds	8,181,899	60,001	166,916	8,408,817
Held-to-maturity financial assets	**8,248,183**	**601,248**	**24,314,382**	**33,163,813**
- listed	8,248,183	601,248	12,462,841	21,312,271
Government bonds	-	(0)	11,851,542	11,851,542
Available-for-sale financial assets	**26,092,424**	**3,688,367**	**60,922,297**	**90,703,088**
- listed	5,986,883	(0)	18,235,151	24,222,035
- non-listed	6,765,387	-	0	6,765,387
Government bonds	13,340,154	3,688,367	42,687,145	59,715,666
Total debt financial instruments	**56,563,129**	**5,288,563**	**89,628,394**	**151,480,086**
Financial assets at fair value through profit or loss	2,149,359	-	1,082,098	3,231,457
- listed	2,149,359	-	1,082,098	3,231,457
Available-for-sale financial assets	30,053,218	3,103,165	13,240,348	46,396,731
- listed	25,894,206	2,914,772	11,188,759	39,997,737
- non-listed	4,159,012	188,392	2,051,589	6,398,994
Total equity financial instruments	**32,202,577**	**3,103,165**	**14,322,447**	**49,628,188**
Loans, deposits and financial receivables	27,351,449	12,200,812	11,751,871	51,304,132
Investments in subsidiaries and associates	23,362,162	360,197	3,696,234	27,418,592
Total financial investments	**139,479,316**	**20,952,736**	**119,398,946**	**279,830,998**
Amount (technical provisions) transferred to reinsurers	28,859,413	-	222,031	29,081,444
Receivables from insurance business and other operating receivables	37,002,460	9,136,801	2,879,201	40,983,654
Cash and cash equivalents	4,550,026	859,037	4,671,383	10,080,447
Other assets	62,650,027	774,079	1,950,465	65,225,798
Total assets	**272,541,242**	**31,722,654**	**129,122,025**	**425,202,340**
LIABILITIES				
Liabilities from insurance contracts	**156,348,072**	**14,053,085**	**-**	**170,401,156**
- non-current liabilities	63,809,178	328,697	-	64,137,874
- current liabilities	92,538,894	13,724,388	-	106,263,282
Liabilities from insurance contracts with DPF	**-**	**-**	**103,651,695**	**103,651,695**
- non-current liabilities	-	-	92,692,595	92,692,595
- current liabilities	-	-	10,959,100	10,959,100
Equity capital	**77,812,762**	**7,180,586**	**21,754,944**	**106,748,292**
Other liabilities	**38,380,409**	**10,488,983**	**3,715,387**	**44,401,198**
- non-current liabilities	7,784,414	1,122,348	2,862,410	9,561,192
- current liabilities	30,595,995	9,366,636	852,977	34,840,006
Total liabilities	**272,541,242**	**31,722,654**	**129,122,025**	**425,202,340**

This table should be read together with the note in Section 6.2.3., paragraph 4.

Analysis of assets and liabilities for financial risk management as at 31 December 2013 – Adjusted

in EUR	Non-life insurance contracts, excluding health insurance	Health insurance contracts	Life insurance contracts	Total
ASSETS				
Financial assets at fair value through profit or loss	**25,694,530**	**2,133,938**	**5,090,757**	**32,919,224**
- listed	20,089,089	2,015,872	4,882,302	26,987,263
Government bonds	5,605,441	118,066	208,455	5,931,961
Held-to-maturity financial assets	**10,759,727**	**2,124,540**	**25,212,089**	**38,096,356**
- listed	9,296,618	1,037,479	10,308,950	20,643,047
- non-listed	-	-	302,874	302,874
Government bonds	1,463,108	1,087,062	14,600,265	17,150,435
Available-for-sale financial assets	**31,934,502**	**2,328,590**	**50,931,697**	**85,194,789**
- listed	7,269,649	605,945	13,856,654	21,732,248
- non-listed	6,764,852	-	0	6,764,852
Government bonds	17,900,000	1,722,645	37,075,043	56,697,689
Total debt financial instruments	**68,388,758**	**6,587,068**	**81,234,543**	**156,210,369**
Financial assets at fair value through profit or loss	2,320,833	-	1,133,345	3,454,179
- listed	2,320,833	-	1,133,345	3,454,179
Available-for-sale financial assets	26,568,031	4,072,950	10,383,547	41,024,528
- listed	18,708,208	3,876,415	7,790,822	30,375,444
- non-listed	7,859,823	196,536	2,592,725	10,649,083
Total equity financial instruments	**28,888,864**	**4,072,950**	**11,516,892**	**44,478,707**
Loans, deposits and financial receivables	30,600,616	10,594,833	16,719,273	56,936,553
Investments in subsidiaries and associates	21,543,080	430,114	-	21,973,193
Total financial investments	**149,421,319**	**21,684,965**	**109,470,708**	**279,598,822**
Amount (technical provisions) transferred to reinsurers	26,042,501	-	209,820	26,252,320
Receivables from insurance business and other operating receivables	89,280,541	11,439,363	17,626,954	99,340,664
Cash and cash equivalents	4,350,446	2,035,771	3,018,376	9,404,593
Other assets	61,242,249	1,607,855	2,700,488	65,376,077
Total assets	**330,337,055**	**36,767,955**	**133,026,345**	**479,972,477**
LIABILITIES				
Liabilities from insurance contracts	**161,670,371**	**15,311,320**	**-**	**176,981,691**
- non-current liabilities	67,088,256	14,876,498	-	81,964,753
- current liabilities	94,582,115	434,823	-	95,016,938
Liabilities from insurance contracts with DPF	**-**	**-**	**102,318,889**	**102,318,889**
- non-current liabilities	-	-	90,508,717	90,508,717
- current liabilities	-	-	11,810,172	11,810,172
Equity capital	**67,980,397**	**12,163,919**	**13,053,114**	**93,197,430**
Other liabilities	**100,686,289**	**9,292,715**	**17,654,343**	**107,474,467**
- non-current liabilities	88,354,659	1,620,497	498,264	90,298,904
- current liabilities	12,331,630	7,672,219	17,156,079	17,175,563
Total liabilities	**330,337,056**	**36,767,955**	**133,026,346**	**479,972,477**

This table should be read together with the note in Section 6.2.3., paragraph 4.

In the tables showing the classification of assets by maturity into non-current and current assets for 2014 and for 2013, the sum of assets and liabilities is not equal to the sum of individual amounts by insurance groups (funds), since in the category carrying "other assets and liabilities", assets and liabilities have been offset between the funds at the level of the aggregate sum.

Classification of assets by maturity into non-current and current assets as at 31 December 2014

In EUR	Non-life insurance contracts, excluding health insurance	Health insurance contracts	Life insurance contracts	Total
Non-current assets				
Debt securities	**34,340,607**	**4,289,614**	**85,236,679**	**123,866,900**
Available for sale	26,092,424	3,688,367	60,922,297	90,703,088
- listed	19,327,037	3,688,367	60,922,297	83,937,701
- non-listed	6,765,387	-	0	6,765,387
Held to maturity	8,248,183	601,248	24,314,382	33,163,813
- listed	8,248,183	601,248	24,314,382	33,163,813
Equity securities	**30,053,218**	**3,103,165**	**13,240,348**	**46,396,731**
Available for sale	30,053,218	3,103,165	13,240,348	46,396,731
- listed	25,894,206	2,914,772	11,188,759	39,997,737
- non-listed	4,159,012	188,392	2,051,589	6,398,994
Investments in subsidiary and associates	23,362,162	360,197	3,696,234	27,418,592
Loans, deposits and financial receivables	4,093,573	3,200,095	3,334,982	10,628,649
Total financial investments	**91,849,560**	**10,953,070**	**105,508,243**	**208,310,872**
Amount (technical provisions), transferred to reinsurers	15,432,068	-	-	15,432,068
Receivables from insurance business and other operating receivables	2,840,594	450,755	331,142	3,622,491
Other assets	30,839,013	-	859,053	31,698,066
Total assets	**140,961,235**	**11,403,825**	**106,698,437**	**259,063,497**
Current assets				
Debt securities	**22,222,522**	**998,949**	**4,391,715**	**27,613,186**
At fair value through profit or loss	22,222,522	998,949	4,391,715	27,613,186
- listed	22,222,522	998,949	4,391,715	27,613,186
Equity securities	**2,149,359**	**-**	**1,082,098**	**3,231,457**
At fair value through profit or loss	2,149,359	-	1,082,098	3,231,457
- listed	2,149,359	-	1,082,098	3,231,457
Loans, deposits and financial receivables	23,257,875	9,000,717	8,416,890	40,675,482
Total financial investments	**47,629,756**	**9,999,666**	**13,890,703**	**71,520,125**
Amount (technical provisions), transferred to reinsurers	13,427,345	-	222,031	13,649,376
Receivables from insurance business and other operating receivables	34,161,865	8,686,046	2,548,059	37,361,164
Cash and cash equivalents	4,550,026	859,037	4,671,383	10,080,447
Other assets	31,811,014	774,079	1,091,412	33,527,732
Total assets	**131,580,007**	**20,318,829**	**22,423,588**	**166,138,843**

This table should be read together with the note in Section 6.2.3., paragraph 4.

As at the end of 2014, the non-current assets prevail with a 61 % share, leaving behind the Company's current assets accounting for 39 % of total assets. The ratio between those two categories remains the same as last year.

Classification of assets by maturity into non-current and current assets as at 31 December 2013 – Adjusted

In EUR	Non-life insurance contracts, excluding health insurance	Health insurance contracts	Life insurance contracts	Total
Non-current assets				
Debt securities	**42,694,228**	**4,453,130**	**76,143,786**	**123,291,145**
Available for sale	31,934,502	2,328,590	50,931,697	85,194,789
- listed	25,169,650	2,328,590	50,931,697	78,429,937
- non-listed	6,764,852	-	0	6,764,852
Held to maturity	10,759,727	2,124,540	25,212,089	38,096,356
- listed	10,759,727	2,124,540	24,909,215	37,793,482
- non-listed	-	-	302,874	302,874
Equity securities	**26,568,031**	**4,072,950**	**10,383,547**	**41,024,528**
Available for sale	26,568,031	4,072,950	10,383,547	41,024,528
- listed	18,708,208	3,876,415	7,790,822	30,375,444
- non-listed	7,859,823	196,536	2,592,725	10,649,083
Investments in subsidiary and associates	21,543,080	430,114	-	21,973,193
Loans, deposits and financial receivables	3,871,906	3,034,712	10,391,635	17,298,253
Total financial investments	**94,677,245**	**11,990,906**	**96,918,968**	**203,587,119**
Amount (technical provisions), transferred to reinsurers	12,935,904	-	(0)	12,935,904
Receivables from insurance business and other operating receivables	45,538,390	456,891	470,011	46,465,292
Other assets	30,604,178	-	1,145,404	31,749,582
Total assets	**183,755,716**	**12,447,797**	**98,534,384**	**294,737,897**
Current assets				
Debt securities	**25,694,530**	**2,133,937**	**5,090,757**	**32,919,224**
At fair value through profit or loss	25,694,530	2,133,937	5,090,757	32,919,224
- listed	25,694,530	2,133,937	5,090,757	32,919,224
Equity securities	**2,320,833**	**-**	**1,133,345**	**3,454,179**
At fair value through profit or loss	2,320,833	-	1,133,345	3,454,179
- listed	2,320,833	-	1,133,345	3,454,179
Loans, deposits and financial receivables	26,728,710	7,560,122	6,327,638	39,638,300
Total financial investments	**54,744,073**	**9,694,059**	**12,551,740**	**76,011,703**
Amount (technical provisions), transferred to reinsurers	13,106,597	-	209,820	13,316,417
Receivables from insurance business and other operating receivables	43,742,151	10,982,472	17,156,942	52,875,372
Cash and cash equivalents	4,350,446	2,035,771	3,018,376	9,404,593
Other assets	30,638,071	1,607,855	1,555,084	33,626,496
Total assets	**146,581,339**	**24,320,158**	**34,491,962**	**185,234,581**

This table should be read together with the note in Section 6.2.3., paragraph 4.

At the end of 2013, the non-current assets prevail with a 61 % share, leaving behind the Company's current assets accounting for 39 % of total assets.

Liquidity risk and fair value measurement

Exposure to liquidity risk is reflected in possible liquidity problems and/or the ability of the insurance company to meet contractual liabilities arising from the concluded insurance contracts and other current liabilities arising from operations conducted by the insurance company.

The Company mitigates its exposure to liquidity risk by maintaining a suitable structure and adequate diversification of investments, planning future cash flows to cover future foreseeable liabilities and providing an adequate volume of high liquidity investments in order to cover future contingencies.

The following tables present the types of the Company's liabilities according to their maturity. In addition, liabilities arising from unit-linked insurance contracts are also disclosed.

Overview of maturity of liabilities in 2014 – undiscounted cash flows

Liabilities In EUR	Carrying amount	No maturity date	Undiscounted cash flows from liabilities Up to 1 year	1-5 years	5-10 years	10-15 years	over 15 years
Non-life and health insurance	170,401,156	-	106,264,938	39,627,764	16,756,072	6,944,050	808,333
Unit-linked life insurance	254,556,502	-	6,331,294	48,957,483	50,740,756	39,092,739	109,434,231
Life insurance	103,651,695	-	8,346,625	14,599,482	24,683,905	28,193,769	72,917,562
Other liabilities	51,804,334	-	51,804,334	-	-	-	-
Total Liabilities	**580,413,688**	**-**	**172,747,191**	**103,184,728**	**92,180,732**	**74,230,558**	**183,160,126**

Overview of maturity of liabilities in 2013 – undiscounted cash flows – Adjusted

Liabilities In EUR	Carrying amount	No maturity date	Undiscounted cash flows from liabilities Up to 1 year	1-5 years	5-10 years	10-15 years	over 15 years
Non-life and health insurance	176,981,691	-	109,903,757	41,344,431	17,250,511	7,834,993	647,998
Unit-linked life insurance	212,077,431	-	4,003,400	37,923,198	42,128,145	29,373,340	98,649,349
Life insurance	102,318,889	-	8,599,494	16,615,577	24,986,863	26,582,719	67,385,240
Other liabilities	113,506,317	-	23,963,346	89,542,971	-	-	-
Total Liabilities	**604,884,328**	**-**	**146,469,996**	**185,426,177**	**84,365,519**	**63,791,052**	**166,682,588**

Credit risk

Credit risk is a potential loss of the Company in case of failure by the third party/debtor to fulfil the contractual obligations. The segments most exposed to credit risk are: financial investments, loans and receivables, receivables from insurance contracts and reinsurance assets.

The insurance company manages its exposure to credit risk mainly by constant monitoring of credit rating of issuers of financial instruments and ensuring adequate dispersal of investments between investments involving a degree of risk and no-risk investments. Adriatic Slovenica monitors credit risk associated with receivables from insurance transactions and reinsurance assets on the basis of assessing the collectability of individual receivables. Credit rating procedures are based on obtaining and checking of publicly accessible information on the current financial position of the issuers of financial instruments and their future liquidity.

The procedures used for the management of credit risk associated with reinsurance do not differ from those followed when financial assets are invested and are based on checking credit rating of a reinsurer. In accordance with the strategy for credit risk management, liabilities covered by reinsurance arrangements are reinsured by investment-grade reinsurers.

Maximum exposure to credit risk by category of financial assets as at 31 December 2014[1]

In EUR	AAA-A	BBB-B	CCC-C	Not rated	Total on 31 December 2014
Financial assets at fair value through profit or loss	4,624,127	16,013,104	1,649	6,974,306	**27,613,186**
Debt securities	4,624,127	16,013,104	1,649	6,974,306	**27,613,186**
Held-to-maturity financial assets	1,925,180	23,624,004	-	7,614,628	**33,163,813**
Debt securities	1,925,180	23,624,004	-	7,614,628	**33,163,813**
Available- for-sale financial assets	1,259,658	70,559,771	347,057	18,536,601	**90,703,088**
Debt securities	1,259,658	70,559,771	347,057	18,536,601	**90,703,088**
Loans, deposits and financial receivables	-	9,220,339	2,812,397	39,271,396	**51,304,132**
Total financial investments	**7,808,965**	**119,417,218**	**3,161,104**	**72,396,931**	**202,784,218**
Receivables arising from insurance contracts and other operating receivables	5,875,748	287,558	-	34,820,348	**40,983,654**
Reinsurers' share of technical provisions	25,494,743	3,310,142	-	276,559	**29,081,444**
Cash and cash equivalents	-	7,363,474	170,460	2,546,512	**10,080,446**
Total assets exposed to credit risk	**39,179,456**	**130,378,392**	**3,331,564**	**110,040,351**	**282,929,763**

The portfolio of bonds investments which does not have the credit rating at disposal is mainly related to debt securities of important Slovene companies and banks, which are partially or entirely state-owned.

Maximum exposure to credit risk by category of financial assets as at 31 December 2013 – Adjusted

In EUR	AAA-A	BBB-B	CCC-C	Not rated	Total on 31 December 2013
Financial assets at fair value through profit or loss	6,195,910	15,697,590	51,013	10,974,712	**32,919,224**
Debt securities	6,195,910	15,697,590	51,013	10,974,712	**32,919,224**
Held-to-maturity financial assets	3,167,624	18,980,722	-	15,948,010	**38,096,356**
Debt securities	3,167,624	18,980,722	-	15,948,010	**38,096,356**
Available- for-sale financial assets	-	61,751,697	5,972,616	17,348,136	**85,072,449**
Debt securities	-	61,751,697	5,972,616	17,348,136	**85,072,449**
Loans, deposits and financial receivables	501,853	5,002,025	5,423,663	46,009,012	**56,936,553**
Total financial investments	**9,865,388**	**101,432,033**	**11,447,293**	**90,279,869**	**213,024,583**
Receivables arising from insurance contracts and other operating receivables	41,139,362	159,582	-	58,041,721	**99,340,664**
Reinsurers' share of technical provisions	21,893,364	3,844,412	-	514,545	**26,252,320**
Cash and cash equivalents	2,469,095	2,816,700	1,478,970	2,639,828	**9,404,593**
Total assets exposed to credit risk	**75,367,208**	**108,252,727**	**12,926,263**	**151,475,963**	**348,022,161**

In 2014, for the first time after many years, Slovenia has achieved unexpectedly high growth/recovery of GDP, which was above the EU average. The growth was mostly a consequence of higher net exports, but it was a reason good enough for the credit rating agencies to positively adjust the credit rating of Slovenia from negative to stable. Due to a significant fall in the required profitability of European bonds, which was a consequence of lower interest rate risk, as well as lower credit mark-ups among states, in last year, the required profitability of a 10-year Slovene government bond dropped by more than 50 % - from 5.05 % to 2.20 %, which resulted in almost 30 % growth of the bond. The Slovene stock index SBITOP made up for a part of the missed growth after several years of delay behind other European stock indexes and produced a 24 % growth (including dividends), which, assisted by increased privatisation expectations of returns positioned it at the top on

[1] This table should be read together with the note in Section 6.2.3., paragraph 4. In the tables containing Maximum exposure to credit risk by category of financial assets as at 31 December 2014 and 2013, the sum of assets and liabilities is not equal to the sum of individual amounts by insurance class, since in the category of other receivables and liabilities, set-offs among funds were performed only at the level of the aggregate sum.

global level in 2014. It is important to mention that the stabilisation of the banking system / multi-billion recapitalisation of three largest banks at the end of 2013 was the key local catalyst which returned trust in the financial market.

Aligned with the circumstances in the Slovene macroeconomic area, as well as in the banking sector in 2014 and the management of related risks, we disclose the exposure of the insurance company's investment portfolio to Slovenia in total, and furthermore separately to the Slovene state and its banking sector, depicted in the table below:

Exposure of investments

Exposure of investments to Slovenia (in %)	2014	2013
EXPOSURE TO THE REPUBLIC OF SLOVENIA	18.81%	18.71%
investments in bonds issued by the RS	8.36%	8.30%
investments in Slovene bonds of banks	2.67%	2.28%
investments in shares of Slovene banks	0.34%	0.25%
deposits with Slovene banks	7.43%	7.88%

Credit risk: Financial instruments that are not past due and those that are past due, but not impaired, as at 31 December 2014

In EUR	Neither past due nor impaired	Total past due and not impaired				Total past-due date and not impaired	Total past due and impaired				Total past due date and impaired	Total
		Up to 30 days	From 31 to 90 days	From 91 to 270 days	Over 270 days		Gross value	Value adjustment – individual impairment	Value adjustment – group impairment	Net value		
Financial investments (debt securities)	**151,480,086**	-	-	-	-	**-**	-	-	-	-	**-**	**151,480,086**
Loans and financial receivables	**31,716,364**	21,216	11,753	72,366	67,011	**172,346**	3,385,944	(328,786)	14,511	1,549,029	**1,549,029**	**33,437,739**
Amount (technical provisions) ceded to reinsurers	**29,081,444**	-	-	-	-	**-**	-	-	-	-	**-**	**29,081,444**
Receivables from Insurance contracts and other	**32,277,005**	**-**	**-**	**-**	**-**	**-**	**20,274,969**	**5,684,894**	**5,883,426**	**8,706,649**	**8,706,649**	**40,983,654**
Insurance receivables	**22,552,294**	-	-	-	-	**-**	16,298,383	3,845,148	4,637,627	7,815,607	**7,815,607**	**30,367,901**
Recourse receivables	**-**	**-**	**-**	**-**	**-**	**-**	2,818,737	1,312,489	705,187	801,062	**801,062**	**801,062**
Other receivables	**9,724,711**	-	-	-	-	**-**	1,157,849	527,257	540,612	89,980	**89,980**	**9,814,691**
Total	**244,554,899**	**21,216**	**11,753**	**72,366**	**67,011**	**172,346**	**23,660,914**	**5,356,108**	**5,897,938**	**10,255,678**	**10,255,678**	**254,982,923**

This table should be read together with the note in Section 6.2.3., paragraph 4.

Credit risk: Financial instruments that are not past due and those that are past due, but not impaired, as at 31 December 2013 – Adjusted

v EUR	Neither past due nor impaired	Total past due and not impaired				Total past-due date and not impaired	Total past due and not impaired				Total past due date and impaired	Total
		Up to 30 days	From 31 to 90 days	From 91 to 270 days	Over 270 days		Gross value	Value adjustment – individual impairment	Value adjustment – group impairment	Net value		
Financial investments (debt securities)	**156,088,029**	-	-	-	-	**-**	122,340	-	122,340	-	**-**	**156,088,029**
Loans and financial receivables	**24,884,219**	-	-	-	-	**-**	939,019	24,622	304,958	609,438	**609,438**	**25,493,657**
Amount (technical provisions) ceded to reinsurers	**26,252,320**	-	-	-	-	**-**	-	-	-	-	**-**	**26,252,320**
receivables	**84,477,710**	**-**	**-**	**-**	**-**	**-**	**26,399,940**	**2,539,109**	**8,997,876**	**14,862,955**	**14,862,955**	**99,340,664**
Insurance receivables	**80,086,776**	-	-	-	-	**-**	17,771,574	1,091,008	7,288,391	9,392,176	**9,392,176**	**89,478,952**
Recourse receivables	**-**	**-**	**-**	**-**	**-**	**-**	3,133,245	1,109,356	961,179	1,062,711	**1,062,711**	**1,062,711**
Other receivables	**4,390,934**	-	-	-	-	**-**	5,495,120	338,746	748,307	4,408,067	**4,408,067**	**8,799,001**
Total	**291,702,279**	**-**	**-**	**-**	**-**	**-**	**27,461,298**	**2,563,731**	**9,425,174**	**15,472,393**	**15,472,393**	**307,174,671**

This table should be read together with the note in Section 6.2.3., paragraph 4.

Risk of changes in prices of equity securities

This risk is defined as the risk of changes in the price of equity type investments which would affect the expected return of financial assets or their value, recognised in the investment portfolio of the Company. To mitigate this risk, the Company maintains a sector and geographic spread of investments, does not cross the allowed limitations of exposure towards individual issuers and invests its assets in investments with an appropriate ratio between risk and profitability.

Interest rate risk

The risk of changes in interest rates is reflected in the risk that the fair value of future cash flows from financial instruments will decline in relation to future cash flow expectations at the time of purchase of the financial instrument. The latter is reflected in the following: a change in market value of debt securities with fixed return, except when they are classified as held-to-maturity investments, or the risk associated with the ability to reinvest financial assets at maturity under at least identical conditions with those for financial assets past due.

With the aim to manage its exposure to interest rate risk, the insurance company applies the following procedures:

- for liabilities with determinable future cash flows, it employs immunization procedures, which allow it to balance the average duration of investments with the average duration of liabilities;
- balancing interest rates on assets and on liabilities;
- ensuring a suitable structure of investments in terms of profitability and duration.

Classification of financial assets and liabilities on the basis of fixed and variable interest rates [2]

	Fixed interest rate		Variable interest rate		Total	
in EUR	2014	2013	2014	2013	2014	2013
ASSETS						
Debt securities	151,415,872	154,380,454	64,214	1,707,575	151,480,086	156,088,029
Loans and deposits	48,696,584	54,359,200	974,505	1,307,623	49,671,089	55,666,823
Cash and cash equivalents	10,080,447	7,984,765	-	-	10,080,447	7,984,765
Total	**210,192,902**	**216,724,420**	**1,038,719**	**3,015,198**	**211,231,621**	**219,739,617**

This table should be read together with the note in Section 6.2.3., paragraph 4.

Insurance and investment contracts with the discretionary participation feature - DPF

The insurance company is exposed to interest rate risk under insurance and investment contracts with the DPF component only in association with the payments guaranteed by the contract. The contract-based payments to policyholders are increased by the pro rata share in the positive result from life and annuity insurance contracts. The Management Board of the Company approves the amount of the attribution of the additional profit under an individual contract.

Actual exposure to risk associated with the pension scheme/plan

Pension insurance scheme/plan	2014	2013
Average return on investments for the period	7.46%	1.42%
Regulatory (guaranteed) return	2.30%	2.30%
Difference in interest rates	**5.16%**	**-0.88%**

In 2014, the insurance company reached and even exceeded the guaranteed return in the voluntary supplementary pension insurance guarantee fund.

[2] Including receivables from long-term insurance fund of investment risk.

Currency risk

Currency (foreign exchange) risk is the risk that the exchange rate between the domestic currency in which investments are measured and the currency in which the value of individual investments is denominated will fluctuate and, consequently, negatively affect the value of investments.

Currency risk

in EUR	EUR	RDS	RON	HKD	HRK	Other	Total 31 Dec 2014
ASSETS							
Financial assets measured at fair value through profit or loss	29,955,601	651,552	180,029	57,462	-	-	30,844,643
Equity securities	2,342,415	651,552	180,029	57,462	-	-	3,231,457
Debt securities	27,613,186	-	-	-	-	-	27,613,186
Held-to-maturity financial assets	33,163,813	-	-	-	-	-	33,163,813
Debt securities	33,163,813	-	-	-	-	-	33,163,813
Available-for-sale financial assets	136,036,813	690,585	-	-	268,200	104,220	137,099,818
Equity securities	46,024,311	-	-	-	268,200	104,220	46,396,731
Debt securities	90,012,502	690,585	-	-	-	-	90,703,088
Loans, deposits and financial receivables	51,304,132	-	-	-	-	-	51,304,132
Investments into subsidiaries or associates	22,056,819	-	-	-	5,361,773	-	27,418,592
Total financial investment	**272,517,177**	**1,342,137**	**180,029**	**57,462**	**5,629,973**	**104,220**	**279,830,998**
Cash and cash equivalents	9,495,013	-	-	-	-	585,434	10,080,447
Total assets exposed to currency risk	**282,012,190**	**1,342,137**	**180,029**	**57,462**	**5,629,973**	**689,653**	**289,911,445**

This table should be read together with the note in Section 6.2.3., paragraph 4.

Currency risk

in EUR	EUR	RDS	RON	HKD	HRK	Other	Total 31 Dec 2013
ASSETS							
Financial assets measured at fair value through profit or loss	35,107,791	1,016,326	128,962	120,324	-	-	36,373,403
Equity securities	2,188,567	1,016,326	128,962	120,324	-	-	3,454,179
Debt securities	32,919,224	-	-	-	-	-	32,919,224
Held-to-maturity financial assets	38,096,356	-	-	-	-	-	38,096,356
Debt securities	38,096,356	-	-	-	-	-	38,096,356
Available-for-sale financial assets	125,119,264	407,038	-	-	693,001	14	126,219,317
Equity securities	40,046,814	407,038	-	-	693,001	14	41,146,868
Debt securities	85,072,449	-	-	-	-	-	85,072,449
Loans, deposits and financial receivables	56,936,553	-	-	-	-	-	56,936,553
Investments into subsidiaries or associates	21,973,193	-	-	-	-	-	21,973,193
Total financial investment	**277,233,158**	**1,423,364**	**128,962**	**120,324**	**693,001**	**14**	**279,598,822**
Cash and cash equivalents	9,404,593	0	-	-	-	-	9,404,593
Total assets exposed to currency risk	**286,637,751**	**1,423,364**	**128,962**	**120,324**	**693,001**	**14**	**289,003,416**

This table should be read together with the note in Section 6.2.3., paragraph 4.

The Company is subject to changes in foreign exchange rates, which affect its financial position and cash flows. Since the Republic of Slovenia is member of the Economic and Monetary Union (EMU) and uses the euro, it is estimated that the exposure of the Company to currency risk is relatively low. Assets exposed to the currency risk are disclosed for 2014 and 2013. The Company's liabilities are expressed in euros and are not separately exposed to the currency risk.

Pricing risk

Pricing risk is defined as the risk of changes in price of equity type investments, which can change depending on macroeconomic factors (systematic risk), or depending on the operations of the Company itself (non-systematic risk).

The Company minimises the risk of change in market prices of equities by respecting the highest permissible share of such investments, thus limiting the systematic risk, and by dispersing investments in equities, thus limiting non-systematic risk of fluctuation in market prices. In its life insurance operations, the Company mitigates pricing risk by concluding unit-linked life insurance contracts.

Market risk sensitivity analysis

Factors

The methods and assumptions used in the preparation of the sensitivity analysis for the types of market risks to which the insurance company is exposed, are presented in the table below.

Sensitivity factor	Description of the sensitivity factor
Interest rates	The effect of a ±50 bp (basic points) change in market interest rates (i.e. the effect on profit and on equity if the market interest rate changes by 50 bp). A change of ±50 bp would be a change in excess of 1 % in comparison with the interest rate change in the previous year
Securities rates	Effect of the ±5% change in prices of securities as at 31 December 2014
Change in price of financial assets	The effect of the change in the market price of financial assets is reflected in the ±15% changes in the share price, investment company shares price, price of structured securities and price of mutual fund units as at 31 December 2014.

Sensitivity analyses

Analysis of sensitivity to change in the interest rate

in EUR	Effect on profit	Effect on equity
31 December 2013		
Interest rate change of +50 bp	(580,503)	(2,275,956)
Interest rate change of -50 bp	427,383	2,403,359
31 December 2014		
Interest rate change of +50 bp	(559,361)	(3,360,445)
Interest rate change of -50 bp	391,293	3,249,767

Analysis of sensitivity to change in foreign currency rates

The majority of investments made by the insurance company is denominated in euros since its liabilities which arise out of insurance contracts are also euro-denominated. The Insurance Act (ZZavar) stipulates that an insurance company must match its investments of the long-term business fund (assets covering mathematical provisions) with long-term guarantees against its liabilities arising under insurance contracts whose amount depends on the fluctuations in the exchange rates of foreign currencies to at least 80%. Since the liabilities incurred by Adriatic Slovenica are denominated in euros, it can be concluded that the majority of its investments have been made in euro-denominated securities; hence its exposure to currency risk is very low.

Analysis of sensitivity to changes in prices of equity securities

in EUR	Effect on profit	Effect on equity
31 December 2013		
Change in prices of equities +15%	518,127	6,172,030
Change in prices of equities -15%	(518,127)	(6,172,030)
31 December 2014		
Change in prices of equities +15%	484,719	9,423,264
Change in prices of equities -15%	(484,719)	(9,423,264)

Under the sensitivity analysis, the changes in prices of shares refer to the closing rate on the reporting date; hence, as at 31 December 2013 for the previous year and as at 31 December 2014 for the current year.

In the context of the investments of the unit-linked policies, the investments reflect as much as possible the value of units of the mutual investment funds, which arise out of insurance contracts. The changes in values have no material effect on the Company's profit or loss. The change has an impact on the income from investments and at the same time on the changes in the amount of provisions, which means that the changes in the prices of securities have no material impact on the Company's profit or loss.

6.2.4 Fair value measurement of financial assets and liabilities

Fair value of financial assets and liabilities is the amount, by which, an asset can be exchanged or a debt can be repaid between knowledgeable and willing parties in a prudent business. The insurance company is generally establishing fair value of financial instruments as described in the policies in Section 4.5.5. To confirm fair value of investment real property, the insurance company uses appraisals of external authorised appraisers.

The fair value of debt securities (market bonds), allocated in the 3rd level of the fair value hierarchy, is determined in line with the Bloomberg generic (BGN) rates published in Bloomberg information system. Based on its valuation model and prices acquired from OTC intermediaries, Bloomberg calculates the rate and does not disclose the valuation methodology.

For financial assets and liabilities for which there is no active market, the insurance company, apart from appraisals done by external appraisers, uses the following models:

- Fair value of loans and deposits is calculated as the discounted value of future cash flows using the effective interest rate. In 2014, the insurance company valued the fair value of a loan for which there was reliable proof that permanent impairment was necessary. In fair value measurement of this loan, discounting of future cash flow values was done by applying the discount interest rate of 1.19 %. Taking into consideration that the loan was collateralised with real property, the discount interest rate for calculation of the present value of collateralised property within the model was determined based on informative request about interest rates above one year, for deposit value of 0.5 million euros, at prominent banks in Slovenia.
- The fair value of debts, not quoted in an active market, is determined as the discounted value of future cash flows using effective interest rate.

In the disclosure below, carrying amounts and fair values of financial assets, the fair value of which is to be determined, are displayed. For these assets, the carrying amount of loans, deposits, financial receivables and held-to-maturity financial assets equals their amortised cost.

Carrying amount and fair value[3]

In EUR	Carrying amount 2014	Carrying amount 2013	Fair value 2014	Fair value 2013
FINANCIAL ASSETS				
Deposits, loans and financial receivables	51,304,132	56,936,553	51,304,132	56,936,553
Financial assets at fair value through profit or loss	30,844,643	36,373,403	30,844,643	36,373,403
Held-to-maturity financial assets	33,163,813	38,096,356	37,710,682	36,963,816
Available-for-sale financial assets	137,099,819	126,219,317	137,099,819	126,219,317
Investment property	29,375,722	28,356,692	29,861,357	28,397,134
Total financial assets	**281,788,128**	**285,982,321**	**286,820,632**	**284,890,223**
FINANCIAL LIABILITIES				
Loans	43,971	350,840	43,971	350,840
Total financial liabilities	**43,971**	**350,840**	**43,971**	**350,840**

When reading this table, it is important to take into account that financial assets from unit-linked insurance are excluded (refer to note in Section 6.2.3., paragraph 4)

Assets, operating receivables and operating liabilities which are of short-term nature are not included in the display of assets and liabilities at fair value because it is assumed that the carrying value is a very good approximation of fair value.

Fair value hierarchy

Fair value estimation of financial investments depends on availability of market data, based on which, the Company can estimate fair value. The Company's fair value estimation of financial investments divides the investments into three levels, within which, fair value is estimated as:

- level 1 comprises investments for which the fair value is determined entirely based on the published prices on an active market
- level 2 includes investments for which the fair value is determined based on valuation models, using comparable market data (e.g. market price, market interest rate, credit mark-ups, and ratings). This level includes unlisted debt securities, for which the price is not determined based on the yield curve of comparable securities by maturity, rating, credit mark-up, unlisted compound debt securities, for which the fair value is determined based on market makers' models, taking into account the market variables, and Slovene bank and state debt securities, for which there is no active market. To determine the fair value of Slovene bank bonds, the basis for the calculation are the required yield of state bonds of comparable maturity and credit mark-up based on the rating as per the requirements of Solvency 2; and for Slovene state bonds, the basis is the yield of Slovene state bonds of comparable maturity, achieved on an active market.
- level 3 includes investments for which the fair value is determined based on valuation models using mostly non-market data, using subjective variables, not publicly available on markets.

In the tables below, the display of financial assets as per the hierarchy of fair value does not include assets without level.

[3] Including the receivables from guarantee fund of investment risk.

Financial assets categorised in the fair value hierarchy in 2014

in EUR	Level 1	Level 2	Level 3	Aggregate fair value
Financial assets measured at fair value through profit or loss, held for sale	**7,179,434**	**311,910**	**15,267,162**	**22,758,506**
Equity securities	2,958,437	-	-	2,958,437
Debt securities	3,947,977	311,910	15,267,162	19,527,049
Investment coupons of mutual funds	273,020	-	-	273,020
Financial assets measured at fair value through profit or loss, at initial recognition	**5,486,887**	**2,599,250**	**-**	**8,086,137**
Equity securities	-	-	-	-
Debt securities	5,486,887	2,599,250	-	8,086,137
Available-for-sale financial assets	**52,583,341**	**7,308,020**	**68,134,961**	**128,026,323**
Equity securities	9,947,673	-	-	9,947,673
Debt securities	15,260,105	7,308,020	68,134,961	90,703,087
Investment coupons of mutual funds	27,375,563	-	-	27,375,563
Held-to-maturity financial assets	16,943,940	-	20,766,742	37,710,682
Debt financial instruments	16,943,940	-	20,766,742	37,710,682
Deposits and loans	17,866,393	-	31,804,696	49,671,089
Investment property	-	-	29,375,722	29,375,722
Total assets	**100,059,995**	**10,219,180**	**165,349,283**	**275,628,458**
Loans	-	-	43,971	43,971
Total financial liabilities	**-**	**-**	**43,971**	**43,971**

The fair value of financial assets and liabilities from unit-linked insurance is allocated under level 1 and are not included in the display of assets by levels in 2014.

Within the portfolio of assets from financial investments, the insurance company also accounts for investments, valued at acquisition price in the amount of 36,492,121 euros. The insurance company performs annual reviews of value of these investments in case there would be a need for impairment. In 2014, these investments were impaired in the amount of 1,993,930 euros. These investments are not allocated into any of the levels.

Financial assets categorised in the fair value hierarchy in 2013

in EUR	Level 1	Level 2	Level 3	Aggregate fair value
Financial assets measured at fair value through profit or loss, held for sale	**23,048,766**	**3,048,354**	**-**	**26,097,120**
Equity securities	2,358,017	-	-	2,358,017
Debt securities	19,594,587	3,048,354	-	22,642,941
Investment coupons of mutual funds	1,096,161	-	-	1,096,161
Financial assets measured at fair value through profit or loss, at initial recognition	**7,372,274**	**-**	**-**	**7,372,274**
Equity securities	-	-	-	-
Debt securities	7,372,274	-	-	7,372,274
Investment coupons of mutual funds	-	-	-	-
Available-for-sale financial assets	**104,161,267**	**10,842,988**	**-**	**115,004,255**
Equity securities	2,029,150	-	-	2,029,150
Debt securities	74,229,461	10,842,988	-	85,072,449
Investment coupons of mutual funds	27,902,655	-	-	27,902,655
Held-to-maturity financial assets	38,096,356	-	-	38,096,356
Debt financial instruments	38,096,356	-	-	38,096,356
Deposits and loans	31,461,623	-	24,224,440	55,686,063
Investment property	-	-	28,356,692	28,356,692
Total assets	**204,140,285**	**13,891,342**	**52,581,132**	**270,612,759**
Loans	-	-	350,840	350,840
Total financial liabilities	**-**	**-**	**350,840**	**350,840**

The fair value of financial assets and liabilities from unit-linked insurance is allocated under level 1 and are not included in the display of assets by levels in 2013.

Within the portfolio of assets from financial investments, the insurance company also accounts for investments, valued at acquisition price in the amount of 33,183,445 euros. The insurance company performs annual reviews of value of these investments in case there would be a need for impairment. In 2013, these investments were impaired in the amount of 2,250,238 euros. These investments are not allocated into any of the levels.

Level 3 assets

Financial assets and liabilities categorised in the fair value hierarchy – Level 3 movement in 2014

in EUR	1 January 2014	Total profit/loss in profit or loss	Total profit/loss in comprehensive income	Purchase	Transfers (to) from Level 3	Sale	31/12/2014
Assets measured at fair value							
Financial assets measured at fair value through profit or loss, held for sale	-	-	-	-	-	**15,267,162**	**15,267,162**
Debt securities	-	-	-	-	-	15,267,162	15,267,162
Available-for-sale financial assets	-	-	-	-	-	**68,134,961**	**68,134,961**
Debt securities	-	-	-	-	-	68,134,961	68,134,961
Held-to-maturity financial assets	-	-	-	-	-	20,766,742	20,766,742
Debt financial instruments	-	-	-	-	-	20,766,742	20,766,742
Deposits and loans	24,224,440	1,055,492	-	31,634,332	(25,109,568)	-	31,804,696
Investment property	**28,356,692**	**(347,673)**	**-**	**2,912,549**	**(1,545,845)**	**-**	**29,375,722**
Total assets	**52,581,132**	**707,819**	**-**	**34,546,881**	**(26,655,413)**	**104,168,866**	**165,349,284**
Loans	**350,840**	3,160	-	472,500	(782,529)	-	43,971
Total financial liabilities	**350,840**	**3,160**	**-**	**472,500**	**(782,529)**	**-**	**43,971**

At the end of 2014, the insurance company reallocated investments within the fair value hierarchy from level 1 to level 3 in the amount of 104,168,866 euros. The reallocation includes market debt securities, valued at "Bloomberg generic " (BGN) prices. Debt securities (bonds), valued by the insurance company by prices, published by the Ljubljana stock exchange, remain in the level 1 on the fair value hierarchy.

Financial assets and liabilities categorised in the fair value hierarchy – Level 3 movement in 2013

in EUR	1 January 2013	Total profit/loss in profit or loss	Total profit/loss in comprehensive income	Purchase	Transfers (to) from Level 3	Sale	31/12/2013
Assets measured at fair value							
Deposits and loans	7,742,816	709,419	-	41,034,025	- 25,261,820	-	24,224,440
Investment property	**30,430,337**	**(3,503,918)**	**-**	**3,334,000**	**(1,903,728)**	**-**	**28,356,692**
Total assets	**30,430,337**	**(3,503,918)**	**-**	**3,334,000**	**(1,903,728)**	**-**	**28,356,692**
Loans		13,698	-	2,740,000	(2,431,072)	-	350,840
Total financial liabilities	**28,214**	**13,698**	**-**	**2,740,000**	**(2,431,072)**	**-**	**350,840**

6.2.5 Operational risk and strategic risk

Operational risk

Operational risk mostly includes the risk of loss as a result of ineffectiveness, failure or errors in the business process implementation, malfunction or non-existence of internal controls, unprofessional, inappropriate or harmful employee behaviour, system or infrastructure malfunction or any other external factors, including amendments to legislation, business interruptions due to natural catastrophes or epidemics, competition, etc.

The key moment for management of operational risks is their identification and assessment, and in the second stage the execution of measures for their minimisation and uninterrupted monitoring of other risks. For the past several years, Adriatic Slovenica has been maintaining a register of existing risks, which has been further developed content-wise in 2014. We have also established continued reporting of certain key risk indicators, which, together with the system of internal control reviews, serves a mechanism for (early) detection of risks and prevention of new ones from occurring. In 2014, we have also updated the Company's business continuity strategy, which is now aligned with the current organisational and process structure of the Company, and is directed toward an as quick as possible recovery of critical business processes.

Strategic risk

Strategic risks can occur in the early stages of strategy planning, strategy execution, management and strategic decision-making and supervision of the insurance company. The realisation of these risks can crucially affect the ability of the Company to reach its strategic goals. In order to eliminate these risks, it is of utmost importance that the Company has clearly determined responsibilities and competences, an effective communication and reporting system, and constant monitoring of fulfilment of the set goals. In order to manage the strategic risks as effectively as possible, we started to incorporate the risk-based principle into the process of business plan preparation. This means that the operating categories of the business plan will be designed in line with the Company's accepted appetite toward the risk, and the derived risk tolerance levels and operating limits. Before the final approval, the business plan will be tested in order to find out if the risk appetite and capital adequacy, as required by the Solvency II principles, are reached.

7. REPORTING BY SEGMENT

The insurance company presents its financial statements segmented in conformity with the regulatory requirement the Insurance Supervision Agency has laid down in the Decision on Annual Reports and Quarterly Financial Statements of Insurance Undertakings - SKL 2009, (published in the Official Gazette of the Republic of Slovenia Nos. 62/2013, 47/2011, 99/2010 and 47/2009).

The business segments of the insurance company are divided into insurance segments where similar insurance products are grouped.

Adriatic Slovenica, as a composite insurance company, presents its assets, liabilities, revenue, expenses and profit/loss separately for segments;

- non-life insurance,
- life insurance and
- health insurance, where there is also a division between supplementary health insurance and other health insurance.

The reporting segment of life insurance includes classic life insurance, annuity life insurance, unit-linked life insurance and pension insurance.

The assets and liabilities of business segments comprise assets and liabilities of the insurance company, directly attributable to an individual business segment, as well as those that can be indirectly allocated onto a business segment. Due to business transactions among funds and among individual segments, the balance of assets and liabilities in the total column does not equal the sum of individual business segments due to final offsetting on the level of assets and liabilities totals.

Revenue and expenses of a business segment are generated from the business segment's operations and can be directly attributable to the business segment, and also the corresponding share of revenue and expenses that can be reasonably allocated to the business segment.

The accounting policies applied to business segments are equal to the accounting policies of the insurance company.

The insurance company is not bound to prepare its reporting by segment in line with the IFRS requirements because its equity and debt securities are not publicly traded.

7.1 BALANCE SHEET BY SEGMENT

Balance sheet as at 31 December 2014 by segment in accordance with the Decision on the Annual Reports of Insurance Undertakings

in EUR	Life insurance	Non-life insurance	Supplemental health insurance	Other health insurance	Total
Assets	**391,111,665**	**272,541,242**	**29,471,272**	**2,251,382**	**687,191,980**
A. Intangible assets	**859,053**	**3,522,260**	**-**	**-**	**4,381,313**
B. Property, plant and equipment	**-**	**27,316,753**	**-**	**-**	**27,316,753**
D. Deferred tax assets	**331,149**	**2,840,594**	**432,924**	**17,830**	**3,622,498**
E. Investment properties	**1,081,785**	**28,261,693**	**-**	**32,244**	**29,375,722**
F. Financial investments in subsidiaries and associates	**3,696,234**	**23,362,162**	**360,197**	**-**	**27,418,592**
G. Financial investments	**116,404,002**	**116,117,154**	**19,379,330**	**1,213,209**	**253,113,696**
1.In loans and deposits	12,453,161	27,351,449	12,199,929	883	52,005,422
2. In held-to-maturity financial assets	24,314,382	8,248,183	601,248	-	33,163,813
3. In available-for-sale financial assets	74,162,645	56,145,642	5,867,906	923,626	137,099,819
4. In financial assets measured at fair value	5,473,813	24,371,881	710,248	288,701	30,844,643
H. Unit-linked investments of policyholders	**257,518,981**	**-**	**-**	**-**	**257,518,981**
I. Amounts of technical provisions ceded to reinsurers	**222,031**	**28,859,413**	**-**	**-**	**29,081,444**
K. Receivables	**4,368,394**	**34,161,865**	**7,981,926**	**704,120**	**39,181,499**
1. Receivables from direct insurance business	2,220,094	10,724,864	7,763,061	702,192	21,410,211
2. Receivables from reinsurance and coinsurance	12,149	6,292,619	-	-	6,304,768
3. Income tax receivables	134,820	3,396,627	-	-	3,531,447
4. Other receivables	2,001,331	13,747,755	218,866	1,927	7,935,073
L. Other assets	**1,327,076**	**3,549,321**	**737,117**	**4,719**	**5,469,459**
M. Cash and cash equivalents	**5,302,960**	**4,550,026**	**579,777**	**279,260**	**10,712,024**
Equity and liabilities	**391,111,665**	**272,541,242**	**29,471,272**	**2,251,382**	**687,191,980**
A. Equity	**21,784,944**	**77,812,762**	**6,480,938**	**699,648**	**106,778,292**
1. Share capital	11,973,787	31,025,743	-	-	42,999,530
2. Capital reserves	1,697,506	2,514,276	-	-	4,211,782
3. Reserve from profit	-	9,161,383	6,516,274	93,438	15,771,095
4. Revaluation surplus	3,178,218	2,648,328	(35,336)	6,210	5,797,421
5. Retained net earnings	27,097	18,869,412	-	600,000	19,496,509
6. Net profit or loss for the financial year	4,908,335	13,593,621	-	-	18,501,956
C. Technical provisions	**103,978,322**	**156,348,071**	**13,094,406**	**958,679**	**274,379,478**
1. Unearned premiums	482,216	42,612,091	7,636,723	374,854	51,105,883
2. Mathematical provisions	97,250,575	1,991	-	0	97,252,566
3. Outstanding claims provisions	5,925,848	112,405,512	5,457,087	107,424	123,895,871
4. Other technical provisions	319,683	1,328,477	595	476,401	2,125,157
D. Insurance technical provisions for unit-linked insurance policyholders	**254,229,875**	**-**	**-**	**-**	**254,229,875**
E. Other provisions	**-**	**3,126,745**	**-**	**-**	**3,126,745**
G. Deferred tax liabilities	**650,960**	**542,400**	**-**	**1,272**	**1,194,632**
I. Other financial liabilities	**424**	**754,753**	**470**	**135**	**755,781**
J. Operating liabilities	**3,395,082**	**15,135,273**	**3,387,478**	**72,454**	**21,990,287**
1. Liabilities from direct insurance contracts	1,246,043	1,252,721	2,013,517	30,724	4,543,005
2. Liabilities from reinsurance and coinsurance contracts	501,239	10,990,741	-	-	11,491,980
3. Income tax liabilities	1,647,800	2,891,811	1,373,961	41,730	5,955,302
K. Other liabilities	**7,072,058**	**18,821,238**	**6,507,980**	**519,195**	**24,736,890**

Balance sheet as at 31 December 2013 by segment in accordance with the Decision on the Annual Reports of Insurance Undertakings – Adjusted

in EUR	Life insurance	Non-life insurance	Supplemental health insurance	Other health insurance	Total
Assets	**351,077,493**	**330,337,055**	**35,224,086**	**1,543,869**	**698,072,375**
A. Intangible assets	**1,145,404**	**3,451,498**	**-**	**-**	**4,596,902**
B. Property, plant and equipment	**-**	**27,152,680**	**-**	**-**	**27,152,680**
D. Deferred tax assets	**606,142**	**2,752,991**	**420,126**	**36,765**	**3,816,023**
E. Investment properties	**1,514,510**	**26,809,477**	**-**	**32,705**	**28,356,692**
F. Financial investments in subsidiaries and associates	**-**	**21,543,080**	**430,114**	**-**	**21,973,193**
G. Financial investments	**110,331,877**	**127,878,239**	**20,856,398**	**398,454**	**258,535,548**
1.In loans and deposits	17,580,441	30,600,616	10,583,675	11,159	57,846,472
2. In held-to-maturity financial assets	25,212,089	10,759,727	2,010,090	114,450	38,096,356
3. In available-for-sale financial assets	61,315,244	58,502,533	6,132,040	269,501	126,219,317
4. In financial assets measured at fair value	6,224,102	28,015,363	2,130,593	3,345	36,373,403
H. Unit-linked investments of policyholders	**213,925,868**	**-**	**-**	**-**	**213,925,868**
I. Amounts of technical provisions ceded to reinsurers	**209,820**	**26,042,501**	**-**	**-**	**26,252,320**
K. Receivables	**18,569,627**	**86,527,550**	**10,064,093**	**918,379**	**97,073,456**
1. Receivables from direct insurance business	1,914,029	11,317,525	9,322,985	688,564	23,243,104
2. Receivables from reinsurance and coinsurance	256,095	41,167,053	-	-	41,423,147
3. Income tax receivables	652,824	1,607,010	-	-	2,259,833
4. Other receivables	15,746,679	32,435,963	741,107	229,815	30,147,372
L. Other assets	**1,061,836**	**3,828,595**	**1,539,544**	**35,606**	**6,291,066**
M. Cash and cash equivalents	**3,712,409**	**4,350,446**	**1,913,812**	**121,959**	**10,098,627**
Equity and liabilities	**351,077,493**	**330,337,055**	**35,224,086**	**1,543,869**	**698,072,375**
A. Equity	**13,043,731**	**67,980,397**	**11,480,894**	**683,025**	**93,188,047**
1. Share capital	11,973,787	31,025,743	-	-	42,999,530
2. Capital reserves	1,697,506	2,514,276	-	-	4,211,782
3. Reserve from profit	-	8,723,851	6,516,274	93,438	15,333,563
4. Revaluation surplus	(645,277)	(1,599,101)	(106,822)	7,382	(2,343,818)
5. Retained net earnings	(1)	22,322,684	-	253,492	22,576,176
6. Net profit or loss for the financial year	17,715	4,992,944	5,071,442	328,713	10,410,814
C. Technical provisions	**102,563,709**	**161,670,370**	**14,876,498**	**434,823**	**279,545,399**
1. Unearned premiums	534,060	41,562,648	8,869,098	350,373	51,316,179
2. Mathematical provisions	94,975,222	-	-	0	94,975,222
3. Outstanding claims provisions	6,591,800	117,654,432	6,006,639	84,419	130,337,291
4. Other technical provisions	462,628	2,453,290	760	30	2,916,708
D. Insurance technical provisions for unit-linked insurance policyholders	**211,832,611**	**-**	**-**	**-**	**211,832,611**
E. Other provisions	**200,781**	**2,566,030**	**-**	**-**	**2,766,811**
G. Deferred tax liabilities	**25,499**	**-**	**-**	**1,512**	**27,011**
I. Other financial liabilities	**28,432**	**1,064,267**	**929,509**	**-**	**1,092,790**
J. Operating liabilities	**2,950,283**	**85,196,657**	**4,345,461**	**395,089**	**92,887,490**
1. Liabilities from direct insurance contracts	1,177,713	1,181,399	3,341,273	336,950	6,037,334
2. Liabilities from reinsurance and coinsurance	531,629	83,893,886	-	-	84,425,515
3. Income tax liabilities	1,240,942	121,372	1,004,188	58,140	2,424,641
K. Other liabilities	**20,432,446**	**11,859,334**	**3,591,725**	**29,419**	**16,732,215**

7.2 INCOME STATEMENT BY SEGMENT

Income statement for the period from 1 January 2014 to 31 December 2014 in accordance with the Decision on Annual Reports of Insurance Undertakings

in EUR	Life insurance	Non-life insurance	Supplemental health insurance	Other health insurance	Total
I. NET PREMIUM INCOME	**52,526,650**	**87,996,717**	**107,029,999**	**2,371,175**	**249,924,540**
Gross written premiums	53,753,316	135,933,310	105,797,624	2,395,655	297,879,905
Premiums ceded to reinsurers and coinsurers	(1,271,200)	(46,985,884)	-	-	(48,257,084)
Change in unearned premiums	44,534	(950,710)	1,232,375	(24,480)	301,719
III. INCOME FROM INVESTMENTS	**48,084,369**	**9,601,251**	**1,472,071**	**103,112**	**59,260,803**
IV. OTHER INCOME FROM INSURANCE OPERATIONS, of which	**328,592**	**12,855,050**	**-**	**-**	**13,183,642**
- fee and commission income	328,592	12,855,050	-	-	13,183,642
V. OTHER INCOME	**3,014,223**	**3,315,489**	**195,038**	**52,902**	**6,577,652**
VI. NET EXPENSES FOR CLAIMS AND BENEFITS PAID	**(34,471,471)**	**(49,397,756)**	**(90,713,032)**	**(1,472,656)**	**(176,054,916)**
Gross amounts of claims and benefits paid	(35,491,036)	(80,632,777)	(91,262,584)	(1,449,652)	(208,836,049)
Reinsurers'/coinsurers' shares	334,092	23,267,922	-	-	23,602,014
Change in claims provisions	685,473	7,967,099	549,552	(23,005)	9,179,119
VII. CHANGE IN OTHER TECHNICAL PROVISIONS	**(1,883,894)**	**1,120,900**	**-**	**(476,372)**	**(1,239,366)**
VIII. CHANGE IN TECHNICAL PROVISIONS FOR THE BENEFIT OF UNIT-LINKED INSURANCE	**(42,397,264)**	**-**	**-**	**-**	**(42,397,264)**
X. EXPENSES FOR BONUSES AND DISCOUNTS	**-**	**1,922**	**165**	**1**	**2,088**
XI. OPERATING EXPENSES, of which	**(17,162,062)**	**(38,031,728)**	**(14,187,353)**	**(624,764)**	**(70,005,906)**
- acquisition costs	(6,683,488)	(15,490,522)	(1,750,142)	(290,275)	(24,214,427)
XII. EXPENSES FROM INVESTMENTS IN ASSOCIATES, of which	**-**	**(914,824)**	**(69,917)**	**-**	**(984,741)**
- impairment losses of financial assets not measured at fair value through profit or loss	-	(914,824)	(69,917)	-	(984,741)
XIII. EXPENSES INVESTMENTS, of which	**(1,020,704)**	**(2,611,920)**	**(758,065)**	**(33,495)**	**(4,424,185)**
- impairment losses of financial assets not measured at fair value through profit or loss	(631,828)	(1,820,620)	(639,621)	-	(3,092,069)
XIV. OTHER INSURANCE EXPENSES	**(77,173)**	**(5,859,267)**	**(553,553)**	**(5,733)**	**(6,495,725)**
XV. OTHER EXPENSES	**(978,145)**	**(3,232,262)**	**(508,248)**	**(11,507)**	**(4,730,163)**
XVI. PROFIT/(LOSS) BEFORE TAX	**5,963,120**	**14,843,572**	**1,907,106**	**(97,339)**	**22,616,458**
XVII. CORPORATE INCOME TAX	**(1,045,402)**	**(2,377,271)**	**(342,254)**	**(2,525)**	**(3,767,452)**
XVIII. NET PROFIT FOR THE REPORTING PERIOD	**4,917,718**	**12,466,301**	**1,564,852**	**(99,864)**	**18,849,006**

Income statement for the period from 1 January 2013 to 31 December 2013 in accordance with the Decision on Annual Reports of Insurance Undertakings – Adjusted

in EUR	Life insurance	Non-life insurance	Supplemental health insurance	Other health insurance	Total
I. NET PREMIUM INCOME	**55,930,837**	**91,181,016**	**111,602,398**	**2,053,888**	**260,768,138**
Gross written premiums	56,836,385	136,959,734	110,615,600	1,987,359	306,399,078
Premiums ceded to reinsurers and coinsurers	(983,796)	(50,387,909)	-	-	(51,371,704)
Change in unearned premiums	78,247	4,609,190	986,798	66,529	5,740,764
III. INCOME FROM INVESTMENTS	**9,854,468**	**8,430,549**	**1,916,374**	**17,587**	**20,218,978**
IV. OTHER INCOME FROM INSURANCE OPERATIONS, of wh	**131,513**	**14,468,125**	**-**	**-**	**14,599,638**
- fee and commission income	131,513	14,468,125	-	-	14,599,638
V. OTHER INCOME	**2,151,354**	**9,191,485**	**447,027**	**21,061**	**11,810,927**
VI. NET EXPENSES FOR CLAIMS AND BENEFITS PAID	**(33,206,728)**	**(52,099,557)**	**(94,346,513)**	**(1,380,041)**	**(181,032,840)**
Gross amounts of claims and benefits paid	(33,864,915)	(87,559,182)	(94,783,203)	(1,385,947)	(217,593,248)
Reinsurers'/coinsurers' shares	291,520	24,969,953	-	-	25,261,473
Change in claims provisions	366,667	10,489,672	436,691	5,905	11,298,935
VII. CHANGE IN OTHER TECHNICAL PROVISIONS	**3,285,636**	**82,092**	**-**	**6,688**	**3,374,417**
VIII. CHANGE IN TECHNICAL PROVISIONS FOR THE BENEFIT OF UNIT-LINKED INSURANCE POLICYHOLDERS	**(10,604,186)**	**-**	**-**	**-**	**(10,604,186)**
X. EXPENSES FOR BONUSES AND DISCOUNTS	**-**	**215,964**	**(267)**	**(9)**	**215,687**
XI. OPERATING EXPENSES, of which	**(17,276,723)**	**(41,060,797)**	**(11,741,013)**	**(328,232)**	**(70,406,765)**
- acquisition costs	(5,858,153)	(16,207,862)	(1,683,194)	(107,568)	(23,856,776)
XII. EXPENSES FROM INVESTMENTS IN ASSOCIATES, of which	**-**	**(641,521)**	**(2,456)**	**-**	**(643,978)**
Impairment losses of financial assets not measured at fair value through profit or loss	-	(641,521)	(2,456)	-	(643,978)
XIII. EXPENSES INVESTMENTS, of which	**(5,732,123)**	**(12,267,414)**	**(658,824)**	**(10,625)**	**(18,668,986)**
- impairment losses of financial assets not measured at fair value through profit or loss	(1,467,608)	(10,965,772)	(311,703)	-	(12,745,084)
XIV. OTHER INSURANCE EXPENSES	**(265,433)**	**(8,600,345)**	**(762,842)**	**(12,049)**	**(9,640,669)**
XV. OTHER EXPENSES	**(992,805)**	**(2,643,819)**	**(427,945)**	**(5,190)**	**(4,069,759)**
XVI. PROFIT/(LOSS) BEFORE TAX	**3,275,811**	**6,255,776**	**6,025,938**	**363,078**	**15,920,603**
XVII. CORPORATE INCOME TAX	**(498,398)**	**(850,245)**	**(954,496)**	**(34,365)**	**(2,337,504)**
XVIII. NET PROFIT FOR THE REPORTING PERIOD	**2,777,413**	**5,405,531**	**5,071,442**	**328,713**	**13,583,099**

7.3 STATEMENT OF COMPREHENSIVE INCOME BY SEGMENT

Statement of comprehensive income for the period from 1 January 2014 to 31 December 2014 in accordance with the Decision on Annual Reports of Insurance Undertakings

in EUR	Life insurance	Non-life insurance	Supplemental health insurance	Other health insurance	Total
I. NET PROFIT OR LOSS FOR THE FINANCIAL YEAR AFTER TAXATION	**4,917,718**	**12,466,301**	**1,564,852**	**(99,864)**	**18,849,006**
II. OTHER COMPREHENSIVE INCOME AFTER TAXATION (a + b)	**3,823,495**	**4,247,429**	**71,486**	**(1,172)**	**8,141,238**
b) Items that may be allocated to profit or loss in subsequent periods (1+2+3+4+5)	3,823,495	4,247,429	71,486	(1,172)	8,141,238
1. Net gain/loss from re-measurement of available-for-sale financial assets	4,606,620	5,117,386	86,207	(1,412)	9,808,802
1.1. Gain/loss, recognised in revaluation surplus	**8,620,982**	**6,201,215**	**(142,389)**	**43,572**	**14,723,379**
1.2. Transfer of gain/loss from revaluation surplus to income statement	(4,014,361)	(1,083,828)	228,596	(44,984)	(4,914,578)
5. Tax on items that may be allocated to profit or loss in subsequent periods	(783,126)	(869,957)	(14,721)	240	(1,667,563)
III. TOTAL COMPREHENSIVE INCOME FOR THE YEAR, AFTER TAXATION (I + II)	**8,741,213**	**16,713,730**	**1,636,338**	**(101,036)**	**26,990,245**

Statement of comprehensive income for the period from 1 January 2013 to 31 December 2013 in accordance with the Decision on Annual Reports of Insurance Undertakings – Adjusted

in EUR	Life insurance	Non-life insurance	Supplemental health insurance	Other health insurance	Total
I. NET PROFIT OR LOSS FOR THE FINANCIAL YEAR AFTER TAXATION	**2,777,413**	**5,405,531**	**5,071,442**	**328,713**	**13,583,099**
II. OTHER COMPREHENSIVE INCOME AFTER TAXATION (a + b)	**(187,902)**	**(681,877)**	**(323,961)**	**7,824**	**(1,185,915)**
b) Items that may be allocated to profit or loss in subsequent periods (1+2+3+4+5)	(187,902)	(681,877)	(323,961)	7,824	(1,185,915)
1. Net gain/loss from re-measurement of available-for-sale financial assets	(232,948)	(834,698)	(387,279)	9,420	(1,445,504)
1.1. Gain/loss, recognised in revaluation surplus	**(360,210)**	**(11,070,029)**	**256,431**	**2,623**	**(11,171,185)**
1.2. Transfer of gain/loss from revaluation surplus to income statement	127,263	10,235,331	(643,710)	6,797	9,725,681
5. Tax on items that may be allocated to profit or loss in subsequent periods	45,046	152,821	63,318	(1,596)	259,589
III. TOTAL COMPREHENSIVE INCOME FOR THE YEAR, AFTER TAXATION (I + II)	**2,589,511**	**4,723,654**	**4,747,482**	**336,538**	**12,397,184**

8. NOTES TO INDVIDUAL ITEMS OF FINANCIAL STATEMENTS

8.1 INTANGIBLE ASSETS

Movements in intangible assets

in EUR	Material in rights and licences	Software	ND assets in the process of acquisition	Total
AT COST				
Balance as at 1 January 2013	1,431,755	12,863,998	6,834	14,302,587
Direct increases - investments	-	1,389,857	-	1,389,857
Decreases during the year	-	(324,282)	-	(324,282)
Transfers between intangible assets and property, plant and equipment	-	11,130	-	11,130
Balance as at 31 December 2013	**1,431,755**	**13,940,703**	**6,834**	**15,379,292**
New balance as at 1 January 2014	**1,431,755**	**13,940,703**	**6,834**	**15,379,292**
Direct increases - investments	-	2,074,709	2,099	2,076,808
Decreases during the year	-	-	(4,165)	(4,165)
Transfer to use	-	4,165	-	4,165
Balance as at 31 December 2014	**1,431,755**	**16,019,576**	**4,768**	**17,456,100**
VALUE ADJUSTMENT				
Balance as at 1 January 2013	-	9,006,749	-	9,006,749
Amortizacija v letu	-	1,816,122	-	1,816,122
Decreases during the year	-	(324,282)	-	(324,282)
Prevrednotenje zaradi oslabitve	286,351	-	-	286,351
Transfers between categories within the intangible assets	-	(2,549)	-	(2,549)
Balance as at 31 December 2013	**286,351**	**10,496,039**	**-**	**10,782,391**
New balance as at 1 January 2014	**286,351**	**10,496,039**	**-**	**10,782,391**
Depreciation during the year	-	2,006,046	-	2,006,046
Revaluation owing to impairment of assets	286,351	-	-	286,351
Balance as at 31 December 2014	**572,702**	**12,502,085**	**-**	**13,074,787**
BOOK VALUE				
Balance as at 31 December 2013	**1,145,404**	**3,444,663**	**6,834**	**4,596,901**
Balance as at 31 December 2014	**859,053**	**3,517,491**	**4,768**	**4,381,312**

As at 31 December 2014, the operating liabilities to suppliers of intangible assets amounted to 163,282 euros, which are disclosed under Company's other liabilities. The Company has no financial liabilities arising from the purchase of intangible assets, no intangible assets pledged as security, no legal restrictions were put on intangible assets nor were these assets pledged as collateral for debt. The Company does not have any internally generated intangible assets nor does it have any intangible assets acquired by a government grant.

The intangible assets will be finally amortised by 2028 based on their determined useful lives and the applied amortisation rates. The Company uses the straight-line amortisation method and in 2014 it did not change the amortisation rates. Amortisation of intangible assets is posted in the income statement among operating costs.

The Company determined that as at 31 December 2014 there was no need for impairment of intangible assets.

8.2 PROPERTY, PLANT AND EQUIPMENT

Movements in property, plant and equipment

in EUR	Land and building	Office and other equipment	Property, plant and equipment in process of acquisition	Investment in foreign tangible fixed assets	Total
AT COST					
Balance as at 1 January 2013	**23,782,872**	**15,484,418**	**660,961**	**12,274**	**39,940,526**
Direct increases - investments	-	222,949	497,716	-	**720,665**
Direct increases - advance payments	-	261,738	140,293	-	**402,031**
Activation of assets in process of acquisition	11,183	-	-	-	**11,183**
Decreases during the year	-	(801,893)	(8,751)	-	**(810,644)**
Transfers between intangible assets, investment property, and property, plant and equipment	2,495,400	-	-	-	**2,495,400**
Transfers between categories within intangible fixed assets	-	-	(11,183)	-	**(11,183)**
Balance as at 31 December 2013	**26,289,455**	**15,167,213**	**1,279,036**	**12,274**	**42,747,979**
New balance as at 1 January 2014	**26,289,455**	**15,167,213**	**1,279,036**	**12,274**	**42,747,979**
Direct increases - investments	-	1,658,193	724,644	-	2,382,837
Direct increases – advance payments	-	-	291,260	-	291,260
Activated assets in the process of acquisition	352,393	7,479	-	-	359,872
Decreases during the year	-	(902,076)	-	-	(902,076)
Transfers between intangible assets, investment property, and property, plant and equipment	(162,733)	-	(1,142,678)	-	(1,305,411)
Transfers between categories within intangible fixed assets	-	-	(370,941)	-	(370,941)
Balance as at 31 December 2014	**26,479,115**	**15,930,809**	**781,321**	**12,274**	**43,203,519**
VALUE ADJUSTMENT					
Balance as at 1 January 2013	**3,270,472**	**11,387,919**	**-**	**8,445**	**14,666,836**
Depreciation during the year	252,321	1,038,933	-	1,841	1,293,096
Decreases during the year	-	(695,550)	-	-	(695,550)
Transfers between intangible assets, investment property, and property, plant and equipment	330,917	-	-	-	330,917
Balance as at 31 December 2013	**3,853,711**	**11,731,302**	**-**	**10,286**	**15,595,299**
New balance as at 1 January 2014	**3,853,711**	**11,731,302**	**-**	**10,286**	**15,595,299**
Depreciation during the year	273,070	950,228	-	1,662	1,224,960
Decreases during the year	-	(883,969)	-	-	(883,969)
Transfers between intangible assets, investment property, and property, plant and equipment	(49,524)	-	-	-	(49,524)
Balance as at 31 December 2013	**4,077,257**	**11,797,561**	**-**	**11,948**	**15,886,766**
BOOK VALUE					
Balance as at 31 December 2013	**22,435,745**	**3,435,911**	**1,279,036**	**1,988**	**27,152,680**
Balance as at 31 December 2014	**22,401,858**	**4,133,248**	**781,321**	**326**	**27,316,753**

As at 31 December 2014, the operating liabilities to suppliers of property, plant and equipment amounted to 375,951 euros, which are disclosed under Company's other liabilities. There were no financial liabilities arising from property, plant and equipment acquisition. The Company has no property, plant and equipment pledged as security, no legal restrictions were put on them nor were these assets pledged as collateral for debt.

With the exception of land and buildings, which have longer useful lives and are expected to be fully depreciated by 2091, it is expected that all other items of property, plant and equipment at the Company's disposal to be fully depreciated based on the determined useful lives and depreciation rates by the year 2024. The Company uses the straight-line depreciation method and in 2014 it did not change the depreciation rates. Amortisation of property, plant and equipment is posted in the income statement among operating costs.

In September 2014, the insurance company purchased (under normal market conditions) business premises for its business operations in Kranj in the total amount of 192,811 euros and allocated it under property, plant and equipment.

At the end of October 2014, the building and land in the area of Nova Gorica was rented out, and therefore it fulfilled the conditions for investment property. Upon the transfer, the carrying value of the building was 113,209 euros. The transfer of the building to investment property is displayed in the table above. The fair value of the building and land, transferred to investment property on 31 December 2014, totalled 109,886 euros and is lower than the carrying value, amounting to 112,889 euros. Despite the fact that the carrying value exceeds the recoverable amount, there was no need for impairment because the determined surplus amount is lower than 20 %.

Due to potential impairments needed, the insurance company reviews the fair value of all real property by means of appraisals, performed by authorised external appraisers for valuation of real property every two years. In order to review the carrying value of real property for business operations, there was an estimation of fair (market) value conducted in June 2014 by an authorised appraiser, who also evaluated the fair value of investment property. The details on the method and the applied assumptions are provided in the chapter on investment property (Section 8.3).

The estimated fair value of the real property (buildings and land) for business operations as at 31 December 2014 amounts to 22,659,308 euros and is higher than its carrying value which amounts to 22,401,863 euros.

The management decided that as at 31 December 2014, there is no need for impairment of property, plant and equipment.

8.3 INVESTMENT PROPERTIES

Movements in investments in land and buildings

in EUR	2014	2013
AT COST VALUE		
Balance as at 1 January	**30,292,870**	**33,072,632**
Direct increase - investments	172,130	3,334,000
Decreases during the year	(98,666)	(3,618,361)
Transfer from/to property, plant and equipment	1,305,411	(2,495,400)
As at 31 December	**31,671,745**	**30,292,870**
VALUE ADJUSTMENT		
Balance as at 1 January	1,936,177	2,642,294
Depreciation in the financial year	338,498	345,306
Decreases during the year	(28,177)	(720,505)
Transfer from/to property, plant and equipment	49,524	(330,917)
As at 31 December	**2,296,022**	**1,936,177**
BOOK VALUE		
As at 31 December	**29,375,723**	**28,356,692**

The Company leases entire investment properties or business premises that are part of investment properties/buildings. All operating leases can be cancelled. Rents are charged at market prices and are re-assessed if necessary.

During the year, the Company transferred property, plant and equipment in the amount of 113,209 euros to investment properties. More detailed information is provided in the section on changes in property, plant and equipment (Section 8.2) and in the table above.

In March 2014, the Company sold an investment property in Lucija area in the amount of 70,000 euros. Upon its disposal, a loss totalling 1,992 euros was recognised. The loss also includes the paid tax on real estate sales. The receivables from the sale were paid in full.

In July 2014, under normal market conditions, the Company purchased business premises in Ljubljana in the amount of 280,000 euros and classified it as investment property. Furthermore, in 2014, due to investments carried out, the value of one investment property in Ljubljana increased by 1,034,808 euros.

All the liabilities from purchases and receivables from sales of investment properties were in 2014 settled in full. Nevertheless, as at 31 December 2014, the Company recognised liabilities from investment property suppliers totalling 709,517 euros, as a result of outstanding contractual provisions of the real property seller in the acquisition of real property in 2012.

The Company has no financial liabilities arising from the acquisition of investment properties, no investment properties pledged as security, no legal restrictions were put on them nor were they pledged as collateral for debt.

The straight-line depreciation method is used for the calculation of investment property depreciation. In 2014, the depreciation rates remained unchanged. The depreciation of investment properties is recognised in the income statement under other operating expenses as investment property expenses.

Due to potential impairments, the Company checks the fair value of investment properties by appraisals made by external certified appraisers for real estate valuation every two years. In order to review the carrying value of investment properties, there was an appraisal of fair (market) value conducted in June 2014 by an authorised appraiser.

The applied methods and assumptions in the appraisal as at 30 June 2014:

- the fair value estimation was conducted by applying the income capitalisation approach, more precisely the direct capitalisation method;
- on average, the capitalisation rate in the interval from 9 % to 11 % was applied. The assessment of capitalisation rate was determined based on domestic and foreign market revenue, adjusted according to key market factors;
- within the risk assessment, a supplement for illiquidity was added on average from 0.5 % to 1 %, which in terms of time effect means 1 – 2 years realisation.

The fair value of investment properties as at 31 December 2014 amounts to 29,861,357 euros and is higher than the carrying value which amounts to 29,375,722 euros. Based on the performed appraisals, the management at the end of 2014 decided that there is no need for impairments.

Income and expenses from investment properties

in EUR	31 Dec 2014	32 Dec 2013
Revenues from investment properties	**1,237,178**	**1,547,877**
Other revenues arising from rents charged on investment properties	1,237,178	1,547,877
Revenues from reversal of impairment of receivables	14,800	-
Expenses for investment properties	**(387,186)**	**(1,637,816)**
Depreciation	(338,498)	(345,306)
Direct operating expenses for investment properties that generate rental income	(434,116)	(298,381)
Direct operating expenses for investment properties that do not generate rental income	(4,941)	-
Expenses from impairment of receivables from investment properties	542,361	-
Expenses from disposal of investment properties	(151,992)	(994,128)

8.4 FINANCIAL INVESTMENTS IN SUBSIDIARIES AND ASSOCIATES

Subsidiaries are the companies in which the insurance company as the controlling entity directly or indirectly holds more than 50% of voting rights or has some other form of controlling power over their business activities. In 2014, controlling of all subsidiaries within the group was based on the majority or 100 % share of voting rights.

Investments in subsidiaries and associate

Company name	Net value of investments as at 31 December 2014		Balance in the books of account in EUR	
Subsidiary	**2014**	**2013**	**2014**	**2013**
AS neživotno osiguranje a.d.o., Serbia	97.27	96.74	2,029,983	2,018,858
PROSPERA družba za izterjavo d.o.o., Slovenia	100.00	100.00	7,970,934	7,970,934
VIZ zavarovalno zastopništvo d.o.o., Slovenia	100.00	100.00	350,000	277,500
KD životno osiguranje d.d., Croatia	100.00	-	5,361,773	-
Total			**15,712,691**	**10,267,292**
Indirect subsidiary				
Permanens d.o.o., Croatia	100.00	-	-	-
Associate				
Nama trgovsko podjetje d.d., Slovenia	48.51	48.51	11,705,901	11,705,901

*The share of voting rights is equal to equity share.

Movements in subsidiaries, indirect subsidiaries and associates in 2014

Movements in investments in subsidiaries and associate

in EUR	2014	2013
Subsidiaries	-	-
As at 1 January	10,713,958	**9,725,904**
Acquisition or establishment	4,915,107	-
Recapitalisation	1,068,367	1,185,366
Impairments	(984,741)	(643,978)
As at 31 December	**15,712,691**	**10,267,292**
Associates	-	-
As at 1 January	11,705,901	**11,701,893**
Acquisition	-	4,008
As at 31 December	**11,705,901**	**11,705,901**

AS neživotno osiguranje a.d.o.

In 2014, Adriatic Slovenica recapitalised the subsidiary AS neživotno osiguranje a.d.o. three times by paying additional funds in the amount of 995,867 euros, while an impairment of investment was recognised in the amount of 984,741 euros. The new funds were paid on 13 May 2014 in the amount of 349,621 euros, 25 September 2014 in the amount of 347,199 euros and on 29 December 2014 in the amount of 299,047 euros. The recapitalisations were carried out by issuing a total of 32,950 shares with the nominal value of 3,804 RSD (in first two recapitalisations) and 3,154 RSD (in the recapitalisation in December), which makes up for a total of 117,874,228 RSD. The equity share of Adriatic Slovenica in this subsidiary increased from 96.74 % to 97.27 %. The aim of the recapitalisation was to ensure the prescribed amount of capital. All payments were entered into the court register of the Republic of Serbia.

Prospera d. o. o.

The dividends earned from the subsidiaries are recognised in the profit or loss when the right to payment is obtained. In 2014, Adriatic Slovenica received the dividends in the amount of 250,043 euros from the Prospera subsidiary. The dividends were paid out in full on 30 September 2014.

Viz d.o.o.

On 4 September 2014, Adriatic Slovenica increased its investment in VIZ subsidiary by 72,500 euros by paying additional funds for increasing the share capital.

KD životno osiguranje d.d.

In 2014, after the purchase of KD Group d.d. and KD IT d.o.o. shares, Adriatic Slovenica became the 100 % owner of KD životno osiguranje d.d. insurance company, headquartered in the Republic of Croatia, at the address Draškovićeva 10, Zagreb. The main reason for the takeover of this insurance company is fulfilling the set goal of forming an insurance holding, in which, Adriatic Slovenica would be the parent company within the Group. The insurance holding will in this way be more adaptable to the difficult conditions on the market.

In July 2013, by purchasing 9.74 % share of Croatian insurance company KD životno osiguranje d.d., Adriatic Slovenica began its gradual buyout of the entire shareholding of the Croatian insurance company. On 7 January 2014, the intention to purchase the whole shareholding was submitted by concluding the contract to purchase or sell shared under the condition of acquiring permission to acquire a qualified share. The purchase price of the rest (90.26 %) was agreed at 4,140,776 euros. The basis for determining the price was based on the internal appraisal report (Report of the Embedded Value and Appraisal Value Calculation of KD životno osiguranje d.d. as at 31. December 2013) from October 2013. The appraisal was made in line with the traditional actuarial method of internal valuation of the insurance company with life insurance portfolio. The estimated value of the insurance company was thus calculated as the sum of the internal value of the insurance company and its goodwill.

On 2 May 2014 when the insurance company acquired the permission of the Croatian regulator Hanfa for the acquisition of the (100 %) qualified share, it carried out the purchase of the remaining share (90.26 %) of the insurance company on 15 May 2014. In this way, Adriatic Slovenica obtained 100 % share of KD životno osiguranje d.d., which equals the voting rights. As at the takeover, the KD životno osiguranje d.d. subsidiary owned 100 % share of its subsidiary Permanens d.o.o., therefore, Adriatic Slovenica also became an indirect parent company of Permanens d.o.o.

In 2014, Adriatic Slovenica increased its investment in KD životno osiguranje d.d. subsidiary as decided by the Assembly - by paying 250,715 euros on 28 February 2014, 175,578 euros on 23 June 2014 and 348,039 euros on 24 October 2014.

On 31 December 2014, the value of KD životno osiguranje subsidiary was reviewed by applying the traditional actuarial method of internal valuation of the insurance company. The applied method was the same as the one at the end of 2013. Based on the calculated assessments at the end of 2014, it is estimated that the net value of assets of KD životno osiguranje d.d. is slightly higher due to the increase in the total written premium, which was the reason for the decision that there is no need for impairment of investment.

Nama trgovsko podjetje d.d. (associate)

The investment in the associate Nama d.d. is recognised in the financial statements as available-for-sale financial asset at carrying value. For the purpose of financial reporting and potential impairments of investment in associate, the insurance company measures the market value of the investment based on appraisals performed by external appraisers. For the purpose of preparation of financial statements for 2014, as at 30 June 2014, Adriatic Slovenica reviewed the fair value of the investment in Nama d.d. associate. The basis for the valuation was the appraisal of the real property owned by Nama d.d.

The appraisal of the fair value of real property was prepared by an independent authorised real estate appraiser. The methods and assumptions applied in the appraisal conducted as at 30 June 2014 are:

- the estimation of fair value was based on the income-based approach which proved to be the most appropriate for the real property in question,
- within the income-based approach, the income capitalisation method was applied – the income is realised as the difference between inflows and outflows, charged to the owner,
- the capitalisation rate for the real property in question was estimated at 9.41 % and consisted of risk-free rate of return of 3.38 %, risk premium of 2 %, investment illiquidity premium of 1.5 %, investment management premium of 1 % and the compensation for the preservation of capital of 1.54 %.

The estimated value of rights on the Nama d.d. real property exceeded the proportional value of investment in the associate and therefore, there was no need for impairment.

In 2014, Adriatic Slovenica received 77,175 euros of dividends from Nama d.d. They were reimbursed in full on 20 June 2014.

Information on property and financial position of the Group's subsidiaries

Company name in EUR	Assets		Capital		Revenues		Profit or loss for the year	
Subsidiaries	**2014**	**2013**	**2014**	**2013**	**2014**	**2013**	**2014**	**2013**
AS neživotno osiguranje a.d.o.	8,289,480	9,180,014	5,070,805	4,890,410	4,014,963	3,160,916	(552,133)	(1,154,945)
PROSPERA družba za izterjavo d.o.o.	9,620,530	10,301,399	8,230,386	8,240,977	3,023,087	2,970,743	239,451	260,043
VIZ zavarovalno zastopništvo d.o.o.	56,613	89,189	36,964	71,718	83,428	50,992	(107,254)	(128,970)
KD Životno osiguranje d.d., Hrvaška	7,805,588	-	6,477	-	2,557,385	-	(609,068)	-
Indirect subsidiary	**2014**	**2013**	**2014**	**2013**	**2014**	**2013**	**2014**	**2013**
Permanens d.o.o.	15,731	-	6,477	-	38,293	-	(24,605)	-
Associates	**2014**	**2013**	**2014**	**2013**	**2014**	**2013**	**2014**	**2013**
Nama trgovsko podjetje d.d.	12,475,584	12,500,080	10,462,015	10,470,432	12,920,493	12,852,128	184,584	24,999

The information on property and financial position of the subsidiaries are taken from financial statements, prepared by the subsidiaries.

For the reporting purposes, the balance sheet data of AS neživotno osiguranje are converted into euros at the reference exchange rate of the European Central Bank. The exchange rate as at 31 December 2014 was applied to convert the balance sheet items from Serbian dinars to euros, i.e. 120.60 (31 December 2013: 114.14), and the average annual rate of 116.868 (2013: 112.945) for the conversion of the profit or loss items.

For the reporting purposes, the balance sheet data of KD životno osiguranje d.d. are converted into euros at the reference exchange rate of the European Central Bank. The exchange rate as at 31 December 2014 was applied to convert the balance sheet items from Croatian kuna to euros, i.e. 7.658, and the average annual rate of 7.636 for the conversion of the profit or loss items.

8.5 FINANCIAL INVESTMENTS

In the Slovene financial market history, the year 2014 will definitely be remembered as one of the most successful years since the outburst of the global financial crisis, although its consequences still impede the domestic as well ag global economic growth. As opposed to the previous year when Slovenia was dealing with banking sector problems, the stabilisation of the banking system / multi-billion recapitalisation of three largest banks in 2014 was the key local catalyst which returned trust in the financial market

The most important contribution to the yield of investment portfolio of long-term business funds without investment risk was in 2014 made by investing in European state bonds, especially Slovene and Italian, and in stocks of Sava reinsurance company. At the same time, the total yield of all investments was burdened by impairment of investments – equity and debt securities.

In the following text, we are presenting the position of investments as at 31 December 2014 per groups and compared to 2013 year-end.

Financial assets measured at fair value through profit or loss

Financial assets measured at fair value through profit or loss – at initial recognition

in EUR	31 Dec 2014	32 Dec 2013
Debt securities	**8,398,047**	**10,167,434**
Listed securities	8,333,833	10,037,161
Government bonds	64,214	130,274
Total	**8,398,047**	**10,167,434**

Financial assets measured at fair value through profit or loss – held for sale

in EUR	31 Dec 2014	32 Dec 2013
Equity securities	**3,231,457**	**3,454,179**
Listed securities	3,231,457	3,454,179
Debt securities	**19,215,139**	**22,751,790**
Listed securities	10,870,536	16,950,102
Government bonds	8,344,603	5,801,688
Total	**22,446,596**	**26,205,969**

The value of financial assets measured at fair value through profit or loss was in 2014 decreased mostly because of the partial disbursement of assets from management at one of the private banks and the consequent reduction of debt securities, managed at this bank.

Available-for-sale financial assets

At the end of 2014, the Company evaluated the fair value of investments allocated to available-for-sale financial assets and carried out an annual assessment of impairment needs, especially for the high value non-market securities from the past years valued at cost. Based on expert assessment and internal accounting policies, the Company permanently impaired investments, the fair value of which is lower than their acquisition costs for a longer period of time. The loss due to the permanent impairment in the amount of 2,676,952 euros was immediately recognised under financial expenses in the income statement, while other revaluations of these assets were recognised in the statement of other comprehensive income.

Available-for-sale financial assets

in EUR	31 Dec 2014	31 Dec 2013
Equity securities	**52,822,041**	**46,805,074**
Listed securities	41,726,302	31,729,006
Non-listed securities	11,095,739	15,076,069
Debt securities	**90,825,427**	**85,194,789**
Listed securities	24,344,374	21,732,248
Non-listed securities	6,765,387	6,764,852
Government bonds	59,715,666	56,697,689
Impairment of securities	(6,547,650)	(5,780,547)
Total	**137,099,819**	**126,219,317**

Held-to-maturity financial assets

Held-to-maturity financial assets

in EUR	31 Dec 2014	32 Dec 2013
Debt securities	**33,163,813**	**38,096,356**
Listed securities	21,312,271	20,643,047
Non-listed securities	0	302,874
Government bonds	11,851,542	17,150,435
Total	**33,163,813**	**38,096,356**

The value of held-to-maturity debt securities decreased in 2014 by 4,932,543 euros, especially due to maturity of these securities and reinvestments of available assets, mostly in debt securities allocated as available-for-sale assets, the value of which was in the same period increased by 5,630,638 euros. The value of available-for-sale equity securities was in 2014 increased mostly due to a new investment in shares.

Effective interest rates (in %) for debt instruments not measured at fair value:

As at 31 December	2014	2013
Debt securities		
– held-to-maturity	8.22%	8.07%

For the market value of the held-to maturity assets see Section 6.2.4., table Book and fair values

Loans, deposits and financial receivables

Loans, deposits and financial receivables

in EUR	31 Dec 2014	31 Dec 2013
Loans	31,804,696	**24,223,927**
Long-term	5,369,484	5,121,443
Short-term	26,435,211	19,102,484
Deposits placed with banks	17,866,393	**31,442,896**
Long-term	5,259,165	12,176,810
Short-term	12,607,228	19,266,086
Financial receivables	2,334,333	**2,179,649**
Total	**52,005,422**	**57,846,472**

Effective interest rates on loans and deposits

in %	31 Dec 2014	31 Dec 2013
Long-term loans in		
- local currency	3.79%	4.81%
Short-term loans in		
- foreign currency	0.00%	0.00%
- local currency	5.38%	7.13%
Deposits placed with related parties		
Short-term deposits	0.94%	4.35%
Long-term deposits	2.60%	5.24%

Financial receivables

in EUR	31 Dec 2014	31 Dec 2013
Financial receivables from investment properties	1,289,373	964,705
Other financial receivables	1,044,960	1,214,944
Total	**2,334,333**	**2,179,649**

Movements in financial assets

in EUR	Fair value through profit or loss - at initial recognition	Fair value through profit or loss - held for sale	Held to maturity	Available for sale	Loans, deposits and financial receivables	Total
Balance as at 1 January 2013	**10,663,522**	**27,288,234**	**39,374,555**	**126,175,066**	**69,598,299**	**273,099,675**
Exchange rate differences	-	48,390	-	-	-	48,390
Increase	15,891,402	30,021,247	1,044,450	121,654,496	994,197,080	1,162,808,675
Change of fair value (+/-) through profit or loss (market rates)	(15,636)	(371,271)	100,019	12,435,168	-	12,148,280
Change of fair value (+/-) through revaluation surplus (market rates)	-	-	-	(14,049,916)	-	(14,049,916)
Increase due to interest	751,231	992,149	2,899,780	4,701,717	3,104,806	12,449,685
Decrease	(17,123,085)	(31,772,779)	(5,012,533)	(112,262,046)	(1,009,053,713)	(1,175,224,156)
Impairment to lower (fair) value – through profit or loss	-	-	(309,916)	(12,435,168)	-	(12,745,084)
Balance as at 31 December 2013	**10,167,434**	**26,205,969**	**38,096,356**	**126,219,317**	**57,846,472**	**258,535,548**
New balance as at 1 January 2014	**10,167,434**	**26,205,969**	**38,096,356**	**126,175,066**	**57,846,472**	**258,535,548**
Exchange rate differences	-	106,626	-	43,679	-	150,305
Increase	11,607,645	22,619,975	4,241,964	145,516,960	884,098,347	1,068,084,891
Change of fair value (+/-) through profit or loss (market rates)	8,215	708,696	-	2,676,952	-	3,393,863
Change of fair value (+/-) through revaluation surplus (market rates)	-	-	-	6,016,378	-	6,016,378
Increase due to interest	409,765	499,811	2,735,337	3,193,723	1,901,633	8,740,269
Decrease	(13,795,014)	(27,694,480)	(11,494,726)	(143,890,239)	(891,841,031)	(1,088,715,490)
Impairment to lower (fair) value – through profit or loss	-	-	(415,117)	(2,676,952)	-	(3,092,070)
Balance as at 31 December 2014	**8,398,046**	**22,446,596**	**33,163,813**	**137,099,818**	**52,005,422**	**253,113,696**

8.6 UNIT-LINKED LIFE INSURANCE ASSETS

Structure of unit-linked life insurance assets

Name of mutual fund	Net value of investments as at 31 December 2014	Net value of investments as at 31 December 2013
ALTA GLOBAL	2,852,921	2,541,156
Deposit redeemable on demand placed with DEŽELNA BANKA SLOVENIJE d. d.	769,521	1,776,663
Deposit redeemable on demand placed with BANKA KOPER d. d.	277,933	352,873
Deposit redeemable on demand placed with ABANKAVIPA D.D.	100	455,924
Deposit redeemable on demand placed with HYPO D.D.	8,800	-
DEUTSCHE BK LOND DB 0 06/01/17	2,923,450	2,790,000
DEUTSCHE BK LOND DB 0 12/01/16	5,015,155	4,927,620
DEUTSCHE BK LOND DB 0 12/01/27	2,183,370	2,624,205
EKSKLUZIV S.	4,419,176	975,105
GZUR GY	78,875	56,515
KD Balkan	17,208,106	11,394,384
KD Bond	2,681,544	2,457,151
KD Dividendni, delniški	88,724	13,265
KD Galileo	35,749,344	32,176,995
KD Indija - Kitajska	13,402,324	14,458,291
KD Latinska Amerika	799,936	7,988,426
KD Maximus	-	5,860,323
KD MM	1,449,362	1,557,312
KD Novi trgi	13,822,229	12,428,974
KD Prosperita	965,092	1,304,015
KD Prvi Izbor	14,442,530	11,879,826
KD Rastko	26,027,590	13,583,871
KD Russia	5,455,461	6,660,396
KD Surovine in energija	4,209,130	4,381,817
KD Tehnologija	8,474,631	5,722,475
KD Victoria	2,241,003	1,864,411
KD Vitalnost	8,230,193	5,507,769
KD Vzhodna Evropa	3,824,139	5,542,520
KS Aktivni naložbeni paket	16,972,286	12,460,290
KS Dirigent	9,468,109	8,667,830
KS KD Vrhunski	10,810,234	10,157,274
MAX GARANT PLUS ENKRATNI S.	455,800	380,720
MAX GARANT PLUS OBROČNI S.	2,416,786	1,373,789
MAX GARANT S.	11,623,810	6,293,700
Policna posojila	12,193,136	8,886,541
POTENCIAL PLUS S.	1,049,068	570,746
POTENCIAL S.	1,024,520	210,220
PSP MODRA LINIJA	75,011	72,670
PSP OPTIMA	8,665	7,022
PSP PIKA	99,924	105,923
PSP ŽIVA	383,594	414,218
SafePort Focus Fund	82,852	70,774
SafePort Gold&Agriculture Fund	18,579	8,522
SafePort Gold&Silver Mining Fund	168,721	118,782
Safeport LOICK Bio-Products&Bio-Energy Fund	54,212	4,891
SafePort Physical Gold 95+ Fund	69,480	35,540
SafePort Physical Silver 95+	715,573	480,499
SafePort Precious Metals 95+ Fund	133,406	82,185
SafePort Silver Mining Fund	485,318	374,088
SafePort Strategic Metals&Energy Fund	769,961	979,101
TREND PLUS S.	1,906,638	321,640
TREND S.	2,286,000	455,400
VZLE GY	113,266	111,219
POTENCIAL EUROPA AS S.	1,219,690	-
Certinvest Dinamic	5,313,701	-
Total	**257,518,980**	**213,925,866**

The investments made for the benefit of unit-linked life insurance policyholders in the total amount of 257,518,980 euros were completely invested in mutual funds, in accordance with the choice of the policyholders. The assets of the policyholders invested in the products of DEUTSCHE BK LOND DB 0 12/01/16, DEUTSCHE BK LOND DB 0 06/01/17 and DEUTSCHE BK LOND DB 0 12/01/27 totalled 10,121,975 euros and were invested in structured securities linked to the index of selected equity funds and with the principle guaranteed by the issuer Deutsche Bank AG London.

Movements in unit-linked life insurance financial assets

in EUR	2014	2013
Balance as at 1 January	213,925,866	24,605,609
Spin-off assets	-	179,905,347
New balance as at 1 January - after spin-off	**213,925,866**	**204,510,956**
Increase	79,364,364	51,892,283
Decrease	(75,956,191)	(42,360,544)
Change of fair value (+/-) through profit or loss (market rates)	36,923,891	965,783
Deposit placement	66,817,763	79,232,483
Deposit withdrawal	(63,853,078)	(80,385,944)
Accrued interest	296,365	70,849
Balance as at 31 December	**257,518,980**	**213,925,866**

8.7 AMOUNT OF TECHNICAL PROVISIONS TRANSFERRED TO REINSURERS

Share of reinsurers/co-insurers in technical provisions

in EUR	2014	2013
- unearned premiums	(0)	(0)
- from insurance contracts for incurred and reported claims	8,762,171	6,890,163
- from insurance contracts for incurred, but not reported claims	6,669,898	6,045,741
Total non-current part	**15,432,068**	**12,935,904**
- unearned premiums	879,285	787,861
- from insurance contracts for incurred and reported claims	8,818,685	8,833,439
- from insurance contracts for incurred, but not reported claims	3,951,406	3,695,116
Total current part	**13,649,376**	**13,316,417**
Total	**29,081,444**	**26,252,320**

8.8 RECEIVABLES

Balance of receivables

in EUR	As at 31 Dec 2014	As at 31 Dec 2013 (adjusted)
Receivables from direct insurance operations	**21,410,211**	**23,243,104**
gross value	29,460,016	31,221,402
value adjustment	(8,049,805)	(7,978,299)
Receivables from reinsurance and co-insurance	**6,304,768**	**41,423,147**
gross value	6,514,077	41,540,215
value adjustment	(209,310)	(117,067)
Income tax receivables	**3,531,447**	**2,259,833**
OTHER RECEIVABLES	**7,935,073**	**30,147,372**
Other current receivables from insurance operations	**4,305,067**	**26,122,082**
gross value	4,528,727	26,406,114
value adjustment	(223,661)	(284,032)
Recourse receivables	**801,062**	**1,062,711**
gross value	2,818,737	3,133,245
value adjustment	(2,017,676)	(2,070,534)
Operating receivables from the state	**337,514**	**282,631**
gross value	337,514	282,631
Operating receivables for advances given	**27,080**	**94,443**
gross value	52,160	133,500
value adjustment	(25,081)	(39,057)
Other current operating receivables	**2,437,121**	**2,557,874**
gross value	3,479,909	3,605,870
value adjustment	(1,042,788)	(1,047,996)
Long-term receivables	**27,230**	**27,630**
Total receivables	**39,181,499**	**97,073,456**

Compared to the previous year, as at 31 December 2014 receivables from reinsurance and co-insurance were 60 % lower. This is mainly the consequence of reimbursement of contractual liabilities from a quota share reinsurance with maturity at the end of April 2014. With the payment of these liabilities in the amount of 11,058,799 euros, the receivables from reinsurance claims decreased by 40,701,214 euros, and the reinsurance commissions decreased by 30,897,736 euros. The effect of the payment of these liabilities also reflects in a significant fall of liabilities from reinsurance premiums (refer to Section 8.16 - operating liabilities).

Within the structure of receivables as at 31 December 2014, receivables from direct insurance operations prevail with more than 50 % share. These comprise receivables from policyholders' concluded insurance premiums. Following are the receivables from reinsurance and co-insurance and reinsurance commissions within other short-term receivables from insurance operations.

Every reporting period, the insurance company checks the adequacy of fair value assessments – liquid value of receivables or assess the net realisable value based on actual realised cash flows in the last observed period for an individual type of receivables (it applies to receivables from insurance premiums and subrogated receivables). If such data is not available, a projection is performed based on other credible sources (see Section 6.2).

Movements in receivable allowances

in EUR	Receivables from insurance operations	Subrogations	Other receivables	Total
As at 1 January 2013	**10,869,810**	**4,993,595**	**1,850,366**	**17,713,771**
Changes during the year	(2,774,444)	(2,923,061)	(479,281)	(6,176,786)
As at 31 December 2013	**8,095,366**	**2,070,534**	**1,371,085**	**11,536,985**
New balance as at 1 January - after spin-off	**8,095,366**	**2,070,534**	**1,371,085**	**11,536,985**
Changes during the year	163,749	(52,858)	(79,555)	31,335
As at 31 December 2014	**8,259,115**	**2,017,676**	**1,291,530**	**11,568,320**

8.9 OTHER ASSETS

Other assets – balance total

in EUR	31 Dec 2014	31 Dec 2013
Inventories	22,267	9,728
Deferred acquisition costs	4,621,082	4,143,930
Deferred expenses and accrued revenues	826,110	2,137,408
Total	**5,469,459**	**6,291,066**

At the end of 2014, compared to 2013, the balance of deferred expenses and accrued revenues fell by 1,311,298 euros or more than 61 %, mainly due to active settlement of claims cases complaints, for which, the insurance company accounted with accrued revenues in the past.

8.9.1 Deferred acquisition costs

Movements in deferred acquisition costs

in EUR	Long-term deferred acquisition costs	Short-term deferred acquisition costs
Balance as at 1 January 2013	**1,254,231**	**3,478,017**
Utilised in 2013	1,204,278	3,647,126
Formed in 2013	32,061	4,231,024
Balance as at 31 December 2013	**82,014**	**4,061,916**
Spin-off assets	-	-
New balance as at 1 January 2014	**82,014**	**4,061,916**
Utilised in 2014	41,234	3,587,147
Formed in 2014	68,531	4,036,912
Balance as at 31 December 2014	**109,311**	**4,511,771**

8.10 CASH AND CASH EQUIVALENTS

Cash and cash equivalents

in EUR	31 Dec 2014	31 Dec 2013
Cash on hand and cheques received	576	47,715
Balances on accounts	2,426,820	1,949,504
Short-term deposits placed (maturity date up to 3 months)	8,098,122	7,984,765
Other cash	186,506	116,643
Total	**10,712,024**	**10,098,627**

The effective interest rate in 2014 paid on call deposits was between 0.25 % and 1.7 % (2013: from 0.35 % to 1.7 %).

8.11 EQUITY

Balance of equity

in EUR	31 Dec 2014	31 Dec 2013
Share capital	**42,999,530**	**42,999,530**
Capital reserves	**4,211,782**	**4,211,782**
Reserves from profit	**15,771,095**	**15,333,563**
Legal reserves	1,519,600	1,519,600
Other reserves from profit	14,251,495	13,813,963
Reserves for equalisation of credit risk	1,014,505	1,011,998
Reserves for equalisation of catastrophic claims	3,798,823	3,363,797
Other reserves from profit	9,438,167	9,438,167
Revaluation surplus	**5,797,421**	**(2,343,818)**
Retained net profit	**19,496,509**	**22,576,176**
Net profit for the financial year	**18,501,956**	**10,410,814**
TOTAL	106,778,292	93,188,047

Share capital

As at 31 December 2014, the subscribed and fully paid in share capital of the insurance company amounted to 42,999,530 euros. The share capital is divided into 10,304,407 ordinary no-par value shares. All shares are registered shares. In 2014, after the spin-off process of part of assets of the former insurance company KD Življenje, the share capital of Adriatic Slovenica did not change.

Distribution of balance sheet profit

The net profit for the year is transferred to balance sheet profit and used for dividend payments together with the rest of balance sheet profit.

At the General meeting held on 22 May 2014, the direct owner and only shareholder of Adriatic Slovenica decided on the distribution of balance sheet profit for 2013. A part of the balance sheet profit in the amount of 13,400,000 euros were used for payments. The rest of balance sheet profit in the amount of 19,586,990 euros remained unallocated and was transferred to the balance sheet profit for 2014. Dividends were paid in full by 30 May 2014.

Ownership structure

As at 31 December 2014, KD Group held 10,304,407 shares, i.e. 100 %. In 2014, its stake remained unchanged.

Distribution of accumulated profit and loss coverage

Adriatic Slovenica ended 2014 with a profit before tax totalling 22,616,458 euros and a net profit for the year amounting to 18,849,006 euros. After the completion of financial statements, the management adopted a decision on the use of net profit, determined the accumulated profit and formed a proposal on accumulated profit distribution.

Within its responsibilities, the Management Board of the insurance company can decide on covering the loss from the previous year. The Management Board also decides on the distribution of net profit by insurance segments of life, non-life and health insurance, therefore, it can also decide about covering of loss within the segments.

At the end of 2014, the Management Board immediately used the current year net profit from life insurance in the amount of 9,383 euros for covering past periods' losses from unit-linked life insurance in the amount of 9,383 euros.

On 31 December 2014, the Management Board covered the loss of other health insurance in full with the profit carried forward from past years in the amount of 99,864 euros.

After covering losses from past and current periods and forming reserves, the final amount of net profit for the current year is 18,501,956 euros. Together with the unallocated profit brought forward from previous years in the amount of 19,496,508 euros, the balance sheet profit as at 31 December 2014 to be distributed at the General Assembly amounts to 37,998,464 euros.

Reserves and revaluation surplus

The Company forms profit reserves on the basis of the provisions laid down in the Companies Act (ZGD-1) with regard to forming statutory reserves and on the basis of the decision passed by the Management Board with the approval of the Supervisory Board with respect to the requirements to achieve and maintain the appropriate capital adequacy level (other profit reserves).

After 2014 ended, in accordance with the Insurance Act, the Company additionally formed other profit reserves in the amount of 437,532 euros, of which 435,025 euros were allocated for catastrophic loss equalisation (135,700 euros for nuclear peril and 299,325 euros for earthquake) and 2,507 euros for credit risk equalisation.

In line with the Decision on Annual Reports and Quarterly Financial Statements of Insurance Undertakings - SKL 2009 (Official Gazette of the Republic of Slovenia No 89/2014), the insurance company in 2014 transferred 5,798,769 euros of other reserves from profit from the positive result of supplementary health insurance (formed until 2013 in accordance with the Health Care and Health Insurance Act ZZVZZ-H) to other reserves from profit, and these are not separately presented in the statement of changes in equity any more. Due to this change, the 2013 statement of changes in equity has been adjusted.

Capital reserves

As at 31 December 2014, the capital reserves of the Company are divided into payments, exceeding the minimum amount of issue of shares or the amount of basic capital contribution (paid capital surplus) in the amount of 1,724,217 euros, and the refund of the general revaluation adjustment of capital in the amount of 2,487,565 euros.

Treasury shares

In 2014, neither the Company nor any third party for the account of the Company accepted any new treasury shares as security. Moreover, as at 31 December 2014 neither the Company nor any third party for the account of the Company held any treasury shares as security.

Revaluation surplus

The revaluation surplus entirely refers to revaluation of non-current financial assets available for sale to fair value. Within equity, the revaluation surplus was decreased by the deferred taxes payable.

As at the 2014 year-end, the revaluation surplus from pension insurance amounting to 205,398 euros was recognised as an increase in mathematical provisions.

Revaluation surplus

in EUR	31 Dec 2014	31 Dec 2013
Specific revaluation of equity	5,797,421	(2,343,818)
from reinforcement of property, plant and equipment	141	141
from reinforcement/impairment of available-for-sale financial assets	6,984,674	(2,824,128)
from adjustment for deferred taxes	(1,187,394)	480,169
Total revaluation surplus	5,797,421	**-2,343,818**

Movements in revaluation surplus from available-for-sale financial assets with profit

in EUR	31 Dec 2014	31 Dec 2013
Balance as at 1 January	**(2,343,818)**	**(664,988)**
Spin-off assets	-	(492,914)
New balance as at 1 January - after spin-off	**(2,343,818)**	**(1,157,902)**
Effect of lowered tax rate	**-**	**13,786**
Profits (losses) recognised in revaluation surplus	**12,220,405**	**(9,272,084)**
Net change due to revaluation	14,723,379	(11,171,185)
Change in deferred taxes due to revaluation	(2,502,974)	1,899,101
Transfer of profits (losses) from revaluation surplus to profit or loss	**(4,079,167)**	**8,072,381**
Change in revaluation surplus transferred on disposal to profit or loss	(7,591,530)	(2,709,488)
Change in deferred taxes on realisation of revaluation surplus	1,290,493	460,680
Transfer of negative revaluation surplus to profit or loss on impairment	2,676,952	12,435,168
The change deferred taxes from impairments through profit or loss	(455,082)	(2,113,979)
Balance as at 31 December	**5,797,420**	**(2,343,818)**

8.12 TECHNICAL PROVISIONS

Technical provisions (liabilities arising from insurance contracts) – gross and net

in EUR	Gross + received co-insurance as at 31 Dec 2014	Reinsurance + ceded co-insurance as t 31 Dec 2014	Net as at 31 Dec 2014	Gross + received co-insurance as at 31 Dec 2013	Reinsurance + ceded co-insurance as t 31 Dec 2013	Net as at 31 Dec 2013
Unearned premiums	42,612,091	805,230	41,806,861	41,562,648	706,497	40,856,151
Claims provisions for	**112,405,513**	**28,054,183**	**84,351,330**	**117,654,433**	**25,336,004**	**92,318,429**
- reported claims	52,337,944	17,432,879	34,905,065	53,054,814	15,595,147	37,459,668
- not reported claims	60,067,569	10,621,303	49,446,265	64,599,619	9,740,857	54,858,761
Provisions for bonuses and discounts	395,257	-	395,257	397,179	-	397,179
Mathematical provisions	1,991	-	1,991	-	-	-
Other insurance technical provisions	933,219	-	933,219	2,056,111	-	2,056,111
Total non-life insurance	**156,348,072**	**28,859,413**	**127,488,659**	**161,670,371**	**26,042,501**	**135,627,870**
Unearned premiums	8,011,577	-	8,011,577	9,219,471	-	9,219,471
Claims provisions for	**5,564,511**	**-**	**5,564,511**	**6,091,059**	-	**6,091,059**
- reported claims	868,571	-	868,571	969,034	-	969,034
- not reported claims	4,695,940	-	4,695,940	5,122,025	-	5,122,025
Provisions for bonuses and discounts	625	-	625	790	-	790
Other insurance technical provisions	476,372	-	476,372	-	-	-
Total health insurance	**14,053,085**	**-**	**14,053,085**	**15,311,320**	**-**	**15,311,320**
Unearned premiums	482,216	74,055	408,161	534,060	81,364	452,695
Claims provisions for	**5,599,221**	**147,976**	**5,451,245**	**6,346,980**	**128,455**	**6,218,524**
- reported claims	1,674,844	147,976	1,526,868	1,736,338	128,455	1,607,882
- not reported claims	3,924,377	-	3,924,377	4,610,642	-	4,610,642
Mathematical provisions	97,250,575	-	97,250,575	94,975,223	-	94,975,223
Other insurance technical provisions	319,683	-	319,683	462,628	-	462,628
Total life insurance	**103,651,695**	**222,031**	**103,429,664**	**102,318,889**	**209,820**	**102,109,070**
Total liabilities arising from insurance contracts	**274,052,851**	**29,081,444**	**244,971,407**	**279,300,580**	**26,252,321**	**253,048,260**

Movements in technical provisions

in EUR	Gross 2014	Reinsurance 2014	Net 2014	Gross 2013	Reinsurance 2013	Net 2013
Movements in unearned premium						
Balance as at 1 January	-	-	-	56,887,018	664,578	56,222,440
Spin-off assets	-	-	-	46,642	-	46,642
New balance as at 1 January - after spin-off	51,316,179	787,861	50,528,318	56,933,659	664,578	56,269,081
Increase in liabilities	49,669,609	879,285	48,790,324	49,391,602	787,861	48,603,741
Decrease in liabilities	49,879,905	787,861	49,092,044	55,009,083	664,578	54,344,505
Balance as at 31 December	51,105,883	879,285	50,226,598	51,316,179	787,861	50,528,318
Movements in mathematical provisions						
Balance as at 1 January	-	-	-	70,011,390	-	70,011,390
Spin-off assets	-	-	-	27,973,807	-	27,973,807
New balance as at 1 January - after spin-off	94,975,223	-	94,975,223	97,985,197	-	97,985,197
Increase in the period	12,468,194	-	12,468,194	10,468,005	-	10,468,005
Decrease in the period	11,460,968	-	11,460,968	14,201,190	-	14,201,190
Change of current-year DPF part	1,270,117	-	1,270,117	723,211	-	723,211
Balance as at 31 December	97,252,566	-	97,252,566	94,975,223	-	94,975,223
Movements in claims outstanding						
Reported claims	55,760,185	15,723,602	40,036,584	57,156,467	15,053,543	42,102,925
Not reported claims	74,332,286	9,740,857	64,591,428	76,146,928	7,996,360	68,150,568
Balance as at 1 January	130,092,471	25,464,459	104,628,012	133,303,395	23,049,903	110,253,492
Spin-off assets	-	-	-	5,974,928	168,287	5,806,641
New balance as at 1 January - after spin-off	130,092,471	25,464,459	104,628,012	139,278,323	23,218,190	116,060,133
Decrease in provisions due to payments	38,798,649	9,718,985	29,079,663	41,103,903	8,146,863	32,957,040
Change in provisions from preceding years +/-	(14,616,700)	(568,356)	(14,048,345)	(18,612,426)	(2,039,050)	(16,573,375)
Increase in provisions in the current year	46,892,122	13,025,040	33,867,082	50,530,477	12,432,183	38,098,294
Reported claims	54,881,359	17,580,856	37,300,504	55,760,185	15,723,602	40,036,584
Not reported claims	68,687,886	10,621,303	58,066,582	74,332,286	9,740,857	64,591,428
Balance as at 31 December	123,569,245	28,202,159	95,367,086	130,092,471	25,464,459	104,628,012
Movements in other insurance technical provisions						
Balance as at 1 January	-	-	-	3,003,589	-	3,003,589
Spin-off assets	-	-	-	461,733	-	461,733
New balance as at 1 January - after spin-off	2,916,708	-	2,916,708	3,465,322	-	3,465,322
Increase in the period	1,771,898	-	1,771,898	2,414,659	-	2,414,659
Decrease in the period	2,563,449	-	2,563,449	2,963,273	-	2,963,273
Balance as at 31 December	2,125,156	-	2,125,156	2,916,708	-	2,916,708

Assets and liabilities of business funds and long-term business funds of the insurance company as at 31 December 2014

Fund name	Cover assets	Long-term business fund of life insurance	Long-term business fund of pension insurance	Long-term business fund of unit-linked insurance	Long-term business fund of supplementary health insurance	Long-term business fund of other health insurance	Long-term business fund for supplementary pension insurance in the time of annuity payout	Long-term business fund FOND POLICA	Long-term business fund DIRIGENT	Long-term business fund AKTIVNI NALOŽBENI PAKET	Long-term business fund VRHUNSKI	Long-term business fund NEZGODE
Registration number of long-term business fund	-	5063361022	5063361021	5063361024	5063361023	5063361026	5063361027	5063361028	5063361029	5063361031	5063361030	5063361032
Type of assets and liabilities												
Financial investments	167,741,009	98,359,248	6,640,528	29,380,363	14,873,416	1,243,594	458,067	184,708,820	12,681,688	17,619,409	13,128,701	-
Share of reinsurers	28,859,413	222,031	-	-	-	-	-	-	-	-	-	-
Other assets	75,940,820	6,569,468	191,582	212,264	9,768,382	1,002,436	-	2,669,931	378,002	833,009	268,141	7,258
TOTAL ASSETS	**272,541,242**	**105,150,747**	**6,832,110**	**29,592,628**	**24,641,798**	**2,246,030**	**458,067**	**187,378,751**	**13,059,690**	**18,452,419**	**13,396,842**	**7,258**
	-	-	-	-	-	-	-	-	-	-	-	-
Gross technical provisions	**156,348,071**	**96,412,000**	**6,811,418**	**1,097**	**13,094,406**	**958,679**	**428,276**	**322,873**	**1,019**	**996**	**643**	**7,224**
1. Unearned premiums	42,612,091	482,216	-	-	7,636,723	374,854	-	-	-	-	-	1,424
2. Mathematical provisions	1,991	90,330,564	6,811,418	-	-	476,372	428,276	-	-	-	-	1,991
3. Outstanding claims provisions	112,405,512	5,599,221	-	1,097	5,457,087	107,424	-	322,873	1,019	996	643	3,800
4. Other technical provisions	1,328,477	-	-	-	595	29	-	-	-	-	-	8
Gross technical provisions at the benefit of persons with unit-linked life insurance (Mathematical provisions)	-	-	-	-	-	-	-	182,055,808	12,988,374	16,903,493	13,263,518	-
Other liabilities	38,380,409	11,023,418	20,692	29,561,531	9,910,365	599,246	38,075	187,144,047	13,058,672	18,472,564	13,396,199	35
TOTAL LIABILITIES	**194,728,480**	**107,435,418**	**6,832,110**	**29,562,628**	**23,004,771**	**1,557,925**	**466,351**	**187,466,919**	**13,059,690**	**18,473,561**	**13,396,842**	**7,258**
Net technical provisions	**127,488,658**	**96,189,969**	**6,811,418**	**1,097**	**13,094,406**	**958,679**	**428,276**	**322,873**	**1,019**	**996**	**643**	**7,224**

Assets and liabilities of business funds and long-term business funds of the insurance company as at 31 December 2013

Fund name	Cover assets	Long-term business fund of life insurance	Long-term business fund of pension insurance	Long-term business fund of unit-linked insurance	Long-term business fund of supplementary health insurance	Long-term business fund of other health insurance	Long-term business fund for supplementary pension insurance in the time of annuity payout	Long-term business fund FOND POLICA	Long-term business fund DIRIGENT	Long-term business fund AKTIVNI NALOŽBENI PAKET	Long-term business fund VRHUNSKI	Long-term business fund NEZGODE
Registration number of long-term business fund	-	5063361022	5063361021	5063361024	5063361023	5063361026	5063361027	5063361028	5063361029	5063361031	5063361030	5063361032
Type of assets and liabilities												
Financial investments	176,230,795	102,290,819	5,588,398	26,221,095	15,206,878	430,020	424,750	151,324,405	11,273,525	13,191,759	11,915,084	-
Share of reinsurers	26,042,501	209,820	-	-	-	-	-	-	-	-	-	-
Other assets	128,063,759	17,849,489	291,648	191,039	13,924,308	1,112,392	-	7,641,836	343,483	1,426,337	418,808	-
TOTAL ASSETS	330,337,055	120,350,127	5,880,046	26,412,133	29,131,186	1,542,412	424,750	158,966,241	11,617,008	14,618,096	12,333,892	-
Gross technical provisions	**161,670,370**	**96,077,865**	**5,843,987**	**4,206**	**14,876,498**	**434,823**	**397,036**	**236,819**	**-**	**3,237**	**558**	**-**
1. Unearned premiums	41,562,648	534,060	-	-	8,869,098	350,373	-	-	-	-	-	-
2. Mathematical provisions	-	89,196,826	5,843,987	-	-	0	397,036	-	-	-	-	-
3. Outstanding claims provisions	117,654,432	6,346,980	-	4,206	6,006,639	84,419	-	236,819	-	3,237	558	-
4. Other technical provisions	2,453,290	-	-	-	760	30	-	-	-	-	-	-
5. Rezervacije za zavarovanja, kjer je premoženje kritnega sklada razdeljeno na enote (VEP)					-	-	-					-
Gross technical provisions at the benefit of persons with unit-linked life insurance (Mathematical provisions)	-	-	-		-	-	-	149,213,654	11,450,232	13,152,486	12,147,841	-
Other liabilities	100,686,289	17,615,342	36,059	26,407,927	7,873,481	426,532	30,092	158,738,805	11,617,008	14,614,859	12,333,334	-
TOTAL LIABILITIES	262,356,658	113,693,207	5,880,047	26,412,133	22,749,979	861,355	427,129	158,975,624	11,617,008	14,618,096	12,333,892	-
Net technical provisions	135,627,869	95,868,045	5,843,987	4,206	14,876,498	434,823	397,036	236,819	-	3,237	558	-

8.13 TECHNICAL PROVISIONS FOR UNIT-LINKED LIFE INSURANCE POLICYHOLDERS

Technical provisions for unit-linked life insurance policyholders

in EUR	Gross + received co-insurance as at 31 Dec 2014	Reinsurance + ceded co-insurance as t 31 Dec 2014	Net as at 31 Dec 2014	Gross + received co-insurance as at 31 Dec 2013	Reinsurance + ceded co-insurance as t 31 Dec 2013	Net as at 31 Dec 2013
Claims provisions	326,627	-	326,627	244,820	-	244,820
- reported claims	326,627	-	326,627	244,820	-	244,820
Provisions for unit-linked life insurance policyholders	254,229,875	-	254,229,875	211,832,611	-	211,832,611
Total unit-linked life insurance	**254,556,502**	**-**	**254,556,502**	**212,077,431**	**-**	**212,077,431**

Movements in technical provisions for unit-linked life insurance policyholders

in EUR	Gross 2014	Reinsurance 2014	Net 2014	Gross 2013	Reinsurance 2013	Net 2013
Movements in claims outstanding						
Reported claims	**244,820**	**-**	**244,820**	**1,121**	**-**	**1,121**
Not reported claims	**-**	**-**	**-**	**-**	**-**	**-**
Balance as at 1 January	**244,820**	**-**	**244,820**	**1,121**	**-**	**1,121**
Spin-off assets	-	-	-	**110,513**	**-**	**110,513**
New balance as at 1 January - after spin-off	**244,820**	**-**	**244,820**	**111,634**	**-**	**111,634**
Decreased provisions due to payments	180,707	-	180,707	60,521	-	60,521
Change in provisions from preceding years +/-	(53,691)	-	(53,691)	(1,567)	-	(1,567)
Increase in provisions in the current year	316,205	-	316,205	195,274	-	195,274
Reported claims	**326,627**	**-**	**326,627**	**244,820**	**-**	**244,820**
Not reported claims	**-**	**-**	**-**	**-**	**-**	**-**
Balance as at 31 December	**326,627**	**-**	**326,627**	**244,820**	**-**	**244,820**
Movements in claims outstanding for reported and non-reported claims for unit-linked life insurance policyholder						
Balance as at 1 January	**211,832,611**	**-**	**211,832,611**	**24,009,497**	**-**	**24,009,497**
Spin-off assets	-	-	-	**177,218,929**	**-**	**177,218,929**
New balance as at 1 January - after spin-off	**211,832,611**	**-**	**211,832,611**	**201,228,426**	**-**	**201,228,426**
Increase in the period	65,009,482	-	65,009,482	33,244,547	-	33,244,547
Decrease in the period	22,612,218	-	22,612,218	22,640,361	-	22,640,361
Balance as at 31 December	**254,229,875**	**-**	**254,229,875**	**211,832,611**	-	**211,832,611**

8.14 OTHER PROVISIONS

Provisions for employee benefits

in EUR	31 Dec 2014	31 Dec 2013
Provisions for termination benefits	**1,021,311**	828,220
Provisions for jubilee benefits	2,104,650	1,938,592
Total	**3,125,961**	**2,766,812**

Movements in provisions for employee benefits

in EUR	31 Dec 2014	31 Dec 2013
Balance as at 1 January	**2,766,812**	**3,034,687**
Increase in the current period	291,272	319,967
Decrease due to paid termination benefits and jubilee benefits	(307,824)	(346,056)
Other changes	375,701	(241,786)
Balance as at 31 December	**3,125,961**	**2,766,812**

The calculation for 2014 used different assumptions about the discount rate and expected increase in salaries than in 2013.

The main assumptions applied in the calculation of provisions for termination and jubilee benefits:

- discount rate 1.24 % (31 Dec 2013: 2.86 %),
- expected increase in salaries in the insurance company, including the expected increase in salaries due to promotions 1.6 % (31 Dec 2013: 2.7 %),
- expected mortality is determined based on Slovene mortality tables from 2007 (the same on 31 Dec 2013),
- future fluctuation is determined based on the age of employees: 18 % for the age group from 20 to 30 years, 10 % for the age group of 30 to 40 years and 5 % for 40 years of age and above (the same on 31 Dec 2013).

The provision amounts in 2014 include taxes and contributions. The effect of changes in assumptions amounted to 166,243 euros.

8.15 OTHER FINANCIAL LIABILITIES

Movements in loans and other current financial liabilities

in EUR	2014	2013
Balance as at 1 January	**1,092,790**	**3,987,252**
Spin-off assets	-	23,060
New balance as at 1 January - after spin-off	**1,092,790**	**4,010,312**
Increase	49,871	356,103
Decrease	(386,879)	(3,273,625)
Balance as at 31 December	**755,781**	**1,092,790**

The balance of liabilities as at 31 December 2014 amounts to 43,971 euros. The interest rate on loans is the respective applicable interest rate equal to the interest rate for interest on loans between related parties in accordance with the Rules on the recognised interest rate. None of the received loans were specially secured.

8.16 OPERATING LIABILITIES

Adriatic Slovenica d. d. has no secured liabilities.

Operating liabilities

in EUR	31 Dec 2014	31 Dec 2013
Liabilities arising from direct insurance contracts	4,543,005	6,037,334
Liabilities arising from reinsurance and co-insurance	11,491,980	84,425,515
Tax liability	5,955,302	2,424,641
Total	**21,990,287**	**92,887,490**

Compared to 2013, the operating liabilities as at the 2014 year-end decreased by 76 %, mainly as a result of lower liabilities from reinsurance and co-insurance. Lowering of these liabilities was affected by the payment of contractual liabilities from quota share reinsurance for car insurance in the amount of 11,058,799 euros which fell due at the end of April 2014. With the maturity of these contractual liabilities, like the receivables, also the liabilities from reinsurance premiums decreased by 82,657,749 euros (refer to Section 8.8, receivables), while for the settlement of commissions, on the liabilities side, an outstanding liability was posted for the received commission advance in the amount of 5,459,290 euros (refer to the next section on other liabilities – Section 8.17).

For 2014, the insurance company accounted for the current tax liabilities at a 17 % tax rate by individual guarantee funds and by individual statements of insurance segments. The current tax liability is shown in the table above in the amount as charged at the Company level (see notes in Section 8.24).

8.17 OTHER LIABILITIES

Other liabilities

in EUR	31 Dec 2014	31 Dec 2013
Liabilities for dividend payment	-	2,223
Other operating (trade) liabilities	17,814,918	10,497,949
Accrued costs/expenses and deferred revenues	6,921,971	6,232,042
Total	**24,736,890**	**16,732,215**

Adriatic Slovenica does not have any liabilities with a maturity date over 5 years.

8.17.1 Other operating liabilities

Other operating liabilities

in EUR	31 Dec 2014	31 Dec 2013
Current operating liabilities	17,814,918	**10,497,949**
Current operating liabilities to suppliers	3,006,939	3,788,667
Current operating liabilities to employees	2,212,900	2,300,420
Other current liabilities from insurance operations	9,903,986	3,085,850
Current operating liabilities to the state (except for income tax)	397,612	416,469
Current liabilities for received advances	3,287	3,287
Other current operating liabilities	2,290,194	903,256
Total	**17,814,918**	**10,497,949**

In the structure of other operating liabilities, the prevalent item are other current liabilities from insurance operations, accounted for by liabilities for reinsurance commission advances with maturity in the following years. As at 31 December 2014, the total of these liabilities is 6,624,154 euros (in 2013, these liabilities did not exist) and will fall due when all claims will be reported. Moreover, as at 31 December 2014, there are two more large liabilities outstanding within other current liabilities from insurance operations, namely the liability to the Slovene Insurance Association for contributions for coverage of claims for damage on unknown and uninsured vehicles and vessels in the amount of 1,323,340 euros and liability to other insurance companies from supplementary health insurance equalisation schemes in the amount of 1,028,916 euros.

8.17.2 Accrued expenses and deferred income

Accrued expenses and deferred income

in EUR	31 Dec 2014	31 Dec 2013
Accrued expenses - operating	1,787,175	1,163,562
Accrued expenses - for unused annual holidays	1,199,808	1,260,167
Prepaid expenses - acquisition costs and unexpired commissions	832,770	859,450
Prepaid expenses from equalisation scheme for supplementary health insurance	1,114,856	1,167,585
Other deferred and accrued items	1,987,362	1,781,280
Total	**6,921,971**	**6,232,043**

8.18 REVENUES

8.18.1 Premium revenues from insurance contracts

Net premium revenues from insurance contracts in 2014

in EUR	Written gross insurance premiums	Reinsurers'/ coinsurers' share in written premiums	Change in gross unearned premiums	Change in unearned premiums for reinsurance and coinsurance share	Net revenues from insurance premiums
Motor vehicle liability insurance	40,577,052	(17,950,769)	(204,058)	(2,456)	22,419,768
Land motor vehicle insurance	34,523,565	(17,816,865)	(453,251)	(24,171)	16,229,278
Accident insurance	15,877,417	(3,223,994)	66,432	(15,938)	12,703,917
Fire and natural forces insurance	16,029,584	(3,833,703)	(157,524)	18,641	12,056,998
Other damage to property insurance	12,256,797	(1,512,112)	(337,225)	54,129	10,461,590
General liability insurance	7,475,629	(706,422)	(405,074)	70,638	6,434,771
Credit insurance	20,890	-	528,104	-	548,995
Other non-life insurance, excluding health insurance	9,172,374	(1,942,018)	(86,847)	(2,110)	7,141,399
Insurance contracts for non-life insurance, excluding health insurance	**135,933,310**	**(46,985,884)**	**(1,049,443)**	**98,733**	**87,996,717**
Health insurance contracts	**108,193,279**	**-**	**1,207,895**	**-**	**109,401,173**
Insurance contracts with discretionary participation feature	18,713,529	(1,243,398)	51,844	(7,310)	17,514,665
Unit-linked insurance contracts	34,169,493	(27,802)	-	-	34,141,691
Investment contracts with discretionary participation feature	870,294	-	-	-	870,294
Life insurance contracts	**53,753,316**	**(1,271,200)**	**51,844**	**(7,310)**	**52,526,650**
Total	**297,879,905**	**(48,257,084)**	**210,295**	**91,424**	**249,924,540**

Net premium revenues from insurance contracts in 2013

in EUR	Written gross insurance premiums	Reinsurers'/ coinsurers' share in written premiums	Change in gross unearned premiums	Change in unearned premiums for reinsurance and coinsurance share	Net revenues from insurance premiums
Motor vehicle liability insurance	41,820,425	(19,665,895)	1,658,424	(1,577)	23,811,377
Land motor vehicle insurance	35,342,445	(19,742,486)	1,679,012	52,697	17,331,668
Accident insurance	16,650,947	(3,735,651)	346,558	15,415	13,277,269
Fire and natural forces insurance	15,458,453	(3,701,909)	(97,425)	8,962	11,668,081
Other damage to property insurance	11,615,136	(1,271,065)	84,113	(12,211)	10,415,974
General liability insurance	6,632,845	(599,190)	(131,147)	23,727	5,926,235
Credit insurance	61,838	-	1,005,005	-	1,066,843
Other non-life insurance, excluding health insurance	9,377,645	(1,671,713)	(29,158)	6,795	7,683,568
Insurance contracts for non-life insurance, excluding health insurance	**136,959,734**	**(50,387,909)**	**4,515,381**	**93,809**	**91,181,016**
Health insurance contracts	**112,602,959**	**-**	**1,053,326**	**-**	**113,656,286**
Insurance contracts with discretionary participation feature	19,171,334	(983,796)	48,773	29,474	18,265,785
Unit-linked insurance contracts	37,012,119	0	-	-	37,012,119
Investment contracts with discretionary participation feature	652,933	-	-	-	652,933
Life insurance contracts	**56,836,385**	**(983,796)**	**48,773**	**29,474**	**55,930,837**
Total	**306,399,078**	**(51,371,704)**	**5,617,481**	**123,283**	**260,768,138**

8.18.2 Financial revenues and expenses from investments and investments in associates

Financial revenues and expenses from investments in 2014

in EUR	Financial investments held-to-maturity	Financial investments available for sale	Financial investments at fair value through profit or loss – held for sale	Financial investments at fair value through profit or loss – at initial recognition	Financial investments in loans and financial receivables	Total
Financial revenues arising from interest and dividend	2,738,611	4,312,454	650,953	853,700	2,653,719	11,209,437
Financial revenues arising from interest	2,738,611	3,237,011	606,437	688,732	2,653,719	9,924,510
Financial revenues arising from dividend	-	1,075,443	44,516	164,968	-	1,284,927
Financial revenues arising from unrealised gains	43,019	8,917,478	485,372	958,865	-	10,404,734
Financial revenues arising from net unrealised gains (i.e. reversals of impairment)	-	-	708,696	36,935,368	-	37,644,064
Financial revenues arising from net positive foreign exchange differences	-	-	-	-	2,569	2,569
REVENUES FROM INVESTMENTS	**2,781,630**	**13,229,932**	**1,845,021**	**38,747,933**	**2,656,288**	**59,260,803**
Financial expenses arising from investments in associates due to impairment	-	(984,741)	-	-	-	(984,741)
Financial expenses arising from impairment of financial assets not measured at fair value through profit or loss	(415,117)	-	-	-	-	(415,117)
Financial expenses arising from realised capital losses	-	(1,325,948)	-	(2,906)	-	(1,328,853)
Financial expenses arising from net unrealised capital losses	-	(2,676,952)	-	(3,262)	-	(2,680,214)
EXPENSES FOR INVESTMENTS	**(415,117)**	**(4,987,641)**	**-**	**(6,167)**	**-**	**(5,408,926)**
Net financial result from investments	**2,366,513**	**8,242,291**	**1,845,021**	**38,741,765**	**2,656,288**	**53,851,878**

Financial revenues and expenses also include net financial revenue/expenses of unit-linked life insurance policyholders. In 2014, the net financial result of these was 38,034,452 euros. The value of guarantee funds for unit-linked life insurance increased in 2014, mostly because of capital growth of investments in mutual funds and bonds. In the same period, the technical provisions of these funds increased, therefore, it is important to take into account the technical provisions which contribute to a realistic display of results of yields in guarantee funds for unit-linked life insurance. The change in these technical provisions (refer to Section 8.13) in 2014 totalled 42,397,264 euros and therefore lowered the final result in this amount.

Financial revenues and expenses from investments in 2013

in EUR	Financial investments held-to-maturity	Financial investments available for sale	Financial investments at fair value through profit or loss – held for sale	Financial investments at fair value through profit or loss – at initial recognition	Financial investments in loans and financial receivables	Total
Financial revenues arising from interest and dividend	2,868,271	4,562,968	908,216	2,429,977	4,118,926	14,888,358
Financial revenues arising from interest	2,868,271	3,794,792	862,950	2,234,994	4,118,926	13,879,934
Financial revenues arising from dividend	-	768,176	45,266	194,983	-	1,008,425
Financial revenues arising from unrealised gains	-	4,235,774	191,999	890,558	-	5,318,331
Financial revenues arising from net unrealised gains (i.e. reversals of impairment)	-	-	52	9,560	-	9,612
Financial revenues arising from net positive foreign exchange differences	-	-	-	-	2,677	2,677
REVENUES FROM INVESTMENTS	**2,868,271**	**8,798,742**	**1,100,267**	**3,330,095**	**4,121,603**	**20,218,978**
Financial expenses arising from investments in associates due to impairment	-	(643,978)	-	-	-	(643,978)
Financial expenses arising from impairment of financial assets not measured at fair value through profit or loss	(309,916)	-	-	-	-	(309,916)
Financial expenses arising from realised capital losses	(2,419,298)	(1,526,287)	(1,820)	(90,996)	-	(4,038,401)
Financial expenses arising from net unrealised capital losses	-	(12,435,168)	(371,324)	(1,514,178)	-	(14,320,669)
EXPENSES FOR INVESTMENTS	**(2,729,214)**	**(14,605,433)**	**(373,144)**	**(1,605,174)**	**-**	**(19,312,964)**
Net financial result from investments	**139,057**	**(5,806,691)**	**727,124**	**1,724,921**	**4,121,603**	**906,013**

Financial revenues and expenses also include net financial revenue/expenses of unit-linked life insurance policyholders. In 2014, the net financial result of these was 1,784,222 euros.

Net gains/losses from held-for-trading financial assets

in EUR	2014	2013
Realised profits	678,495	897,637
Unrealised profits	1,375,929	1,219,229
Realised losses	(193,123)	(707,458)
Unrealised losses	(667,233)	(1,590,500)
Total	**1,194,068**	**(181,092)**

Net gains/losses from financial assets at initial recognition through profit or loss, excluding investment risk

in EUR	2014	2013
Realised profits	533,386	178,260
Unrealised profits	51,779	276,194
Realised losses	(226,586)	(290,866)
Unrealised losses	(43,563)	(291,831)
Total	**315,016**	**(128,242)**

Net gains/losses from financial assets at initial recognition through profit or loss pertaining to unit-linked life insurance amount to 37,573,050 euros (2013: loss in the amount of 576,815 euros). The effect of revaluation of financial investments, available-for-sale financial assets, are in 2014 recognised in the statement of other comprehensive income and are presented in Section 8.11.

Impairment of securities of available-for-sale financial assets

in EUR	2014	2013
Equity securities	1,010,048	3,992,518
Debt securities	1,666,904	8,442,650
Total	**2,676,952**	**12,435,168**

Within the available-for-sale financial assets, permanent impairments were made, predominantly of Banka Celje d.d. bonds. A large part of impairments is also related to impairments of shares of Cimos d.d. and Deželna Banka Slovenije d.d. Losses due to permanent impairment of these investments were recognised in financial expenses in the income statement within the available-for-sale financial assets.

Impairment of securities of held-to-maturity financial assets

in EUR	2014	2013
Debt securities:	415,117	309,916
Total	**415,117**	**309,916**

Within the held-to-maturity financial assets, impairments of Banka Celje d.d. bonds were made. Losses due to impairment of these investments were recognised in financial expenses in the income statement.

8.18.3 Other insurance revenues

Other insurance revenues

in EUR	2014	2013 (adjusted)
Revenues from reinsurance fees/commissions and from shares in positive technical result from individual reinsurance contracts	13,183,642	14,599,638
Total	**13,183,642**	**14,599,638**

Other insurance revenues consist entirely of revenues from reinsurance commissions from participation in the positive technical result from individual reinsurance contracts. Revenues from reinsurance contracts have decreased in 2014 by 1,415,996 euros, mostly due to lower result of car insurance quota share reinsurance premium, and to a lower degree due to the low claims result in the current year and the improvement of claims result of the past years.

In 2014, the insurance company does not display revenues from insurance contracts management because they have been offset with the expenses of the same type – in 2014, the insurance company began to perform offsetting of revenues/expenses of management commissions among long-term life insurance funds (for details, refer to Section 3.4 - changes).

8.18.4 Other operating revenues

Other operating revenues

in EUR	2014	2013 (adjusted)
Other net insurance revenues	2,666,023	2,545,431
Revaluation operating revenues	462,188	6,592,446
Revenues arising from rents charged for investment properties	1,237,178	1,547,877
Other operating revenues	2,212,262	1,125,173
Other operating revenues	**6,577,652**	**11,810,927**

Other net insurance revenues

in EUR	2014	2013
Revenue for management of insurance contracts	710,298	797,845
Revenue from other services provided to KD Funds	747,940	537,664
Revenue from insurance services provided to foreign insurance companies	326,986	252,991
Revenue from rent on parking lot and cars	191,530	178,865
Revenue from Green Card sales	477,440	489,733
Revenue from other services	211,829	288,332
Total	**2,666,023**	**2,545,431**

Revaluation operating revenues mostly originate in the reversal of impairment of premium receivables, recourse receivables, other receivables and financial receivables. In 2014, due to significantly lower reversals of impairments, these revenues are substantially lower (in 2014, they totalled 294,824 euros, compared to 6,148,635 euros in 2013). The reason for this is that the insurance company in the past years sold out the largest part of “old” receivables (with high adjustments formed) to its subsidiary Prospera d.o.o., the main activity of which is debt collection. Therefore, in the current year, the release of adjustments in the Company’s receivables could not be as high as in the past years.

Other operating revenues are:

- collected written-off receivables in the amount of 18,847 euros, compared to 4,039 euros in 2013,
- received penalties and compensations in the amount of 14,555 euros, compared to 10,593 euros in 2013,
- other extraordinary revenues in the amount of 377,991 euros, compared to 393,926 euros in 2013,
- other financial revenues in the amount of 1,800,870 euros, generated from revaluation of loans given to Fondpolica policyholders, which was performed due to changes in interest rates; compared to 716,615 euros in 2013.

8.19 NET CLAIMS INCURRED

Net claims incurred in 2014

in EUR	Gross claims settled	Revenues from recourse receivables	Share of reinsurance/ coinsurance in claims/ benefits paid	Change in gross outstanding claims provisions	Change in outstanding claims provisions for reinsurance/ coinsurance share	Expenses from equalisation scheme	Net expenses for claims/ benefits paid
Motor vehicle liability insurance	26,541,654	(1,643,697)	(8,380,083)	(762,348)	(3,893,823)	-	11,861,703
Land motor vehicles insurance	26,088,905	(778,033)	(12,349,315)	(769,412)	331,158	-	12,523,304
Accident insurance	7,298,157	(3,276)	(517,980)	(1,230,042)	(4,472)	-	5,542,387
Fire and natural disasters Insurance	6,180,984	(200,554)	(271,576)	402,856	17,138	-	6,128,849
Other damage to property insurance	8,929,880	(166,635)	(309,739)	(32,874)	208,945	-	8,629,578
General liability insurance	3,172,341	(10,696)	(34,834)	(2,076,714)	51,021	-	1,101,118
Credit insurance	693,447	(710,003)	-	(83,266)	-	-	(99,821)
Other non-life insurance, excluding health insurance operations	5,420,893	(168,011)	(1,416,977)	(697,122)	571,854	-	3,710,638
excluding health insurance contracts	**84,326,262**	**(3,680,903)**	**(23,280,503)**	**(5,248,920)**	**(2,718,179)**	**-**	**49,397,756**
	-	-	-	-	-	-	-
Health insurance contracts	**88,631,491**	**(203,611)**	**-**	**(526,547)**	**-**	**4,284,356**	**92,185,688**
Life insurance	13,197,564	-	(322,554)	(747,759)	(19,521)	-	**12,107,730**
Unit-linked insurance contracts	21,927,095	-	(11,538)	81,807	-	-	**21,997,364**
Additional pension insurance	366,377	-	-	-	-	-	**366,377**
Insurance contracts and investment life insurance contracts	**35,491,036**	**-**	**(334,092)**	**(665,952)**	**(19,521)**	**-**	**34,471,471**
Total	**208,448,788**	**(3,884,514)**	**(23,614,595)**	**(6,441,420)**	**(2,737,700)**	**4,284,356**	**176,054,915**

Net claims incurred in 2013

in EUR	Gross claims settled	Revenues from recourse receivables	Share of reinsurance/ coinsurance in claims/ benefits paid	Change in gross outstanding claims provisions	Change in outstanding claims provisions for reinsurance/ coinsurance share	Expenses from equalisation scheme	Net expenses for claims/ benefits paid
Motor vehicle liability insurance	27,891,112	(1,002,533)	(8,369,877)	(5,882,595)	(2,903,189)	-	9,732,918
Land motor vehicles insurance	29,857,182	(703,761)	(13,698,501)	(810,647)	145,095	-	14,789,367
Accident insurance	7,247,411	(4,970)	(460,463)	(1,373,009)	(201,324)	-	5,207,646
Fire and natural disasters Insurance	8,347,944	(75,185)	(1,047,300)	(1,163,952)	877,849	-	6,939,356
Other damage to property insurance	8,913,757	(17,057)	(526,629)	517,525	(121,100)	-	8,766,496
General liability insurance	3,660,830	(27,407)	(281,860)	625,841	24,427	-	4,001,831
Credit insurance	1,048,465	(892,136)	-	(72,777)	-	-	83,552
Other non-life insurance, excluding health insurance operations	3,407,449	(69,522)	(607,721)	(27,608)	(124,208)	-	2,578,390
excluding health insurance contracts	**90,374,150**	**(2,792,571)**	**(24,992,350)**	**(8,187,223)**	**(2,302,449)**	**-**	**52,099,557**
	-	-	-	-	-	-	-
Health insurance contracts	**91,938,863**	**(74,271)**	**-**	**(442,596)**	**-**	**4,304,559**	**95,726,554**
Life insurance	12,088,396	-	(291,520)	(556,032)	56,180	-	11,297,024
Unit-linked insurance contracts	21,065,802	-	-	133,186	-	-	21,198,988
Additional pension insurance	710,717	-	-	-	-	-	710,717
insurance	**33,864,915**	**-**	**(291,520)**	**(422,846)**	**56,180**	**-**	**33,206,728**
Total	**216,177,928**	**(2,866,842)**	**(25,283,870)**	**(9,052,665)**	**(2,246,270)**	**4,304,559**	**181,032,840**

Net claims incurred classified into expenses for the current year and expenses for previous years

in EUR	Gross 2014	Reinsurance 2014	Net 2014	Gross 2013	Reinsurance 2013	Net2013
Expenses for claims and benefits paid for current year	**216,652,215**	**26,920,650**	**189,731,564**	**226,531,040**	**29,569,190**	**196,961,851**
Claims and benefits paid	165,159,531	13,895,610	151,263,921	171,500,731	17,137,007	154,363,724
Change in outstanding claim provisions	47,208,328	13,025,040	34,183,287	50,725,751	12,432,183	38,293,568
Expenses from equalisation scheme	4,284,356	-	4,284,356	4,304,559	-	4,304,559
Expenses for claims and benefits paid for previous years	**(14,245,004)**	**(568,356)**	**(13,676,649)**	**(17,968,062)**	**(2,039,050)**	**(15,929,011)**
Claims and benefits paid	39,404,743	9,718,985	29,685,758	41,810,355	8,146,863	33,663,492
Change in outstanding claim provisions	(53,649,747)	(10,287,341)	(43,362,407)	(59,778,416)	(10,185,913)	(49,592,503)
Total	**202,407,210**	**26,352,295**	**176,054,916**	**208,562,979**	**27,530,140**	**181,032,839**

8.20 COSTS/ EXPENSES

8.20.1 Costs/ expenses by natural groups

in EUR	2014	2013
Operating costs for material	1,084,094	1,349,949
Acquisition costs	24,214,427	23,856,776
Operating costs for services	19,481,375	20,982,822
Depreciation/amortisation	3,231,006	3,109,217
Labour costs	**28,053,665**	**27,243,602**
Payroll – wages and salaries	20,411,922	19,893,016
Social security costs	1,456,858	1,387,938
Pension insurance costs	1,939,141	1,937,319
Other labour cost	3,639,129	3,747,542
Provisions for termination benefits and jubilee benefits	606,615	277,786
Total	**76,064,567**	**76,542,366**

The Company charges the input VAT to its costs as percentage of the tax deductible input VAT, decreasing the costs for the amount equal to the input VAT.

8.20.2 Costs by functional groups

in EUR	2014	2013
Costs related to acquisition of insurance and investment contracts	24,214,318	20,417,630
Costs related to financial asset management	2,490,942	1,733,034
Costs related to PPE management	648,675	546,946
Other costs for management fees	2,270,241	2,240,802
Costs of sale	22,642,742	21,815,615
Other costs/expenses	17,738,988	23,652,738
Total costs/expenses by functional groups	**70,005,906**	**70,406,765**

Costs by functional groups differ from costs by natural groups by the cost of liquidation, accounted for by the insurance company among net expenses for claims paid. These costs in 2014 amounted to 6,058,661 euros (2013: 6,135,602 euros). The costs by functional groups differ from costs by natural groups by the cost of liquidation, accounted for by the insurance company among gross expenses for claims paid. Together with the transfer of a part of other expenses in the amount of 34,193 euros (2013: 26,698 euros), there were 6,092,854 euros transferred to gross expenses for claims paid (2013: 6,162,300 euros).

8.20.3 Labour costs for own agents

In EUR	2014	2013
Labour costs	6,851,470	6,857,877
Wages and salaries	4,905,335	4,945,037
Social security costs	374,257	370,443
Pension insurance costs	559,463	553,587
Other labour cost	1,012,415	988,811
Costs of services provided by private individuals	370,415	369,043
Total	**7,221,885**	**7,226,921**

8.20.4 Auditor's remuneration

The audit of annual financial statements of Adriatic Slovenica insurance company for 2014, as well as 2013, was performed by the audit firm KPMG Slovenija d.o.o.

Fees paid for auditor's services in 2014

in EUR	KPMG d.o.o.	KPMG rest of the world	Other	Total
Statutory audit of the annual report 2013	10,435	-	-	10,435
Statutory audit of the annual report 2014	86,346	-	-	86,346
Other audit services	-	-	-	-
Tax counselling services	-	-	59,110	59,110
Other non-audit services	-	13,978	33,077	47,055
Total fees for independent auditor's services	**96,781**	**13,978**	**92,187**	**202,946**

Fees paid for auditor's services in 2013

v EUR	KPMG d.o.o.	Other	Total
Statutory audit of the annual report 2012	-	10,960	10,960
Statutory audit of the annual report 2013	75,579	-	75,579
Other audit services	60,993	-	60,993
Tax counselling services	-	19,311	19,311
Other non-audit services	-	4,792	4,792
Total fees for independent auditor's services	**136,572**	**35,063**	**171,635**

8.21 OTHER INSURANCE EXPENSES

Other insurance expenses

in EUR	2014	2013 (adjusted)
Expenses for preventive activities	844,032	829,925
Contribution for covering losses caused by uninsured and unknown vehicles	462,475	40,787
Other net insurance expenses	5,189,219	8,769,956
Total	**6,495,725**	**9,640,669**

The expenses for preventive activities relate to expenses for payment of fire fees. Insurance companies that offer non-life insurance must charge and pay fire fees to the Slovenian Insurance Association (SZZ) as stipulated by the association's rules. Adriatic Slovenica pays the fire fees in the amount depending on the market share and premium written from fire insurance. In 2014, these expenses are on the same level as last year.

The contribution for covering damage on uninsured and unidentified vehicles is a "special fee" that the insurance company pays to the SZZ, depending on the market share of motor vehicle liability insurance. In 2012, the insurance company paid more fee than it should because the actual amount was determined subsequently. Therefore, these expenses were in 2013 much lower from the expected amount arising from these events. However, in 2014, this fee was paid in the expected amount.

Other net insurance expenses are in volume the largest part of other insurance expenses and are generated from:

- claims write-offs from insurance premiums in the amount of 1,508,933 euros (2013: 3,621,770 euros),
- recourse receivables write-offs in the amount of 1,557,114 euros (2013: 3,680,240 euros),
- write-offs of other receivables in the amount of 250,308 euros (2013: 127,917 euros),
- insurance expenses for car assistance in the amount of 1,545,148 euros (2013: 1,052,048 euros),

- expenses of supervisory bodies and other net insurance expenses in the amount of 327,716 euros (2013: 287,981 euros).

Annually, the insurance company reviews the recoverability of older and overdue receivables and decides about write-offs of receivables, the recoverability of which had been proven several times and there is solid proof (inability to repay, bankruptcy, personal bankruptcy…) that these receivables would not be repaid in the future. Based on a conclusion of the Management Board and checks performed by the inventory commission, write-offs are made. In 2014, compared to 2013, the amount of write-offs of receivables from insurance cases and recourse receivables is significantly lower, mostly because of lowering of the structure of older and overdue receivables. This is because the insurance company in the last years sold most of its overdue and unpaid receivables to its subsidiary Prospera d.o.o.

8.22 OTHER EXPENSES

Other expenses

in EUR	2014	2013 (adjusted)
Revaluation operating expenses	2,124,785	516,084
Expenses for depreciation of investment properties	338,498	345,306
Other expenses for investment properties	439,057	298,381
Expenses for disposal of investment properties	151,992	994,128
Other operating expenses	1,135,614	1,235,992
Finance expenses	540,217	679,868
Total	**4,730,163**	**4,069,759**

Revaluation operating expenses that present an important part of other expenses in 2014 were generated by revaluation or impairment of receivables in the amount of 1,716,480 euros (2013: 218,573 euros) and to a lesser extent by impairment of given loans and material rights, amounting to 403,365 euros (2013: 286,351 euros).

The reason for the drastic increase of these expenses is principally impairment of items – receivables outside insurance business. These include expenses from impairment of receivables and deposits measured at amortised cost (amounting to 958,581 euros) and impairment of receivables from unpaid rent, charged by the insurance company for rented investment property (amounting to 542,361 euros). To a lesser extent, the reason for this is also an impairment of a loan (in the amount of 117,014 euros). In 2013, there were no such expenses.

Expenses from amortisation of investment property remain on a similar level than last year since there were no important changes in the structure of investment properties.

Other expenses from investment properties mostly relate to expenses from rented investment property. In 2014, these expenses increased by more than 30 % due to the acquisition of a new investment property (on 22 Slovenčeva street in Ljubljana).

Expenses from disposal of investment properties are mainly a consequence of payment of a contractual penalty in the amount of 150,000 euros. In 2013, the insurance company sold an item of investment property and did not fulfil all the contractual obligations, therefore, in 2014, it had to pay the contractual penalty and increased the loss at disposal of investment property by the same amount. In the amount of 1,992 euros, these expenses are also a consequence of loss from sale of investment property (presented in detail in Section 8.3).

Other operating expenses are an important part of other expenses, therefore, they are presented in further detail in the section below.

Other operating expenses

in EUR	2014	2013
Payments for charity and cultural purposes	117,741	90,881
Benefits not depending on operating profit or loss	151,847	98,246
Financial penalties and compensations	4,462	5,300
Other operating expenses	819,113	980,707
The rest of other operating expenses	42,451	60,858
Total	**1,135,614**	**1,235,992**

Finance expenses, which decreased compared to the year before, are below presented in more detail.

Finance expenses

in EUR	2014	2013
Finance expenses for interest -other	3,160	13,698
Other finance expenses	537,057	666,170
Finance expenses arising from other financial liabilities	41,635	117,643
Finance expenses arising from fees and commissions	396,541	78,569
Finance expenses arising from operating liabilities	98,881	469,958
Total	**540,217**	**679,868**

Finance expenses from other financial liabilities have decreased significantly compared to the year before – they are close to zero. The reason for this is that the insurance company repaid its short-term loan to subsidiary Prospera d.o.o. at the beginning of 2014.

However, there has been an increase in financial expenses from fees and commissions. These are mostly expenses from commissions for financing of unit-linked life insurance (explained in Section 8.18.4 among other operating revenues – other financial revenues).

Financial expenses from operating liabilities also fell significantly due to lower out-of-the-ordinary financial expenses and interest rate differences.

8.23 REINSURANCE RESULT

The reinsurance result shown below by insurance class presents the net reinsurance result, which does not include any reinsurance premiums or claims from co-insurance.

Reinsurance result for non-life insurance in 2014

Insurance class in EUR	Reinsurance premiums	Reinsurance claims	Gross reinsurance result	Reinsurance commissions	Net reinsurance result
Accident insurance	3,223,994	517,980	2,706,014	1,013,715	1,692,299
Land motor vehicle insurance	17,816,865	12,349,315	5,467,550	5,212,269	255,281
Aircraft insurance	858	-	858	64	794
Marine loss insurance	163,860	345,934	(182,073)	-	(182,073)
Transportation (goods in transit) insurance	356,639	436,685	(80,047)	14,614	(94,660)
Fire and natural disaster insurance	3,611,379	271,350	3,340,030	511,113	2,828,916
Other damage to property insurance	1,411,721	309,584	1,102,136	46,638	1,055,498
Motor vehicle liability insurance (MTPL)	17,950,769	8,380,083	9,570,686	5,639,406	3,931,280
Aircraft liability insurance	11,972	-	11,972	1,173	10,800
Ship/boat liability insurance	61,422	-	61,422	-	61,422
General liability insurance	627,995	22,757	605,238	18,259	586,979
Suretyship insurance	35,846	7,847	27,999	-	27,999
Miscellaneous financial loss insurance	82,719	31,531	51,188	12,168	39,021
Legal expenses insurance	66,213	(124)	66,336	21,889	44,447
Insurance of assistance	1,160,789	594,980	565,809	363,741	202,068
Total non-life insurance	**46,583,042**	**23,267,922**	**23,315,120**	**12,855,050**	**10,460,070**

Reinsurance result for non-life insurance in 2013

Insurance class in EUR	Reinsurance premiums	Reinsurance claims	Gross reinsurance result	Reinsurance commissions	Net reinsurance result
Accident insurance	3,735,651	460,463	3,275,188	1,179,976	2,095,212
Land motor vehicle insurance	19,742,486	13,698,501	6,043,985	6,031,593	12,392
Aviation insurance	661	-	661	-	661
Marine loss insurance	70,011	-	70,011	-	70,011
Transportation (goods in transit) insurance	223,575	19,989	203,586	9,769	193,817
Fire and natural disaster insurance	3,533,741	1,035,834	2,497,907	512,647	1,985,261
Other damage to property insurance	1,261,560	526,521	735,039	55,925	679,114
Motor vehicle liability insurance (MTPL)	19,665,895	8,369,877	11,296,019	6,282,178	5,013,841
Aircraft liability insurance	16,197	-	16,197	1,607	14,589
Ship/boat liability insurance	64,598	-	64,598	-	64,598
General liability insurance	539,135	271,069	268,066	3,831	264,236
Suretyship insurance	44,536	-	44,536	-	44,536
Miscellaneous financial loss insurance	97,000	542	96,457	15,643	80,814
Legal expenses insurance	72,307	(32)	72,339	24,744	47,594
Insurance of assistance	1,082,648	587,189	495,460	350,213	145,247
Total non-life insurance	**50,150,002**	**24,969,953**	**25,180,049**	**14,468,125**	**10,711,924**

8.24 CORPORATE INCOME TAX

Taxes

in EUR	2014	2013
Corporate income tax charge	(4,048,370)	(1,771,818)
Deferred tax income/(expense)	280,918	(565,686)
Total	**(3,767,452)**	**(2,337,504)**

Tax base and rate for the calculation of corporate income tax

in EUR	2014	2013
Profit or loss before taxes	**22,616,458**	**15,920,603**
Revenue adjustment to level recognised for tax purposes	(11,367,600)	(16,982,227)
Expense adjustment to level recognised for tax purposes	14,450,478	13,253,884
Tax allowance	(1,885,396)	(1,769,802)
Total tax base	23,813,940	10,422,458
Rate used for income tax calculation	**17.00%**	**17.00%**
Income tax	**(4,048,370)**	**(1,771,818)**
Effective tax rate (in %)	**16.66**	**14.68**

Adjustment between the actual and the calculated tax expense by applying the effective tax rate

in EUR	2014	2013
Profit or loss before taxation	**22,616,458**	**15,920,603**
Tax calculated by using official tax rate (2014: 17%, 2013: 17%)	**(3,844,798)**	**(2,706,502)**
Income excluded from the tax base	**1,932,492**	**2,886,979**
Dividend income exempt from tax	180,357	128,565
Adjustment of income to the level recognised for tax purposes (decrease)	1,752,135	2,758,414
Expenses not recognised in the tax base	**(2,456,581)**	**(2,253,160)**
Increase in expenditure (not recognised for tax purposes in previous years)	554,956	11,214
Withdrawal of tax allowances, utilised in previous years	(3)	-
Adjustment of income to the level recognised for tax purposes	(3,011,535)	(2,264,375)
Use of tax allowance in the current year	320,517	300,866
Other changes in deferred taxes in the income statement	280,918	(565,686)
Profit or loss after taxation	**(3,767,452)**	**(2,337,504)**
Effective tax rate (in %)	**17**	**15**

Under the Slovene tax legislation, it is possible that the tax authority in certain cases levies tax on the Company's operating activities by using an approach that differs from the one used by the Company. In 2014, the Tax Administration of the Republic of Slovenia did not conduct any corporate tax inspections. Therefore, a possibility exists that a tax inspection will take place at a later date and it may result in additional tax charges being imposed. However, the management believes that the corporate income tax return encompasses all expenses and income in accordance with the provisions of the law and that no further obligations will be imposed in the event of a tax inspection.

As a rule, the tax base calculated for corporate income tax is higher than profit before tax posted in the income statement as a result of the portion of non-deductible expenses, representing permanent differences.

The ratio between the tax expense (including deferred tax) and the determined financial result before tax for 2014 is 16.66 % (2013: the effective tax rate was 14.68 %).

In Slovenia, the tax liability from the tax base for 2014 was calculated at a 17 % tax rate, which is the same as the previous year.

8.25 DEFERRED TAXES

Deferred taxes are the result of calculating current and future tax effects, i.e. the future recovery (settlement) of the book value of assets (liabilities) recognized in the balance sheet of the Company and the transactions and other business events during the relevant period, offset and recognized in the financial statements of the Company in the case of the same tax authority.

Recognised deferred tax amounts

in EUR	31 Dec 2014	31 Dec 2013
Deferred tax assets	**3,622,498**	**3,816,023**
– receivables for deferred tax to be recovered	3,622,498	3,816,023
Deferred tax liabilities	**1,194,632**	**27,011**
– liabilities for deferred taxes pending payment	1,194,632	27,011

Overview of bases for deferred tax receivables

in EUR	Base 2014	Deferred tax liability 2014	Base 2013	Deferred tax liability 2013
Due to impairment/value adjustments of receivables for premiums, for recourse receivables and for other current receivables	11,851,112	2,014,689	11,673,582	1,984,509
Due to impairment/value adjustments of financial investments	7,868,973	1,337,725	8,613,918	1,464,366
Due to impairment/value adjustments of provisions and depreciation above the statutory rate	1,588,723	270,083	2,159,695	367,148
Total	**21,308,809**	**3,622,498**	**22,447,195**	**3,816,023**

Overview of bases for deferred tax liabilities

in EUR	Base 2014	Deferred tax liability 2014	Base 2013	Deferred tax liability 2013
Due to reversal of impairment of financial investments	7,027,247	1,194,632	158,887	27,011
Total	**7,027,247**	**1,194,632**	**158,887**	**27,011**

Deferred taxes taken to equity in a given year

in EUR	31 Dec 2014	31 Dec 2013
Revaluation surplus (deferred taxes)		
Available-for-sale financial assets	(1,642,065)	234,090
Total	**(1,642,065)**	**234,090**

Movements in deferred taxes

in EUR	Total
Net balance of assets and liabilities as at 1 January 2013	**4,120,609**
Debited/credited to income statement	(825,866)
Debited/credited to equity	220,304
Debited/credited to income statement due to change in tax rate	260,180
Debited/credited to equity due to change in tax rate	13,786
Net balance of assets and liabilities as at 31 December 2013	**3,789,013**
New balance as at 1 January 2014	**3,789,013**
Debited/credited to income statement	280,918
Debited/credited to equity	(1,642,065)
Net balance of assets and liabilities as at 31 December 2014	**2,427,866**

Movements in deferred tax liabilities (without offsetting)

v EUR	Impairment reversal to fair value	Other	Total
Balance as at 1 January 2013	**48,129**	**-**	**48,129**
Debited/credited to equity	(24,126)	-	(24,126)
Debited/credited to equity due to change in tax rate	3,008	-	3,008
Balance as at 31 December 2013	**27,011**	**-**	**27,011**
New balance as at 1 January 2014	**27,011**	**-**	**27,011**
Debited/credited to equity	1,167,621	-	1,167,621
Balance as at 31 December 2014	**1,194,632**	**-**	**1,194,632**

Deferred tax assets by calculation basis

in EUR	Receivables from direct insurance contracts	Non-current and current financial investments	Other non-current receivables from insurance contracts	Reserves for jubilee and termination benefits at retirement	Amortised above mandatory rate for computer software	Other current receivables	Provisions for unused R&D tax incentives	Total
Balance as at 1 January 2013	**1,642,630**	**1,093,676**	**671,239**	**253,307**	**132,475**	**281,519**	**-**	**4,074,848**
Debited/credited to income statement	(370,756)	10,703	(406,714)	(50,380)	(47,368)	67	38,583	(825,865)
Debited/credited to equity	-	306,861	-	-	-	-	-	306,861
Debited/credited to income statement due to change in tax rate	92,760	53,126	41,952	32,252	8,280	31,811	-	260,180
Balance as at 31 December 2013	**1,364,634**	**1,464,366**	**306,478**	**235,179**	**93,387**	**313,397**	**38,583**	**3,816,023**
New balance as at 1 January 2014	**1,364,634**	**1,464,366**	**306,478**	**235,179**	**93,387**	**313,397**	**38,583**	**3,816,023**
Debited/credited to income statement	(94,707)	347,803	2,257	30,528	(41,148)	70,392	(34,206)	**280,918**
Debited/credited to equity	-	(474,443)	-	-	-	-	-	**(474,443)**
Balance as at 31 December 2014	**1,269,927**	**1,337,726**	**308,734**	**265,707**	**52,239**	**383,789**	**4,376**	**3,622,498**

8.26 NET EARNINGS (LOSS) PER SHARE

The basic net earnings per share that refers to the holders of ordinary shares and is calculated by dividing the net profit (loss) for the year attributable to the holders of ordinary shares (numerator) with the weighted average number of ordinary outstanding shares for the reporting period (at the reporting date).

Earnings (loss) per share

in EUR	31 Dec 2014	31 Dec 2013
Net profit or loss for the financial year	18,849,006	13,583,099
Weighted average number of ordinary shares outstanding	10,304,407	9,827,497
Basic and adjusted net earnings / loss per share (in EUR)	**1.83**	**1.38**

All shares issued by the parent company are ordinary registered shares; therefore, the diluted net earnings per share are equal to the basic net earnings per share.

Movements in shares

	2014	2013
As at 1 January	10,304,407	9,666,780
Change (recapitalisation/disposal)	-	637,627
As at 31 December	**10,304,407**	**10,304,407**

8.27 ISSUES, REDEMPTIONS AND PAYOUTS OF SECURITIES AND DIVIDENDS

In 2014, Adriatic Slovenica did not issue, redeem or pay out any debt or equity securities.

Dividend per share

	2014	2013
Amount of dividends (in euros)	13,400,000	**11,000,000**
Dividend per share (in euros)	1.30	**1.14**

Dividends are formed from the accumulated profit determined by the Company after the financial year ended and are paid in the foreseen amount after the General Meeting of Shareholders adopted such a resolution.

On 22 May 2014, the General Meeting of Shareholders of Adriatic Slovenica adopted a resolution to allocate 13,400,000 euros for the payment of dividends to the shareholders at the latest by 30 May 2014.

9. RELATED PARTY TRANSACTIONS

In this section, the insurance company discloses transactions with related legal entities, shareholders, subsidiaries and associates, the management of Adriatic Slovenica and the senior management of subsidiaries. In 2014, there were no significant transactions between Adriatic Slovenica and its related parties carried out under unusual market conditions and likely to affect the presentation of the Company's financial position. In the reporting year, the Company received adequate payments and reimbursements in all transactions made with the parent company KD Group and those transactions were carried out at arm's length. All transactions with the subsidiary were performed as transactions between knowledgeable, willing parties.

9.1 RELATED PARTIES

The related parties of Adriatic Slovenica as at 31 December 2014 are listed below:

KD Group d. d.- direct owners
Subsidiary AS neživotno osiguranje a.d.o., Serbia
Subsidiary PROSPERA družba za izterjavo d. o. o.
Subsidiary VIZ, zavarovalno zastopništvo d. o. o. (=WIZ)
Subsidiary KD životno osiguranje d.d., Croatia
Associate NAMA d. d. Ljubljana

Other associates of Adriatic Slovenica d.d.:

Other associates are the companies which are associated with the Company through management and supervisory bodies, i.e. Management and Supervisory Board members.

Sale of goods and services

in EUR	2014	2013
Shareholder of Adriatic Slovenica d.d	248,561	205,796
Subsidiaries of Adriatic Slovenica d.d.	125,486	113,731
Associate of Adriatic Slovenica d.d.	321	2,160
Other associated/affiliated companies of Adriatic Slovenica d. d.	1,229,191	743,575
Total	**1,603,558**	**1,065,261**

The insurance company sold the receivables totalling 1,268,517 euros to Prospera d.o.o. subsidiary and from this transaction, the insurance company did not generate revenues or expenses.

Purchase of goods and services

in EUR	2014	2013
Shareholder of Adriatic Slovenica d.d	559,008	442,533
Subsidiaries of Adriatic Slovenica d.d.	74,901	50,989
Associate of Adriatic Slovenica d.d.	12	-
Other associated/affiliated companies of Adriatic Slovenica d. d.	3,768,048	1,009,354
Total	**4,401,968**	**1,502,876**

Receivables of Adriatic Slovenica d.d. from related parties

in EUR	31 Dec 2014	31 Dec 2013
Shareholder of Adriatic Slovenica d.d	4,114	-
Subsidiaries of Adriatic Slovenica d.d.	496,830	1,602,014
Associate of Adriatic Slovenica d.d.	-	107
Other associated/affiliated companies of Adriatic Slovenica d. d.	154,564	108,038
Total	**655,507**	**1,710,158**

Liabilities of Adriatic Slovenica d.d. from related parties

in EUR	31 Dec 2014	31 Dec 2013
Shareholder of Adriatic Slovenica d.d	136,206	150,922
Subsidiaries of Adriatic Slovenica d.d.	79,000	502,650
Associate of Adriatic Slovenica d.d.	12	12
Other associated/affiliated companies of Adriatic Slovenica d. d.	174,015	103,468
Total	**389,233**	**757,052**

Purchase of investment properties from related parties

in EUR	2014	2013
Other associates of Adriatic Slovenica d.d.	-	1,424,000
Total	**-**	**1,424,000**

In 2014, the insurance company did not sell any investment properties to its related parties.

Purchase of securities from related parties

in EUR	2014	2013
Subsidiaries of Adriatic Slovenica d.d.	5,983,474	1,185,366
Associate of Adriatic Slovenica d.d.	-	4,008
Other associates of Adriatic Slovenica d.d.	-	649,867
Total	**5,983,474**	**1,839,241**

Sale of securities to related parties

in EUR	2014	2013
Other associates of Adriatic Slovenica d.d.	-	(103,277)
Total	**-**	**(103,277)**

Bonds issued by the shareholder of Adriatic Slovenica d. d.

in EUR	2014	2013
At the beginning of year	**-**	**6,853,801**
Spin-off assets	-	1,316,282
New balance as at 1 January - after spin-off	**9,652,626**	**8,170,083**
Bonds purchased from third parties	-	973,301
Interest charged	676,656	559,050
Interest received	(573,908)	(559,050)
Valuation/measurement	1,317,018	509,242
At the end of the reporting period	**11,072,392**	**9,652,626**

Bonds issued by other related parties of Adriatic Slovenica d.d.

in EUR	2014	2013
At the beginning of year	-	3,914,942
Spin-off assets	-	534,808
New balance as at 1 January - after spin-off	6,050,921	4,449,750
Bonds purchased in the Group	168,019	1,658,524
Interest charged	411,145	412,440
Interest received	(427,630)	(412,440)
Valuation/measurement	10,421	(57,353)
At the end of the reporting period	6,212,877	6,050,921

Shares issued by the shareholder of Adriatic Slovenica d. d.

in EUR	2014	2013
At the beginning of year	116,105	537,372
Valuation/measurement	46,735	(421,267)
At the end of the reporting period	162,840	116,105

Shares of the subsidiaries of Adriatic Slovenica d. d.

in EUR	2014	2013
At the beginning of year	2,018,858	1,657,469
Shares purchased from the issuer	2,216,864	1,005,366
Shares purchased within the group	4,140,776	-
Permanently impaired	(984,741)	(643,978)
At the end of the reporting period	7,391,756	2,018,858

Shares of the associate of Adriatic Slovenica d.d.

in EUR	2014	2013
At the beginning of year	11,705,901	11,701,893
Shares purchased from other related companies	-	4,008
Dividends paid	77,175	77,175
Dividends received	(77,175)	(77,175)
At the end of the reporting period	11,705,901	11,705,901

Shares of other related parties of Adriatic Slovenica d. d.

in EUR	2014	2013
At the beginning of year	-	8,053,672
Spin-off assets	-	(4,691,590)
New balance as at 1 January - after spin-off	2,812,704	3,362,082
Shares purchased from other related companies	-	649,867
Shares sold to other related companies	(1,752,487)	(103,277)
Dividends paid	289,294	54,457
Dividends received	(289,294)	(54,457)
Valuation/measurement	219,675	(752,887)
Permanently impaired	-	(343,081)
At the end of the reporting period	1,279,892	2,812,704

The transactions carried out by the insurance company with its related parties in 2014 involved the following:

insurance contracts, claims, payment of insurance fees/commissions;

- renting of business premises and parking spaces;
- purchase and sale of investment properties;
- purchase and sale of securities.

Loans received and loans given

Loans given to the shareholders of Adriatic Slovenica d. d.

in EUR	2014	2013
At the beginning of year	**10,699,997**	**980,012**
Approved loans	17,700,000	29,200,000
Repaid loans	(20,300,000)	(19,480,000)
Interest accrued	433,966	202,507
Interest reduction	(433,966)	(202,522)
At the end of year	**8,099,996**	**10,699,997**
Paid interest	**448,306**	169,481

The loans were given at market interest rate of 5 % and were adequately secured (bills of exchange).

Loans given to other related parties of Adriatic Slovenica d. d.

in EUR	2014	2013
At the beginning of year	**9,801,611**	3,502,283
Approved loans	11,800,000	11,200,000
Repaid loans	(1,849,100)	(4,900,000)
Interest accrued	508,186	297,657
Interest reduction	(508,862)	(298,329)
At the end of year	**19,751,835**	**9,801,611**
Paid interest	**707,820**	184,778

The loans to other related parties were given at market interest rates from 3.5 % to 6 %. They are secured with equity securities, mortgages on real property, bills of exchange and equity stakes.

Loans received from subsidiaries of Adriatic Slovenica d. d.

in EUR	2014	2013
At the beginning of year	**350,840**	28,214
Approved loans	472,500	2,740,000
Repaid loans	(766,600)	(2,429,900)
Interest accrued	3,160	13,698
Interest reduction	(15,929)	(1,172)
At the end of year	**43,971**	**350,840**
Paid interest	**15,929**	1,172

In 2014, Adriatic Slovenica d.d. received short-term loans from the subsidiaries Prospera d.o.o. and VIZ d.o.o. in the total amount of 472,500 euros and repaid the loans totalling 766,600 euros. The interest rate used was the effective interest rate equal to the interest rate on loans between related parties. None of the received loans were specially secured. The total of liabilities as at 31 December 2014 amounts to 43,971 euros.

The insurance company did not conduct any business with banks as the related parties in 2014.

9.2 SUBSIDIARIES AND ASSOCIATES

Subsidiaries

AS neživotno osiguranje a.d.o.

Head office: Serbia, Bulevar Milutina Milankovića 7V, Novi Beograd
Company registration number: 20384166
VAT identification number:105510418
No. of employees as at 31 December 2014: 50
Company objects: Non-life insurance.

As at 31 December 2014, the Adriatic Slovenica d.d. equity stake in the subsidiary reached 97.27 %. The reporting period of the financial statements is equal to the calendar period ended 31 December 2014.

The tax rate applied for the calculation of the corporate income tax was 15 % as determined by the local legislation in Serbia.

Adriatic Slovenica d.d. as the controlling company did not give or receive any loans from the subsidiary AS neživotno osiguranje a.d.o. in 2014.

As the controlling company, Adriatic Slovenica d.d. will compile a consolidated annual report of AS neživotno osiguranje a.d.o., which will be published and available at the registered office of Adriatic Slovenica and its website.

PROSPERA družba za izterjavo d. o. o.

Head office: Slovenia, Ljubljanska cesta 3, 6000 Koper
Company registration number: 6074618000
VAT identification number: SI34037616
No. of employees as at 31 December 2014: 49 per person; considering the partial employments in individual companies within the Group, the number of employees is 32.5.
Company objects: Other financial services, except insurance and pension funding.

As at 31 December 2014, Adriatic Slovenica d.d. had a 100 % equity stake in the subsidiary Prospera. The reporting period of the financial statements equals the calendar year ended 31 December 2014.

The tax rate applied in the calculation of the corporate income tax was 17 %.

In 2014, Adriatic Slovenica d.d. concluded loan agreements with Prospera d.o.o. for short-term loans with the possibility of gradual drawdown. In accordance with the loan agreements, the received loans were repaid within the contractual period (see Section 9.1).

Adriatic Slovenica d.d. as the controlling company will compile a consolidated annual report of the Prospera d.o.o. subsidiary, which will be published and available at the registered office of Adriatic Slovenica and its website.

VIZ zavarovalno zastopništvo d. o. o.

Head office: Slovenija, Ljubljanska cesta 3 a, 6000 Koper
Company registration number: 6161456000
VAT identification number: SI87410206
No. of employees as at 31 December 2014: 5
Company objects: Services of insurance agents and brokers, other services auxiliary to insurance and pension funds, and services auxiliary to financial services.

As at 31 December 2014, Adriatic Slovenica d.d. had a 100 % equity stake in VIZ d.o.o. The reporting period of the financial statements is equal to the calendar period ended 31 December 2014.

The tax rate applied in the calculation of the corporate income tax was 17 %.

In 2014, Adriatic Slovenica d.d. concluded loan agreements with VIZ d.o.o. subsidiary for short-term loans with the possibility of gradual drawdown. In accordance with the loan agreements, the received loans were repaid within the contractual period (see Section 9.1).

Adriatic Slovenica d.d. as the controlling company will compile a consolidated annual report of the VIZ d.o.o. subsidiary, which will be published and available at the registered office of Adriatic Slovenica and its website.

KD životno osiguranje d.d.

Head office: Republika Hrvaška, Draškovićeva 10, 100000 Zagreb
Company registration number: 080655516
VAT identification number: 01695526582
No. of employees as at 31 December 2014: 61
Company objects: Life insurance and other activities related to insurance business

As at 31 December 2014, Adriatic Slovenica d.d. had a 100 % equity stake in the subsidiary. The reporting period of the financial statements is equal to the calendar period ended 31 December 2014.

The tax rate applied in the calculation of the corporate income tax was 20 %.

In 2014, Adriatic Slovenica d.d. as the controlling company did not conclude any loan agreements with the subsidiary KD životno osiguranje d.d.

Adriatic Slovenica d.d. as the controlling company will compile a consolidated annual report of the KD životno osiguranje d.d. subsidiary, which will be published and available at the registered office of Adriatic Slovenica and its website.

Indirect subsidiary

Permanens d.o.o. (100 % owned by KD životno osiguranje d.d.)

Head office: The Republic of Croatia, Draškovićeva 10, 10000 Zagreb
Company registration number: 080666730
VAT identification number: 56019896671
No. of employees as at 31 December 2014: 7
Company objects: Activities of intermediaries and insurance agencies.

The tax rate applied in the calculation of the corporate income tax was 20 %.

The reporting period is equal to the calendar period.

In 2014, Adriatic Slovenica d.d. as the controlling company did not conclude any loan agreements with the indirect subsidiary Permanens d.o.o.

Adriatic Slovenica d.d. as the controlling company will compile a consolidated annual report of the indirect subsidiary Permanens d.o.o., which will be published and available at the registered office of Adriatic Slovenica and its website.

Associate

NAMA d. d. Ljubljana

Head office: Tomšičeva ulica 1, 1000 LJUBLJANA
Company registration number: 5024811
VAT identification number: SI22348174
No. of employees as at 31 December 2014: 164
Company objects: The principal activity of Nama is retail trade services of food and non-food products.
As at 31 December 2014, Adriatic Slovenica d.d. had a 48.51 % equity stake in the associate. The reporting period of the financial statements is equal to the calendar period ended 31 December 2014.
The tax rate applied in the calculation of the corporate income tax was 17 %.
Adriatic Slovenica d.d. did not receive or give any loans to the subsidiary Nama in 2014.

In its consolidated financial statements, Adriatic Slovenica d.d. accounts for Nama d.d. Ljubljana using the equity method.

9.3 SHAREHOLDERS

With a 100 % equity stake, KD Group is the sole shareholder of Adriatic Slovenica. Business cooperation with KD Group is outlined in the subsections below (Section 9).

9.4 MANAGEMENT

The management consists of the members of the Management Board and the Supervisory Board and the employees on individual employment agreements.

Transactions with the Management of Adriatic Slovenica d. d.

The income received by the members of the Management and Supervisory Boards of Adriatic Slovenica for the performance of their duties in the 2014 financial year.

Adriatic Slovenica made the following payments for 2014 to the members of the Management Board

in EUR		Gross salary	Variable part of remuneration	Regres za letni dopust	Reimbursements of costs*	Insurance premiums	Commissions, bonuses and other fringe benefits	Remuneration for work in subsidiaries
Gabrijel Škof	President of the Management Board	158,605	26,600	1,064	2,510	3,313	1,197	-
Willem Jacob Westerlaken	Member of the Management Board	121,923	20,300	1,064	5,841	144	32,077	-
Varja Dolenc, MSc	Member of the Management Board (od 13. 01. 2014)	117,726	-	1,064	1,519	1,457	5,440	-
Matija Šenk	Member of the Management Board (30. 01. 2014)	107,845	-	994	3,629	1,565	1,310	-

* Including travel expenses using own vehicle and daily allowance at home and abroad.

Income of employees on individual employment agreements

The Company paid out to the employees working on the basis of the collective agreement, but who are not subject to the tariff section of the collective agreement, remuneration totalling 4,834,246 euros for 2014, of which 4,077,772 euros were paid for gross salaries and 756,474 euros for other remuneration (annual holiday allowance, bonuses, reimbursement of costs, including travel expenses using own vehicle, daily allowances, insurance premiums, termination benefits, jubilee benefits and other benefits).

Adriatic Slovenica made the following payments for 2014 to the members of the Supervisory Board

in EUR		Fees for attending board sessions
Matjaž Gantar, MSc	Chairman	21,600
Aljoša Tomaž	Member	19,200
Sergej Racman	Member (until 22 May 2014)	8,000
Tomaž Butina	Member	19,200
Aleksander Sekavčnik	Member	19,200
Ljuba Miljušević	Member, representative of employees (until 22 July 2014)	11,200
Matjaž Pavlin	Member, representative of employees	19,200
Viljem Kopše	Member, representative of employees	19,200

Adriatic Slovenica made the following payments to the members of the Audit Committee for 2014:

in EUR	Fees for attending board sessions
Matjaž Gantar, MSc	2,700
Milena Georgievski	3,114
Polona Pergar Guzej (until 26 March 2014)	792
Mojca Kek	2160
Matjaž Pavlin	2,520
Jure Kvaternik (since 26 March 2014)	1,242

As at 2014 year-end, Adriatic Slovenica carries the following current operating receivables and liabilities:

- 123 euros of receivables and 11 euros of liabilities from the members of the Management Board. The former fully arise from the insurance business (premiums due), while the latter arise from travel expense reimbursement.
- 859 euros of receivables and no liabilities from the members of the Supervisory Board. All receivables arise from the insurance business (premiums due).
- 6,527 euros of receivables and 1,562 euros of liabilities from the employees employed on the basis of the contract to which the tariff section of the collective agreement does not apply. The bulk of receivables in the amount of 6,095 euros arises from the insurance business (premium due), while a small part arises from rents for parking spaces. The total sum of liabilities arises from travel expense reimbursement.

The above receivables arising from premiums are non-matured receivables. The receivables arising from rents for parking places are the receivables for the rents in December and were settled by deducting the relevant amounts from the payroll in January 2015.

In 2014, Adriatic Slovenica or its subsidiaries did not grant to or receive any loans and advances from the members of the Management Board, the members of the Supervisory Board or the employees employed on the basis of the contract to which the tariff section of the collective agreement does not apply. Furthermore, the management of Adriatic Slovenica did not participate in any scheme offering share options and no significant transactions were made without entering them in the accounting records of the Company .

Adriatic Slovenica d.d. has 277 euros of receivables and 62 euros of liabilities outstanding to the Management Board members of subsidiaries and associates. The receivables arise from insurance premiums and rents for parking spaces, while outstanding and not yet due liabilities arise from the payments of travel orders. The insurance company has 417 euros of receivables and 11 euros of liabilities outstanding to the Supervisory Board members of subsidiaries and associates. The receivables arise from insurance premiums and rents for parking spaces, while liabilities arise from the payments of travel orders.

Transactions with the immediate family members of Management Board, Supervisory Board and Audit Committee members

In 2014, insurance transactions were made between Adriatic Slovenica d.d. and the immediate family members of Management Board, Supervisory Board and Audit Committee members, the immediate family members paying to the insurance company the premium for the taken out insurance as shown below:

- the immediate family members of members of the Management Board paid the aggregate amount of 1,151 euros of insurance premiums,
- the immediate family members of members of the Supervisory Board paid the aggregate amount of 7,442 euros of insurance premiums,
- the immediate family members of members of the Audit Committee paid the aggregate amount of 4,173 euros of insurance premiums.

The insurance premiums paid by the immediate family members of Adriatic Slovenica were paid on the basis of insurance contracts taken out under normal market conditions or according to the tariffs with usual discounts for unrelated parties.

In 2014, based on the concluded insurance premiums, the insurance company paid 159 euros for claims to the immediate family members of members of the Supervisory Board and 159 euros for claims to the immediate family members of members of the Audit Committee.

Transactions with senior management of controlling companies of Adriatic Slovenica d. d.

The senior management of Adriatic Slovenica comprises all members of the Management Board who manage and control the parent company of KD Group d.d. and, at the highest level, the parent company KD d.d.

In 2014, the senior management of controlling companies of Adriatic Slovenica did not receive any compensations from the insurance company, except for the claims under the insurance contracts. The Company's receivables carried in the books of account at the end of 2014 and arising from the senior management of the parent companies up to the highest parent company amounted to 316 euros. All outstanding receivables refer to the receivables arising from the insurance business (premiums). As at 31 December 2014, there are no outstanding liabilities from the management board members.

10. CONTINGENT RECEIVABLES AND LIABILITIES

Contingent receivables and liabilities are potential receivables and liabilities, kept in the off-balance sheet. These comprise: received guarantees with pledged securities and mortgage on real property as collateral for given short-term loans in the amount of 10,345,308 euros and receivables from the state in the amount of 2,178,453 euros; and from insurance business the receivables for unrealised recourses in the amount of 8,473,534 euros and receivables for premiums in the amount of 1,114,854 euros.

In 2014, the insurance company among off-balance liabilities recognised 57,432 euros of contingent liabilities. Among these, there were 17,817 euros of contingent liabilities from insurance-legal cases – for those cases, in which there are no additional provisions formed in the books of account and there is a possibility that the court decides they should be repaid. By the end of 2014, one insurance-legal case in the amount of 3,517 euros was closed and for the remaining cases, there was a provision of 14,300 euros in the financial statements. Among contingent liabilities, there were also two labour-legal cases in the total amount of 39,615 euros. In 2014, one of them (in the amount of 26,615 euros) was closed, while the other in the amount of 13,000 euros was accounted for in deferred costs. As at 31 December 2014, the insurance company had no remaining off-balance contingent liabilities from insurance-legal cases or labour-legal cases.

Contingent receivables arising from an action against the Republic of Slovenia refer to the action lodged against the Republic of Slovenia due to unlawful government interference in the motor vehicle insurance prices in the 1995–1998 period. The action against the Republic of Slovenia was filed so as to seek compensation for the loss incurred due to unlawful government interference in the motor vehicle insurance prices in the 1995–1998 period based on the Prices Act in force at that time. The provision of Article 26 of the Constitution of the Republic of Slovenia provides legal grounds for the claim, which Adriatic Slovenica (Adriatic d.d. and the former Slovenica d.d., each separately) filed against the Republic of Slovenia. The action filed by Adriatic was ruled on by the final judgement of the Higher Court. A parallel proceeding was initiated with respect to the action filed by the former Slovenica which reached a final judgement of the Higher Court in 2014. The Company has required an audit against the decision of the Higher Court, but did not succeed. After taking advantage of all regular legal remedies, the Company has lodged a constitutional appeal and is waiting for its resolution.

In 2012, Pozavarovalnica Sava d.d. filed an action against Adriatic Slovenica. The grounds of the dispute between Adriatic Slovenica and Pozavarovalnica Sava was an action won against the Republic of Slovenia, specifically in the part related to the action of Adriatic d.d. Koper. In its action, Pozavarovalnica Sava d.d. refers to reinsurance contracts concluded between Adriatic Zavarovalna družba d.d. Koper and Pozavarovalnica Sava d.d. in the 1995–1998 period, as it believes that in the action won by AS against the Republic of Slovenia, AS received compensation for premiums, which increased the basis used for determining the reinsurance premium. The law firm representing Adriatic Slovenica contested the action in its entirety, also because Adriatic Slovenica did not receive any compensation from the Republic of Slovenia, only damages for the Government's failure to determine compensation for having lowered the prices below the simple reproduction level. In 2014, court hearings were concluded and the court is preparing a first-level verdict.

The insurance company did not recognise any off-balance sheet liabilities from pension payments or from other Group companies that would not be included in the balance sheet. Furthermore, the Company did not conclude any option contracts in the form of derivatives that would be recognised as off-balance sheet items.

11. EVENTS AFTER THE BALANCE SHEET DATE

No events occurred after the end of the reporting period and before the conclusion of financial statements that would require adjustments of financial statements for 2014.

Events after the reporting date significant for operations in 2015:

Adriatic Slovenica d.d. will in 2015 continue its activities that contribute to efficient adapting to the challenging conditions on the market. With the aim of expanding our operations, intensive activities will be carried out on Croatian market. Adriatic Slovenica d.d. will establish an AS branch in Croatia that will begin to sell other insurance products (non-life) and take over the sales and life insurance operations that are now conducted on the Croatian market by the subsidiary KD životno osiguranje. By the end of 2015, merging with KD životno osiguranje is also planned.

All activities will be conducted with individual approvals of Slovene and Croatian regulatory bodies. By the date of the issued auditor’s opinion, Adriatic Slovenica performed the following procedure:

- Submission of an application for the establishment of a branch office at the Insurance Supervision Agency by Adriatic Slovenica d.d. on 1 November 2014.

In January 2015, after the balance sheet date, Adriatic Slovenica additionally increased its investment in subsidiary KD životno osiguranje d.d. by increasing its capital in the amount of 396,492 euros.

The insurance company charges and pays the insurance tax in line with the Insurance Tax Act. On 1 January 2015, the tax rate was raised from 6.5 % to 8.5 % of the tax base.

12. STATEMENT OF MANAGEMENT RESPONSIBILITY

The Management Board of Adriatic Slovenica is responsible for the preparation of the Annual Report for the year ended on 31 December 2014. In accordance with its responsibility, it confirms that the financial statements and the notes thereto were prepared on a going-concern basis and that they comply with the applicable legislation and with International Financial Reporting Standards as adopted by the European Union. The Management Board confirms that appropriate accounting policies were consistently applied in the preparation of financial statements and that the use of accounting judgements and estimates affecting the reported amounts of assets and liabilities and disclosures are based on the principle of prudence. Furthermore, the Management Board confirms that the financial statements present a true and fair view of the financial position and performance results of the Company for the financial year 2014.

The Management Board is also responsible for proper management of accounting, for taking appropriate measures to protect the Company's assets as well as other assets and for preventing and detecting fraud and other irregularities or illegal acts.

The tax authorities may at any time inspect the Company's books of account and tax returns and other records within five years after the fiscal year in which tax returns should have been filed, which may result in additional tax liabilities, default interest and penalties arising from corporate tax or other taxes and duties. The Management Board is not aware of any circumstances, which may give rise to any material liabilities arising from these taxes and would have a significant impact on the figures presented in the annual report or on the future financial position of the Company.

Koper, 26 March 2015

Management Board of the parent company:

Gabrijel Škof,
President of the Management Board

Varja Dolenc, MSc
Member of the Management Board

Willem Jacob Westerlaken
Member of the Management Board

Matija Šenk
Member of the Management Board

13. STATEMENT OF ACTUARIAL OPINION

Opinion of the certified actuary for life insurance

I have performed an actuarial investigation of the amount of technical provisions for the life insurance operations of Adriatic Slovenica Zavarovalna družba d.d. as at 31 December 2014. The actuarial investigation was conducted in compliance with the provisions of the Insurance Act (Official Gazette of the Republic of Slovenia No. 13/00 and amendments in the period from 2001 to 2014), the Decision on detailed rules and minimum standards to be applied in the calculation of technical provisions (Official Gazette of the Republic of Slovenia Nos. 3/2001, 69/2001 and 85/2005), the Decision laying down the detailed rules for investments of premium reserves and premium reserve assets and on the method and time limits for reporting (Official Gazette of the Republic of Slovenia No. 3/2005) and the Decision on detailed contents of certified actuary's report (Official Gazette of the Republic of Slovenia No. 3/2001).

Adequate technical provisions are the responsibility of the Management Board of the insurance company Adriatic Slovenica d.d. My task has been to verify whether the insurance company keeps adequate records for the purpose of the valuation of liabilities arising from life insurance contracts concluded and to provide an opinion as to whether the sum of the provisions set aside by the insurance company can be deemed adequate in terms of the liabilities arising from the life insurance contracts concluded by the insurance company as well as in terms of any increase in liabilities resulting from a distribution of surplus, i.e. allocation of profit, during the term of these life insurance contracts. For new types of life insurance contracts that the insurance company started concluding in the course of the year under review, it has been my task to verify whether the premiums and earnings from these contracts are sufficient and in accordance with reasonable actuarial expectations, taking into account other financial sources available to the insurance company for the purpose of fulfilling its liabilities arising from these contracts. My task was also to determine the minimum amount of equity required by the insurance company based on its life insurance portfolio and to verify whether the insurance company fulfils all capital adequacy requirements. I am convinced that the conducted actuarial investigation provides sufficient ground for this statement of actuarial opinion.

It is my opinion that the premium written by the insurance company Adriatic Slovenica, Zavarovalna družba d.d. in the financial year 2014 and the amount of technical provisions set aside for liabilities arising from life insurance contracts by the insurance company as at 31 December 2014, are adequate to enable the insurer to duly meet all commitments arising from the concluded life insurance contracts.

Koper, 5 March 2015

Certified actuary
for life insurance
Ana Žnidarčič

Ana Žnidarčič

Opinion of the certified actuary for non-life insurance on the Annual Report of the insurance company

Adriatic Slovenica
Zavarovalna družba d.d.

Ljubljanska cesta 3a
6000 Koper

I have performed an actuarial investigation of the amount of technical provisions set aside by the insurance company Adriatic Slovenica d.d. as at 31 December 2014. The actuarial investigation was performed in accordance with the provisions of the Insurance Act (Official Gazette of the Republic of Slovenia No. 99/2010) and relevant implementing regulations which the insurance company was bound to respect as at 31 December 2014.

Adequate technical provisions are the responsibility of the Management Board of the insurance company. My task has been to verify whether the insurance company keeps adequate records for the purpose of the valuation of liabilities arising from non-life insurance contracts, to give an opinion as to whether the sum of all provisions set aside by the insurance company is sufficient to cater for the future liabilities of the insurance company arising under or in connection with these insurance contracts, and to verify the adequacy of investments of long-term business funds and business fund assets. For new types of insurance contracts that the insurer started concluding in the course of the year under review, my task was to verify whether premiums and earnings from these contracts are sufficient and in accordance with reasonable actuarial expectations, taking into account other financial sources available to the insurer for the purpose of fulfilling its liabilities arising from these contracts. My task was also to determine the minimum amount of equity required by the insurance company for its non-life insurance business, as well as to establish the capital adequacy of the insurance company.

I am convinced that the conducted actuarial investigation provides sufficient ground for this statement of actuarial opinion.

In my opinion, the premium written by the insurance company in the financial year 2014 and the amount of technical provisions set aside for liabilities arising from non-life insurance as at 31 December 2014 are adequate to enable the insurer to meet all its commitments arising from its non-life insurance contracts.

Jadranka Maček

Appointed certified actuary
for non-life insurance of the insurance company
Adriatic Slovenica d.d.

Koper, 18 March 2015

14. INDEPENDENT AUDITOR'S REPORT

KPMG

Independent Auditor's Report

To the Shareholders of Adriatic Slovenica d.d.

Report on the Financial Statements

We have audited the accompanying financial statements of the company Adriatic Slovenica d.d., which comprise the statement of financial position as at 31 December 2014, the income statement, the statement of other comprehensive income, the statement of changes in equity, the statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards as adopted by the EU, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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 about whether the financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Adriatic Slovenica d.d. as at 31 December 2014, its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the EU.

Report on Other Legal and Regulatory Requirements

As required by the Slovenian Companies Act we herewith confirm that the information in the management report is in conformity with the accompanying financial statements.

KPMG SLOVENIJA,
podjetje za revidiranje, d.o.o.

Damjan Ahčin, ACCA
Certified Auditor

Katarina Sitar Šuštar
Partner

Ljubljana, 23 March 2015

KPMG Slovenija, d.o.o.
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The Independent Auditor's Report hereof is a translation of the original Independent Auditor's Report in Slovene, issued on the financial statements and the notes thereto in Slovene. The Slovene version shall prevail in case of inconsistencies between the original and the translation of the annual report including the auditor's report.

CONSOLIDATED FINANCIAL STATEMENTS FOR 2014

Adriatic Slovenica Group

CONTENT

1. CONSOLIDATED FINANCIAL STATEMENTS

1.1 CONSOLIDATED BALANCE SHEET

Consolidated balance sheet as at 31 December 2014

in EUR	Note	31 Dec 2014	31 Dec 2013 adjusted
Assets		**697,491,420**	**705,507,992**
A. Intangible assets	8.1	**5,406,726**	**4,826,964**
B. Property, plant and equipment	8.2	**27,497,391**	**27,407,702**
D. Deferred tax assets	8.25	**3,957,936**	**3,954,442**
E. Investment properties	8.3	**29,375,722**	**28,356,692**
F. Financial investments in subsidiaries and associates	8.4	**12,151,241**	**12,155,329**
G. Financial investments	8.5	**263,898,946**	**265,857,071**
1.In loans and deposits		52,187,396	65,167,996
2. In held-to-maturity financial assets		33,665,744	38,096,356
3. In available-for-sale financial assets		138,812,749	126,219,316
4. In financial assets measured at fair value		39,233,058	36,373,403
H. Unit-linked investments of policyholders	8.6	**260,566,270**	**213,925,868**
I. Amounts of technical provisions ceded to reinsurers	8.7	**29,362,326**	**26,469,742**
K. Receivables	8.8	**47,941,514**	**105,760,342**
1. Receivables from direct insurance business		22,986,037	25,503,287
2. Receivables from reinsurance and coinsurance		6,313,751	41,568,126
3. Income tax receivables		3,531,447	2,268,597
4. Other receivables		15,110,280	36,420,332
L. Other assets	8.9	**5,517,757**	**6,354,346**
M. Cash and cash equivalents	8.10	**11,815,591**	**10,439,494**
Equity and liabilities		**697,491,420**	**705,507,992**
A. Equity	8.11	**109,582,126**	**96,573,290**
I Majority equity interest		**109,443,611**	**96,413,773**
1. Share capital		42,999,530	42,999,530
2. Capital reserves		4,211,782	4,211,782
3. Reserve from profit		15,771,095	15,333,563
4. Translation differences		(1,857,425)	(1,587,414)
4. Revaluation surplus		6,119,423	(2,078,134)
5. Retained net earnings		24,041,737	27,812,396
6. Net profit or loss for the financial year		18,157,469	9,722,050
II Minority equity interest		138,515	159,517
C. Technical provisions	8.12	**277,589,830**	**283,046,314**
1. Unearned premiums		51,938,582	52,681,998
2. Mathematical provisions		97,615,016	94,975,222
3. Outstanding claims provisions		125,782,426	132,212,159
4. Other technical provisions		2,253,806	3,176,935
D. Insurance technical provisions for unit-linked insurance	8.13	**257,277,164**	**211,832,611**
E. Other provisions	8.14	**3,293,864**	**2,937,473**
G. Deferred tax liabilities	8.25	**1,194,632**	**27,011**
I. Other financial liabilities	8.15	**711,811**	**741,951**
J. Operating liabilities	8.16	**22,301,181**	**93,075,956**
1. Liabilities from direct insurance contracts		4,745,099	6,043,336
2. Liabilities from reinsurance and coinsurance contracts		11,527,057	84,474,927
3. Income tax liabilities		6,029,026	2,557,692
K. Other liabilities	8.17	**25,540,811**	**17,273,387**

The accounting policies and notes set out on pages from 289 to 391 are an integral part of the consolidated financial statements.

1.2 CONSOLIDATED INCOME STATEMENT

Consolidated income statement for the period from 1 January 2014 to 31 December 2014

in EUR	Note	2014	2013 adjusted
I. NET PREMIUM INCOME	**8.18**	**254,375,510**	**262,768,657**
Gross written premiums		302,063,769	309,074,166
Premiums ceded to reinsurers and coinsurers		(48,468,143)	(51,791,617)
Change in unearned premiums		779,884	5,486,108
II. INCOME FROM INVESTMENTS IN ASSOCIATES, of which	**8.18**	**89,541**	**12,127**
- profit from investments into equity of associated and subsidiary companies using teh eequity method		89,541	12,127
III. INCOME FROM INVESTMENTS	**8.18**	**61,057,806**	**20,629,643**
IV. OTHER INCOME FROM INSURANCE OPERATIONS, of which	**8.18**	**13,221,068**	**14,599,638**
- fee and commission income		13,221,068	14,599,638
V. OTHER INCOME	**8.18**	**8,385,486**	**14,602,116**
VI. NET EXPENSES FOR CLAIMS AND BENEFITS PAID	**8.19**	**(177,893,897)**	**(181,882,507)**
Gross amounts of claims and benefits paid		(213,494,634)	(219,695,899)
Reinsurers'/coinsurers' shares		26,343,422	26,086,219
Change in claims provisions		9,257,315	11,727,173
VII. CHANGE IN OTHER TECHNICAL PROVISIONS	**8.12**	**(1,187,968)**	**3,342,610**
VIII. CHANGE IN TECHNICAL PROVISIONS FOR THE BENEFIT OF UNIT-LINKED INSURANCE POLICYHOLDERS	**8.13**	**(43,166,119)**	**(10,604,186)**
X. EXPENSES FOR BONUSES AND DISCOUNTS	**-**	**2,088**	**215,687**
XI. OPERATING EXPENSES, of which	**8.20**	**(75,139,958)**	**(74,423,814)**
- acquisition costs	-	(24,919,373)	(23,903,808)
XIII. EXPENSES INVESTMENTS, of which	**8.18**	**(4,426,367)**	**(18,668,986)**
- impairment losses of financial assets not measured at fair value through profit or loss		(3,092,069)	(12,745,084)
XIV. OTHER INSURANCE EXPENSES	**8.21**	**(6,710,633)**	**(9,906,589)**
XV. OTHER EXPENSES	**8.22**	**(6,301,057)**	**(5,420,803)**
XVI. PROFIT/(LOSS) BEFORE TAX		**22,305,501**	**15,263,594**
XVII. CORPORATE INCOME TAX	**8.24**	**(3,816,063)**	**(2,406,931)**
XVIII. NET PROFIT FOR THE REPORTING PERIOD		**18,489,438**	**12,856,663**
XVI. MINORITY INTEREST		**(15,082)**	**(37,672)**
XVII INTEREST OF PARENT COMPANY		**18,504,520**	**12,894,335**

The accounting policies and notes set out on pages from 289 to 391 are an integral part of the consolidated financial statements.

1.3 CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Consolidated statement of comprehensive income for the period from 1 January 2014 to 31 December 2014

in EUR	Note	2014	2013 (adjusted)
I. NET PROFIT OR LOSS FOR THE FINANCIAL YEAR AFTER TAXATION		**18,489,438**	**12,856,663**
II. OTHER COMPREHENSIVE INCOME AFTER TAXATION	**8.11**	**7,919,398**	**(1,149,553)**
a) Items not to be allocated to profit or loss in subsequent periods		**(278,284)**	**(16,282)**
7. Gain/loss from translation of financial statements of foreign operations		(278,284)	(16,282)
b) Items that may be allocated to profit or loss in subsequent periods	**8.11**	**8,197,682**	**(1,133,271)**
1. Net gain/loss from re-measurement of available-for-sale financial assets		9,881,700	(1,445,504)
1.1. Gain/loss, recognised in revaluation surplus		14,796,277	(11,171,185)
1.2. Transfer of gain/loss from revaluation surplus to income statement		(4,914,578)	9,725,681
3. Associated net gain/loss related to capital investments in associates and joint ventures, calculated using the equity		(16,454)	52,644
5. Tax on items that may be allocated to profit or loss in subsequent periods		(1,667,563)	259,589
III. TOTAL COMPREHENSIVE INCOME FOR THE YEAR, AFTER TAXATION		**26,408,836**	**11,707,109**
- ATTRIBUTABLE TO MINORITY INTEREST		**(23,230)**	**(38,568)**
- ATTRIBUTABLE TO CONTROLLING COMPANY		**26,432,066**	**11,745,677**

The adjustment of statement of comprehensive income is a consequence of the change in the prescribed structure of the statement, stipulated by the Insurance Supervision Agency (change of Decision on annual report and quarterly financial statements of insurance companies – SKL 2009, Official Gazette of Slovenia No 89/2014), while there were no changes in the content.

The accounting policies and notes set out on pages from 289 to 391 are an integral part of the consolidated financial statements.

1.4 CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Consolidated statement of changes in equity for the period from 1 January 2014 to 31 December 2014

	Note	I. Share capital	II. Capital reserve	III. Reserves from profit				IV. Revaluation surplus	V. Retained earnings	VI. Net profit/loss	VIII. Revaluation surplus	IX. Total equity attributable to the controlling company	X. Minority equity interest	TOTAL EQUITY
				Legal abd statutory	Credit risk	Catastrophic loss reserves	Other reserves							
1. Total amount at the end of previous financial year		**42,999,530**	**4,211,782**	**1,519,600**	**1,011,998**	**3,363,797**	**9,438,167**	**(2,078,134)**	**27,812,396**	**9,722,050**	**(1,587,414)**	**96,413,773**	**159,517**	**96,573,290**
4. OPENING BALANCE IN THE FINANCIAL PERIOD		42,999,530	4,211,782	1,519,600	1,011,998	3,363,797	9,438,167	(2,078,134)	27,812,396	9,722,050	(1,587,414)	96,413,773	159,517	96,573,290
5. Comprehensive income net of tax	**8.11**	**-**	**-**	**-**	**-**	**-**	**-**	**8,197,557**	**-**	**18,504,520**	**(270,011)**	**26,432,066**	**(23,230)**	**26,408,836**
5.a. Net profit/loss for the year		-	-	-	-	-	-	-	-	18,504,520	-	18,504,520	(15,082)	18,489,438
5.b Other comprehensive income	8.11	-	-	-	-	-	-	8,197,557	-	-	(270,011)	7,927,546	(8,148)	7,919,398
8. Allocation of net profit/loss for the preceeding year to retained profit/loss		-	-	-	-	-	-	-	9,722,050	(9,722,050)	-	-	-	-
11. Payment (accounting) of dividends	8.27	-	-	-	-	-	-	-	(13,400,000)	-	-	(13,400,000)	-	(13,400,000)
13. Settlement of loss incurred in preceding years	8.11	-	-	-	-	-	-	-	(90,481)	90,481	-	-	-	-
14. Setting up and using reserves for credit risk and for catastrophic losses	8.11	-	-	-	2,507	435,025	-	-	-	(437,532)	-	-	-	-
16. Other		-	-	-	-	-	-	-	(2,228)	-	-	(2,228)	2,228	-
17. CLOSING BALANCE AS AT 31 DECEMBER		42,999,530	4,211,782	1,519,600	1,014,505	3,798,823	9,438,167	6,119,423	24,041,737	18,157,469	(1,857,425)	109,443,611	138,515	109,582,126

The accounting policies and notes set out on page 362 are an integral part of the consolidated statement of changes in equity.

Consolidated statement of changes in equity for the period from 1 January 2013 to 31 December 2013 – Adjusted

		Note	I. Share capital	II. Capital reserve	III. Reserves from profit				IV. Revaluation surplus	V. Retained earnings	VI. Net profit/loss	VIII. Translation reserves	IX. Total equity attributable to the controlling company	X. Minority equity interest	TOTAL EQUITY
					Legal abd statutory	Credit risk	Catastrophic loss reserves	Other reserves			Net profit / loss for the year				
1.	CLOSING BALANCE AS AT 31 Dec 2012		40,338,758	2,514,276	1,519,600	1,004,578	2,958,631	9,438,167	(451,948)	22,575,646	12,124,894	(1,572,028)	90,450,574	200,665	90,651,239
	CHANGES 1 Jan 2013		2,660,772	3,049,664	-	-	-	-	(492,914)	-	-	-	5,217,522	-	5,217,522
	OPENING BALANCE IN THE FINANCIAL PERIOD		42,999,530	5,563,940	1,519,600	1,004,578	2,958,631	9,438,167	(944,863)	22,575,646	12,124,894	(1,572,028)	95,668,096	200,665	95,868,761
2.	Comprehensive income net of tax	8.11	-	-	-	-	-	-	(1,133,272)	-	12,894,335	(15,386)	11,745,677	(38,568)	11,707,109
2.a.	Net profit/loss for the year		-	-	-	-	-	-	-	-	12,894,335	-	12,894,335	(37,672)	12,856,663
2.b.	Other comprehensive income	8.11	-	-	-	-	-	-	(1,133,272)	-	-	(15,386)	(1,148,658)	(896)	(1,149,554)
5.	Allocation of net profit/loss for the preceeding year to retained profit/loss		-	-	-	-	-	-	-	12,124,894	(12,124,894)	-	0	-	0
8.	Payment (accounting) of dividends	8.27	-	-	-	-	-	-	-	(11,000,000)	-	-	(11,000,000)	-	(11,000,000)
10.	Settlement of loss incurred in preceding years	8.11	-	(1,352,158)	-	-	-	-	-	4,111,855	(2,759,698)	-	(0)	-	(0)
11.	Setting up and using reserves for credit risk and for catastrophic losses	8.11	-	-	-	7,421	405,166	-	-	-	(412,587)	-	-	-	-
12.	Other		-	-	-	-	-	-	-	-	-	-	-	(2,580)	(2,580)
13.	CLOSING BALANCE AS AT 31 Dec		42,999,530	4,211,782	1,519,600	1,011,998	3,363,797	9,438,167	(2,078,134)	27,812,396	9,722,050	(1,587,414)	96,413,773	159,517	96,573,290

The accounting policies and notes set out on page 362 are an integral part of the consolidated statement of changes in equity.

Adjustments in the statement of changes in equity are due to elimination of the column and transfer of other reserves for priority coverage of losses from supplementary health insurance to other reserves.

The insurance company records separately net profit or loss carried forward and net profit or loss for its life, non-life and health insurance business. In accordance with the provisions laid down in the Slovenian Companies Act, the insurance company uses the current profit to cover attributable loss carried forward separately for its life, non-life and health insurance business. In 2014, the Group at first used the current financial result of life insurance to cover the life insurance loss carried forward, and later used the capital reserves to cover the losses from long-term life insurance funds that were carried forward.

1.5 CONSOLIDATED STATEMENT OF CASH FLOWS

Consolidated statement of cash flows for the period from 1 January 2014 to 31 December 2014

v EUR	Note	2014	2013
A. Cash flows from operating activities		**15,317,082**	**26,141,476**
a) Items from the income statement		**26,048,386**	**22,807,691**
1. Net premiums written in the reporting period		253,595,591	257,282,549
2. Income from investments (other than financial income), financed from:		24,231,622	21,962,288
- *insurance technical provisions*		20,035,186	18,812,745
- *other investments*		4,196,436	3,149,543
3. Other income from ordinary activities (other than income arising from revaluation and decrease in provisions) and financial income from operating receivables		21,230,102	22,181,132
4. Net claims and benefits paid in the reporting period		(187,151,181)	(187,343,399)
6. Net operating costs, other than depreciation costs and change in deferred acquisition costs		(71,656,045)	(76,466,417)
7. Investment charges (excluding depreciation and financial expenses), financed from:		(4,470,676)	(7,390,789)
- *insurance technical provisions*		(4,185,870)	(7,021,226)
- *other investments*		(284,806)	(369,562)
8. Other operating costs excluding depreciation (other than for revaluation and without increase in provisions)		(5,610,224)	(5,593,151)
9. Corporate income tax and other taxes not included in operating costs		(4,097,484)	(1,824,522)
b) Changes in net current assets (receivables for insurance, other receivables, other assets and		**(10,731,304)**	**3,333,786**
1. Opening less closing balance of operating receivables from direct insurance business		312,190	2,475,063
2. Opening less closing balance of receivables from reinsurance		34,946,890	(22,337,099)
3. Opening less closing balance of other receivables from (re)insurance contracts		21,093,868	(17,344,713)
4. Opening less closing balance of other receivables and assets		(144,170)	3,226,573
5. Opening less closing balance of deferred tax assets		6,609	545,295
6. Opening less closing balance of inventories		(11,701)	9,378
7. Closing less opening balance of debts/liabilities from direct insurance business		(1,509,626)	(485,072)
8. Closing less opening balance of debts/liabilities from reinsurance		(72,894,072)	39,050,761
9. Closing less opening balance of other operating debts/liabilities		4,241,107	(3,081,266)
10. Closing less opening liabilities (other than unearned premiums)		1,997,539	2,190,115
11. Closing less opening deferred tax liabilities		1,230,064	(915,249)
c) Net cash from operating activities (a + b)		**15,317,082**	**26,141,476**
B. Cash flows from investing activities		**(862,382)**	**(18,522,652)**
a) Cash receipts from investing activities		173,247,176	**141,710,656**
1. Cash receipts from interest received from investing activities and from:		7,638,497	11,819,212
- *investments financed from insurance technical provisions*		6,380,021	10,332,127
- *other investments*		1,258,476	1,487,085
2. Cash receipts from dividends and participations in profit of others relating to		1,034,884	726,931
- *investments financed from insurance technical provisions*		569,657	428,245
- *other investments*		465,226	298,685
5. Cash receipts from disposal of long-term financial investments, financed from:		87,036,722	83,867,072
- *insurance technical provisions*		58,571,889	73,863,469
- *other investments*		28,464,834	10,003,604
6. Cash receipts from disposal of short-term financial investments, financed from:		77,537,073	45,297,441
- *insurance technical provisions*		61,245,512	37,058,958
- *other investments*		16,291,561	8,238,483
b) Cash disbursements from investing activities		**(174,109,557)**	**(160,233,308)**
1. Cash disbursements to acquire intangible assets		(2,088,723)	(2,248,571)
2. Cash disbursements to acquire property, plant and equipment, financed from:		(788,390)	(3,161,240)
- *other investments*		(788,390)	(3,161,240)
3. Cash disbursements to acquire long-term financial investments, financed from:		(126,998,793)	(97,696,102)
- *insurance technical provisions*		(93,719,833)	(80,222,040)
- *other investments*		(33,278,959)	(17,474,062)
4. Cash disbursements to acquire short-term financial investments, financed from:		(44,233,652)	(57,127,395)
- *insurance technical provisions*		(22,214,902)	(27,994,075)
- *other investments*		(22,018,750)	(29,133,321)
c) Net cash from investing activities (a + b)		**(862,382)**	**(18,522,652)**
C. Cash receipts from financing activities		(13,403,357)	**(11,002,658)**
b) Cash disbursements from financing activities		(13,403,931)	**(11,002,658)**
1. Cash disbursements for interest paid		(3,931)	(2,658)
5. Cash disbursements to pay out dividends and other participations in profit		(13,400,000)	(11,000,000)
c) Net cash from financing activities (a + b)		(13,403,357)	**(11,002,658)**
Č. Closing balance of cash and cash equivalents	8.10	**11,815,591**	**10,439,494**
x) Cash flow for the reporting period (sum of net cash flows Ac, Bc and Cc)		1,051,343	**(3,383,834)**
z) Exchange rate differences		(27,736)	**(1,812)**
y) Opening balance of cash and cash equivalents	8.10	**10,791,983**	**13,825,139**
Changes as at 1 January 2013		352,489	1,932,063
Closing balance of cash and cash equivalents as at 31 December 2012		**10,505,538**	**11,893,076**

The accounting policies and notes set out on pages from 289 to 391 are an integral part of the consolidated financial statements.

1.6 CONSOLIDATED STATEMENT OF DISTRIBUTABLE PROFIT

Consolidated statement of distributable profit for 2014

in EUR	Note	Total 2014	Total 2013
a) Net profit/(loss) for the financial year		**18,504,520**	**12,894,335**
b) Net profit carried forward (+) / net loss carried forward (-)	**8.11**	**24,132,218**	**23,700,540**
- result for the current year under effective standards		24,134,446	23,700,540
-decrease for the acquisition of the subsidiary		(2,228)	-
c) Decrease in reserves	**8.11**	-	1,352,158
d) Increase in other reserves under the decision of the Management Board and of the Supervisory Board		**437,532**	**412,587**
e) Balance-sheet profit (a + b + c − č − d) allocated by the Annual General Meeting as follows:		**42,199,206**	**37,534,446**
− to the shareholder		-	13,400,000

The accounting policies and notes set out on pages from 289 to 391 are an integral part of the consolidated financial statements.

By the end of the financial statements audit process, the shareholders had not yet passed the decision about the distribution of the distributable profit.

2. GENERAL INFORMATION ABOUT THE GROUP

The controlling entity in Adriatic Slovenica Group is Adriatic Slovenica d.d., a public limited company with registered office in Koper, Ljubljanska cesta 3a, Slovenia. The Company is entered in the Companies Register kept by the Court Register of the Koper District Court, entry number 1/015555/00. The controlling company Adriatic Slovenica d.d. (parent company) together with the subsidiaries AS neživotno osiguranje a.d.o., PROSPERA družba za izterjavo d.o.o., VIZ zavarovalno zastopništvo d.o.o., KD životno osiguranje d.d. and indirect subsidiary Permanens d.o.o. forms the Adriatic Slovenica Group (hereinafter: "the Group" or "Adriatic Slovenica Group").

Summary of recent events within the Group

In 2014, Adriatic Slovenica Group acquired the subsidiary insurance company KD životno osiguranje d.d. After the purchase of shares from shareholders of KD Group d.d. and KD IT d.o.o., the controlling company Adriatic Slovenica became 100 % owner of KD životno osiguranje d.d., headquartered in the Republic of Croatia, at the address Draškovićeva 10, Zagreb. In 2014, the insurance group also acquired the indirect subsidiary Permanens d.o.o., which is 100 % owned by KD životno osiguranje d.d.

Access to consolidated annual reports and financial statements

In the sections below, notes to the consolidated financial statements of Adriatic Slovenica Group are presented. The consolidated financial statements and consolidated annual report are available at the registered head offices of Adriatic Slovenica and on its web site.

Adriatic Slovenica zavarovalna družba d. d. is not a public company and its stocks are not traded on organised capital markets.

The Adriatic Slovenica Group is included in the consolidated financial statements of the controlling company KD Group d.d., Dunajska cesta 63, 1000 Ljubljana where the consolidated financial statements are available for inspection.

The controlling company which prepares the consolidated annual report for the broadest group of the related companies is KD d.d. at Dunajska cesta 63, 1000 Ljubljana, Slovenija. The consolidated financial statements of KD Group d.d. and Skupina KD d.d. have been drawn up in line with the International Financial Reporting Standards (hereinafter: the IFRS). Consolidated annual reports are available at the registered head offices of the companies.

Management and governance bodies of the Group

Management and governance bodies of the insurance company Adriatic Slovenica d.d. in 2014:

Gabrijel Škof, President of the Management Board
Willem Jacob Westerlaken, Member of the Management Board
Varja Dolenc, MSc, Member of the Management Board (since 13 January 2014)
Matija Šenk, Member of the Management Board (since 30 January 2014)

Management and governance bodies of subsidiary AS neživotno osiguranje a.d.o. in 2014[1]:

Aleksandar Mitrović, President of the Board of Directors (since 26 September 2014)
Bojana Svilar, Member of the Board of Directors
Jacob Westerlaken, Member of the Board of Directors
Tomaž Peternelj, Member of the Board of Directors (since 4 November 2014)
Matej Cergolj, Member of the Board of Directors (until 3 July 2014)

[1] In line with an amendment of the "Zakon o privrednim društvima " applicable to companies in Serbia, Management Boards were renamed to Boards of Directors, and Supervisory Boards were renamed to Audit Committees.

Management and governance bodies of subsidiary Prospera d.o.o. in 2014:
Bojana Merše, Director
Savo Marinšek, Procurator

Management and governance bodies of subsidiary VIZ d.o.o. in 2014:
Marko Štokelj, Director
Bor Glavič, Director

Management and governance bodies of subsidiary KD Životno osiguranje d.d. in 2014:
Neven Tišma, President of the Management Board
Zvjezdan Karlić, Member of the Management Board

Management and governance bodies of subsidiary Permanens d.o.o. in 2014:
Nikolina Vidović Turković, Director

Supervisory bodies of the Group

Supervisory Board of the insurance company Adriatic Slovenica d. d in 2014:
Matjaž Gantar, MSc, Chairman
Aljoša Tomaž, Member
Sergej Racman, Member (until 22 May 2014)
Tomaž Butina, Member
Aleksander Sekavčnik, Member
Viljem Kopše, Member, employee representative
Matjaž Pavlin, Member, employee representative
Ljuba Miljušević, Member, employee representative (until 22 July 2014)

Supervisory Board of the insurance company KD Životno osiguranje d.d. in 2014:
Matija Šenk, Chairman
Jure Kvaternik, Deputy Chairman
Willem Jacob Westerlaken, Member (since 20 June 2014)
Karmen Škoda Piško, Member (until 20 June 2014)

Audit Committee of the insurance company Adriatic Slovenica d. d in 2014:

Matjaž Gantar, MSc, Chairman
Polona Pergar Guzej, Member (independent expert) (until 26 March 2014)
Milena Georgievski, Member (independent expert)
Mojca Kek, Member (independent expert)
Matjaž Pavlin, Member
Jure Kvaternik, Member (since 26 March 2014)

Audit Committee of the subsidiary AS neživotno osiguranje a.d.o. in 2014
Matjaž Rizman, Chairman
Matej Cergolj, Member
Jadranka Maček, Member

Adriatic Slovenica Group provides services in two main insurance business segments, that is in non-life and life insurance. The non-life insurance comprises non-life insurance products excluding health, and health insurance. These insurance groups are further divided as follows:

Non-life insurance excluding health insurance:

- motor vehicle liability insurance (MTPL),
- land motor vehicle insurance,
- accident insurance,
- fire insurance and natural forces insurance,
- other damage to property insurance,
- general liability insurance,
- credit and suretyship insurance,
- international travel medical insurance and emergency assistance,
- other non-life insurance.

Life insurance:

- mixed and risk life insurance,
- unit-linked life insurance,
- voluntary supplementary pension insurance.

Health insurance:

- supplementary health insurance,
- parallel and additional insurance.

The Group is also registered for the following activities:

- pension funds,
- other activities related to financial services, except for insurance and pension funds,
- activities of insurance agencies and other auxiliary activities related to insurance and pension funds and auxiliary activities related to financial services.

Number of employees at the end of 2014

Data on the number of employees by the level of professional qualification in 2014 - Adriatic Slovenica Group

	Qualification level					
Number of employees as at	I.- IV.	V.	VI.	VII.	VIII.-IX.	Total
1 January 2014	46,00	518,00	185,25	462,73	29,38	1241,36
31 December 2014	37,00	454,50	177,13	457,48	26,38	1152,48
Average for 2014	**42,5**	**484,6**	**181,4**	**459,9**	**27,0**	**1195,4**

Note: The number of employees at the end of the year under review and the number of employees as at the first day of the next year are not equal since some employees are employed in the Group until 31 December and some are employed starting on 1 January. The number of employees in the above table is provided per person, employed in Adriatic Slovenica as at that day.

Some employees of the parent company Adriatic Slovenica are partially employed at Prospera d.o.o. subsidiary, therefore, the number of employees of the Group in the insurance company is calculated considering the proportion of employment in individual companies. At the end of 2014, the number of employees of Adriatic Slovenica, taking into consideration these proportion, is 996.98 and is different from the number of employees per person, which was 1027 employees at the end of 2014. In the same way, the number of employees of Prospera d.o.o. is different – considering the proportion of employment in an individual company, the number of employees is 32.5, while the number of employees per person per day is 49 as at 31 December 2014.

Data on the number of employees by the level of professional qualification in 2014 – parent company

Number of employees as at	Qualification level					
	I.- IV.	V.	VI.	VII.	VIII.-IX.	Total
1 January 2014	30.25	409.38	163.63	379.85	27.38	1010.48
31 December 2014	30.25	393.88	157.50	390.98	24.38	996.98
Average for 2014	32.2	402.9	161.4	386.3	25.0	1007.9

Data on the number of employees by the level of professional qualification in 2014 - subsidiaries

Number of employees as at	Qualification level					
	I.- IV.	V.	VI.	VII.	VIII.-IX.	Total
1 January 2014	15.75	108.625	21.625	82.88	2	230.88
31 December 2014	6.75	60.625	19.625	66.5	2	155.5
Average for 2014	10.3	81.7	20.0	73.6	2.0	187.6

2.1 CONSOLIDATION

For the year 2014, Adriatic Slovenica Group prepared consolidated financial statements and included in the consolidation the following entities: insurance company AS neživotno osiguranje a.d.o., subsidiary Prospera d.o.o., subsidiary VIZ d.o.o., subsidiary KD životno osiguranje d.d. and the indirect subsidiary Permanens d.o.o.

Adriatic Slovenica Group is fully consolidated within the controlling entity Skupina KD Group d.d. and on the highest level within Skupina KD d. d. In 2014, the controlling of all companies within the Group was based on a majority or 100 % share of voting rights.

All the companies within the Group are fully consolidated since the day when controlling rights are acquired and removed from full consolidation immediately after the Group loses its control over them. Accounting policies of the companies are aligned with the policies of the Group and where there are exceptions to this rule, the financial statements are adequately adjusted to comply with the accounting policies of the parent company.

Minority stakes are presented in the consolidated balance sheet under shareholders' equity, separated from the capital of the controlling company. In the consolidated income statement, the financial result of the period under review, related to the minority stake, is presented separately from the financial result of the controlling company. Similarly, in the consolidated statement of comprehensive income, the comprehensive income of the period, related to the minority stake, is presented separately from the comprehensive income of the controlling company. In the consolidated statement of changes in equity, the disclosures of minority stake equity owners are presented separately as well. All the companies present their balance sheets as at the same date.

Subsidiaries of Adriatic Slovenica Group - direct

AS neživotno osiguranje a.d.o.

Head office: Serbia, Bulevar Milutina Milankovića 7V, Novi Beograd
Company registration number: 20384166
VAT identification number: 105510418
No. of employees as at 31 December 2014: 50
Company objects: Non-life insurance.
The tax rate applied for the calculation of the corporate income tax was 15 % as determined by the local legislation in Serbia. The reporting period of the financial statements is equal to the calendar year.

PROSPERA družba za izterjavo d.o.o.

Head office: Slovenia, Ljubljanska cesta 3, 6000 Koper
Company registration number: 6074618000

VAT identification number: SI34037616
No. of employees as at 31 December 2014: 49 per person; considering the partial employments in individual companies within the Group, the number of employees is 32.5.
Company objects: Other financial services, except insurance and pension funding.
The tax rate applied in the calculation of the corporate income tax was 17 %.
The reporting period of the financial statements is equal to the calendar year.

VIZ zavarovalno zastopništvo d.o.o.

Head office: Slovenia, Ljubljanska cesta 3 a, 6000 Koper
Company registration number: 6161456000
VAT identification number: SI87410206
No. of employees as at 31 December 2014: 5
Company objects: Services of insurance agents and brokers, other services auxiliary to insurance and pension funds, and services auxiliary to financial services.
The tax rate applied in the calculation of the corporate income tax was 17 %.
The reporting period of the financial statements is equal to the calendar year.

KD životno osiguranje d.d.

Head office: Republic of Croatia, Draškovićeva 10, 100000 Zagreb
Company registration number: 080655516
VAT identification number: 01695526582
No. of employees as at 31 December 2014: 61
Company objects: Life insurance and other activities related to insurance business
The tax rate applied in the calculation of the corporate income tax was 20 %.
The insurance company KD Životno osiguranje d.d. is 100 % owner of the subsidiary Permanens d.o.o., which is therefore an indirect subsidiary of Adriatic Slovenica insurance company which is the controlling company within the Group.
The reporting period of the financial statements is equal to the calendar year.

Subsidiaries of Adriatic Slovenica Group - indirect

Permanens d.o.o. (100 % owned by KD životno osiguranje d.d.)

Head office: Republic of Croatia, Draškovićeva 10, 10000 Zagreb
Company registration number: 080666730
VAT identification number: 56019896671
No. of employees as at 31 December 2014: 7
Company objects: Activities of intermediaries and insurance agencies.
The tax rate applied in the calculation of the corporate income tax was 20 %.
The reporting period of the financial statements is equal to the calendar year.

Presentation of equity stakes in subsidiaries of the parent company Adriatic Slovenica

Subsidiary	Equity stake (%)		Voting rights (%)		Carrying amount of equity stake (in EUR)	
	31 Dec 2014	31 Dec 2013	31 Dec 2014	31 Dec 2013	31 Dec 2014	31 Dec 2013
AS neživotno osiguranje a.d.o.	97.27	96.74	97.27	96.74	4,932,291	4,730,981
PROSPERA družba za izterjavo d.o.o.	100	100	100	100	8,230,385	8,240,977
VIZ zavarovalno zastopništvo d.o.o.	100	100	100	100	36,964	71,718
KD Životno osiguranje d.d., Croatia	100	9.74	100	9.74	3,927,860	366,053
Indirect subsidiary						
Permanens d.o.o., Croatia	100	-	100	-	6,477	-

Summary of recent events within the subsidiaries and indirect subsidiary in 2014

AS neživotno osiguranje a.d.o.

In 2014, Adriatic Slovenica recapitalised the subsidiary AS neživotno osiguranje a.d.o. three times by paying additional funds in the amount of 995,867 euros, while an impairment of investment was recognised in the amount of 984,741 euros. The new funds were paid on 13 May 2014 in the amount of 349,621 euros, 25 September 2014 in the amount of 347,199 euros and on 29 December 2014 in the amount of 299,047 euros. The recapitalisations were carried out by issuing a total of 32,950 shares with the nominal value of 3,804 RSD (in first two recapitalisations) and 3,154 RSD (in the recapitalisation in December), which makes up for a total of 117,874,228 RSD. The equity share of Adriatic Slovenica in this subsidiary increased from 96.74 % to 97.27 %. The aim of the recapitalisation was to ensure the prescribed amount of capital.
All payments were entered into the court register of the Republic of Serbia.

Prospera d. o. o.

The dividends earned from the subsidiaries are recognised in the profit or loss when the right to payment is obtained. In 2014, Adriatic Slovenica received the dividends in the amount of 250,043 euros from the Prospera subsidiary. The dividends were paid out in full on 30 September 2014.

Viz d.o.o.

On 4 September 2014, Adriatic Slovenica increased its investment in VIZ subsidiary by 72,500 euros by paying additional funds for increasing the share capital.

KD životno osiguranje d.d.

In 2014, after the purchase of shares from KD Group d.d. and KD IT d.o.o., Adriatic Slovenica became the 100 % owner of KD životno osiguranje d.d. insurance company, headquartered in the Republic of Croatia, at the address Draškovićeva 10, Zagreb. The main reason for the takeover of this insurance company is fulfilling the set goal of forming an insurance holding, in which, Adriatic Slovenica would be the parent company within the Group. The insurance holding will in this way be more adaptable to the difficult conditions on the market.

In July 2013, by purchasing 9.74 % share of Croatian insurance company KD životno osiguranje d.d., Adriatic Slovenica began its gradual buyout of the entire shareholding of the Croatian insurance company. On 7 January 2014, the intention to purchase the whole shareholding was submitted by concluding the contract to purchase or sell shared under the condition of acquiring permission to acquire a qualified share. The purchase price of the rest (90.26 %) was agreed at 4,140,776 euros. The basis for determining the price was based on the internal appraisal report (Report of the Embedded Value and Appraisal Value Calculation of KD životno osiguranje d.d. as at 31. December 2013) from October 2013. The appraisal was made in line with the traditional actuarial method of internal valuation of the insurance company with life insurance portfolio. The estimated value of the insurance company was thus calculated as the sum of the internal value of the insurance company and its goodwill.

On 2 May 2014 when the insurance company acquired the permission of the Croatian regulator Hanfa for the acquisition of the (100 %) qualified share, it carried out the purchase of the remaining share (90.26 %) of the insurance company on 15 May 2014. In this way, Adriatic Slovenica obtained 100 % share of KD životno osiguranje d.d., which equals the voting rights.

As at the takeover, the KD životno osiguranje d.d. subsidiary owned 100 % share of its subsidiary Permanens d.o.o., therefore, Adriatic Slovenica also became an indirect parent company of Permanens d.o.o.

Detailed data on the acquired net assets and surpluses as at 1 January 2014 is displayed in the following section.

in EUR	KD Životno osiguranje d.d.	Permanens d.o.o.
ASSETS	**6,845,425**	**13,806**
- intangible assets	38,618	-
- tangible assets	29,118	142
- financial investments in subsidiaries	4,412	-
- financial assets	3,919,348	-
- investments of unit-linked insurance policyholders	2,290,019	-
- deferred tax receivables	-	9,640
- other receivables	180,804	31
- cash and cash equivalents	348,496	3,993
- other assets	34,610	-
LIABILITIES	**3,087,185**	**9,395**
- liabilities from insurance contracts	411,447	-
- liabilities to unit-linked insurance policyholders	2,290,019	-
- other operating liabilities	385,719	9,395
NET value of the acquired assets and liabilities	**3,758,240**	**4,411**
Purchase price	4,587,442	-
- paid financial assets	4,587,442	
Equity stake (in %)	100	100
Fair value of paid and acquired assets	4,587,442	-
GOODWILL (recognised in business combination) (Note 8.1)	**829,202**	**(4,411)**
Value of non-controlling stake (Minority capital)	-	-
Financial compensation for acquisition of net assets	4,587,442	
- in the current year	4,140,776	
- in the past years	649,867	
- in the past years (impairment as at 31 December 2013)	(203,201)	
Cash and cash equivalents in the acquired entity	348,496	
Expenses for the acquisition of the subsidiary	**4,238,946**	

In 2014, Adriatic Slovenica increased its investment in KD življenjsko osiguranje d.d. subsidiary as decided by the Assembly - by paying 250,715 euros on 28 February 2014, 175,578 euros on 23 June 2014 and 348,039 euros on 24 October 2014.

On 31 December 2014, the value of KD životno osiguranje subsidiary was reviewed by applying the traditional actuarial method of internal valuation of the insurance company. The applied method was the same as the one at the end of 2013. Based on the calculated assessments at the end of 2014, it is estimated that the net value of assets of KD životno osiguranje d.d. is slightly higher due to the increase in the total written premium, which was the reason for the decision that there is no need for impairment of investment within the parent company or impairment of goodwill within the consolidated financial statements of the Group (refer to Section 8.1).

3. NOTES TO THE FINANCIAL STATEMENTS

3.1 BASIS FOR THE PREPARATION OF THE CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements and consolidated annual report (management overview and financial review) of Adriatic Slovenica Group for the financial year 2014 have been prepared in accordance with the International Financial Reporting Standards (IFRS), as adopted by the European Union, in accordance with the Council Directive on the annual accounts and consolidated accounts of insurance undertakings (91/674/EEC) and in accordance with the provisions of the national legislation, the Slovenian Companies Act (ZGD-1) and its amendments. Furthermore, the consolidated financial statements and the annual report have been prepared using the national secondary legislation: the Decision on annual report and quarterly financial statements of insurance undertakings – SKL 2009, issued by the Insurance Supervision Agency (Official Gazette of the Republic of Slovenia Nos. 119/2007, 47/2009, 99/2010, 47/2011 and 89/2014). Secondary legislation issued on the basis of the Insurance Act (hereinafter referred to as the ZZavar) significant for the drawing up of accounting information is also the Decision on the Detailed Method of Valuing Accounting Items and the Drawing up of Financial Statements (Official Gazette of the Republic of Slovenia Nos. 95/2002, 30/2003 and 128/2006).

The reporting period of the insurance company is equal to the calendar year.

The preparation of consolidated financial statements in line with the IFRS requires a certain degree of accounting judgement. It also requires judgements passed by the Management Board when accepting the accounting policies of the Group. This area, which demands a high level of judgement and complexity, where the assumptions and estimations are an important part of the consolidated financial statements, is disclosed in Section 5 and individual sections on risk management.

The consolidated report of Adriatic Slovenica Group will be publicly available on the Group's website and at the registered head office of Adriatic Slovenica d. d., Ljubljanska cesta 3a, Koper.

3.1.1 Statement on compliance

In the current financial year, the Group has considered all new and revised standards and interpretations issued by the International Accounting Standards Board - IASB and its competent committee (International Financial Reporting Interpretations Committee - IFRIC of the IASB) effective for the periods commencing 1 January 2014 as adopted by the European Union.

The abbreviations used in the text have the following meaning:

IFRS – International Financial Reporting Standards,
IAS – International Accounting Standards,
IFRIC –Interpretations to the International Financial Reporting Standards issued by the competent committee of the Board for IFRS, and
SIC - standards interpretations issued by the Standards Interpretations Committee.

Adoption of the new and amendments to the published IFRSs

The standards shown below, as well as the amendments and interpretations to the standards, are not yet effective and were not implemented in the preparation of annual financial statements as at 31 December 2014:

In accordance with the requirements laid down in International Financial Reporting Standards and the EU, companies will have to observe for the future periods the following amended and modified standards and interpretations:

- **IAS 19 Employee benefits (Amended): Employee Contributions** The amendments are only applicable to programmes with defined benefit plans or fulfilling demands related to employee contributions or third parties. These are contributions which:
    - are defined by formal provisions of the programme;
    - are connected with provided services; and
    - do not depend on number of years of service.

- In case these conditions are fulfilled, the company may (but it is not mandatory) treat them as lowering of employment costs in the period when the services in question were provided..

The amendment is effective for annual periods beginning on 1 February 2015, is retroactive and early adoption is permitted.

The Group assumes that the amendment will not affect its financial statements since there are no programmes with defined benefits related to its employees or third parties

- **IFRIC 21 Levies** The interpretation provides guidelines for definition of obligating event, based on which a liability is formed, and determination of a time frame in which the liability of levy payment is to be recognised. In line with the interpretation, the obligating event is the one that triggers the levy payment, as defined by the law, and the liability of levy payment is recognised upon occurrence of the event. The liability of levy payment is recognised gradually when the obligating event occurs in the defined time frame. In case the obligating event is reaching the lowest level of activity (like the lowest amount of generated revenue or sales or produced outputs), the corresponding liability is recognised when the lowest level of activity is reached. Furthermore, the interpretation stipulates that a company is not indirectly bound to pay a levy, triggered by operations in the future period if, due to economic reasons, it has to continue with operations in the future period. Effects of this interpretation depend on individual levies that need to be paid and are effective on the day of first adoption.

  The Group will not implement the interpretation before it comes into effect, therefore, it is difficult to assess the effects of the interpretation on financial statements. The interpretation is effective for annual periods beginning on 17 June 2014, is retroactive and early adoption is permitted.

- **IFRS 3 Business Combinations** The amendment to IFRS 3 Business Combinations (indirectly includes amendments to other standards) clarifies that in case of contingent consideration in a business acquisition, the financial instrument should be recognised as liability or equity, in line with the IAS 32. Furthermore, the interpretation explains that the contingent consideration, recognised as liability or equity, should be measured at fair value on the reporting date.

  The Group did not have contingent considerations at the end of 2014.

3.1.2 Consolidation bases and policies

Subsidiaries

The consolidated financial statements consist of financial statements of the controlling company (parent company) and its subsidiaries. The full consolidation method is used for all companies since the day when controlling rights are acquired by the Group and removed from full consolidation immediately after the Group loses its control over them. Upon its losing of control, the Group must:

- derecognise the assets (including goodwill) and liabilities of the subsidiary
- derecognise the carrying value of all non-controlling stakes
- derecognise the total amount of exchange rate differences, recognised in equity
- recognise the fair value of received compensation
- recognise the fair value of all other investments
- recognise all surpluses or deficits in the income statement
- adequately reallocate the stake of the parent company in the items that were recognised in the statement of other comprehensive income beforehand to income statement or retained earnings.

The financial statements of the companies within the group are prepared for the same reporting period and using the same accounting policies. In the preparation of the consolidated financial statements, all transactions, balances, unrealised gains or losses from internal operations within the Group and dividends among related companies have been eliminated.

Associates

Associates, in which the Group has an important influence, but does not control their financial or business policies, are included in the consolidated financial statements by applying the equity method (refer to Section 7.4 for more information).

3.1.3 Balances and transactions in foreign currencies

In the financial statements of individual companies, all transactions and calculations of items of assets and liabilities in foreign currencies are translated into the functional currency using the reference rate applicable at the date of the transaction. Positive and negative exchange rate differences which arise from settlement of such transactions and from translation of monetary assets and liabilities, denominated in a foreign currency, are recognised in the income statement. If the business transaction is recognised directly in equity, also the exchange rate differences from revaluation are recognised in equity.

In the consolidated balance sheet, all equity items, except for the net profit or loss for the current period, are disclosed in the value, at which they were recognised in the first consolidation or subsequent recognition in equity. The difference between equity, disclosed in this way, and the equity based on the final exchange rate, is recognised in a separate equity item: equity translation adjustment or consolidation equity adjustment.

Monetary items in foreign currencies are translated using the reference rates of the European Central Bank (ECB) (for currencies, for which the ECB does not publish reference rates), applicable at year-end.

Non-monetary items that are measured at purchase price in a foreign currency are translated using the exchange rate applicable at the date of transaction, while non-monetary items that are measured at fair value in a foreign currency are translated using the exchange rate applicable at the date when the fair value was determined.

In the context of changes in the fair value of monetary securities denominated in foreign currency classified as available for sale, translation differences resulting from changes in the amortised cost of the security and other changes in the carrying amount of the security are accounted for separately. Translation differences related to changes in the amortised cost are recognised in the income statement.

Translation differences on non-monetary financial assets and liabilities are reported as part of the fair value gain or loss. Translation differences on non-monetary financial assets or liabilities, measured at fair value through profit or loss are recognised in the income statement as part of the fair value gain or loss. Translation differences on non-monetary financial assets or liabilities, classified as available for sale, are included in the revaluation surplus, together with the effect of fair value measurement in other comprehensive income.

Subsidiaries

Financial statements of subsidiaries, none of which is present in a hyperinflation business environment and their functional currency is different from the presentation currency used by the Group, are translated in this currency in the following way:

- assets and liabilities are translated using the reference rate of the ECB or the exchange rate list of the Bank of Slovenia as at the date of the consolidated balance sheet,
- revenues and expenses are translated using the average annual reference rate or the Bank of Slovenia rate,
- all the translation differences generated are recognised as a separate part of equity (translation differences).

In the consolidated financial statements, translation differences arising from investments in subsidiaries abroad are recognised directly in other comprehensive income. Upon disposal of such investment, the translation differences are recognised in the income statement together with the profit or loss arising from the disposal.

3.2 INSURANCE CONTRACTS

In compliance with IFRS 4, the Group classified all its products under insurance contracts.

An insurance contract is a contract with significant insurance risk. A significant insurance risk is defined as the possibility of having to pay significant additional benefits on the occurrence of an insured event. A significant additional benefit is defined as the difference between the benefits payable on the occurrence of an insured event and the benefits payable if the insured event did not occur. The significance of additional benefits is assessed by comparing the maximum difference between the economic value of the payment in the event of the occurrence of an insured event and the payment in the remaining cases. As a general guideline, the Group defines 10% as the limit value for the existence of a significant insurance risk.

Part of insurance contracts held by the Group as of 31 December 2014 in its portfolio includes the option of discretionary participation in the positive result (hereinafter: DPF). Participation in the positive result is defined in the general terms and conditions for life insurance and in the specific Rules. Obligations arising from DPF are fully recognised within mathematical provisions.

According to IFRS 4, the discretionary participation is a contractual right to additional benefits supplementary to guaranteed benefits, namely:

- benefits which are likely to represent a significant share of the total contract benefits;
- benefits whose amount or time frame is specified by the insurer; and
- benefits which are contractually based on:
    - the success of a given category of contracts or certain types of contracts;
    - realised and/or unrealised investment returns on a specified pool of assets held by the issuer, or
    - the profit of the company, long-term business fund or other entity that issues the contract

3.2.1 Insurance contracts

The insurance contracts issued by the Group can be classified according to their characteristics into four main groups:

- non-life insurance contracts,
- health insurance contracts,
- life insurance contracts and
- unit-linked life insurance contracts where investment risk is assumed by the insured.

Non-life insurance contracts

This class includes accident (casualty) insurance, insurance of land motor vehicles, fire and other damage or loss insurance, liability insurance, financial loss insurance, goods in transit (transport) insurance, credit and suretyship insurance, insurance of assistance, as well as insurance of legal expenses and litigations costs. This mainly involves short-term insurance contracts, with the exception of credit insurance.

In all of the above contracts premiums are written when they become payable by the policyholder. Revenues contain all costs in addition to premiums, including the agency fee, except taxes. The part of the premiums from valid insurance contracts which refers to unexpired insurance coverage on the balance sheet date, is presented as unearned premium reserve and represents a liability of the insurance company. Accrued premiums less changes in unearned premium reserves are recognised as income.

The amounts of claims (expenses) are recognised when claims as the assessed obligations are incurred. Claims that have not been finally settled, i.e. paid by the balance-sheet date, are recognised as provision for outstanding claims. The benefits paid, decreased by enforced recourses and increased by the amount of change in provision for outstanding claims, are recognised as costs/expenses.

Health insurance contracts

The Group provides three out of four types of voluntary health insurance in accordance with the provisions laid down in the Health Care and Health Insurance Act (hereinafter: the ZZVZZ), specifically supplementary health insurance, additional health insurance and parallel health insurance.

The Group issues long-term insurance contracts based on monthly or annual premiums.

Premiums, benefits paid, revenues and expenses are calculated and recognised in accounting records in the same manner as for non-life insurance contracts.

The insurance companies offering supplementary health insurance are included in equalisation schemes under the Health Care and Health Insurance Act (the ZZVZZ), which offset the differences in the medical costs between different structures of the insured with individual insurance companies with regard to age and gender. The insurance company is a payer under the equalisation scheme and recognises these expenses as expenses for claims and benefits paid.

Life insurance contracts

Long-duration life insurance contracts include in particular: mixed life insurance which offers coverage in the event of maturity and the event of death during the term of the insurance, mixed life insurance with extended coverage for critical illnesses, life insurance for the event of death (either lifelong or for a specified period of time or decreasing term), life insurance in the event of death by cancer disease and lifelong annuity insurance. Some types of life insurance can be bundled with extra accident insurance, extra critical illness insurance and other extra insurance. The Group also carries in this group voluntary supplementary pension insurance under the PN-A01 pension plan and annuity contracts with determined periods for premium and benefit payments. Premiums, benefits paid, revenues and expenses are calculated and recognised in accounting records in the same manner as for non-life insurance contracts.

A mathematical provision is calculated in these contracts by the Group. It is recognised in the amount of the present value of estimated future liabilities based on active insurance contracts, decreased by the present value of the estimated future premiums payments. These liabilities are determined on the basis of assumptions on mortality, reversal of payments, costs and revenues from investments as they are recognised in the products' premium calculations, or safer assumptions are used to provide for the possibility of unfavourable deviation from expectations (safety margin). Changes in mathematical provisions are recognised as an expense of the Group.

Unit-linked life insurance contracts where policyholders bear the investment risk

Long-term unit-linked life insurance where policyholders bear the investment risk combine savings in mutual funds, investment funds or internal long-term business funds selected by the insured, and life insurance in case of the insured person's death with the guaranteed payment of the insurance sum.

Premiums are recognised as revenue when paid. Initiation (front-end) and administrative expenses are deducted from the paid-in premiums. Depending on the insurance product, the insured is charged a monthly management fee, risk premiums for the event of death and in some products also the premium for extra accident insurance. In some products, the risk premium is charged on the premium paid.

Liabilities arising from such contracts are usually equal to the unit-linked assets which are fair valued. Liabilities arising from long-term insurance contracts where policyholders bear the investment risk include liabilities incurred by the insurer towards its policyholders in accordance with individual insurance contracts and products.

Liabilities are increased by premiums and reduced by costs. In addition, the amount of liabilities includes the changes in asset unit value that are reduced by management fees and risk premiums. In the case of redemption, the liabilities are reduced and the redemption value equals the Group's liabilities, reduced by redemption charges in the event of redemption or upon termination of insurance.

In individual life insurance contracts in which the policyholders bear the investment risk, total liabilities as at the balance sheet date equal the sum of unit values as at the balance sheet date and not evaluated net premiums paid. Depending on the insurance product, the liabilities are increased for any advances paid.

It is assumed that in each time period risk premiums charged in relation to the expected population mortality are sufficient to cover the claims of entitlements in the event of death in excess of the unit values on individual personal accounts of insurants. Additional liabilities are therefore not recognised in terms of these claims, except for individual products in which the risk premium is calculated in a different way.

An insurance contract in which the policyholder bears the investment risk is a contract with the built-in link between the contractual payments and the units of internal or external investment fund chosen by the insured. This built-in link is consistent with the definition of an insurance contract and therefore not stated separately from the main insurance contract.

3.2.2 Reinsurance contracts

The contracts concluded between the Group and the reinsurers that entitle the Group to reimbursement of damages arising under one or more insurance contracts issued by the Group, and meeting the criteria set out in the insurance contracts, are classified as reinsurance contracts.

3.3 CHANGES TO ACCOUNTING POLICIES AND ADJUSTMENTS

In 2014, with the aim of clearer presentation of its financial statements, the Group changed the manner of performing set-offs of equivalent mutual receivables and liabilities within long-term business funds and among long-term business funds. By acquiring the spun-off part of KD Življenje insurance company's property in 2013, there were an increased number of long-term business funds. To achieve greater precision, inter-phase set-offs had to be performed, since otherwise, the long-term business funds would not be represented realistically.

Before that, the Group in its final statements set off the receivables and liabilities among long-term business funds for all insurance segments (life, non-life and health insurance). Within the shift to inter-phase offsetting, the company began to perform set-offs in three phases:

- in the first phase, receivables and liabilities within an individual long-term business fund are set off,
- in the second phase, receivables and liabilities among long-term business funds within individual insurance segments (life, non-life, health insurance) are set off, and
- in the third phase, before the final assets and liabilities balance, receivables and liabilities are set off among the insurance segments (life, non-life, health insurance).

Due to the change in accounting policies, the balance sheet total of the comparable year 2013 at year-end decreased by 8,830,395 euros and at the same time, revenue and expenses decreased in the income statement. Within revenue, other insurance revenue fell by 8,681,895 euros and other revenue decreased by 8,016,618 euros, while within expenses, other insurance expenses fell by 16,728,412 euros and other expenses grew by 29.899 euros. The new set-off of management commissions among long-term business funds of life insurance had the biggest effect on lowering of balance sheet total. Management commissions, charged for management of property among long-term business funds of life insurance, in one long-term business fund increase commission revenues and in another the insurance expenses, while raising receivables and liabilities among the funds in the same amount. By setting off equivalent management commissions, the balance sheet total decreased and thus, the display of financial situation is more realistic.

The shift to inter-phase offsetting did not affect the financial result in terms of increasing/decreasing profit or loss.

Other changes within the income statement

In 2014, the revenue from life insurance contracts management in the amount of 797,845 euros were reallocated from other insurance revenue category (insurance commissions) to other revenue, and the insurance company records them as other net insurance revenue within other insurance revenue. Due to the reallocation, the change did not affect the 2013 profit/loss.

In the following tables, we are presenting the adjusted comparable year due to the changes in accounting policies due to the shift to inter-phase offsetting and adjustments in 2014.

The effect of changes on the balance sheet

in EUR	31 Dec 2013	Reclassification of items	31 Dec 2013 adjusted
Assets	714,338,387	(8,830,395)	705,507,992
A. Intangible assets	4,826,964	-	4,826,964
B. Property, plant and equipment	27,407,702	-	27,407,702
D. Deferred tax assets	3,954,442	-	3,954,442
E. Investment properties	28,356,692	-	28,356,692
F. Financial investments in subsidiaries and associates	12,155,329	-	12,155,329
G. Financial investments	265,857,071	-	265,857,071
H. Unit-linked investments of policyholders	213,925,868	-	213,925,868
I. Amounts of technical provisions ceded to reinsurers	26,469,742	-	26,469,742
K. Receivables	114,590,738	(8,830,395)	105,760,342
L. Other assets	6,354,346	-	6,354,346
M. Cash and cash equivalents	10,439,494	-	10,439,494
Equity and liabilities	714,338,387	(8,830,395)	705,507,992
A. Equity	96,573,290	-	96,573,290
C. Technical provisions	283,046,314	-	283,046,314
D. Insurance technical provisions for unit-linked insurance	211,832,611	-	211,832,611
E. Other provisions	2,937,473	-	2,937,473
G. Deferred tax liabilities	27,011	-	27,011
I. Other financial liabilities	741,951	-	741,951
J. Operating liabilities	93,075,956	-	93,075,956
K. Other liabilities	26,103,782	(8,830,395)	17,273,387

The effect of changes on the income statement

in EUR	2013	Reclassification of items	2013 adjusted
I. NET PREMIUM INCOME	**262,768,657**	**-**	**262,768,657**
III. INCOME FROM INVESTMENTS	**20,629,643**	**-**	**20,629,643**
IV. OTHER INCOME FROM INSURANCE OPERATIONS, of which	**24,079,378**	**(9,479,740)**	**14,599,638**
- fee and commission income	21,584,161	(6,984,523)	14,599,638
V. OTHER INCOME	**22,782,825**	**(8,180,709)**	**14,602,116**
VI. NET EXPENSES FOR CLAIMS AND BENEFITS PAID	**(181,882,507)**	**-**	**(181,882,507)**
Gross amounts of claims and benefits paid	(219,695,899)	-	(219,695,899)
Reinsurers'/coinsurers' shares	26,086,219	-	26,086,219
Change in claims provisions	11,727,173	-	11,727,173
VII. CHANGE IN OTHER TECHNICAL PROVISIONS	**3,342,610**	**-**	**3,342,610**
VIII. CHANGE IN TECHNICAL PROVISIONS FOR THE BENEFIT OF UNIT-LINKED INSURANCE POLICYHOLDERS	**(10,604,186)**	**-**	**(10,604,186)**
IX. CHANGES IN LIABILITIES ARISING FROM INVESTMENT CO	**-**	**-**	**-**
X. EXPENSES FOR BONUSES AND DISCOUNTS	**215,687**	**-**	**215,687**
XI. OPERATING EXPENSES	**(74,423,814)**	**-**	**(74,423,814)**
XII. EXPENSES FROM INVESTMENTS IN ASSOCIATES	**-**	**-**	**-**
XIII. EXPENSES INVESTMENTS	**(18,668,986)**	**-**	**(18,668,986)**
XIV. OTHER INSURANCE EXPENSES	**(26,635,001)**	**16,728,412**	**(9,906,589)**
XV. OTHER EXPENSES	**(6,352,840)**	**932,037**	**(5,420,803)**
XVI. PROFIT/(LOSS) BEFORE TAX	**15,263,594**	**-**	**15,263,594**
XVII. CORPORATE INCOME TAX	**(2,406,931)**	**-**	**(2,406,931)**
XVIII. NET PROFIT FOR THE REPORTING PERIOD	**12,856,663**	**-**	**12,856,663**

Changes in accounting policies that did not affect the comparable year

Apart from the mentioned changes, in 2014, there was also a change in recourse receivables recognition in case the amount of benefits paid by the insurance company in an individual case exceeds 30,000 euros. Recourse receivables toward the policyholder, which were previously recognised as conditional assets are recognised in as assets in balance sheet at maximum in the amount of the estimated payment value, and are as such also recognised in the balance sheet evidence. The recourse receivables are in such cases estimated individually, taking into consideration the individual adjustments of recourse receivables. As a result of this change, at the end of 2014, conditional assets from recourse receivables amounted to 557,488 euros. Therefore, also the related revenue/expenses are in the evidence of recourse receivables recognised more realistically and in line with the IAS 18.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies used in the preparation of the consolidated financial statements are presented in the text below. These accounting policies have been followed consistently in the preparation of the consolidated financial statements for the financial year 2014.

4.1 INTANGIBLE ASSETS

The Group values intangible assets at the price paid to acquire them, that is, intangible assets are carried at cost less amortisation and any accumulated impairment losses.

The annual amortisation rates are determined according to the useful life of an individual intangible asset. The Group charges amortisation calculated on a straight-line basis over the estimated useful life of the assets. The amortisation of intangible assets is calculated individually by applying the following amortisation rates

Amortisation rates and useful lives of intangible assets:

Name of intangible asset by amortisation groups	Annual rate of amortisation 2014	Useful life in 2014 in years
Investments in third party intangible assets	20 %	5
Other material rights	10 %	10
Computer software	20 %	5
Other intangible assets	10 %	10

The expected useful lives of all intangible assets are finally determined by the Group. The Group reviews at least once a year the designated useful lives for all these intangible assets. If the expected useful life of the assets differs from the previous estimates, the amortisation period (amortisation rate) is changed. The change is treated as a change in accounting estimates.

The impairment of all significant intangible assets is carried out provided that their carrying amount exceeds their recoverable amount. An assessment is performed for all assets whose individual purchase price exceeds 50,000 euros. The determined impairment amount (the asset's carrying amount that exceeds its recoverable amount) is recognised in the income statement as loss due to impairment if the impairment amount exceeds the asset's carrying amount by more than 20%.

The Group derecognises intangible assets when it does not expect to gain any future economic benefits from their use or disposal. Gains or losses arising from derecognition of an intangible asset are recognised as a difference between the net disposal proceeds and the carrying amount of the assets and are recognised in the income statement as revaluation income or revaluation expense.

Goodwill

Goodwill can be generated from acquisition of subsidiary. Upon the acquisition of the investment in the subsidiary, the difference between the fair value of the associated net assets and the fair value of the given compensation or payment by the acquirer is identified. In case the given compensation exceeds the fair value of the associated net assets of the subsidiary, goodwill is generated. Goodwill is therefore the calculated surplus of payment, carried out by the acquirer expecting future benefits from assets that cannot be defined or recognised separately.

The goodwill that arises from acquisition of subsidiaries is recognised as intangible asset and purchase price less the potential losses due to impairment. However, goodwill that is generated from acquisition of associates, is recognised in value of investments in associates.

Goodwill is measured in the currency of the acquired entity that is at the day of the acquisition translated into the reporting currency of the acquirer.

Reviews of goodwill adequacy are performed annually and possible impairments are recognised in the income statement. Derecognition of goodwill impairment is not permitted. Gains or losses from disposal of subsidiaries also include the amount of goodwill related to the disposed subsidiary.

4.2 PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment are classified according to their nature as property (buildings and land serving insurance activities) and equipment, which are further divided in subcategories on the basis of their purpose. An item of property, plant and equipment is recognised at the time of its acquisition. At initial recognition, an item of property, plant and equipment that qualifies for recognition as an asset is stated at cost, which means at purchase price less accumulated depreciation and accumulated impairment losses. The cost of an item includes its purchase price and all costs directly attributable to bringing the asset to condition necessary for it to be capable of operating. As part of property, plant and equipment, after the asset is capable for operating, the costs incurred to replace parts of property, plant and equipment that help prolong the useful life of the asset are accounted for as well as the costs which increase future economic benefits from its use compared to previously anticipated benefits (modernisation costs, enhancement costs, costs increasing the capability of the fixed asset).

In the event of changed circumstances, which affect the estimated useful life of an item of property, plant and equipment, the effects of such changes in the useful life are recognised in the income statement.

The annual depreciation rates are determined according to the useful life of an individual item of property, plant and equipment. The applied useful life is the management's best estimate based on the expected physical usage and technical and economical ageing of an individual asset. Depreciation is calculated and charged on a straight-line basis over an asset’s estimated useful life. Calculating and charging depreciation starts when assets are available for use.

Depreciation rates and useful lives of property, plant and equipment:

Property, plant and equipment by depreciation groups	Annual rate of depreciation 2014	Useful life in 2014 in years
Buildings	1.3 -1.8 %	56-77
Motor vehicles	12.5-15.5 %	6-8
Computer equipment	33.3 %-50%	3-2
Office equipment	10 -25 %	4-10
Other equipment (furniture, fittings & fixtures)	10 -25 %	4-10

Real property is valued every two years, when the circumstances in which the Group operates significantly change or when real property prices significantly fall in the area where they are located. If the Group determines that the fair value (recoverable or replacement value) of the real property is below its carrying amount, the real property is impaired to recoverable value. The written-down carrying amount is a decrease or a loss due to revaluation and it is treated as operating expenditure.

The carrying amount of an item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use annually as at the balance sheet date. The gain or loss arising from the derecognition of an item of property, plant and equipment is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item, whilst disposal costs are recognised in profit or loss as revaluation surplus or revaluation expenditure.

4.3 INVESTMENT PROPERTIES

Investment properties (land and buildings) are the assets held by the Group with the purpose to earn long-term rental income by means of generating yield based on long-term business funds and/or assets held in the long-term business funds. In the case that real estate is classified as investment property, the Management Board takes into account the purpose of the real estate.

Investment properties (land and buildings) are measured initially at their cost, including transaction costs and any directly attributable expenditure. Subsequently, they are measured at cost less any accumulated depreciation and any accumulated impairment losses. The straight-line method is used to calculate depreciation.

Depreciation rates and useful lives of investment properties:

Investment properties	Annual rate of amortisation 2014	Useful life in 2014 in years
Buildings	1.3 -1.8 %	56-77

Due to potential impairments, the fair value of investment properties is checked by accredited independent appraisers qualified to perform valuation of real property at least every two years. For new real property, its purchase price is considered its fair value. Impairment of investment properties to their recoverable value is recognised if it is determined that their fair value (replacement cost) is below their carrying amount, under the same conditions as they are applied to real property classified as property, plant and equipment. Fair values of the investment properties of the Group are evaluated by an accredited, independent appraiser duly qualified to perform valuation of real.

Land and buildings, which the insurance company intends to sell in near future and whose carrying amount will be settled mainly through sale rather than further use, are classified under non-current assets held for sale.

Gains or losses arising from derecognition or disposal of an item of investment property are recognised in the income statement through financial income or expenses.

Rental/lease income from investment property is charged on the basis of issued contracts. Rental income, which refers to the investment property, is stated in the financial statements among other revenues.

4.4 INVESTMENTS IN ASSOOCIATES

In the consolidated financial statements, investments in associates are accounted for by applying the equity method, according to which, they are first recognised at purchase price and then increased or decreased by the associated part of profit or loss of the associate. The acquired dividends lower the purchase price of the financial investment in the associate. The stake of the Group in the profit or loss of the associates is recognised in the income statement of the Group and its share in the revaluation surplus is recognised in other comprehensive income.

4.5 FINANCIAL INVESTMENTS

Financial investments are an integral part of the financial instruments of the Group, and they are financial assets held by the insurance company for the purpose of using them to cover future liabilities arising from insurance and investment contracts and any losses associated with risk arising from insurance contracts.

Types of financial assets

After initial recognition depending on the purpose for which the investment was acquired, financial assets as classified as:

- loans, deposits and receivables,
- held-to-maturity financial assets,
- available-for-sale financial assets,
- financial assets measured at fair value through profit or loss.

4.5.1 Loans, deposits and financial receivables

Loans, deposits and financial receivables are financial assets with fixed or determinable payment amounts and dates that are not quoted in an active market. Loans and receivables are carried at amortised cost using the effective interest method. Interest calculated using the effective interest method is recognised in the income statement.

4.5.2 Held-to-maturity financial assets

Held-to-maturity financial assets are non-derivative financial assets with fixed or determinable payments and fixed maturities, which the Group has the positive intention and ability to hold until maturity.

These investments are initially recognised at cost and after initial measurement, held-to-maturity financial assets are measured at amortised cost, using the effective interest method.

The fair value of the long-term securities from this group of financial assets may be temporarily lower than their carrying amount for a period of time without resulting in an impairment loss on the investment, except in the case there is a risk of change in the financial position of the issuer. The interest calculated using the effective interest method is recognised in the income statement.

4.5.3 Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are either classified as available-for-sale (AFS) and are not classified in any of the other categories.

Financial assets are initially recognised at fair value or at transaction cost, assessing the need for impairment (if a security is not quoted in an active market), including all transaction costs. The interest on debt securities related to the available-for-sale financial assets is calculated using the effective interest rate method and recognised through profit or loss. Financial assets designated as available-for-sale are recognised on the transaction date.

Changes in the fair value of securities classified as available-for-sale are recognised in relation to the contents of the occurrence of changes in fair value. The exchange differences on debt securities are recognized in the income statement, and other changes (e.g. change in market rate) are recognized directly in other comprehensive income. For equity securities, all changes in fair value are recognized in other comprehensive income. In the sale or impairment of available for-sale securities, the cumulative adjustment in other comprehensive income is removed and the effects are reported in the income statement.

4.5.4 Financial assets measured at fair value through profit or loss

Financial assets measured at fair value through profit or loss are further divided into two subcategories:

- financial assets held for trading where financial assets have been acquired by the Group for the purpose of selling them in the near future (within less than 12 months), or if these assets form part of a portfolio, of which purchases and sales have the intention to generate short-term gain, or if they were so classified by the management, and
- financial assets designated at fair value through profit or loss at initial recognition when such designation would significantly reduce measurement inconsistencies, which would arise if derivatives were held for trading and the basic financial instruments were measured at amortised cost for loans and advances to banks and other entities, or issued debt securities. This subcategory also includes investments such as capital investments, managed and measured at fair value in accordance with the endorsed risk management or investment strategy and reporting to key management on this basis, recognised at fair value through profit or loss.

Financial assets classified as assets measured at fair value through profit or loss also include financial investments in mutual funds and open investment firms with variable share capital, related to long-term insurance contracts bound to units of investment funds. Among the financial assets at fair value through profit or loss, the Group also allocates the policy loans from unit-linked insurance, represented by financial instruments recorded as property units and valued using the value of units of funds on policies, related to which they were given.

Financial assets, allocated by fair value, are recognised initially at fair value, and costs of acquisition are recognised in the income statement. Gains or losses arising from changes in the fair value of these financial assets are included in the income statement during the period in which they occur.

4.5.5 Fair value

Financial assets at initial recognition and available-for-sale financial assets are carried at fair value. Loans, deposits, receivables and held-to-maturity financial assets are stated at amortised cost using the effective interest method, reduced by impairments.

Fair value is reported if it is reliably measurable. For listed financial asset instruments which have a price in an active market, fair value is determined as the product of the units of financial assets and the quoted market price.

In case there is no active market for the relevant financial instruments, various methods of assessing fair value of a financial instrument may be used. The valuation methods involve using the last transaction between knowledgeable, willing parties, if available; comparison with the current fair value of another instrument bearing significantly similar characteristics; and studying discounted cash flows. In case there is no valuation model, the financial assets, for which there is no active market and whose fair value cannot be reliably measured, are measured at cost and the need for impairment is assessed.

4.5.6 Impairment of financial assets

Assets carried at amortised cost

At each balance sheet date, it is assessed whether there is any objective evidence that a financial asset or group of financial assets is impaired. A financial asset or group of financial assets is impaired and impairment losses are recognised only if there is objective evidence of impairment as a result of one or more events that have occurred after the initial recognition of financial assets, and that loss event (events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. Objective evidence that a financial asset or group of financial assets is impaired includes observable data that comes to the attention of the holder of the asset about the following events:

- significant financial difficulty of the issuer or borrower,
- a breach of contract, such as a default or delayed payment of interest or principal amount,
- when it is becoming probable that the borrower will enter bankruptcy or other form of financial reorganization,
- when the data indicates that there is a measurable decrease in the future cash flows from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with individual financial assets of the insurance company, including:
- adverse changes in the payment status of the borrowers of the Group, or
- national or local economic conditions that correlate with defaults on the assets of the Group.

If there is objective evidence that an impairment loss has been incurred on loans and receivables or held-to-maturity financial assets carried at amortised cost, the amount of the loss incurred due to impairment is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred), discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognised in the income statement as revaluatory financial expense. If a loan or held-to-maturity investment has a variable interest rate, the current effective interest rate determined in the contract is used for discounting cash flows and measuring any impairment loss. Impairment may also be measured on the basis of an instrument's fair value using an observable market price.

To the extent that a loan is uncollectible, it is written off against the related provisions for loan impairment. Loans are considered uncollectible once all necessary collection procedures have been carried out and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off decrease the expenses for loan impairment, recognised in the income statement.

Where at later periods impairment losses for debt securities are decreased and the decrease can be related objectively to an event occurring after the impairment was recognised in the income statement (e.g. improved credit rating of the borrower), such impairment losses are reversed by adjusting the adequate income statement items where the amount of the reversal is recognised.

Assets measured at fair value

The Group checks at each balance sheet date for any objective evidence of impairment of financial investments or groups of financial investments classified as available-for-sale, for which it is assessed whether the decline in fair value is significant or prolonged and, consequently, whether the assets are overvalued. In the assessment of a long-lasting decrease in fair value below the original cost of equity securities, the period taken into account is no more than 9 months from the day when the fair value of capital instruments fell below the original cost for the first time and remained below it for the entire period of 9 months, whereas for the assessment of a significant decrease in fair value the insurance company's management considers at least a 40 % decrease in fair value compared to the acquisition cost.

If there are signs of impairment in held-for-sale financial assets, the cumulative loss measured on the basis of the difference between the estimated costs and the current fair value, less impairment losses of the asset previously recognised in the income statement, are recognised, and the impairment is also recognised in the income statement.

Reversal of impairment

If in a subsequent period, the amount of an impairment loss decreases and provided that the decrease can be related objectively to an event occurring after the impairment was recognised, the entity reverses the previously recognised impairment loss by stating a new amount in the value adjustment account. The reversal does not result in a carrying amount of the financial asset exceeding what the amortised cost would have been. The amount of the reversal of impairment for losses is recognised in the income statement, provided it refers to debt securities. For equity securities carried as available-for-sale financial assets, the reversal of impairment through the income statement is not allowed. In such cases, reversal of impairment is done through other comprehensive income.

4.6 ASSETS IN THE UNIT-LINKED FUND

Due to their nature, unit-linked assets are disclosed separately, measured at fair value and classified as financial assets at fair value through profit or loss.

The value of the units of assets of the unit-linked long-term business fund is calculated on the balance sheet date by multiplying the number of units of assets held in the individual investment or mutual fund by the redemption net asset value per unit of the fund on that day. Financial investments for unit-linked insurance contracts are revalued on a monthly basis.

4.7 REINSURERS' SHARE OF TECHNICAL PROVISIONS

The benefits to which the Group is entitled under its reinsurance contracts are recognised as reinsurance assets. These assets consist of short-term balances due from reinsurers, as well as long-term receivables that are dependent on the expected claims and benefits arising under the related reinsurance contracts.

The amounts of these reinsurance assets are determined based on estimated losses or reinsurance loss reserves under the reinsurance contracts, taking into account the shares in unearned premiums.

Reinsurance asset recognition is derecognised when the rights from reinsurance contracts expire or are transferred to a third party.

4.8 RECEIVABLES

Recognition of receivables

At initial recognition, receivables are recognised at historical cost on the basis of the issued insurance policy or when policyholders are charged insurance premiums. Reinsurance/co-insurance and other receivables are recognised based on an invoice or other authentic document (e.g. reinsurance settlement). Upon initial recognition, these receivables are recognised at initial value, which is later on reduced for impairment due to adjustments of receivables.

The Group can **recourse** a policyholder, i.e. debtor in the amount of the indemnity payment in accordance with the provisions of insurance contracts, when the indemnification, i.e. benefit is calculated, for which it has obtained adequate legal basis or the first payment. In case the indemnity amount in an individual case exceeds 30,000 euros, it is recognised –

the recourse receivable toward the policyholder or debtor in the balance sheet evidence cannot exceed the estimated indemnity amount. The recourse receivable is in such cases estimated individually, taking into account individual adjustments of recourse receivables. In forming recourse receivables for car insurance, the insurance company can (based on art. 7 of ZOZP and art. 3 of the General terms) exercise the right of refund of indemnity paid, including late payment interest and expenses in the maximum amount of 12,000 euros, except if the damage is done intentionally and the Group claims the refund of the total amount.

Before the recourse receivable is exercised, the unexercised recourse claims are kept as off-balance sheet items and no impairment is formed. The only exception is recourse claims under credit insurance that become exercised immediately after inception. Paid recourse claims are recognised in lowering of claims expenses.

Impairment of receivables

At each reporting date (at least on a quarterly basis), the Group reviews whether the estimate of a receivable's fair value or recoverable value is adequate, or it prepares an estimate of the recoverable amount on the basis of the actual realised cash flows over the last observed time period for an individual class of receivables. Where it is not to be expected that claims will be fully settled, the Group has set up indicators for impairment (uncollectability) of receivables, which trigger the calculation of the impairment charge against the current financial result of the Group.

Based on the estimated fair value, i.e. recoverable (collectible) amount of a receivable, adequate adjustments of receivables are made on an individual or collective basis.

The fair value, i.e. the recoverable (collectible) amount of receivables is assessed and adequate impairment of an individual receivable is formed if the aggregate carrying amount of all past-due premium payments of a particular insured person, i.e. policyholder, on the valuation date amounts to EUR 50,000 or more.

Any other receivable may be impaired on individual basis that would otherwise be subject to revaluation in the framework of collective value adjustment.

Receivables for which impairment is not assessed individually are classified in groups having similar characteristics of credit risk. These groups are divided into receivables from individuals and legal entities, where in receivables from individuals, the groups differ based on type of payment.

For each group, the value adjustment for individual receivable is determined depending on its maturity and actual (un)realised percentage of payments in the past period for a particular group.

In the case of receivables due from policyholders in the **life insurance** segment, the Group abides by the provisions laid down in the Code of Obligations and general terms and conditions of life insurance contracts. When a policyholder defaults under the contractually determined payment schedule for three instalments, the need to write-down the past-due instalments is recognised. The past-due amounts are impaired in the whole amount (100 %), since the probability that payments will never be made or that such insurance coverage will be capitalised is high. Accordingly, adjustments of receivables are reversed.

As regards receivables for **unit-linked life insurance** contracts, no impairment is recognised since revenues are recognised when premiums are paid.

Impairment losses on **recourse receivables** are recognised on collective basis, whereby collective impairment is formed separately for the secured (mortgage-based) and unsecured receivables. The impairment is made at the percentage equalling the percentage of receivables failed to be recovered in the previous accounting period. For all recourse claims above 10,000 euros, due to the increased default risks, the impairment for a loss is made individually. The percentage of the impairment for an individual recourse receivable is determined again at the beginning of a following financial year only if the average level of their collectability is changed significantly. Accrued and unpaid interest charged on recourse transactions accounted for as accounts receivable are impaired at the same percentage as recourse receivables. Receivables arising from recourse costs that are past due by 30 days are impaired at the same percentage as recourse receivables. For the purpose of assessment and impairment formation, forfeited receivables are treated as recourse receivables.

4.9 OTHER ASSETS

Amongst other assets, the Group accounts for inventories, deferred acquisition costs and short-term deferred costs (expenses) and accrued revenues for the cases where the payment of the rendered services refers to a later period.

Deferred acquisition costs

Unearned premiums in the entire amount are recognised in amounts as they arise from the maturity structure of the amounts under insurance contracts as at the balance sheet date. The portion of already realised expenses under acquisition costs in relation to the calculated amounts that relate to reporting periods after the balance sheet date are recognised in the full amount as a special item of deferred expenses under the asset items in the balance sheet. Deferred acquisition costs are presented on the basis of the calculated share of gross costs for underwriting fees and commissions in gross insurance premiums and gross unearned insurance premiums for every individual insurance class.

4.10 CASH AND CASH EQUIVALENTS

Cash and balances held on the accounts with banks and other financial institutions are treated separately for monetary assets denominated in local currency and separately for monetary assets denominated in foreign currencies, which have to be broken down into monetary assets available immediately and those placed as deposits redeemable at notice (demand deposits). Cash of the Group consists of cash and citizens' cheques, while cash equivalents include demand deposits serving to ensure short-term liquidity and short-term deposits placed with maturity up to 3 months.

Revaluation of monetary assets is performed only for the monetary assets denominated in foreign currencies, if after initial recognition the exchange rate of the foreign currency against the euro is changed. The foreign exchange difference is recognised as an ordinary financial expense or financial revenue.

4.11 OFFSETTING FINANCIAL ASSETS AND FINANCIAL LIABILITIES

Assets and liabilities are offset in the balance sheet when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis, namely to realise the asset and settle the liability simultaneously.

At the beginning of the period, receivables and payables arising from internal relationships (between individual long-term business funds or general ledgers) are separately presented in financial statements. At the end of the reporting period, the long-term business fund or own funds are offset in the general ledger, and the balance is presented as receivables or payables, which are offset, i.e. balanced, in the cumulative balance sheet.

4.12 EQUITY

The Group presents the share capital and other components of capital separately by insurance classes. The starting point for the share split has been determined so as to ensure capital adequacy separately in the non-life insurance portion and in its life insurance operations.

Share capital

Share capital is defined with the amounts invested by the owners and with amounts that have been generated through operations and that belong to the owners. Share capital is the nominal value of the called-up and fully paid ordinary no-par value shares denominated in euros.

Capital reserves

Capital reserves (capital surplus) carry the share premium - paid up surplus capital and the amount generated by the elimination of the general capital revaluation adjustment. Capital reserves can be used in accordance with the Companies Act which strictly defines the terms of capital reserves usage for covering net loss of the period, net loss carried forward or increase of equity using assets of the Group.

Reserves from profit

Reserves from profit are divided to contingency reserves, legal and statutory reserves, treasury shares reserve and other reserves from profit. The insurance company forms reserves from profit pursuant to provisions of the Slovenian Companies Act (ZGD-1), legislation governing insurance for establishing legal reserves and on the basis of the decision adopted by the Management Board and endorsed by the Supervisory Board according to the needs for achieving and preserving the adequate level of capital adequacy (other reserves from retained earnings).

Within the framework of other reserves from profit, reserves for catastrophic losses and equalisation provisions are formed in accordance with the Insurance Act (ZZavar). Equalisation provisions are created after net profit in accordance with a decision passed by the Management Board, or in case of loss with increase of a net loss for the financial year. These provisions are presented in the statement of changes in shareholder equity. The Group complies with the provisions of IFRS and recognises equalisation provisions and carries them as a segregated component of the Group's equity, as also set out in the Decision on Annual Reports and Quarterly Financial Statements of Insurance Undertakings – SKL 2009 (including the amendment published in the Official Gazette of the Republic of Slovenia No. 99/2010) This component of equity is accounted for under the assets backing liabilities, which have to be covered by investments. In AS neživotno osiguranje, situated outside the Republic of Slovenia, contingency reserves are not formed.

Furthermore, within the framework of other reserves, the Group recognises half of the profits generated before the end of 2013 by supplementary health insurance, as determined in accordance with the Health Care and Health Insurance Act (ZZVZZ-H) and the decision passed by the Insurance Supervision Agency (Decision on detailed instructions for accounting and disclosure of accounting events relating to the implementation of equalisation scheme for supplementary health insurance).

In the event of regulatory changes, the reserves from profit established until then are adequately reallocated within the framework of the consolidated balance sheet items.

Revaluation surplus

Revaluation surplus is recognised on the basis of the revaluation of assets performed in the course of the year in a particular reporting period. The Group recognises under the revaluation surplus the revaluation adjustment in relation to movement in and valuation of available-for-sale final assets at fair value.

4.13 TECHNICAL PROVISIONS

The Group must establish appropriate technical provisions for liabilities arising from its business. The purpose of technical provisions is to cover future liabilities arising under insurance and any losses arising from risks, which arise out of insurance contracts. Technical provisions are established in accordance with the Insurance Act (ZZavar), the Decision on detailed rules and minimum standards to be applied in the calculation of technical provisions, and the Rules on the formation of technical provisions.

The Group recognises as liabilities gross technical provisions and technical provisions for the received co-insurance. The liabilities reinsured and co-insured are reported under the assets of the Group.

Unearned premiums

Unearned premiums are formed in the amount of the portion of the written premiums, which refers to the insurance cover for the insurance period after the end of the reporting period for which the provision is calculated.

Unearned premiums are calculated for each individual insurance policy, which had valid coverage on the final date of the reporting period. They are also calculated for policies, which become valid after the date of the transfer if a premium was charged before the date of the transfer. In the deferral of charged premium, three different procedures are followed depending on whether the insurance sum is equally distributed across the term of the policy or if it is increasing or decreasing:

- equally distributed insurance sum - majority of insurance classes,

- increasing insurance sum - for building and construction insurance (other damage to property insurance),
- decreasing insurance sum - credit insurance.

Mathematical provisions

Life insurance contracts

Mathematical provisions are established in the amount of the present value of estimated future obligations of the insurance company arising from issued insurance contracts, less the estimated present value of future premiums to be paid on the basis of those insurance contracts. The Zillmer amount for an individual contract does not exceed 3.5 % of the sum insured. Liabilities for every contract are greater than or equal to zero.

For mixed life insurance contracts and life insurance contracts against the risk of death, the future liabilities reflect the payment of agreed insured sums with allocated surpluses in the event of maturity or payment of agreed insured sums with added surpluses in the event of death.

Mathematical provisions for annuity contracts for a limited time are calculated using a prospective net Zillmer method. They are recognised in the amount of the current value of estimated future payments of agreed annuities (with allocated surpluses), including expenses for annuity payment less the estimated present value of future premiums to be paid on the basis of those insurance contracts.

Mathematical provisions for pension insurance of long-term business fund of collective supplementary pension insurance as per PN-A01 are calculated as a product of the value per unit of the long-term business fund and the number of units held as at the day of calculation. The guaranteed liability to policyholders is therefore covered. An additional provision is formed for surplus returns over the guaranteed return (for the allocation of regular and final bonuses). Revaluation reserve of available-for-sale financial assets of long-term business fund of supplementary pension insurance is also recognised in mathematical provisions. Provisions arising from guaranteed premium factors for the calculation of additional old-age pension are formed in the amount of current value of future benefits, which the policyholders can decide to accept upon exercising the right to receive additional old-age pension. These provisions are recognised within the framework of mathematical provision for life insurance long-term business fund.

In annuity insurance, future liabilities of the insurance company (whole life annuity, whole life annuity with guaranteed payments until the insured person is 78 years old, or guaranteed payment for the period of 10 years) are payments of the agreed annuities, including attributed surpluses and annuity payment costs.

Future liabilities of the insurant are future premiums agreed in the contract.

Once a year (at the end of the year), the amount of profit attributable to the holders of participating policies (the DPF portion) is determined. Mathematical provisions are increased by the amount attributed to eligible policyholders.

The surplus attributed to an individual mixed life insurance policy is considered to represent a one-off premium for the remaining insurance period and it is calculated in an additional insured sum (additional annuity in annuity insurance), which is guaranteed. An additional insured sum is paid out in the event death or endowment. For some insurance products, prompt payment of allocated surplus is possible, while for some insurance products the surplus is allocated to the policy as additional assets in the policyholder’s account.

Unit-linked life insurance contracts

Liabilities from unit-linked life insurance represents the value of assets held on the insured person’s policy. The Group buyes funds on behalf of insured because the transhes of some closed funds are fixed and shall be purchased in advance, before the company even sells the insurance contract.

The total value of liabilities arising from insurance contracts is the sum of units of an individual fund multiplied by the net asset value per unit of the fund. The aggregate provision for liability is increased by the amount of the portion of the paid premium, which is allocated to the purchase of units of the fund (there is a time delay between the payment of the premium and purchase order and the actual transfer of the purchased units to the insured's personal account). Depending on the insurance product, provisions are increased by any paid out advances.

Mathematical provisions for health insurance contracts (additional and parallel health insurance)

A mathematical provision is formed for long-term products, for which similar probability tables and calculations are applied as for life insurance products. Mathematical provisions are allocated in the present amount of estimated future liabilities based on concluded insurance contracts, less the present value of future policyholder's premiums arising from those contracts. A prospective net Zillmer method is applied. Liabilities for every contract are greater than or equal to zero.

Mathematical provisions for non-life insurance contracts

The Group forms mathematical provisions for long-term accident insurance, for which similar probability tables and calculations are applied as for life insurance products. Mathematical provisions are allocated in the present amount of estimated future liabilities based on concluded insurance contracts, less the present value of future policyholder's premiums arising from those contracts. Liabilities for every contract are greater than or equal to zero.

Claims provisions

Claims provisions are established in the amount of the estimated liabilities which the Group is obliged to pay on the basis of insurance contracts, where an insurance event occurs before the end of the reporting period, and specifically regardless whether the insurance event has already been reported, including all costs charged to the Group on the basis of these contracts.

No method of discounting the claims provisions is applied, except for claims and benefits paid from liability insurance, which are paid out as annuities.

The calculation of claims provisions is divided into two parts based on the nature of the loss file:
For claims reported but not settled by the end of the accounting period, an individual account of all relevant loss files is taken and the value of expected payments is estimated:

- for claims incurred but not reported by the end of the accounting period (hereinafter IBNR claims – claims incurred but not reported), the estimated ultimate cost of payments is calculated on the basis of statistical information on similar cases in the past;
- The calculation of IBNR claims was carried out on the basis of insurance classes using different methods: the modified statistical method, the triangle method (the Chain Ladder Method) based on recognised damages or based on accrued claims, and special method for liability insurance annuities. When the method is selected, the characteristics of the insurance class are considered in terms of whether the insurance cases are settled quickly or slowly.

The statistical method is based on the monitoring of reported claims in the past. The number of IBNR claims is calculated on the level of individual insurance class as a product of the estimated number of IBNR claims and the estimated value of IBNR claims. The estimated number of IBNR claims is calculated by multiplying the number of reported claims in preceding year and the average coefficient of incurred and reported claims according to all incurred and reported claims in the last three years. The estimated value of IBNR claims is calculated as the average value of IBNR claims in the preceding year or as the average value of claims paid in the preceding year, if the number of claims was relatively small.

The Chain Ladder Method is based on recognised or calculated claims with monthly or annual development factors, depending on the characteristics of the incidence of loss and claim settlement procedures. The claims are arranged in a triangle where the rows represent the year the claims incurred, and the columns represent the number of years from the time the claims were incurred to recognising or accrual of the claims. It is assumed that the pattern of claims in the future will be similar to the pattern from the past years. The prediction of final claims is based on the calculation of average annual development factors arranged on a falling scale.

The special method for liability insurance annuities is based on assessment of the number and amount of subsequently reported annuity claims, as well as on the assessment of the increased liability for already reported annuity cases.

The claim provision is decreased by estimated expected recourses.

The provisions for appraisal costs and claim settlement costs are included in the gross provisions for claims.

Provisions for bonuses, discounts and cancellations

Provisions for bonuses are formed in the amount of the estimated amount of the expected bonus for those policies, where the policyholder is entitled to bonus reimbursements. Liabilities are calculated on the basis of the bonus reimbursement rule, which is specified in the insurance contract.

The provision for cancellation is formed in the amount of estimated reimbursement to policyholders in the event of premature cancellation of a contract/policy, taking into account the reserved amount in unearned premiums under individual contracts.

Other technical provisions

The Group presents provisions for unexpired risk, additional provisions for credit risk and concentration risk among other technical provisions.

Provisions for unexpired risk are established to cover losses and expenses associated with active insurance contracts to be incurred after the accounting period and are not covered under unearned premium provision. Provisions for unexpired risks are calculated at the level of insurance classes. The criterion for their formation is the negative result (loss) of insurance class in the current period and the opinion that the negative result of insurance class is a result of the premium set too low. The provisions for unexpired risk are also formed in other special cases when the insurance company is aware of the acquired liabilities for which it does not have any unearned premiums formed.

Technical provisions for unit-linked life insurance contracts

Provisions for credit risk and concentration risk arising from underlying assets are established for unit-linked life insurance products, where insurance is tied to compound securities with guaranteed payment upon maturity. The provisions are created for the products for which the Group bears the credit risk to the issuer of the security and the concentration risk. They are formed for the risk of separation of compound securities or illiquidity of the issuer of the security to which the warranty is bound.

4.14 OTHER PROVISIONS

Other provisions are formed for present obligations arising from past events to be settled for the period that has not been determined with certainty and whose scale cannot be reliably assessed.

Under accrued and deferred items are carried accrued expenses and deferred revenues that are generated on the basis of straight-line charges to operations or profit and loss as well as inventories with expected costs that still have not been incurred. Costs are accrued and included in consolidated annual financial statements in estimated amounts; in interim consolidated financial statements, they are spread over shorter accounting periods based on the time factor.

4.14.1 Employee benefits

Employee benefits include provisions for the unused portion of annual leave, provisions for jubilee benefits and provisions for termination benefits at retirement and are presented as a separate item under other provisions and accruals (the long-term portion as long-term provisions and the short-term portion within the framework of accrued expenses).

Post-employment and other long-term employee benefits

The items referring to post-employment and other long-term employee benefits include:

- termination benefits at retirement and
- jubilee benefits,

for which provisions for jubilee benefits and termination benefits at retirement are formed. Provisions are recognised in accordance with the Projected Unit Credit Method (PUCM) in accordance with the IAS 19 (the method for calculating benefits in proportion to the work performed), and the calculation takes into account mortality, employee retention, future increase in salaries, expected inflation rate and expected return on investments. In the balance sheet, these liabilities are recognised as net present value of all post-employment liabilities. The future cash flows are discounted by applying the market rate for investment-grade bonds on the balance-sheet date. The discount rate assumption is based on the ECB curve (including all EU countries), by taking into account the average rate according to the expected duration of liabilities arising from termination benefits at retirement and jubilee benefits. The adequacy of the applied actuarial assumptions is reviewed periodically.

For the purpose of forming provisions for jubilee (long-service) benefits, the amount of one to two average gross salaries (depends on the jubilee) in the insurance company is taken into account. Jubilee benefit liability upon reaching the threshold of 10, 20 or 30 years of service of an employee is recognised pro rata with the years of service with the employer.

As a basis for establishing termination benefits at retirement, the amount of three or two gross salaries (set out in an individual employment contract/collective agreement) is taken into account (of the employee or the average salary in the Republic of Slovenia in case it is higher). The liability for termination benefit at retirement is recognised through the entire period of service of the employee.

The liabilities for provisions for termination benefits and jubilee benefits are recognised on the basis of obligations, which arise from the concluded employment contracts and effective labour legislation, also include taxes and contributions of the employer.

4.15 OPERATING LIABILITIES

Operating liabilities are initially carried at historical cost that arises from appropriate documents. Later on, they are increased in accordance with the documents and decreased on the same basis or based on the payments made.

Amongst operating liabilities, liabilities arising from direct insurance contracts, reinsurance and co-insurance coverage liabilities, and current tax liabilities are recognised. The liabilities for the payment of premiums on the basis of reinsurance contracts are recognised as reinsurance liabilities and accounted for as expenses at maturity.

4.16 OTHER LIABILITIES

Other liabilities include the determined short-term accrued and deferred items that comprise short-term employee benefits, short-term accrued expenses and short-term deferred revenues, liabilities for the payment of dividends and other operating liabilities, such as current liabilities to employees, bonds/securities, liabilities for consumer loans, received advances and other similar items.

Short-term employee benefits

Liabilities for short-term employee benefits are accounted for in nominal value and presented as labour costs in the income statement. Short-term employee benefits represent salaries, holiday pay, etc.

Short-term accrued expenses

Short-term accrued expenses are set up with the intention to spread disbursements over the income statement, even though these expenses have not been incurred. Considering past developments in operations, the management can estimate the expenses that will incur for the period concerned, even though they did not yet receive appropriate documents. Based on this estimate, the amount is taken into account in the financial statement. When the business event occurs, accrued expenses are decreased and the difference between accrued and actual expenses is recognised through profit or loss. Apart from that, expenses for unused annual leave are carried under short-term accrued expenses.

4.17 REVENUES AND EXPENSES

Revenues include fair value of received fees or receivables for the sale of services under the normal operating conditions of the Group. All categories of revenues and expenses for non-life and life insurance are presented separately. Revenues from insurance services (gross written premiums) are carried at invoiced amounts excluding tax on insurance contracts

(DPZP), refunds, discounts and rebates. An exception to this are revenues from unit-linked insurance services that are disclosed as paid realisation. Other revenues are accounted for at net value excluding value-added tax.

Revenues from insurance premiums

Net revenues from insurance premiums are calculated as gross written premium increased by the premium received under co-insurance and decreased by the premium for ceded co-insurance and reinsurance and decreased by the change in net unearned premiums. The basis for recognising gross insurance premiums are invoiced premiums.

When non-life and health insurance contracts are terminated, the calculated revenues from premiums are decreased by the proportional portion of the unexpired period for which the insurance premium has been calculated. In the books of account, gross insurance premiums and reinsurance and/or co-insurance share are recorded separately.

Revenues from insurance premiums are monitored separately by insurance group and class.

Revenues and expenses from investments

Revenues and expenses from investments include revenues arising from accrued interest, gains/losses from the disposal of investments, dividends, gains and losses from foreign exchange differences, and revenues and expenses at the expense of the reversal of impairment or impairment of financial assets.

Revenues and expenses for interest on investments are recognised through profit or loss upon their occurrence and are calculated in accordance with the effective interest rate method. In the balance sheet, the interest on all debt securities is posted together with the Company's investments.

Profit (loss) arising on disposal of investments is recognised in the income statement through financial revenues and expenses. As regards available-for-sale financial assets recognised at amortised cost, profit or loss is recognised in the income statement when it is realised, when such assets are revalued due to impairments or impairment previously recognised for these assets is reversed.

Gains and losses from exchange difference are calculated for assets in foreign currencies. They are translated at the balance sheet date by applying the reference exchange rate of the European Central Bank published by the Bank of Slovenia. Relevant exchange rates published by the Bank of Slovenia on a monthly basis for business entities can also be used for foreign currency translation.

Dividend income on a capital instrument is recognised in the income statement when the right to receive payment is established.

Impairments and reversal of impairment of financial investments

Losses due to impairment are recognised and assets are revalued if there is objective evidence of impairment due to an event occurring after the initial recognition of the assets and that event has an impact on the estimated future cash flows from the financial asset.

If during the period after a loss on debt securities has been recognised, the amount of impairment loss is decreased and if this decrease can be objectively related to an event that took place after the impairment was recognised, the previously recognised loss on debt securities due to impairment in the income statement reversal of impairment is carried out. .

Other insurance revenues

Fee and commission income and other income for insurance contract management are recognised as other insurance revenues.

Other revenues

Under other revenues, other net insurance revenues and revaluatory operating revenues are carried. Furthermore, other revenues include revenues from rentals of the Group’s investment properties charged on the basis of the concluded leasehold contracts and other operating revenues such as the recovered amount of previously written-off debt, received fines and damages, and other similar items.

Net expenses for claims and benefits paid

Net expenses for claims and benefits paid are direct expenses arising from the insurance business. They are carried separately by insurance class.

Net expenses for claims and benefits paid are composed of gross calculated claims/losses that include direct appraisal costs and are increased in the income statement by calculated claims for the received co-insurance and decreased by the calculated claims of the ceded co-insurance and reinsurance and increased by the change in net claims provisions.

Net expenses for claims/losses arising from health insurance contracts also include revenues or expenses from equalisation schemes.

4.17.1 Operating expenses

Gross operating expenses are recognised as historical costs by natural and functional groups in the income statement. Appraisal costs are an integral part of expenses for claims paid, while acquisition costs and other operating costs are presented separately. In the disclosures, total operating expenses are presented by natural and functional groups.

Deferred acquisition costs

Acquisition costs are recognised in the income statement when they are incurred. Since these costs refer to the period when contracts are active, they are accrued in the portion that relates to the period after the reporting date. The Group accrues costs for the acquisition of non-life insurance contracts.

Under life insurance contracts with discretionary participation feature, acquisition costs are accrued on the basis of the Zillmer adjustment method when mathematical provisions are calculated.

Other insurance expenses

Other insurance expenses include expenses such as expenses for preventive activity, contributions for settling claims for damage made by uninsured and unidentified vehicles, and other net insurance expenses.

Other expenses

Expenses from investment properties, revaluatory operating expenses, and other operating and financial expenses not arising from investments are carried under other expenses.

4.18 TAXES AND DEFERRED TAXES

Tax expense includes current tax and deferred tax; the tax expense is recognised either in the income statement or in the statement of other comprehensive income, when the taxes refer to revenues or expenses, which are recognised in the statement of other comprehensive income (in equity), i.e. when tax liabilities are recognised as tax assets from prior periods.

Tax assessment

In the Republic of Slovenia, the tax rate applied in the calculation of the corporate income tax for 2014 was 17 %. In countries outside the Republic of Slovenia, tax is calculated using tax rates determined by local legislation. In Serbia, the income tax in 2014 was calculated using 15 % tax rate, and in Croatia, it was calculated using 20 % tax rate.

Deferred taxes

Deferred taxes are effects of the differences between the carrying amount of the posted items in the balance sheet and their tax value, calculated in accordance with the liability method under the balance sheet for all temporary differences. Deferred taxes are accounted for as deferred tax assets or as deferred tax liabilities.

Deferred tax assets and deferred tax liabilities have been established for the financial year under review and for the past financial years to the extent that it is probable that future taxable profit will be available and tax will be paid to the tax authorities (recovered from the tax authorities), by applying the tax rates (and tax regulations) effective as at the balance sheet date. Any deductible temporary differences are recognised, if it is to be expected that disposable taxable income will be posted against which the temporary differences can be utilised. Any deductible temporary differences are recognised by the prescribed tax rate for the year when disposable taxable profit is expected.

Deductible temporary differences are expenses not recognised for tax purposes that arise primarily from provisions set up for employee benefits, calculated depreciation that exceeds the amount of the calculated depreciation at the rates recognised for tax purposes, and revaluation adjustments as a consequence of temporary impairment of receivables and financial investments in the statement of other comprehensive income.

5. SIGNIFICANT ACCOUNTING ESTIMATES, JUDGEMENTS AND ASSUMPTIONS

The Group uses estimates and assumptions, which affect the reporting of assets and liabilities in the subsequent financial year. The estimates and considerations are constantly checked and are based on past experience and other factors, which appear relevant in the given circumstances, including expected future events.

5.1 IMPAIRMENTS OF AVAILABLE-FOR-SALE FINANCIAL ASSETS

Available-for-sale financial assets are impaired when the management finds that there is objective evidence of a significant or prolonged decline in the fair value of such assets below their cost. Determining what is a significant or prolonged requires consideration. In the course of this consideration, the Group checks, among other factors: the normal volatility of the stock price and how long stocks prices have been falling, the financial position of the issuer, performance of the industry and the sector, changes in technology and in cash flows from operations and financing, and changes in an active market for such a financial asset due to any financial problems of the issuer.

In its accounting policies, the Group takes as a criterion of significance that influences the recognition of the relevant portion of impairment of equity securities in the income statement a decline in the fair value below their cost of 40 % or 9 months sustained significant decline in fair value.

For 2014, the management estimated that there had been a longer-term reduction in fair value below cost in relation to certain securities by more than 40 % over the last nine months. On the basis of an expert opinion, and the recommendations and internal accounting policies, the investments that complied with the established significance criteria have been permanently impaired. The total loss arising out of the permanent impairment of the available-for-sale financial investments has been recognised immediately in the income statement, while other revaluations of these assets have been recognised in the statement of other comprehensive income.

5.2 IMPAIRMENT LOSSES ON RECEIVABLES

In determining whether losses from impairment of receivables should be recognised in the profit and loss statement, the management decides whether there are indications of any lowering of future cash flows of a group of receivables. Such indicators can involve changes in the repayment of receivables or economic circumstances which can be linked to a potential halt in the repayment of loans or receivables. The management uses estimates based on past losses. In the financial year 2014, the Group applied the same methodology for assessment of appropriateness of fair value calculation (and value adjustments of receivables) as in previous years (refer to Policies, chapter 4.8). For determining the individual assessment of loan impairment value, the Group used the internal model in 2014 (explained in Section 6.2.4 Fair value).

5.3 ESTIMATIONS OF TECHNICAL PROVISIONS

Non-life and health insurance contracts

Claims reported but not settled (hereinafter: RBNS)

Provisions for claims outstanding are based on the estimated ultimate cost of claims incurred but not settled, separately for each claim. The material/tangible damages are assessed by claim adjusters employed in the Group, while the nonmaterial damages and claims incurred in court proceedings are assessed by lawyers (attorney-at-law) of the insurance company. The assessments are made on the basis of experience by taking into account the expected future trends (inflation, service price inflation, changes in court practice ...). Within the framework of the provision for claims outstanding, the provisions for claims arising from liability insurance contracts were also formed and they are paid out as annuities and namely in the amount of the capitalised value of the annuity by taking into account a 2.75 % interest rate.

Claims incurred but not reported (hereinafter: IBNR)

The majority of provisions for IBNR liabilities were calculated by applying the Chain-Ladder (triangle) method based on the statistical method for recognised losses.

The recognised claims /losses are arranged in a triangle where the lines represent the year of loss occurrence, while the columns represent the number of years lapsed after the year in which the loss occurred until the year in which claims are recognised or paid. The claim recognised in a particular year is the sum of the calculated amounts of claims during the year in which the claim incurred (i) and including the year (i+j) and the amount of the provision for claims outstanding for the reported claims at the end of i+j. Large claims are taken into account in the triangle (chain ladder) only up to the amount of the large claim and this amount is determined for every class of insurance. The development factor represents the relation between the recognised claims for an individual year and the recognised claims for the previous year. In the case that the triangle/chain ladder demonstrates that the development has not been completed, the development factor is also determined. The prediction of ultimate cost of claims is based on the calculation of the average annual development factors.

For every year in which claims are incurred, the IBNR provision is calculated as the difference between the ultimate claim cost and the recognised claims. Any negative amounts are set to zero, During the last year in which claims were incurred, the prediction of the ultimate claims cost is verified by calculating the expected future ultimate claim costs through the estimated result of the insurance class and the premium earned. For the calculation of the IBNR provision for those years, the higher of the two amounts is taken into account.

Provisions for incurred but not reported claims (IBNR) included in outstanding claims provisions

Insurance class in EUR	Provision for incurred but not reported claims (IBNR) 31 Dec 2014	Provision for incurred but not reported claims (IBNR) 31 Dec 2013
Accident insurance	8,994,948	9,740,649
Health insurance	4,700,457	5,125,129
Land motor vehicles insurance	1,631,037	1,989,224
Marine loss insurance	108,656	58,731
Goods in transport insurance	226,466	64,621
Fire and natural forces insurance	772,820	1,024,901
Other damage to property insurance	1,438,462	1,203,253
Motor vehicle liability insurance	35,168,936	38,078,952
Liability for ship/boat insurance	18,721	13,515
General liability insurance	11,911,984	12,643,674
Credit insurance	10,691	23,710
Suretyship insurance	194,306	212,432
Miscellaneous financial loss insurance	49,593	43,465
Legal expenses insurance	4,368	2,494
Travel assistance insurance	242,163	218,346
Life insurance	4,009,392	4,651,037
Total	**69,482,999**	**75,094,132**

Estimations of individual claims are regularly reviewed and adjusted if needed due to new information. Liabilities for IBNR present a larger level of insecurity in estimations of liabilities that the insurance company will have to cover due to losses incurred. IBNR provisions are determined by the Group based on analysis of past loss events, using different mathematical and statistical methods. The Group assumes that claims development in the future will be realised similarly as in the past, and takes into account the perceived trends and variances. Within the calculations of provisions for claims, also assessments of success of future subrogation and level of future claims settlement costs are made. The adequacy of applied assumptions and assessments is periodically reviewed and new conclusions are used in the future valuations.

Loss development – non-life insurance

The triangle depicts how the Group changed its assessment of ultimate liabilities for claims in non-life insurance. The amounts in the triangle include claims reserved, as recognised by the insurance company in individual years.

Loss development in non-life insurance

		Accident/loss year							
Cumulative claim payment	before 2007	2007	2008	2009	2010	2011	2012	2013	2014
At the end of loss year	-	108,738,545	120,566,723	118,006,182	107,341,956	105,175,250	110,452,032	92,090,992	95,691,309
1 year after loss year	-	106,372,343	118,497,261	110,146,325	99,801,747	92,644,518	104,486,627	87,774,218	-
2 years after loss year	-	105,968,274	117,455,373	109,592,071	96,568,889	90,692,133	96,648,360	-	-
3 years after loss year	-	105,349,656	117,532,492	107,689,196	95,500,834	89,197,953	-	-	-
4 years after loss year	-	105,958,430	115,587,514	106,002,829	93,724,734	-	-	-	-
5 years after loss year	-	104,800,746	114,800,364	104,898,820	-	-	-	-	-
6 years after loss year	-	103,746,421	113,669,023	-	-	-	-	-	-
7 years after loss year	-	103,449,456	-	-	-	-	-	-	-
Cumulative loss estimate	-	103,449,456	113,677,305	105,729,049	96,522,601	91,066,287	97,779,478	89,284,984	95,946,803
Total losses paid until 31 Dec. 2014	-	100,789,406	109,767,499	100,762,334	91,265,293	82,806,316	88,661,048	73,966,912	53,587,857
Provisions for outstanding claims - balance 31 Dec. 2014	16,816,072	2,660,051	3,909,806	4,966,715	5,257,308	8,259,971	9,118,429	15,318,072	42,358,946

Provisions for outstanding claims in non-life insurance (excluding health insurance), as recognised in the consolidated balance sheet

	Listing + IBNR	Provisions for valuation costs	Total
Provisions as at 31 Dec 2013	114,030,955	4,776,896	118,807,850
Provisions as at 31 Dec 2014	108,665,371	4,768,541	113,433,912

Life insurance contracts

The liabilities, which arise from contracts for traditional life insurance with a discretionary participation feature (DPF), are calculated on the technical assumptions used for the calculation of premiums for the product, i.e., by taking into account more prudent assumptions arising from regulatory requirements or judgements made by the Group.

The main assumptions used by the Group are the following:

- future mortality (in the past, the insurance contracts portfolio of the insurance company was too small to be used for own experience; hence mortality estimates are based on statistical tables and specifically: for whole life insurance and endowment insurance, the Group uses the Slovenian mortality tables from the year 1992 and 2007, while for annuity insurance German tables from the year 1987 and 1994 are used),
- interest rate in the 2.25 % to 4.0 % bracket,
- the acquisition costs up to the maximum statutory amount

The assumptions used for the purpose of determining the adequacy of the provisions formed for life insurance contracts, are described in more detail in the section on the liability adequacy test (Section 6.2.1). In the financial year 2014, the Group did not modify the assumptions used for the calculation of liabilities arising from life insurance contracts

5.4 ESTIMATES OF FUTURE PAYMENTS UNDER LIFE INSURANCE CONTRACTS

The principal estimates and assumptions used for the calculation of liabilities arising from the issued life insurance contracts refer to expected mortality, cancellation, return on investment, administrative expenses and future premiums. These assumptions are determined when concluding a contract and are used to calculate liabilities in the course of the insurance period. New assessments are prepared at every following reporting period for the purpose of establishing whether previously determined liabilities are adequate. If it is decided that the liabilities are adequate, the assumptions are not changed. If liabilities are not adequate, the assumptions are modified so as to reflect expectations in accordance with the best estimate. A more detailed description of assumptions and the way in which they are determined can be found in the section about the liability adequacy test and in the section on insurance risk.

5.5 EMPLOYEE BENEFITS

Employee benefits are recognised in the financial statements on the basis of estimates of future liabilities that will derive from:

- payments of jubilee benefits to the employees who will fulfil in the future the statutory/legal conditions;
- termination benefits for the employees who will fulfil in the future the conditions for retirement and who will be employed in the Group on that day.

Future liabilities are calculated on the basis of the actuarial calculation assumptions as a discounted value of future cash flows, while taking into account certain assumptions.

Main assumptions included in the calculation of provisions for termination and jubilee benefits:

- discount rate,
- expected salary growth in the insurance company, including the expected salary increase due to promotion,
- expected mortality expressed in the Slovenian tables 2007,
- the future turnover is determined by taking into account the age of the employees, and specifically for the age group between 20 and 30 years of age, for the age group between 30 and 40 years of age and for the employees aged 40 or and more

6. RISK MANAGEMENT

The Group is already by the nature of its business exposed to insurance risk, since its activity is underwriting insurance contracts with which it assumes risk from its policyholders. As all other financial organisations, the Group is also exposed to various financial risks such as liquidity, credit and market risk (interest rate, currency and price risk). In addition to exposure to insurance and financial risks, insurance companies are also exposed to operational risks.

The purpose of risk management is to ensure stable and long-term operations and decrease exposure to individual risks. Risk management is a continuous cyclical process that can be broken down into three stages. In the first stage, potential risks are identified. In the second stage, individual risks are modelled and measured. On the basis of the risk identification and measurement, the Group's management adopts adequate measures to mitigate or control these risks (the third stage). In addition, a continuous monitoring system has been established to assess the effectiveness of the applied measures, to monitor the remaining risks and to early identify potential new risks. The leverage at management's disposal is various and depends on the level of exposure and the type of risk.

In order to be efficient, the risk management system follows the strategy and risk management policy approved by the Group's Management Board. The aim of efficient risk management is not to avoid risks by any means, but rather to accept consciously the adequate risks and to execute appropriate measures to either limit these risks or, if they are realised, limit the economic damage. The Group accepts risks, knowing that businesses with higher risk level usually bears higher yield. The optimum balance between risk and yield is crucial for ensuring adequate safety of policyholders and at the same time expanding the value of the Group.

In addition to setting the guidelines regarding the ratio between risks, returns and capital, and the guidelines for the implementation of business policies and strategies for individual areas in the Group, the Management Board cares for the promotion of transparent and clear decisions and processes which represent important building blocks of risk awareness culture in the Group. With constant optimisation and expansion of the risk management function, the Group remains prepared for the risks in its future business operations.

6.1 CAPITAL ADEQUACY REQUIREMENTS AND CAPITAL MANAGEMENT

One of the Group's most important missions that it is also required by law is ensuring an adequate level of capital (capital adequacy) in line with the volume and types of insurance business and the risks it is exposed to in the course of its operations.

In the framework of its capital management policy, the Group pursues the goal of maintaining a certain surplus of available capital above the required level (pursuant to applicable legislation), which provides security against unpredictable adverse events, guarantee for continued operation and coverage for potential losses from current operations while maintaining adequate return on capital.

At the same time, the controlling insurance company Adriatic Slovenica d.d. is intensively preparing for the new European insurance regulation Solvency II which brings along a broader concept of risk in insurance business and the related higher capital requirements and, consequently, the need for new measures in capital management. In the past years, Adriatic Slovenica participated in several impact studies and stress tests prescribed by the EIOPA and the national supervisory authority; the impact of different methodologies and calculation parameters on capital adequacy of insurance companies to be calculated in compliance with the Solvency II regime were tested. The insurance company has applied these methodologies for several years in a row to study the impacts of individual business aspects and decisions on the insurance company's capital adequacy under the Solvency II regime, and to assess and forecast its capital adequacy in future financial years.

The Group complies with the regulatory requirements regarding capital adequacy as per the requirements of Solvency I if its eligible capital exceeds the amount of the regulatory minimum capital determined in accordance with the rules for capital adequacy and its calculation. The calculation that is required by the law is performed within the Group at least once a year. During the year, capital adequacy of the controlling insurance company and each individual subsidiary insurance company is reviewed.

For 2014, the controlling company Adriatic Slovenica d.d. calculated its capital adequacy in line with the requirements of the Insurance Act (ZZavar) and with the statutory instruments determined by the supervising body – the Insurance Supervision Agency (hereinafter: ISA): “Decision laying down detailed rules for the calculation of minimum capital of insurance companies” and “Decision laying down detailed rules for the calculation of minimum capital, fulfilling capital requirements and capital adequacy of insurance companies”. The minimum capital is determined by the insurance company on the basis of the prescribed methodology and as stipulated by the Insurance Act (ZZavar). The minimum capital of insurance companies must never be lower than the amount of guaranteed capital defined in the ZZavar.

As at 31 December 2014, the insurance company Adriatic Slovenica d.d. was fully compliant with the capital adequacy requirements, carrying a surplus of eligible capital in the area of non-life insurance in the amount of 26,524,434 euros and in the area of life insurance in the amount of 1,738,920 euros.

The subsidiary AS neživotno osiguranje measures its capital adequacy in compliance with point 4 of the "Odluka o načinu utvrđivanja visine margine solventnosti” ("Sl. glasnik RS" BROJ 31/2005.g.), where it is determined that the amount of required solvency capital must not be below 4,500,000 euros or 544,312,350 RSD (Serbian dinars) / 4,513,369 euros as at 31 December 2014. The insurance company AS neživotno osiguranje a.d.o. was at 2014 year-end compliand with these requirements with its available capital of 587,745,977 RSD or 4,873,516 euros, and capital surplus above the minimum required amount, in the amount of 43,433,627 RSD or 360,146 euros.

The subsidiary KD Životno osiguranje d.d., Croatia measures its capital adequacy in compliance with its legislation - Zakon o osiguranju, glava II KAPITAL i glava III. ADEKVATNOST KAPITALA. As at 31 December 2014, the insurance company has an adequate amount of capital.

The controlling insurance company Adriatic Slovenica, in line with the Decision on supervision over insurance groups, prescribed by the supervisory body (ISA), calculated the adjusted capital adequacy and in this way avoided duplication of ownership stake in the Group. Ba calculating the adjusted capital adequacy, the parent company eliminated the effects of all other mutual financial elements within the Group.

The total amount of available capital of Adriatic Slovenica Group as at 31 December 2014 amounts to 61,877,244 euros. The sum of the required minimum capital of the parent company and proportional share of participation of the subsidiaries’ minimum capital totals 44,327,149 euros. The adjusted calculation of capital adequacy of Adriatic Slovenica Group therefore shows a surplus of available capital in the amount of 17,550,096 euros as at 31 December 2014.

6.2 TYPES OF RISKS

6.2.1 Insurance risks

Insurance risks are all possible risks which the Group faces during its principal activity - acceptance of risk from a policyholder. Given the nature of insurance contracts, insurance risk is random and unpredictable. It can be realised at any stage of the company's principal activity, be it the formation of insurance product (the product is improperly designed), the formation of price (the amount of premium is insufficient to cover contractual obligations and compensation of losses) or accepting risks for insurance (wrong decision about risk acceptance, non-compliance with the price list and terms of insurance, signing insurance contracts based on false data, improper reinsurance for particular risks, improper assessment of probable maximum loss (PML), insurance for concentrated risks (e.g. geographic concentration), insufficient employee qualifications for risk assessment). When accepting risks for insurance, the following risks can occur as well: the risk of insufficient technical provisions, damage or loss risk (the risk that the reported number or amount of claims will exceed the expected values and that the retention will be too high due to improper reinsurance security, especially in case of catastrophic events), the risk of change in policyholder behaviour (which reflects especially in the number of insurance fraud attempts) and, last but not least, the risk of changes in the economic environment, which can lead to a lower number of policies signed due to a lower purchasing capacity and a higher number of cancelled contracts and of claims made.

The Group manages insurance risks primarily through effective implementation of internal controls, internal auditing, through forming adequate technical provisions to cover future liabilities from already issued insurance contracts and through appropriate reinsurance. Much attention is devoted to the development of new products to ensure that already in the process of product development; the relevant statistics are carefully observed, confirming the appropriateness of the considered assumptions. After the implementation of a product, the Group constantly monitors the underwriting results by class of insurance, analyses any deterioration and corrects premium rates or terms of insurance, if necessary. The other area, critical for the realisation of insurance risks, is the acceptance of risks to be insured. The company controls this risk by means of instructions on accepting the risks to be insured, stricter criteria and procedures for risk acceptance, especially for high sums insured and comprehensive coverage. Specialised departments in charge of high risks (in the field of non-life insurance) monitor the development of particular insurance contracts and may deny renewal of contracts or re-assess the accepted risk. Reinsurance security is an important means of insurance risk management and will be described in further detail in the following text.

Concentration of insurance risk

Concentration of insurance risk can arise from a single insurance contract or from a number of insurance contracts covering low-probability events with high damage potential, such as insurance against earthquakes or other natural disasters.

The table below presents possible concentration of insurance risk, and specifically the Group’s exposure to large policyholders and beneficiaries.

Insurance risk concentration arising from the largest policyholders as at 31 December 2014

in EUR	Aggregate premium – 10 largest policyholders	As share of insurance group aggregate premium	Aggregate premium – 100 largest policyholders	As share of insurance group aggregate premium
Life insurance	66,233	0.35%	177,789	0.93%
Unit-linked insurance	450,722	1.25%	1,505,655	4.18%
Health insurance	383,020	0.35%	542,246	0.50%
Non-life insurance	10,950,837	7.97%	22,939,716	16.69%
Total	**11,850,811**	**3.93%**	**25,165,407**	**8.34%**

Insurance risk concentration arising from the largest policyholders as at 31 December 2013

in EUR	Aggregate premium – 10 largest policyholders	As share of insurance group aggregate premium	Aggregate premium – 100 largest policyholders	As share of insurance group aggregate premium
Life insurance	47,478	0.30%	183,910	1.16%
Unit-linked insurance	230,465	0.58%	914,435	2.29%
Health insurance	306,489	0.27%	446,532	0.40%
Non-life insurance	12,060,364	8.64%	23,167,875	16.59%
Total	**12,644,796**	**4.09%**	**24,712,751**	**8.00%**

In the light of the fact that the share of the top 10 and top 100 largest policyholders and beneficiaries in proportion to the entire portfolio is relatively small, we can draw a conclusion that the concentration of large policyholders does not expose the Group to high risk.

Non-life insurance contracts

As regards non-life insurance, the Group is exposed to various types of risk associated with the sectors of the economy in which policyholders engage in business activities. The table shown below presents the concentration of liabilities arising from non-life insurance business by industry in which the policyholders operate; the table shows the ultimate loss (maximum sum insured) broken down according to the sum insured in four categories.

Concentration of liabilities from non-life insurance by industry as at 31 December 2014

Sum insured	Up to 300,000 euros		Over 300,000 up to 1,000,000		Over 1,000,000 euros	
in EUR	Net of reinsurance	With reinsurance	Net of reinsurance	With reinsurance	Net of reinsurance	With reinsurance
Construction risks	6,813,722	6,402,532	25,433,864	7,680,000	78,339,276	3,720,000
Manufacturing risks	279,312,568	268,447,119	378,012,267	264,263,591	3,678,964,840	269,520,000
Commercial risks	4,721,023,458	4,715,292,881	1,765,253,556	1,694,101,841	5,993,567,929	677,070,000
Household risks	5,932,383,772	5,930,007,772	443,702,927	424,065,460	297,015,889	35,490,000
Total	**10,939,533,519**	**10,920,150,304**	**2,612,402,614**	**2,390,110,892**	**10,047,887,934**	**985,800,000**

Concentration of liabilities from non-life insurance by industry as at 31 December 2013

Sum insured	Up to 300,000 euros		Over 300,000 up to 1,000,000		Over 1.000.000 euros	
in EUR	Net of reinsurance	With reinsurance	Net of reinsurance	With reinsurance	Net of reinsurance	With reinsurance
Construction risks	9,216,359	7,118,230	13,749,753	5,280,000	159,086,371	3,960,000
Manufacturing risks	276,232,075	263,118,312	368,862,914	255,698,788	3,555,351,605	252,240,000
Commercial risks	4,105,840,601	4,098,873,140	1,646,639,787	1,630,262,381	6,399,683,522	804,930,000
Household risks	5,127,579,087	5,124,876,204	412,833,494	407,775,595	320,049,691	42,150,000
Total	**9,518,868,122**	**9,493,985,886**	**2,442,085,947**	**2,299,016,764**	**10,434,171,188**	**1,103,280,000**

To provide a realistic insight into the exposures, the concentration of liabilities arising from non-life insurance contracts presents only total insured sums for basic hazards, since, as a rule, they represent the highest exposure to potential losses on a policy. Since the coverage of earthquake hazards is additional insurance, it has not been included in the above table. In 2013 and 2014, earthquake insurance contracts were ceded to reinsurers on a proportionate basis at the rate of 80 %.

Life insurance

The table below shows the concentration of insurance risk arising from life insurance contracts, and specifically the aggregate underwritten sum insured slotted into five categories according to the amount of the sum insured under a separate insurance contract.

Aggregate underwritten sum insured under all contracts

in EUR	Net of reinsurance 2014	With reinsurance 2014	Net of reinsurance 2013	With reinsurance 2013
0–9,999 euros	285,695,852	252,727,729	404,114,330	385,254,121
10,000–29,999 euros	821,669,690	722,270,883	920,025,611	828,998,497
30,000–59,999 euros	706,344,648	507,191,887	587,523,311	381,110,548
60,000–99,999 euros	357,003,683	182,217,347	200,762,968	79,734,931
Over 100,000 euros	213,107,528	105,972,783	96,344,146	30,471,750
Total	**2,383,821,401**	**1,770,380,628**	**2,208,770,367**	**1,705,569,848**

For annuity insurance risk concentration is presented with total annual annuities classified into five categories, depending on the amount of the annual annuity per individual insured. Annual annuity is considered to be the amount, which the insured would receive if the payments under the contract were due.

Structure of annually paid annuities

in EUR	TOTAL ANNUAL ANNUITY PAYMENTS IN 2014		TOTAL ANNUAL ANNUITY PAYMENTS IN 2013	
Annual annuity payments to the insured person as at 31 Dec	amount	%	amount	%
0–999 euros	626,944	14.21%	661,540	14.28%
1,000–1,999 euros	1,590,857	36.05%	1,655,813	35.74%
2,000–2,999 euros	897,960	20.35%	957,963	20.68%
3,000–3,999 euros	534,640	12.12%	552,560	11.93%
Over 4,000 euros	762,302	17.28%	804,450	17.37%
Total	**4,412,703**	**100%**	**4,632,326**	**100%**

Concentrations of insurance risk with respect to the company's annuity business remains at the same level as in 2013 and the highest number of annuity payments made on a yearly basis falling in the 1,000 euros to 2,000 euros bracket.

Liability adequacy test for insurance contracts

The Group carries out a liability adequacy test (LAT-test) with the aim to determine whether its provisions set up at the balance sheet date are sufficient to cover its liabilities. The test is carried out by calculating the best estimate of provisions such as the current value of all cash flows arising from the in-force insurance contracts. The calculation for the test is made by using the current estimates of future cash flows. At the balance sheet date, this calculation is compared with the technical provisions formed.

If the liability adequacy test shows a deficiency in the carrying amount of liabilities, the Group recognises such deficiency as increased liability in the income statement.

The liability adequacy test is carried out separately for the life and non-life business.

Life insurance

For the purpose of establishing whether provisions for life insurance are adequate, the Group combines lines of insurance business in homogenous groups, and specifically:

- life insurance;
- unit-linked life insurance contracts;
- voluntary supplementary pension insurance.

The expected cash flows are generated under:

- premiums (life insurance and additional accident cover),
- claims paid (death, endowment, annuities, surrender, accident claims),
- expenses (other payments of fees and commissions, administrative costs, costs of losses).

- any other expected cash flows from insurance contracts.

With regard to individual cash flows, the following assumptions have been taken into account:

- covenants in individual insurance policies (amount of the premium, the schedule of premium payments, the sum insured for death and at maturity, amount of annuities),
- technical bases of the relevant products (tables of mortality/morbidity, interest rate, costs of front-end fees, other administrative expenses),
- assumptions (mortality rates, redemption rates, future inflation, claims paid under accident policies, etc.). The assumptions used are explained separately.

The cash flows for individual years are discounted on the last day of the reporting (accounting) period.

Economic and operating assumptions

Risk discount rate

For the purpose of calculating the present value of the expected future cash flows, the discount rate used is presented by the curve in the graph "AAA-rated euro area central government bonds" AAA- credit rating for investment-grade government bonds in the euro area as of 2 January 2015.

Inflation

The assessment of expected expenses takes into account the expected inflation rate for the first two years in line with the autumn forecast of UMAR (Institute of Macroeconomic Analysis and Development) and at the rate of 1.5 % for all following years.

Costs/expenses

The costs of contract administration, claims handling, and asset management have been included in the calculation based on the insurance company’s experience from the past years. The estimated future costs are divided into fixed costs that increase depending on the forecasted inflation, and variable costs. Specific features of individual insurance products are taken into consideration when dividing the costs.

Mortality rates

The estimations of mortality rates are based on analyses of the insurance company’s own life insurance portfolio. However, for annuity insurance, the Slovene population's mortality ratio has been considered, namely the Slovenian annuity tables 2010.

Surrender rates

The relevant surrender rates are based on the analysis of redemptions and other early cancellations of own portfolio in the past years, divided according to insurance categories and insurance duration. The assumptions are revised and adjusted annually.

Claims arising from additional (extra) accident coverage

These claims are estimated on the basis of historical claims ratio from such insurance contracts in the portfolio in the past years.

Results of the life insurance liability adequacy test for the financial year 2014

The liability adequacy test (LAT) results of 31 December 2014, showed no deficiencies in any class of life insurance.

Non-life insurance and health insurance

The Group has tested the adequacy of the provisioning for unearned premiums for non-life insurance and health insurance contracts. The provisions for losses and provisions for bonuses, discounts and cancellations are calculated on the basis of current estimates; hence, it is deemed that the provisions for these liabilities have been made in the adequate amount.

The liability adequacy test is thus limited to the unexpired portion of active (unexpired) contracts. It is performed by examining the difference between the expected amount of claims for losses and the expenses attributable to the unexpired portion of policies still in force at the balance sheet date and the amount of the formed provision for unearned premiums.

Under the classes of insurance where inadequate amount of unearned premium provisions in relation to the expected loss events, has been determined, the Group forms additional provisions for unexpired risks and recognises them in the financial statements as liabilities within the framework of other technical provisions.

Results of the non-life insurance liability adequacy test for the financial year 2014

As at 31 December 2014, the Group formed provisions for unexpired risks in the following insurance classes and in this way ensured an adequate amount of provisions:

In health insurance in the amount of 476,372 euros, in land motor vehicle insurance (231,639 euros), aircraft insurance (1,250 euros), vessel insurance (209,963 euros), other damage to property insurance (456,792 euros) and credit insurance (33,575 euros).

Sensitivity analysis

The Group performs the sensitivity analysis to measure the changes in performance indicators (parameters) set out below on its profit or loss as at the last day of the financial year.

Sensitivity test – parameters

Sensitivity factor	Description of the sensitivity factor
Interest rate (insurance contracts)	The impact of a change in technical interest rate by ±1 %
Costs/expenses	The impact of an increase/reduction of all expenses other than acquisition expenses by ±5 %
Assurance mortality/morbidity	The impact of an increase in mortality/morbidity rates by 5 %
Annuitant mortality	The impact of a reduction in mortality rates by 5 %
Loss ratio in relation to premium	The impact of an increase in loss ratios by 5 %

Individual calculations presented in the tables below have been made so as to take into account the modification to a particular sensitivity factor while other assumptions are left unchanged.

Impact on net profit before tax generated by the Group

in EUR	31 Dec 2014	31 Dec 2013
Factor		
Costs/expenses +5 %	(3,151,454)	(2,848,848)
Costs/expenses -5 %	3,151,454	2,848,848
Interest rates +1 %	14,681,946	10,216,196
Interest rates -1 %	(15,699,310)	(11,938,944)
Assurance mortality +5 %	(93,070)	(120,115)
Annuitant mortality -5 %	(353,835)	(190,022)
Loss ratio +5 %	(12,718,776)	(13,038,407)
Loss ratio -5 %	12,718,776	13,038,407

The Group is prudent in its risk management operations. The role of reinsurance is important in the process as an additional risk-hedging tool that contributes to a more secure insurance risk management policy.

6.2.2 Insurance risk management through reinsurance protection

Purpose and objectives of reinsurance protection

Insurance risks are managed by reinsurance protection programme, ensuring solvency and liquidity of operations, stability of operating results and financial soundness. In concluding reinsurance contracts, we only collaborate with reinsurers with the highest ratings.

The type, form, scope and structure of the reinsurance purchases are planned on the basis of the amount of the maximum own shares of the Group and the volume, uniformity, quality and types of the insurance portfolio, considering the characteristics and specifics of individual classes of insurance. In this context, the Group focuses on the establishment and provision of the optimum reinsurance protection both against individual large losses and against aggregated exposure of the Group’s portfolio of insurance business to natural forces – either by individual insurance event, as well as by annual aggregate.

Reinsurance contracts provide the Group with automatic reinsurance coverage for the majority of the risks assumed up to the agreed limit and under the agreed conditions, and in some cases even coverage against possible errors in risk assessment.

For exceptional risks, which exceed the contractual reinsurance protection by scale or content of the cover provisions, the Group provides special optional reinsurance protection. The program of the planned reinsurance is composed of traditional proportional and non-proportional forms of reinsurance protection.

Within the operational risk management, in the year under review, the Group upgraded the control mechanisms in the information system.

Analysis of the Company’s portfolio from the aspect of reinsurance risk

Earthquake risk presents the highest concentration of the Group’s insurance risk. The reinsurance protection for catastrophic perils is therefore formed considering the millennial return period, based on the modelling results of our exposure to earthquake risk as per the AIR model, which is performed by our reinsurance intermediary Guy Carpenter. The earthquake exposure is managed by proportional reinsurance, supplemented by non-proportional reinsurance after the event and reinsurance coverage of annual claims aggregate.

The catastrophic perils reinsurance protection also covers the perils of floods, storm, hail and other natural disasters.

In 2014, there were several events of large proportions, for example glaze in February and flooding in November, but their extent did not exceed the threshold for enforcement of reinsurance protection.

In the Group's portfolio, the largest portion of premiums is from car insurance. Apart from non-proportional reinsurance for individual insurance classes, there was also a quota reinsurance contract for car insurance in 2014.

Health insurance presents a much dispersed risk, therefore, for the existing extent of insurance coverage, the equalisation is performed within the Group. The life insurance portfolio is homogenous, with a small portion of risks exceeding the Group's maximum retention; hence it is covered with a proportional, and in the event of mass losses, with an additional (extra) non-proportional contractual reinsurance protection.

The structure of the reinsurance programme is comparable with 2013 since in the past years, it has responded adequately to loss events exceeding own shares, calculated for individual insurance classes.

Reinsurance concentration in the financial year 2014

Type of reinsurance in EUR	Reinsurance premium	Structure of reinsurance premium	Reinsurance policy fees	Written reinsurance claims/losses	Change in unearned premiums for reinsurance	Change in outstanding claims provisions for reinsurance	Impact of reinsurance result on profit
Motor QS	(37,668,321)	77.89%	12,245,461	21,371,636	-	1,991,310	(2,059,914)
Quota share reinsurance of earthquake risk	(1,806,513)	3.74%	467,355	6,113	21,444	339	(1,311,262)
Non-life Gross Risk XL reinsurance	(1,535,131)	3.17%	-	-	-	299,472	(1,235,659)
Engineering Risk XL reinsurance	(159,567)	0.33%	-	42,531	-	(43,800)	(160,836)
Non-life Cat XL reinsurance	(1,532,781)	3.17%	-	135,548	-	(480,017)	(1,877,251)
Non-life, i.e. annual aggregate Cat XL losses	(790,000)	1.63%	-	465	(27,049)	(465)	(817,049)
XL reinsurance motor vehicle liability insurance and green cards	(627,204)	1.30%	-	424,631	-	1,603,592	1,401,020
XL reinsurance of comprehensive automobile insurance (casco)	(68,276)	0.14%	4,139	66,300	-	-	2,162
Other non-life insurance	**(2,898,537)**	**5.99%**	**227,840**	**3,971,173**	**110,485**	**(649,640)**	**761,321**
Health insurance	-	**0.00%**	-	-	-	-	-
Life insurance	**(1,276,349)**	**2.64%**	**328,829**	**336,349**	**(7,310)**	**19,556**	**(598,925)**
Total reinsurance in the financial year	**(48,362,679)**	**100%**	**13,273,623**	**26,354,746**	**97,570**	**2,740,347**	**(5,896,393)**
Co-insurance provided	**(105,463)**	**0.00%**	**23,801**	**1,257**	**(6,147)**	**(2,612)**	**(89,165)**
Co-insurance received	**402,841**	**0.00%**	**(75,005)**	**(12,581)**	**(30,414)**	**(22,715)**	**262,126**
Total Re(co)insurance	**(48,065,301)**	**0.00%**	**13,183,642**	**26,343,422**	**61,010**	**2,714,985**	**(8,292,593)**

Reinsurance concentration in the financial year 2013

Type of reinsurance in EUR	Reinsurance premium	Structure of reinsurance premium	Reinsurance policy fees	Written reinsurance claims/losses	Change in unearned premiums for reinsurance	Change in outstanding claims provisions for reinsurance	Impact of reinsurance result on profit
Motor QS	(41,519,734)	80.99%	13,859,857	22,711,475	-	2,895,434	(2,052,968)
Quota share reinsurance of earthquake risk	(1,767,777)	3.45%	481,931	1,446	(4,782)	(2,221)	(1,291,402)
Non-life Gross Risk XL reinsurance	(1,568,633)	3.06%	-	324,613	-	-	(1,244,019)
Engineering Risk XL reinsurance	(142,758)	0.28%	-	-	-	73,800	(68,958)
Non-life Cat XL reinsurance	(1,608,622)	3.14%	-	911,173	-	(1,256,955)	(1,954,404)
Non-life, i.e. annual aggregate Cat XL losses	(917,927)	1.79%	-	103,235	82,076	(107,103)	(839,718)
XL reinsurance motor vehicle liability insurance and green cards	(645,300)	1.26%	-	250,114	-	250,079	(145,106)
XL reinsurance of comprehensive automobile insurance (casco)	(46,100)	0.09%	-	-	-	-	(46,100)
Other non-life insurance	**(2,065,554)**	**4.03%**	**140,214**	**682,124**	**18,303**	**445,561**	**(732,322)**
Health insurance	-	-	-	-	-	-	-
Life insurance	**(983,796)**	**1.92%**	**131,513**	**291,520**	**29,474**	**(56,180)**	**(587,468)**
Total reinsurance in the financial year	**(51,266,199)**	**100%**	**14,613,514**	**25,275,700**	**125,071**	**2,242,416**	**(8,962,466)**
Co-insurance provided	**(105,505)**	**0.00%**	**25,035**	**8,169**	**(1,788)**	**3,854**	**(70,235)**
Co-insurance received	**237,907**	**0.00%**	**(38,912)**	**(22,397)**	**(9,876)**	**(47,031)**	**119,692**
Total Re(co)insurance	**(51,133,797)**	**0.00%**	**14,599,638**	**25,261,473**	**113,407**	**2,199,239**	**(8,913,009)**

The above table shows the reinsurance concentration for all contracts.

Reinsurance premium accounted for 16.0 % of gross written premium of all insurance segments in 2014, and amounted to 48,362,679 euros. Within this amount, the quota share reinsurance premium of car insurance accounts for 78 %. In 2013, the reinsurance premium presented 16.6 % of gross written premium of all segments and totalled 51,266,199 euros (of which, quota share reinsurance premium of car insurance accounted for 81 %).

In 2014, the Group recorded only a few individual loss events, for which the non-proportional reinsurance protection was pursued. From reinsurers' shares in claims, there was a total of 23,613,339 euros (2013: 26,252,320 euros), out of which, as much as 21,371,636 euros (2013: 26,252,320 euros) from car insurance quota, and in other insurance classes, there were 2,241,703 euros (2013: 22.711.475 euros) of claims.

6.2.3 Financial (market) risks

The Group is exposed to market risks through its financial assets and liabilities, and reinsurance assets and liabilities arising from its insurance contracts. The key market risk that the Group faces is that the future market changes will reflect on the value of the Group's financial assets, meaning that the receivables from insurance contracts will not be covered by counterparties (credit risk), which could eventually lead to a situation when the inflows from financial investments will not suffice for covering the outflows, arising from insurance and financial contracts.

The most important components of market risk are:

- liquidity risk,
- credit risk,
- risk of change in prices of debt securities,
- interest risk,
- currency risk and
- risk of change in other prices.

The Group, within its investment policy, actively manages and controls all risks to which it is exposed with its assets and liabilities by constant monitoring of cash flows and ensuring that it always has enough liquid assets at its disposal to settle its liabilities, by investing its assets in a manner which ensures stable long-term returns which exceed the amount of returns on insurance liabilities, by matching the terms of financial assets against financial liabilities, and by ensuring adequacy of financial assets.

In the disclosures related to the presentation of financial risk management, the assets and liabilities of life insurance long-term business funds where the policyholder bears the investment risk, since the financial risks are entirely assumed by the policyholders. In 2014, these assets totalled 265,036,928 euros (2013: 224,029,384 euros), out of which, 260,566,270 euros (2013: 213,925,868 euros) of assets from the balance sheet are related to the category of assets of policyholders who bear investment risk, and 4,470,658 euros (2013: 10,103,516 euros) to other balance sheet categories of long-term business funds of policyholders who bear investment risk.

The following tables show how the Group manages and controls market risks. All the risks are monitored by the Group at the level of individual long-term business funds, i.e. assets backing liabilities, while the analysis of assets and liabilities (ALM – asset liability management) for financial risk management at the insurance contract level.

The first table presents the balance of all assets and liabilities by individual items and how the amount of particular financial assets and of aggregate assets by insurance class and investment contracts matches the amount of liabilities. The tables containing the results of the asset and liability analysis for financial risk management for 2014 and 2013 show that the sum of assets and liabilities is not equal to the sum of individual amounts by insurance class, since in the category ”financial receivables, other operating receivables, other assets and liabilities" assets and liabilities were offset also at the level of the aggregate sum.

Analysis of assets and liabilities for financial risk management as at 31 December 2014

in EUR	Non-life insurance contracts, excluding health insurance	Health insurance contracts	Life insurance contracts	Total
ASSETS				
Financial assets at fair value through profit or loss	**28,597,870**	**998,949**	**4,456,268**	**34,053,087**
- listed	14,040,622	938,948	4,289,352	19,268,922
Government bonds	14,557,247	60,001	166,916	14,784,165
Held-to-maturity financial assets	**8,248,183**	**601,248**	**24,816,313**	**33,665,744**
- listed	8,248,183	601,248	12,462,841	21,312,271
Government bonds	0	(0)	12,353,473	12,353,473
Available-for-sale financial assets	**26,092,424**	**3,688,367**	**62,635,228**	**92,416,019**
- listed	5,986,883	(0)	19,111,480	25,098,364
- non-listed	6,765,386	-	0	6,765,386
Government bonds	13,340,154	3,688,367	43,523,747	60,552,268
Total debt financial instruments	**62,938,477**	**5,288,563**	**91,907,809**	**160,134,849**
Financial assets at fair value through profit or loss	2,149,359	-	3,030,612	5,179,971
- listed	2,149,359	-	3,030,612	5,179,971
Available-for-sale financial assets	30,053,218	3,103,165	13,240,348	46,396,731
- listed	25,894,206	2,914,772	11,188,759	39,997,737
- non-listed	4,159,012	188,392	2,051,589	6,398,994
Total equity financial instruments	**32,202,577**	**3,103,165**	**16,270,961**	**51,576,702**
Loans, deposits and financial receivables	27,463,931	12,200,812	11,821,363	51,486,106
Investments in subsidiaries and associates	8,455,007	360,197	3,696,234	12,151,241
Total financial investments	**131,059,992**	**20,952,736**	**123,696,367**	**275,348,898**
Amount (technical provisions) transferred to reinsurers	29,139,797	-	222,529	29,362,326
Receivables from insurance business and other operating receivables	51,303,112	9,136,801	3,035,775	50,079,107
Cash and cash equivalents	5,465,455	859,037	4,859,522	11,184,014
Other assets	62,979,090	774,079	2,875,752	66,480,147
Total assets	**279,947,444**	**31,722,654**	**134,689,944**	**432,454,491**

Liabilities from insurance contracts	**159,094,886**	**14,053,085**	**-**	**173,147,970**
- non-current liabilities	63,809,178	328,697	-	64,137,874
- current liabilities	95,285,708	13,724,388	-	109,010,096
Liabilities from insurance contracts with DPF	**-**	**-**	**104,115,233**	**104,115,233**
- non-current liabilities	-	-	93,156,133	93,156,133
- current liabilities	-	-	10,959,100	10,959,100
Equity capital	**81,605,537**	**7,180,586**	**21,126,200**	**109,552,126**
Other liabilities	**39,247,021**	**10,488,983**	**9,448,512**	**45,639,162**
- non-current liabilities	8,048,537	1,122,348	2,916,760	9,879,665
- current liabilities	31,198,484	9,366,636	6,531,752	35,759,497
Total liabilities	**279,947,444**	**31,722,654**	**134,689,944**	**432,454,491**

This table should be read together with the note in Section 6.2.3., paragraph 4.

Analysis of assets and liabilities for financial risk management as at 31 December 2013 – Adjusted

in EUR	Non-life insurance contracts, excluding health insurance	Health insurance contracts	Life insurance contracts	Total
ASSETS				
Financial assets at fair value through profit or loss	**25,694,530**	**2,133,938**	**5,090,757**	**32,919,224**
- listed	20,089,089	2,015,872	4,882,302	26,987,263
Government bonds	5,605,441	118,066	208,455	5,931,961
Held-to-maturity financial assets	**10,759,727**	**2,124,540**	**25,212,089**	**38,096,356**
- listed	9,296,618	1,037,479	10,308,950	20,643,047
- non-listed	-	-	302,874	302,874
Government bonds	1,463,108	1,087,062	14,600,265	17,150,435
Available-for-sale financial assets	**31,934,502**	**2,328,590**	**50,931,697**	**85,194,789**
- listed	7,269,649	605,945	13,856,654	21,732,248
- non-listed	6,764,852	-	0	6,764,852
Government bonds	17,900,000	1,722,645	37,075,043	56,697,689
Total debt financial instruments	**68,388,758**	**6,587,068**	**81,234,543**	**156,210,369**
Financial assets at fair value through profit or loss	2,320,834	-	1,133,345	3,454,179
- listed	2,320,834	-	1,133,345	3,454,179
Available-for-sale financial assets	26,568,030	4,072,950	10,383,547	41,024,527
- listed	18,708,208	3,876,415	7,790,822	30,375,444
- non-listed	7,859,823	196,536	2,592,725	10,649,083
Total equity financial instruments	**28,888,864**	**4,072,950**	**11,516,892**	**44,478,706**
Loans, deposits and financial receivables	37,922,140	10,594,833	16,719,273	64,258,077
Investments in subsidiaries and associates	12,155,329	(0)	-	12,155,329
Total financial investments	**147,355,091**	**21,254,851**	**109,470,708**	**277,102,481**
Amount (technical provisions) transferred to reinsurers	26,259,922	-	209,820	26,469,742
Receivables from insurance business and other operating	98,105,846	11,439,363	17,626,954	108,165,969
Cash and cash equivalents	4,691,314	2,035,771	3,018,376	9,745,461
Other assets	61,790,614	1,607,855	2,700,488	65,924,442
Total assets	**338,202,787**	**36,337,841**	**133,026,345**	**487,408,095**
LIABILITIES				
Liabilities from insurance contracts	**165,171,285**	**15,311,320**	**-**	**180,482,605**
- non-current liabilities	67,088,256	14,876,498	-	81,964,753
- current liabilities	98,083,029	434,823	-	98,517,852
Liabilities from insurance contracts with DPF	**-**	**-**	**102,318,889**	**102,318,889**
- non-current liabilities	-	-	90,508,717	90,508,717
- current liabilities	-	-	11,810,172	11,810,172
Equity capital	**71,795,754**	**11,733,805**	**13,053,114**	**96,582,673**
Other liabilities	**101,235,748**	**9,292,715**	**17,654,343**	**108,023,927**
- non-current liabilities	88,599,413	1,620,497	498,264	90,543,658
- current liabilities	12,636,335	7,672,219	17,156,079	17,480,269
Total liabilities	**338,202,786**	**36,337,841**	**133,026,346**	**487,408,095**

This table should be read together with the note in Section 6.2.3., paragraph 4.

In the tables showing the classification of assets by maturity into non-current and current assets for 2014 and for 2013, the sum of assets and liabilities is not equal to the sum of individual amounts by insurance groups (funds), since the receivables and liabilities have been offset between the funds at the level of the aggregate sum.

Classification of assets by maturity into non-current and current assets as at 31 December 2014

in EUR	Non-life insurance contracts, excluding health insurance	Health insurance contracts	Life insurance contracts	Total
Non-current assets				
Debt securities	**34,340,607**	**4,289,614**	**87,516,094**	**126,146,315**
Available for sale	26,092,424	3,688,367	62,699,781	92,480,572
- listed	19,327,038	3,688,367	62,699,781	85,715,185
- non-listed	6,765,386	-	0	6,765,386
Held to maturity	8,248,183	601,248	24,816,313	33,665,744
- listed	8,248,183	601,248	24,816,313	33,665,744
Equity securities	**30,053,218**	**3,103,165**	**15,188,862**	**48,345,245**
Available for sale	30,053,218	3,103,165	15,188,862	48,345,245
- listed	25,894,206	2,914,772	13,137,273	41,946,251
- non-listed	4,159,012	188,392	2,051,589	6,398,994
Investments in subsidiary and associates	8,455,007	360,197	3,696,234	12,151,241
Loans, deposits and financial receivables	4,205,924	3,200,095	3,393,144	10,799,162
Total financial investments	**77,054,756**	**10,953,070**	**109,794,334**	**197,441,963**
Amount (technical provisions), transferred to reinsurers	15,432,067	-	498	15,432,565
Receivables from insurance business and other operating receivables	3,165,930	450,755	341,244	3,957,929
Other assets	31,147,678	-	1,756,439	32,904,117
Total assets	**126,800,431**	**11,403,825**	**111,892,514**	**249,736,574**
Current assets				
Debt securities	**28,597,870**	**998,949**	**4,391,715**	**33,988,534**
At fair value through profit or loss	28,597,870	998,949	4,391,715	33,988,534
- listed	28,597,870	998,949	4,391,715	33,988,534
- non-listed	0	-	-	0
Held to maturity	-	-	-	-
- non-listed	-	-	-	-
Equity securities	**2,149,359**	**-**	**1,082,098**	**3,231,457**
At fair value through profit or loss	2,149,359	-	1,082,098	3,231,457
- listed	2,149,359	-	1,082,098	3,231,457
Loans, deposits and financial receivables	23,258,007	9,000,717	8,428,220	40,686,944
Total financial investments	**54,005,236**	**9,999,666**	**13,902,033**	**77,906,935**
Amount (technical provisions), transferred to reinsurers	13,707,729	-	222,031	13,929,760
Receivables from insurance business and other operating receivables	48,137,181	8,686,046	2,694,531	46,121,179
Cash and cash equivalents	5,465,455	859,037	4,859,522	11,184,014
Other assets	31,831,412	774,079	1,119,313	33,576,030
Total assets	**153,147,013**	**20,318,829**	**22,797,430**	**182,717,918**

This table should be read together with the note in Section 6.2.3., paragraph 4.

As at the end of 2014, the non-current assets prevail with a 58 % share, leaving behind the Group's current assets accounting for 42 % of total assets. The ratio between those two categories remains the same as last year.

Classification of assets by maturity into non-current and current assets as at 31 December 2013 – Adjusted

in EUR	Non-life insurance contracts, excluding health insurance	Health insurance contracts	Life insurance contracts	Total
Non-current assets				
Debt securities	**42,694,229**	**4,453,130**	**76,143,786**	**123,291,145**
Available for sale	31,934,502	2,328,590	50,931,697	85,194,789
- listed	25,169,650	2,328,590	50,931,697	78,429,937
- non-listed	6,764,852	-	0	6,764,852
Held to maturity	10,759,727	2,124,540	25,212,089	38,096,356
- listed	10,759,727	2,124,540	24,909,215	37,793,482
- non-listed	-	-	302,874	302,874
Equity securities	**26,568,030**	**4,072,950**	**10,383,547**	**41,024,527**
Available for sale	26,568,030	4,072,950	10,383,547	41,024,527
- listed	18,708,208	3,876,415	7,790,822	30,375,444
- non-listed	7,859,823	196,536	2,592,725	10,649,083
Investments in subsidiary and associates	12,155,329	(0)	-	12,155,329
Loans, deposits and financial receivables	3,981,160	3,034,712	10,391,635	17,407,507
Total financial investments	**85,398,748**	**11,560,792**	**96,918,968**	**193,878,508**
Amount (technical provisions), transferred to reinsurers	12,935,903	-	(0)	12,935,903
Receivables from insurance business and other operating receivables	45,676,809	456,891	470,011	46,603,711
Other assets	31,089,262	-	1,145,404	32,234,666
Total assets	**175,100,722**	**12,017,683**	**98,534,384**	**285,652,788**
Current assets				
Debt securities	**25,694,530**	**2,133,937**	**5,090,757**	**32,919,224**
At fair value through profit or loss	25,694,530	2,133,937	5,090,757	32,919,224
- listed	25,694,530	2,133,937	5,090,757	32,919,224
Equity securities	**2,320,834**	**-**	**1,133,345**	**3,454,179**
At fair value through profit or loss	2,320,834	-	1,133,345	3,454,179
- listed	2,320,834	-	1,133,345	3,454,179
Loans, deposits and financial receivables	33,940,980	7,560,122	6,327,638	46,850,570
Total financial investments	**61,956,343**	**9,694,059**	**12,551,740**	**83,223,973**
Amount (technical provisions), transferred to reinsurers	13,324,019	-	209,820	13,533,839
Receivables from insurance business and other operating receivables	52,429,038	10,982,472	17,156,942	61,562,258
Cash and cash equivalents	4,691,314	2,035,771	3,018,376	9,745,461
Other assets	30,701,352	1,607,855	1,555,084	33,689,776
Total assets	**163,102,066**	**24,320,158**	**34,491,962**	**201,755,307**

This table should be read together with the note in Section 6.2.3., paragraph 4.

At the end of 2013, the non-current assets prevail with a 59 % share, leaving behind the Group's current assets accounting for 41 % of total assets.

Liquidity risk and fair value measurement

Exposure to liquidity risk is reflected in possible liquidity problems and/or the ability of the Group to meet contractual liabilities arising from the concluded insurance contracts and other current liabilities arising from operations conducted by the Group.

The Group mitigates its exposure to liquidity risk by maintaining a suitable structure and adequate diversification of investments, planning future cash flows to cover future foreseeable liabilities and providing an adequate volume of high liquidity investments in order to cover future contingencies.

The following tables present the types of the Group's liabilities according to their maturity. In addition, liabilities arising from unit-linked insurance contracts are also disclosed.

Overview of maturity of liabilities in 2014 – undiscounted cash flows

Liabilities in EUR	Carrying amount	No maturity date	Undiscounted cash flows from liabilities Up to 1 year	1-5 years	5-10 years	10-15 years	over 15 years
Non-life and health insurance	173,147,971	-	109,011,752	39,627,764	16,756,072	6,944,050	808,333
Unit-linked life insurance	257,603,791	-	6,977,978	49,039,758	50,972,659	39,318,533	111,294,863
Life insurance	104,115,233	-	8,482,075	14,771,220	24,721,025	28,245,183	72,985,378
Other liabilities	53,042,299	-	53,042,299	-	-	-	-
Total Liabilities	**587,909,294**	**-**	**177,514,103**	**103,438,742**	**92,449,756**	**74,507,767**	**185,088,574**

Overview of maturity of liabilities in 2013 – undiscounted cash flows – Adjusted

Liabilities in EUR	Carrying amount	No maturity date	Undiscounted cash flows from liabilities Up to 1 year	1-5 years	5-10 years	10-15 years	over 15 years
Non-life and health insurance	180,482,605	-	113,404,671	41,344,431	17,250,511	7,834,993	647,998
Unit-linked life insurance	212,077,431	-	4,003,400	37,923,198	42,128,145	29,373,340	98,649,349
Life insurance	102,318,889	-	8,599,494	16,615,577	24,986,863	26,582,719	67,385,240
Other liabilities	114,055,776	-	24,512,806	89,542,971	-	-	-
Total Liabilities	**608,934,702**	**-**	**150,520,370**	**185,426,177**	**84,365,519**	**63,791,052**	**166,682,588**

Credit risk

Credit risk is a potential loss of the Group in case of failure by the third party/debtor to fulfil the contractual obligations. The segments most exposed to credit risk are: financial investments, loans and receivables, receivables from insurance contracts and reinsurance assets.

The Group manages its exposure to credit risk mainly by constant monitoring of credit rating of issuers of financial instruments and ensuring adequate dispersal of investments between investments involving a degree of risk and no-risk investments. The Group monitors credit risk associated with receivables from insurance transactions and reinsurance assets on the basis of assessing the collectability of individual receivables. Credit rating procedures are based on obtaining and checking of publicly accessible information on the current financial position of the issuers of financial instruments and their future liquidity.

The procedures used for the management of credit risk associated with reinsurance do not differ from those followed when financial assets are invested and are based on checking credit rating of a reinsurer. In accordance with the strategy for credit risk management, liabilities covered by reinsurance arrangements are reinsured by investment-grade reinsurers.

Maximum exposure to credit risk by category of financial assets as at 31 December 2014[2]

In euros	AAA-A	BBB-B	CCC-C	Not rated	Total on 31 Dec 2014
Financial assets at fair value through profit or loss	4,675,790	16,013,104	1,649	13,362,543	**34,053,086**
Debt securities	4,675,790	16,013,104	1,649	13,362,543	**34,053,086**
Held-to-maturity financial assets	1,925,180	24,125,935	-	7,614,629	**33,665,744**
Debt securities	1,925,180	24,125,935	-	7,614,629	**33,665,744**
Available- for-sale financial assets	1,259,658	71,396,374	347,057	19,412,930	**92,416,019**
Debt securities	1,259,658	71,396,374	347,057	19,412,930	**92,416,019**
Loans, deposits and financial receivables	-	9,220,339	2,812,397	39,453,370	**51,486,106**
Total financial investments	**7,860,628**	**119,417,218**	**3,161,104**	**72,396,931**	**202,835,881**
Receivables arising from insurance contracts and other operating re	5,875,748	287,558	-	43,915,802	**50,079,108**
Reinsurers' share of technical provisions	25,497,728	3,310,142	-	554,456	**29,362,326**
Cash and cash equivalents	-	7,363,474	170,460	3,650,079	**11,184,014**
Total assets exposed to credit risk	**39,234,104**	**130,378,392**	**3,331,564**	**120,517,268**	**293,461,329**

The portfolio of bonds investments which does not have the credit rating at disposal is mainly related to debt securities of important Slovene companies and banks, which are partially or entirely state-owned.

Maximum exposure to credit risk by category of financial assets as at 31 December 2013 – Adjusted

In euros	AAA-A	BBB-B	CCC-C	Not rated	Total on 31 Dec 2013
Financial assets at fair value through profit or loss	6,195,910	15,697,590	51,013	10,974,712	**32,919,224**
Debt securities	6,195,910	15,697,590	51,013	10,974,712	**32,919,224**
Held-to-maturity financial assets	3,167,624	18,980,722	-	15,948,010	**38,096,356**
Debt securities	3,167,624	18,980,722	-	15,948,010	**38,096,356**
Available- for-sale financial assets	-	61,751,697	5,972,616	17,348,136	**85,072,449**
Debt securities	-	61,751,697	5,972,616	17,348,136	**85,072,449**
Loans, deposits and financial receivables	501,853	5,002,025	5,423,663	53,330,535	**64,258,076**
Total financial investments	**9,865,388**	**101,432,033**	**11,447,293**	**97,601,392**	**220,346,106**
Receivables arising from insurance contracts and other operating re	41,139,362	159,582	-	66,867,026	**108,165,969**
Reinsurers' share of technical provisions	21,893,364	3,844,412	-	731,966	**26,469,741**
Cash and cash equivalents	2,469,095	2,816,700	1,478,970	2,980,695	**9,745,460**
Total assets exposed to credit risk	**75,367,208**	**108,252,727**	**12,926,263**	**168,181,079**	**364,727,277**

In 2014, for the first time after many years, Slovenia has achieved unexpectedly high growth/recovery of GDP, which was above the EU average. The growth was mostly a consequence of higher net exports, but it was a reason good enough for the credit rating agencies to positively adjust the credit rating of Slovenia from negative to stable. Due to a significant fall in the required profitability of European bonds, which was a consequence of lower interest rate risk, as well as lower credit mark-ups among states, in last year, the required profitability of a 10-year Slovene government bond dropped by more than 50 % - from 5.05 % to 2.20 %, which resulted in almost 30 % growth of the bond. The Slovene stock index SBITOP made up for a part of the missed growth after several years of delay behind other European stock indexes and produced a 24 % growth (including dividends), which, assisted by increased privatisation expectations of returns positioned it at the top on global level in 2014. It is important to mention that the stabilisation of the banking system / multi-billion recapitalisation of three largest banks at the end of 2013 was the key local catalyst which returned trust in the financial market.

Aligned with the circumstances in the Slovene macroeconomic area, as well as in the banking sector in 2014 and the management of related risks, we disclose the exposure of the Group's investment portfolio to Slovenia in total, and furthermore separately to the Slovene state and its banking sector, depicted in the table below:

[2] This table should be read together with the note in Section 6.2.3., paragraph 4. In the tables containing Maximum exposure to credit risk by category of financial assets as at 31 December 2014 and 2013, the sum of assets and liabilities is not equal to the sum of individual amounts by insurance class, since in the category of other receivables and liabilities, set-offs among funds were performed only at the level of the aggregate sum.

Exposure of investments

Exposure of investments to Slovenia (in %)	2014	2013
EXPOSURE TO THE REPUBLIC OF SLOVENIA	18.81%	18.71%
investments in bonds issued by the RS	8.36%	8.30%
investments in Slovene bonds of banks	2.67%	2.28%
investments in shares of Slovene banks	0.34%	0.25%
deposits with Slovene banks	7.43%	7.88%

Credit risk: Financial instruments that are not past due and those that are past due, but not impaired, as at 31 December 2014

		Total past due and not impaired					Total past due and impaired					
In euros	Neither past due nor impaired	Up to 30 days	From 31 to 90 days	From 91 to 270 days	Over 270 days	Total past-due date and not impaired	Gross value	Value adjustment – individual impairment	Value adjustment – group impairment	Net value	Total past due date and impaired	Total
Financial investments (debt securities)	**160,134,848**	-	-	-	-	**-**	-	-	-	-	**-**	**160,134,848**
Loans and financial receivables	**31,782,884**	21,264	11,753	72,366	67,011	**172,394**	3,400,708	(328,786)	2,804	1,552,084	**1,552,084**	**33,507,362**
Amount (technical provisions) ceded to reinsurers	**29,362,326**	-	-	-	-	**-**	-	-	-	-	**-**	**29,362,326**
Receivables from Insurance contracts and other receivables	**32,598,975**	**34,871**	**26,219**	**68,939**	**-**	**130,030**	**62,752,944**	**5,684,894**	**39,717,947**	**17,350,103**	**17,350,103**	**50,079,107**
Insurance receivables	**23,035,504**	34,871	26,219	47,161	-	**108,252**	31,922,388	3,845,148	19,268,285	8,808,954	**8,808,954**	**31,952,710**
Recourse receivables	**-**	**-**	**-**	**10,025**	**-**	**10,025**	29,615,702	1,312,489	19,891,965	8,411,248	**8,411,248**	**8,421,273**
Other receivables	**9,563,471**	-	-	11,753	-	**11,753**	1,214,854	527,257	557,697	129,901	**129,901**	**9,705,124**
Total	253,879,033	56,135	37,972	141,306	67,011	302,424	66,153,651	5,356,108	39,720,751	18,902,187	18,902,187	273,083,644

This table should be read together with the note in Section 6.2.3., paragraph 4.

Credit risk: Financial instruments that are not past due and those that are past due, but not impaired, as at 31 December 2013 – Adjusted

		Total past due and not impaired					Total past due and not impaired					
In euros	Neither past due nor impaired	Up to 30 days	From 31 to 90 days	From 91 to 270 days	Over 270 days	Total past-due date and not impaired	Gross value	Value adjustment – individual impairment	Value adjustment – group impairment	Net value	Total past due date and impaired	Total
Financial investments (debt securities)	**156,088,029**	-	-	-	-	**-**	122,340	-	122,340	-	**-**	**156,088,029**
Loans and financial receivables	**24,884,268**	-	-	-	-	**-**	939,019	24,622	304,958	609,438	**609,438**	**25,493,706**
Amount (technical provisions) ceded to reinsurers	**26,469,741**	-	-	-	-	**-**	-	-	-	-	**-**	**26,469,741**
Receivables from Insurance contracts and other receivables	**83,098,014**	**97**	**-**	**-**	**-**	**97**	**70,817,070**	**2,963,845**	**42,785,271**	**25,067,954**	**25,067,954**	**108,165,969**
Insurance receivables	**80,580,355**	97	-	-	-	**97**	32,935,804	1,470,250	20,171,514	11,294,041	**9,631,980**	**91,874,494**
Recourse receivables	**15,688**	**-**	**-**	**-**	**-**	**-**	31,917,439	1,119,988	21,844,792	8,952,660	**1,062,711**	**8,968,348**
Other receivables	**2,501,970**	-	-	-	-	**-**	5,963,826	373,608	768,965	4,821,254	**4,427,595**	**9,289,406**
Total	290,540,053	97	-	-	-	97	71,878,428	2,988,467	43,212,569	25,677,393	25,677,393	316,217,445

This table should be read together with the note in Section 6.2.3., paragraph 4.

Currency risk

Currency (foreign exchange) risk is the risk that the exchange rate between the domestic currency in which investments are measured and the currency in which the value of individual investments is denominated will fluctuate and, consequently, negatively affect the value of investments.

Exposure to currency risk in 2014

	EUR	RDS	RON	HKD	HRK	Other	Total 31 Dec 2014
ASSETS							
Financial assets measured at fair value through profit or loss	**34,550,561**	**2,798,663**	**180,029**	**57,462**	**1,378,365**	**371**	**39,233,057**
Equity securities	2,651,220	651,552	180,029	57,462	1,371,731	371	5,179,971
Debt securities	31,899,342	2,147,111	-	-	6,634	-	34,053,086
Held-to-maturity financial assets	**33,539,895**	**-**	**-**	**-**	**125,848**	**-**	**33,665,743**
Debt securities	33,539,895	-	-	-	125,848	-	33,665,743
Available-for-sale financial assets	**137,749,745**	**690,585**	**-**	**-**	**268,200**	**104,220**	**138,812,750**
Equity securities	46,024,311	-	-	-	268,200	104,220	46,396,731
Debt securities	91,725,434	690,585	-	-	-	-	92,416,019
Loans, deposits and financial receivables	**51,486,106**	**-**	**-**	**-**	**-**	**-**	**51,486,106**
Investments into subsidiaries or associates	**12,151,241**	**-**	**-**	**-**	**-**	**-**	**12,151,241**
Total financial investment	**269,477,549**	**3,489,248**	**180,029**	**57,462**	**1,772,414**	**104,591**	**275,348,898**
Cash and cash equivalents	10,174,186	236,255	-	-	188,139	585,434	11,184,014
Total assets exposed to currency risk	**282,012,190**	**1,342,137**	**180,029**	**57,462**	**5,629,973**	**689,653**	**289,911,445**

This table should be read together with the note in Section 6.2.3., paragraph 4.

Exposure to currency risk in 2013

	EUR	RDS	RON	HKD	HRK	Other	Total 31 Dec 2013
ASSETS							
Financial assets measured at fair value through profit or loss	**35,107,791**	**1,016,326**	**128,962**	**120,324**	**-**	**-**	**36,373,403**
Equity securities	2,188,567	1,016,326	128,962	120,324	-	-	3,454,179
Debt securities	32,919,224	-	-	-	-	-	32,919,224
Held-to-maturity financial assets	**38,096,356**	**-**	**-**	**-**	**-**	**-**	**38,096,356**
Debt securities	38,096,356	-	-	-	-	-	38,096,356
Available-for-sale financial assets	**125,119,264**	**407,038**	**-**	**-**	**693,001**	**14**	**126,219,317**
Equity securities	40,046,814	407,038	-	-	693,001	14	41,146,868
Debt securities	85,072,449	-	-	-	-	-	85,072,449
Loans, deposits and financial receivables	**56,936,602**	**7,321,475**	**-**	**-**	**-**	**-**	**64,258,077**
Investments into subsidiaries or associates	**12,155,329**	**-**	**-**	**-**	**-**	**-**	**12,155,329**
Total financial investment	**267,415,341**	**8,744,839**	**128,962**	**120,324**	**693,001**	**14**	**277,102,481**
Cash and cash equivalents	9,491,030	254,431	-	-	-	-	9,745,461
Total assets exposed to currency risk	**276,906,371**	**8,999,270**	**128,962**	**120,324**	**693,001**	**14**	**286,847,942**

This table should be read together with the note in Section 6.2.3., paragraph 4.

The Group is subject to changes in foreign exchange rates, mostly with its business operations in Serbia and Croatia, while the currency exposure of the Group within the Republic of Slovenia is relatively low since Slovenia is a member of the Economic and Monetary Union (EMU) and uses the euro which is the currency of the Eurozone.

The Group is avoiding exposure to currency risk by not forming investments with fixed returns (bonds, bank deposits, certificates of deposit, loans) in foreign currencies. Other currencies that the Group is exposed to are Serbian dinar (RSD), New Romanian leu (RON), Hong Kong dollar (HKD) and Croatian kuna (HRK).

For its investments in shares quoted in foreign currency, the Group selected shares of companies that are strongly connected business-wise with the Eurozone, therefore, it can be expected that the profit of these companies, denominated in foreign currency, will increase in case of a drop of the foreign currency exchange rate compared to euro. Moreover, the Group invests assets from long-term business funds in mutual funds which invest mostly in securities denominated in domestic currency, or in those, for which it can be expected that they are not exposed to an extent too large to the foreign currency exchange rate risk.

The Group measures currency risk by means of currency mismatch share – the share of investments that are invested in a currency different from the currency in which liabilities are denominated.

Risk of changes in prices of equity securities

This risk is defined as the risk of changes in the price of equity type investments which would affect the expected return of financial assets or their value, recognised in the investment portfolio of the Group. To mitigate this risk, the Group maintains a sector and geographic spread of investments, does not cross the allowed limitations of exposure towards individual issuers and invests its assets in investments with an appropriate ratio between risk and profitability.

Interest rate risk

The risk of changes in interest rates is reflected in the risk that the fair value of future cash flows from financial instruments will decline in relation to future cash flow expectations at the time of purchase of the financial instrument. The latter is reflected in the following: a change in market value of debt securities with fixed return, except when they are classified as held-to-maturity investments, or the risk associated with the ability to reinvest financial assets at maturity under at least identical conditions with those for financial assets past due.

With the aim to manage its exposure to interest rate risk, the Group applies the following procedures:

- for liabilities with determinable future cash flows, it employs immunization procedures, which allow it to balance the average duration of investments with the average duration of liabilities;
- balancing interest rates on assets and on liabilities;
- ensuring a suitable structure of investments in terms of profitability and duration.

Classification of financial assets and liabilities on the basis of fixed and variable interest rates [3]

	Fixed interest rate		Variable interest rate		Total	
in EUR	2014	2013	2014	2013	2014	2013
ASSETS						
Debt securities	160,041,651	154,380,454	93,197	1,707,575	160,134,849	156,088,029
Loans and deposits	48,878,427	62,950,453	974,505	1,307,623	49,852,932	64,258,076
Cash and cash equivalents	11,184,014	9,745,461	-	-	11,184,014	7,984,765
Total	**220,104,092**	**227,076,369**	**1,067,702**	**3,015,198**	**221,171,795**	**228,330,870**

This table should be read together with the note in Section 6.2.3., paragraph 4.

[3] Including receivables from long-term insurance fund of investment risk.

Insurance contracts with the discretionary participation feature - DPF

The Group is exposed to interest rate risk under insurance contracts with the DPF component only in association with the payments guaranteed by the contract. The contract-based payments to policyholders are increased by the pro rata share in the positive result from life and annuity insurance contracts. The management of the Group approves the amount of the attribution of the additional profit under an individual contract.

Actual exposure to risk associated with the pension scheme/plan

Pension insurance scheme/plan	2014	2013
Average return on investments for the period	7.46%	1.42%
Regulatory (guaranteed) return	2.30%	2.30%
Difference in interest rates	**5.16%**	**-0.88%**

In 2014, the Group reached and even exceeded the guaranteed return in the voluntary supplementary pension insurance guarantee fund.

Pricing risk

Pricing risk is defined as the risk of changes in price of equity type investments, which can change depending on macroeconomic factors (systematic risk), or depending on the operations of the Group itself (non-systematic risk).

The Group minimises the risk of change in market prices of equities by respecting the highest permissible share of such investments, thus limiting the systematic risk, and by dispersing investments in equities, thus limiting non-systematic risk of fluctuation in market prices. In its life insurance operations, the Group mitigates pricing risk by concluding unit-linked life insurance contracts.

Market risk sensitivity analysis

Factors

The methods and assumptions used in the preparation of the sensitivity analysis for the types of market risks to which the Group is exposed, are presented in the table below.

Sensitivity factor	Description of the sensitivity factor
Interest rates	The effect of a ±50 bp (basic points) change in market interest rates (i.e. the effect on profit and on equity if the market interest rate changes by 50 bp). A change of ±50 bp would be a change in excess of 1 % in comparison with the interest rate change in the previous year
Foreign currency rates	Effect of the ±5% change in prices of securities as at 31 December 2014
Change in price of financial assets	The effect of the change in the market price of financial assets is reflected in the ±15% changes in the share price, investment company shares price, price of structured securities and price of mutual fund units as at 31 December 2014.

Sensitivity analyses

Analysis of sensitivity to change in the interest rate

in EUR	Effect on profit	Effect on equity
31 December 2013	-	-
Interest rate change of +50 bp	(580,503)	(2,275,956)
Interest rate change of -50 bp	427,383	2,403,359
31 December 2014	-	-
Interest rate change of +50 bp	(587,173)	(3,385,354)
Interest rate change of -50 bp	410,174	3,275,345

Analysis of sensitivity to change in foreign currency rates

The majority of investments made by the Group is denominated in euros since its liabilities which arise out of insurance contracts are also euro-denominated. The Insurance Act (ZZavar) stipulates that the Group must match its investments of the long-term business fund (assets covering mathematical provisions) with long-term guarantees against its liabilities arising under insurance contracts whose amount depends on the fluctuations in the exchange rates of foreign currencies to at least 80%. Since the liabilities incurred by the Group are denominated in euros, it can be concluded that the majority of its investments have been made in euro-denominated securities; hence its exposure to currency risk is very low.

Analysis of sensitivity to changes in prices of equity securities

in EUR	Effect on profit	Effect on equity
31 December 2013	-	-
Change in prices of equities +15%	518,127	6,172,030
Change in prices of equities -15%	(518,127)	(6,172,030)
31 December 2014	-	-
Change in prices of equities +15%	484,719	9,423,264
Change in prices of equities -15%	(484,719)	(9,423,264)

Under the sensitivity analysis, the changes in prices of shares refer to the closing rate on the reporting date; hence, as at 31 December 2013 for the previous year and as at 31 December 2014 for the current year.

In the context of the investments of the unit-linked policies, the investments reflect as much as possible the value of units of the mutual investment funds, which arise out of insurance contracts. The changes in values have no material effect on the profit or loss. The change has an impact on the income from investments and at the same time on the changes in the amount of provisions, which means that the changes in the prices of securities have no material impact on the profit or loss.

6.2.4 Fair value measurement of financial assets and liabilities

Fair value of financial assets and liabilities is the amount, by which, an asset can be exchanged or a debt can be repaid between knowledgeable and willing parties in a prudent business. The Group is generally establishing fair value of financial instruments as described in the policies in Section 4.5.5.

To confirm fair value of investment real property, the insurance company uses appraisals of external authorised appraisers.

The fair value of debt securities (market bonds), allocated in the 3rd level of the fair value hierarchy, is determined in line with the Bloomberg generic (BGN) rates published in Bloomberg information system. Based on its valuation model and prices acquired from OTC intermediaries, Bloomberg calculates the rate and does not disclose the valuation methodology.

For financial assets and liabilities for which there is no active market, the Group, apart from appraisals done by external appraisers, uses the following models:

- Fair value of loans and deposits is calculated as the discounted value of future cash flows using the current market interest rate. In 2014, the insurance company valued the fair value of a loan for which there was reliable proof that permanent impairment was necessary. In fair value measurement of this loan, discounting of future cash flow values was done by applying the discount interest rate of 1.19 %. Taking into consideration that the loan was collateralised with real property, the discount interest rate for calculation of the present value of collateralised property within the model was determined based on informative request about interest rates above one year, for deposit value of 0.5 million euros, at prominent banks in Slovenia.
- The fair value of debts, not quoted in an active market, is determined as the discounted value of future cash flows using current market interest rate.

In the disclosure below, carrying amounts and fair values of financial assets, the fair value of which is to be determined, are displayed. For these assets, the carrying amount of loans, deposits, financial receivables and held-to-maturity financial assets equals their amortised cost.

Carrying amount and fair value[4]

	Carrying amount		Fair value	
in EUR	2014	2013	2014	2013
FINANCIAL ASSETS				
Deposits, loans and financial receivables	51,486,106	64,258,077	51,485,975	64,258,077
Financial assets at fair value through profit or loss	39,233,058	36,373,403	39,233,057	36,373,403
Held-to-maturity financial assets	33,665,743	38,096,356	38,212,612	36,963,816
Available-for-sale financial assets	138,812,750	126,219,317	138,812,750	126,219,317
Investment property	29,375,722	28,356,692	29,861,357	28,397,134
Total financial assets	**292,573,378**	**303,049,305**	**297,605,752**	**303,049,305**
FINANCIAL LIABILITIES				
Loans	43,971	350,840	43,971	350,840
Total financial liabilities	**43,971**	**350,840**	**43,971**	**350,840**

When reading this table, it is important to take into account that financial assets from unit-linked insurance are excluded (refer to note in Section 6.2.3., paragraph 4)

Fair value hierarchy

Fair value estimation of financial investments depends on availability of market data, based on which, the Group can estimate fair value. The Group's fair value estimation of financial investments divides the investments into three levels, within which, fair value is estimated as:

- level 1 comprises investments for which the fair value is determined entirely based on the published prices on an active market
- level 2 includes investments for which the fair value is determined based on valuation models, using comparable market data (e.g. market price, market interest rate, credit mark-ups, and ratings). This level includes unlisted debt securities, for which the price is not determined based on the yield curve of comparable securities by maturity, rating, credit mark-up, unlisted compound debt securities, for which the fair value is determined based on market makers' models, taking into account the market variables, and Slovene bank and state debt securities, for which there is no active market. To determine the fair value of Slovene bank bonds, the basis for the calculation are the required yield of state bonds of comparable maturity and credit mark-up based on the rating as per the requirements of Solvency 2; and for Slovene state bonds, the basis is the yield of Slovene state bonds of comparable maturity, achieved on an active market.
- level 3 includes investments for which the fair value is determined based on valuation models using mostly non-market data, using subjective variables, not publicly available on markets.

In the tables below, the display of financial assets as per the hierarchy of fair value does not include assets without level.

[4] Including the receivables from guarantee fund of investment risk.

Financial assets categorised in the fair value hierarchy in 2014

in EUR	Level 1	Level 2	Level 3	Aggregate fair value
Financial assets measured at fair value through profit or loss, held for sale	**13,554,781**	**311,910**	**15,267,162**	**29,133,854**
Equity securities	2,958,437	-	-	2,958,437
Debt securities	10,323,325	311,910	15,267,162	25,902,397
Investment coupons of mutual funds	273,020	-	-	273,020
Financial assets measured at fair value through profit or loss, at initial recognition	**7,499,953**	**2,599,250**	**-**	**10,099,203**
Equity securities	1,948,514	-	-	1,948,514
Debt securities	5,551,440	2,599,250	-	8,150,690
Available-for-sale financial assets	**54,296,273**	**7,308,020**	**68,134,961**	**129,739,254**
Equity securities	9,947,673	-	-	9,947,673
Debt securities	16,973,037	7,308,020	68,134,961	92,416,018
Investment coupons of mutual funds	27,375,563	-	-	27,375,563
Held-to-maturity financial assets	17,445,870	-	20,766,742	38,212,612
Debt financial instruments	17,445,870	-	20,766,742	38,212,612
Deposits and loans	17,978,744	69,492	31,804,696	49,852,932
Investment property	-	-	29,375,722	29,375,722
Total assets	**110,775,621**	**10,288,672**	**165,349,283**	**286,413,577**
Loans	-	-	43,971	43,971
Total financial liabilities	**-**	**-**	**43,971**	**43,971**

The fair value of financial assets and liabilities from unit-linked insurance is allocated under level 1 and are not included in the display of assets by levels in 2014.

Within the portfolio of assets from financial investments, the Group also accounts for investments, valued at acquisition price in the amount of 36,492,121 euros. The Group performs annual reviews of value of these investments in case there would be a need for impairment. In 2014, these investments were impaired in the amount of 1,993,930 euros.

Financial assets categorised in the fair value hierarchy in 2013

in EUR	Level 1	Level 2	Level 3	Aggregate fair value
Financial assets measured at fair value through profit or loss, held for sale	**23,048,766**	**3,048,354**	**-**	**26,097,120**
Equity securities	2,358,017	-	-	2,358,017
Debt securities	19,594,587	3,048,354	-	22,642,941
Investment coupons of mutual funds	1,096,161	-	-	1,096,161
Financial assets measured at fair value through profit or loss, at initial recognition	**7,372,274**	**-**	**-**	**7,372,274**
Equity securities	-	-	-	-
Debt securities	7,372,274	-	-	7,372,274
Investment coupons of mutual funds	-	-	-	-
Available-for-sale financial assets	**104,161,267**	**10,842,988**	**-**	**115,004,255**
Equity securities	2,029,150	-	-	2,029,150
Debt securities	74,229,461	10,842,988	-	85,072,449
Investment coupons of mutual funds	27,902,655	-	-	27,902,655
Held-to-maturity financial assets	38,096,356	-	-	38,096,356
Debt financial instruments	38,096,356	-	-	38,096,356
Deposits and loans	31,461,623	-	24,224,440	55,686,063
Investment property	-	-	28,356,692	28,356,692
Total assets	**204,140,285**	**13,891,342**	**52,581,132**	**270,612,759**
Loans	-	-	350,840	350,840
Total financial liabilities	**-**	**-**	**350,840**	**350,840**

The fair value of financial assets and liabilities from unit-linked insurance is allocated under level 1 and are not included in the display of assets by levels in 2013.

Within the portfolio of assets from financial investments, the Group also accounts for investments, valued at acquisition price in the amount of 33,183,445 euros. The Group performs annual reviews of value of these investments in case there would be a need for impairment. In 2013, these investments were impaired in the amount of 2,250,238 euros. These investments are not allocated into any of the levels.

At the end of 2014, the Group reallocated investments within the fair value hierarchy from level 1 to level 3 in the amount of 108,877,174 euros. The reallocation includes market debt securities, valued at "Bloomberg generic" (BGN) prices. Debt securities (bonds), valued by the insurance company by prices, published by the Ljubljana stock exchange, remain in the level 1 on the fair value hierarchy.

Financial assets and liabilities categorised in the fair value hierarchy – Level 3 movement in 2014

in EUR	1 January 2014	Total profit/loss in profit or loss	Total profit/loss in comprehensive income	Purchase	Sale	Transfers (to) from Level 3	31/12/2014
Assets measured at fair value							
Financial assets measured at fair value through profit or loss, held for sale	**-**	**-**	**-**	**-**	**-**	**15,267,162**	**15,267,162**
Debt securities	-	-	-	-	-	15,267,162	15,267,162
Available-for-sale financial assets	**-**	**-**	**-**	**-**	**-**	**68,134,961**	**68,134,961**
Debt securities	-	-	-	-	-	68,134,961	68,134,961
Held-to-maturity financial assets	-	-	-	-	-	20,766,742	20,766,742
Debt financial instruments	-	-	-	-	-	20,766,742	20,766,742
Deposits and loans	24,224,440	1,055,492	-	31,634,332	(25,109,568)	-	31,804,696
Investment property	**28,356,692**	**(347,673)**	**-**	**2,912,549**	**(1,545,845)**	**-**	**29,375,722**
Total assets	**52,581,132**	**707,819**	**-**	**34,546,881**	**(26,655,413)**	**104,168,866**	**165,349,284**
Loans	**350,840**	3,160	-	472,500	(782,529)	-	43,971
Total financial liabilities	**350,840**	**3,160**	**-**	**472,500**	**(782,529)**	**-**	**43,971**

Financial assets and liabilities categorised in the fair value hierarchy – Level 3 movement in 2013

in EUR	1 January 2013	Total profit/loss in profit or loss	Total profit/loss in comprehensive income	Purchase	Sale	Transfers (to) from Level 3	31/12/2013
Assets measured at fair value							
Deposits and loans	7,742,816	709,419	-	41,034,025	- 25,261,820	-	24,224,440
Investment property	**30,430,337**	**(3,503,918)**	**-**	**3,334,000**	**(1,903,728)**	**-**	**28,356,692**
Total assets	**30,430,337**	**(3,503,918)**	**-**	**3,334,000**	**(1,903,728)**	**-**	**28,356,692**
Loans		13,698	-	2,740,000	(2,431,072)	-	350,840
Total financial liabilities	**28,214**	**13,698**	**-**	**2,740,000**	**(2,431,072)**	**-**	**350,840**

6.2.5 Operational risk and strategic risk

Operational risk

Operational risk mostly includes the risk of loss as a result of ineffectiveness, failure or errors in the business process implementation, malfunction or non-existence of internal controls, unprofessional, inappropriate or harmful employee behaviour, system or infrastructure malfunction or any other external factors, including amendments to legislation, business interruptions due to natural catastrophes or epidemics, competition, etc.

The key moment for management of operational risks is their identification and assessment, and in the second stage the execution of measures for their minimisation and uninterrupted monitoring of other risks. For the past several years, Adriatic Slovenica has been maintaining a register of existing risks, which has been further developed content-wise in 2014. We have also established continued reporting of certain key risk indicators, which, together with the system of internal control reviews, serves a mechanism for (early) detection of risks and prevention of new ones from occurring. In 2014, we have also updated the company's business continuity strategy, which is now aligned with the current organisational and process structure of the company, and is directed toward an as quick as possible recovery of critical business processes.

Strategic risk

Strategic risks can occur in the early stages of strategy planning, strategy execution, management and strategic decision-making and supervision of the insurance company. The realisation of these risks can crucially affect the ability of the company to reach its strategic goals. In order to eliminate these risks, it is of utmost importance that the company has clearly determined responsibilities and competences, an effective communication and reporting system, and constant monitoring of fulfilment of the set goals. In order to manage the strategic risks as effectively as possible, we started to incorporate the risk-based principle into the process of business plan preparation. This means that the operating categories of the business plan will be designed in line with the company's accepted appetite toward the risk, and the derived risk tolerance levels and operating limits. Before the final approval, the business plan will be tested in order to find out if the risk appetite and capital adequacy, as required by the Solvency II principles, are reached.

7. REPORTING BY SEGMENT

The Group presents its financial statements segmented in conformity with the regulatory requirement the Insurance Supervision Agency has laid down in the Decision on Annual Reports and Quarterly Financial Statements of Insurance Undertakings - SKL 2009, (published in the Official Gazette of the Republic of Slovenia Nos. 62/2013, 47/2011, 99/2010, 47/2009 and 89/2014).

The business segments of the Group are divided into insurance segments where similar insurance products are grouped.

Adriatic Slovenica Group operates in various segments of insurance business, therefore, the Group presents its assets, liabilities, revenue, expenses and profit/loss separately for segments;

- non-life insurance,
- life insurance and
- health insurance, where there is also a division between supplementary health insurance and other health insurance.

The reporting segment of life insurance includes classic life insurance, annuity life insurance, unit-linked life insurance and pension insurance.

The assets and liabilities of business segments comprise assets and liabilities of the Group, directly attributable to an individual business segment, as well as those that can be indirectly allocated onto a business segment. Due to business transactions among funds and among individual segments, the balance of assets and liabilities in the total column does not equal the sum of individual business segments due to final offsetting on the level of assets and liabilities totals.

Revenue and expenses of a business segment are generated from the business segment's operations and can be directly attributable to the business segment, and also the corresponding share of revenue and expenses that can be reasonably allocated to the business segment.

The accounting policies applied to business segments are equal to the accounting policies of the Group.

The Group is not bound to prepare its reporting by segment in line with the IFRS requirements because its equity and debt securities are not publicly traded.

7.1 CONSOLIDATED BALANCE SHEET BY SEGMENT

Consolidated balance sheet as at 31 December 2014 by segment in accordance with the Decision on the Annual Reports of Insurance Undertakings

in EUR	Life insurance	Non-life insurance	Supplemental health insurance	Other health insurance	Intersegment eliminations on consolidation	Total
Assets	399,726,873	279,947,444	29,471,272	2,251,382	(13,905,551)	697,491,420
A. Intangible assets	**1,715,774**	**3,690,952**	**-**	**-**	**-**	**5,406,726**
B. Property, plant and equipment	**40,665**	**27,456,726**	**-**	**-**	**-**	**27,497,391**
D. Deferred tax assets	**341,251**	**3,165,930**	**432,924**	**17,830**	**-**	**3,957,936**
E. Investment properties	**1,081,785**	**28,261,694**	**-**	**32,244**	**-**	**29,375,722**
F. Financial investments in subsidiaries and associates	**3,696,234**	**8,455,007**	**360,197**	**-**	**(360,197)**	**12,151,241**
G. Financial investments	**120,701,423**	**122,604,984**	**19,379,330**	**1,213,209**	**-**	**263,898,946**
1.In loans and deposits	12,522,653	27,463,931	12,199,929	883	-	52,187,396
2. In held-to-maturity financial assets	24,816,313	8,248,183	601,248	(0)	-	33,665,744
3. In available-for-sale financial assets	75,875,576	56,145,641	5,867,906	923,626	-	138,812,749
4. In financial assets measured at fair value	7,486,880	30,747,229	710,248	288,701	-	39,233,058
H. Unit-linked investments of policyholders	**260,566,270**	**-**	**-**	**-**	**-**	**260,566,270**
I. Amounts of technical provisions ceded to reinsurers	**222,529**	**29,139,797**	**-**	**-**	**-**	**29,362,326**
K. Receivables	**4,514,866**	**48,137,181**	**7,981,926**	**704,120**	**(13,396,580)**	**47,941,514**
1. Receivables from direct insurance business	2,329,252	12,191,532	7,763,061	702,192	-	22,986,037
2. Receivables from reinsurance and coinsurance	14,636	6,299,115	-	-	-	6,313,751
3. Income tax receivables	134,820	3,396,627	-	-	-	3,531,447
4. Other receivables	2,036,158	26,249,908	218,866	1,927	(13,396,580)	15,110,280
L. Other assets	**1,354,977**	**3,569,718**	**737,117**	**4,719**	**(148,774)**	**5,517,757**
M. Cash and cash equivalents	**5,491,099**	**5,465,455**	**579,777**	**279,260**	**-**	**11,815,591**
Equity and liabilities	399,726,873	279,947,444	29,471,272	2,251,382	(13,905,551)	697,491,420
A. Equity	**21,156,200**	**81,605,537**	**6,480,938**	**699,648**	**(360,197)**	**109,582,126**
I Majority equity interest	**21,156,200**	**81,467,022**	**6,480,938**	**699,648**	**(360,197)**	**109,443,611**
1. Share capital	11,973,787	34,193,760	-	-	(3,168,017)	42,999,530
2. Capital reserves	1,697,506	2,514,276	-	-	-	4,211,782
3. Reserve from profit	-	9,161,383	6,516,274	93,438	-	15,771,095
4. Translation differences	(14,820)	(1,842,605)	-	-	-	(1,857,425)
4. Revaluation surplus	3,250,991	2,897,557	(35,336)	6,210	-	6,119,423
5. Retained net earnings	27,097	20,676,737	(0)	600,000	2,737,903	24,041,737
6. Net profit or loss for the financial year	4,221,638	13,865,914	0	0	69,917	18,157,469
II Minority equity interest	-	138,515	-	-	-	138,515
C. Technical provisions	**104,441,860**	**159,094,886**	**13,094,406**	**958,679**	**-**	**277,589,830**
1. Unearned premiums	485,283	43,441,723	7,636,723	374,854	-	51,938,582
2. Mathematical provisions	97,613,025	1,991	-	0	-	97,615,016
3. Outstanding claims provisions	6,023,869	114,194,045	5,457,087	107,424	-	125,782,426
4. Other technical provisions	319,683	1,457,126	595	476,401	-	2,253,806
D. Insurance technical provisions for unit-linked insurance policyholders	**257,277,164**	**-**	**-**	**-**	**-**	**257,277,164**
E. Other provisions	**5,371**	**3,288,493**	**-**	**-**	**-**	**3,293,864**
G. Deferred tax liabilities	**650,960**	**542,400**	**0**	**1,272**	**-**	**1,194,632**
I. Other financial liabilities	**423**	**710,783**	**470**	**135**	**-**	**711,811**
J. Operating liabilities	**3,598,323**	**15,242,927**	**3,387,478**	**72,454**	**-**	**22,301,181**
1. Liabilities from direct insurance contracts	1,444,150	1,256,708	2,013,517	30,724	-	4,745,099
2. Liabilities from reinsurance and coinsurance contracts	506,373	11,020,684	-	-	-	11,527,057
3. Income tax liabilities	1,647,800	2,965,534	1,373,961	41,730	-	6,029,026
K. Other liabilities	**12,596,571**	**19,462,419**	**6,507,980**	**519,195**	**(13,545,354)**	**25,540,811**

Consolidated balance sheet as at 31 December 2013 by segment in accordance with the Decision on the Annual Reports of Insurance Undertakings – Adjusted

in EUR	Life insurance	Non-life insurance	Supplemental health insurance	Other health insurance	Intersegment eliminations on consolidation	Total
Assets	**351,077,493**	**338,202,786**	**35,224,086**	**1,543,869**	**(20,540,242)**	**705,507,992**
A. Intangible assets	**1,145,404**	**3,681,560**	**-**	**-**	**-**	**4,826,964**
B. Property, plant and equipment	**-**	**27,407,702**	**-**	**-**	**-**	**27,407,702**
D. Deferred tax assets	**606,142**	**2,891,409**	**420,126**	**36,765**	**0**	**3,954,442**
E. Investment properties	**1,514,510**	**26,809,477**	**-**	**32,705**	**(0)**	**28,356,692**
F. Financial investments in subsidiaries and associates	**-**	**12,155,329**	**430,114**	**-**	**(430,114)**	**12,155,329**
G. Financial investments	**110,331,877**	**135,199,762**	**20,856,398**	**398,454**	**(929,419)**	**265,857,071**
1.In loans and deposits	17,580,441	37,922,140	10,583,675	11,159	(929,419)	65,167,996
2. In held-to-maturity financial assets	25,212,089	10,759,727	2,010,090	114,450	(0)	38,096,356
3. In available-for-sale financial assets	61,315,244	58,502,532	6,132,040	269,501	(0)	126,219,316
4. In financial assets measured at fair value	6,224,102	28,015,363	2,130,593	3,345	0	36,373,403
H. Unit-linked investments of policyholders	**213,925,868**	**-**	**-**	**-**	**-**	**213,925,868**
I. Amounts of technical provisions ceded to reinsurers	**209,820**	**26,259,922**	**-**	**-**	**(0)**	**26,469,742**
K. Receivables	**18,569,627**	**95,214,437**	**10,064,093**	**918,379**	**(19,006,194)**	**105,760,342**
1. Receivables from direct insurance business	1,914,029	13,577,708	9,322,985	688,564	-	25,503,287
2. Receivables from reinsurance and coinsurance	256,095	41,312,032	-	-	(0)	41,568,126
3. Income tax receivables	652,824	1,615,774	-	-	-	2,268,597
4. Other receivables	15,746,679	38,708,923	741,107	229,815	(19,006,194)	36,420,332
L. Other assets	**1,061,836**	**3,891,875**	**1,539,544**	**35,606**	**(174,515)**	**6,354,346**
M. Cash and cash equivalents	**3,712,409**	**4,691,314**	**1,913,812**	**121,959**	**(0)**	**10,439,494**
Equity and liabilities	**351,077,493**	**338,202,786**	**35,224,086**	**1,543,869**	**(20,540,242)**	**705,507,992**
A. Equity	**13,043,731**	**71,795,754**	**11,480,894**	**683,025**	**(430,114)**	**96,573,290**
I Majority equity interest	**13,043,731**	**71,636,237**	**11,480,894**	**683,025**	**(430,114)**	**96,413,773**
1. Share capital	11,973,787	34,193,760	-	-	(3,168,017)	42,999,530
2. Capital reserves	1,697,506	2,514,276	-	-	-	4,211,782
3. Reserve from profit	-	8,723,851	6,516,274	93,438	-	15,333,563
4. Translation differences	-	(1,587,414)	-	-	-	(1,587,414)
4. Revaluation surplus	(645,277)	(1,333,418)	(106,822)	7,382	-	(2,078,134)
5. Retained net earnings	(1)	24,823,458	-	253,492	2,735,447	27,812,396
6. Net profit or loss for the financial year	17,715	4,301,723	5,071,442	328,713	2,456	9,722,050
II Minority equity interest	-	159,517	-	-	-	159,517
C. Technical provisions	**102,563,709**	**165,171,285**	**14,876,498**	**434,823**	**0**	**283,046,314**
1. Unearned premiums	534,060	42,928,467	8,869,098	350,373	0	52,681,998
2. Mathematical provisions	94,975,222	-	-	0	(0)	94,975,222
3. Outstanding claims provisions	6,591,800	119,529,300	6,006,639	84,419	-	132,212,159
4. Other technical provisions	462,628	2,713,518	760	30	(0)	3,176,935
D. Insurance technical provisions for unit-linked insurance policyholders	**211,832,611**	**-**	**-**	**-**	**-**	**211,832,611**
E. Other provisions	**200,781**	**2,736,691**	**-**	**-**	**-**	**2,937,473**
F. Liabilities related to non current assets held for sale	**-**	**-**	**-**	**-**	**-**	**-**
G. Deferred tax liabilities	**25,499**	**(0)**	**-**	**1,512**	**-**	**27,011**
I. Other financial liabilities	**28,432**	**713,429**	**929,509**	**0**	**(929,419)**	**741,951**
J. Operating liabilities	**2,950,283**	**85,385,122**	**4,345,461**	**395,089**	**(0)**	**93,075,956**
1. Liabilities from direct insurance contracts	1,177,713	1,187,401	3,341,273	336,950	-	6,043,336
2. Liabilities from reinsurance and coinsurance contracts	531,629	83,943,299	-	-	(0)	84,474,927
3. Income tax liabilities	1,240,942	254,423	1,004,188	58,140	0	2,557,692
K. Other liabilities	**20,432,446**	**12,400,505**	**3,591,725**	**29,419**	**(19,180,709)**	**17,273,387**

7.2 CONSOLIDATED INCOME STATEMENT BY SEGMENT

Consolidated income statement for the period from 1 January 2014 to 31 December 2014 in accordance with the Decision on Annual Reports of Insurance Undertakings

in EUR	Life insurance	Non-life insurance	Supplemental health insurance	Other health insurance	Intersegment eliminations on consolidation	Total
I. NET PREMIUM INCOME	**54,753,680**	**90,220,657**	**107,029,999**	**2,371,175**	**-**	**254,375,510**
Gross written premiums	55,985,143	137,885,347	105,797,624	2,395,655	-	302,063,769
Premiums ceded to reinsurers and coinsurers	(1,276,349)	(47,191,794)	-	-	-	(48,468,143)
Change in unearned premiums	44,886	(472,897)	1,232,375	(24,480)	-	779,884
II. INCOME FROM INVESTMENTS IN ASSOCIATES, of which	**-**	**89,541**	**-**	**-**	**-**	**89,541**
- profit from investments into equity of associated and subsidiary companies using teh eequity method	-	89,541	-	-	-	89,541
III. INCOME FROM INVESTMENTS	**48,163,161**	**11,319,462**	**1,472,071**	**103,112**	**-**	**61,057,806**
IV. OTHER INCOME FROM INSURANCE OPERATIONS, of which	**366,018**	**12,855,050**	**-**	**-**	**-**	**13,221,068**
- fee and commission income	366,018	12,855,050	-	-	-	13,221,068
V. OTHER INCOME	**3,155,716**	**4,981,831**	**195,038**	**52,902**	**-**	**8,385,486**
VI. NET EXPENSES FOR CLAIMS AND BENEFITS PAID	**(34,893,668)**	**(50,814,540)**	**(90,713,032)**	**(1,472,656)**	**-**	**(177,893,897)**
Gross amounts of claims and benefits paid	(35,931,237)	(84,851,161)	(91,262,584)	(1,449,652)	-	(213,494,634)
Reinsurers'/coinsurers' shares	336,349	26,007,073	-	-	-	26,343,422
Change in claims provisions	701,220	8,029,548	549,552	(23,005)	-	9,257,315
VII. CHANGE IN OTHER TECHNICAL PROVISIONS	**(1,953,893)**	**1,242,297**	**-**	**(476,372)**	**-**	**(1,187,968)**
VIII. CHANGE IN TECHNICAL PROVISIONS FOR THE BENEFIT OF UNIT-LINKED INSURANCE	**(43,166,119)**	**-**	**-**	**-**	**-**	**(43,166,119)**
X. EXPENSES FOR BONUSES AND DISCOUNTS	**-**	**1,922**	**165**	**1**	**-**	**2,088**
XI. OPERATING EXPENSES, of which	**(18,913,129)**	**(41,414,713)**	**(14,187,353)**	**(624,764)**	**-**	**(75,139,958)**
- acquisition costs	(7,392,550)	(15,486,406)	(1,750,142)	(290,275)	-	(24,919,373)
XII. EXPENSES FROM INVESTMENTS IN ASSOC	**-**	**(0)**	**(69,917)**	**-**	**69,917**	**(0)**
- impairment losses of financial assets not measured at fair value through profit or loss	-	(0)	(69,917)	-	69,917	(0)
XIII. EXPENSES INVESTMENTS, of which	**(1,022,886)**	**(2,611,920)**	**(758,065)**	**(33,495)**	**-**	**(4,426,367)**
- impairment losses of financial assets not measured at fair value through profit or loss	(631,828)	(1,820,620)	(639,621)	-	-	(3,092,069)
XIV. OTHER INSURANCE EXPENSES	**(188,275)**	**(5,963,073)**	**(553,553)**	**(5,733)**	**-**	**(6,710,633)**
XV. OTHER EXPENSES	**(1,024,684)**	**(4,756,617)**	**(508,248)**	**(11,507)**	**-**	**(6,301,057)**
XVI. PROFIT/(LOSS) BEFORE TAX	**5,275,920**	**15,149,897**	**1,907,106**	**(97,339)**	**69,917**	**22,305,501**
XVII. CORPORATE INCOME TAX	**(1,044,899)**	**(2,426,385)**	**(342,254)**	**(2,525)**	**-**	**(3,816,063)**
XVIII. NET PROFIT FOR THE REPORTING PERIOD	**4,231,021**	**12,723,512**	**1,564,852**	**(99,864)**	**69,917**	**18,489,438**
XVI. MINORITY INTEREST	**-**	**(15,082)**	**-**	**-**	**-**	**(15,082)**
XVII INTEREST OF PARENT COMPANY	**4,231,021**	**12,738,594**	**1,564,852**	**(99,864)**	**69,917**	**18,504,520**

Consolidated income statement for the period from 1 January 2013 to 31 December 2013 in accordance with the Decision on Annual Reports of Insurance Undertakings – Adjusted

in EUR	Life insurance	Non-life insurance	Supplemental health insurance	Other health insurance	Intersegment eliminations on consolidation	Total
I. NET PREMIUM INCOME	**55,930,837**	**93,181,535**	**111,602,398**	**2,053,888**	**-**	**262,768,657**
Gross written premiums	56,836,385	139,634,822	110,615,600	1,987,359	-	309,074,166
Premiums ceded to reinsurers and coinsurers	(983,796)	(50,807,822)	-	-	-	(51,791,617)
Change in unearned premiums	78,247	4,354,534	986,798	66,529	-	5,486,108
II. INCOME FROM INVESTMENTS IN ASSOCIATES, of which	**-**	**12,127**	**-**	**-**	**-**	**12,127**
- profit from investments into equity of associated and subsidiary companies using teh eequity method	-	12,127	-	-	-	12,127
III. INCOME FROM INVESTMENTS	**9,854,468**	**8,841,214**	**1,916,374**	**17,587**	**-**	**20,629,643**
IV. OTHER INCOME FROM INSURANCE OPERATIONS, of which	**131,513**	**14,468,125**	**-**	**-**	**-**	**14,599,638**
- fee and commission income	131,513	14,468,125	-	-	-	14,599,638
V. OTHER INCOME	**2,151,354**	**11,982,674**	**447,027**	**21,061**	**-**	**14,602,116**
VI. NET EXPENSES FOR CLAIMS AND BENEFITS PAID	**(33,206,728)**	**(52,949,224)**	**(94,346,513)**	**(1,380,041)**	**-**	**(181,882,507)**
Gross amounts of claims and benefits paid	(33,864,915)	(89,661,833)	(94,783,203)	(1,385,947)	-	(219,695,899)
Reinsurers'/coinsurers' shares	291,520	25,794,699	-	-	-	26,086,219
Change in claims provisions	366,667	10,917,910	436,691	5,905	-	11,727,173
VII. CHANGE IN OTHER TECHNICAL PROVISIONS	**3,285,636**	**50,285**	**-**	**6,688**	**-**	**3,342,610**
VIII. CHANGE IN TECHNICAL PROVISIONS FOR THE BENEFIT OF UNIT-LINKED INSURANCE POLICYHOLDERS	**(10,604,186)**	**-**	**-**	**-**	**-**	**(10,604,186)**
X. EXPENSES FOR BONUSES AND DISCOUNTS	**-**	**215,964**	**(267)**	**(9)**	**-**	**215,687**
XI. OPERATING EXPENSES, of which	**(17,276,723)**	**(45,077,846)**	**(11,741,013)**	**(328,232)**	**-**	**(74,423,814)**
- acquisition costs	(5,858,153)	(16,254,894)	(1,683,194)	(107,568)	-	(23,903,808)
XII. EXPENSES FROM INVESTMENTS IN ASSOCIATES, of which	**-**	**-**	**(2,456)**	**-**	**2,456**	**-**
Impairment losses of financial assets not measured at fair value through profit or loss	-	-	(2,456)	-	2,456	-
XIII. EXPENSES INVESTMENTS, of which	**(5,732,123)**	**(12,267,414)**	**(658,824)**	**(10,625)**	**-**	**(18,668,986)**
- impairment losses of financial assets not measured at fair value through profit or loss	(1,467,608)	(10,965,772)	(311,703)	-	-	(12,745,084)
XIV. OTHER INSURANCE EXPENSES	**(265,433)**	**(8,866,265)**	**(762,842)**	**(12,049)**	**-**	**(9,906,589)**
XV. OTHER EXPENSES	**(992,805)**	**(3,994,864)**	**(427,945)**	**(5,190)**	**-**	**(5,420,803)**
XVI. PROFIT/(LOSS) BEFORE TAX	**3,275,811**	**5,596,310**	**6,025,938**	**363,078**	**2,456**	**15,263,594**
XVII. CORPORATE INCOME TAX	**(498,398)**	**(919,672)**	**(954,496)**	**(34,365)**	**-**	**(2,406,931)**
XVIII. NET PROFIT FOR THE REPORTING PERIOD	**2,777,413**	**4,676,638**	**5,071,442**	**328,713**	**2,456**	**12,856,663**
XVI. MINORITY INTEREST	**-**	**(37,672)**	**-**	**-**	**-**	**(37,672)**
XVII INTEREST OF PARENT COMPANY	**2,777,413**	**4,714,310**	**5,071,442**	**328,713**	**2,456**	**12,894,335**

7.3 CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME BY SEGMENT

Consolidated statement of comprehensive income for the period from 1 January 2014 to 31 December 2014 in accordance with the Decision on Annual Reports of Insurance Undertakings

in EUR	Life insurance	Non-life insurance	Supplemental health insurance	Other health insurance	Intersegment eliminations on consolidation	Total
I. NET PROFIT OR LOSS FOR THE FINANCIAL YEAR AFTER TAXATION	4,231,021	12,723,512	1,564,852	(99,864)	69,917	18,489,438
II. OTHER COMPREHENSIVE INCOME AFTER TAXATION	3,881,448	3,967,636	71,486	(1,172)	-	7,919,398
a) Items not to be allocated to profit or loss in subsequent periods	(14,945)	(263,339)	-	-	-	(278,284)
7. Gain/loss from translation of financial statements of foreign operations	(14,945)	(263,339)	-	-	-	(278,284)
b) Items that may be allocated to profit or loss in subsequent periods	3,896,393	4,230,975	71,486	-1,172	-	8,197,682
1. Net gain/loss from re-measurement of available-for-sale financial assets	4,679,518	5,117,386	86,207	(1,412)	-	9,881,700
1.1. Gain/loss, recognised in revaluation surplus	8,693,880	6,201,215	(142,389)	43,572	-	14,796,277
1.2. Transfer of gain/loss from revaluation surplus to income statement	(4,014,361)	(1,083,828)	228,596	(44,984)	-	(4,914,578)
3. Associated net gain/loss related to capital investments in associates and joint ventures, calculated using the equity method	-	(16,454)	-	-	-	(16,454)
5. Tax on items that may be allocated to profit or loss in subsequent periods	(783,126)	(869,957)	(14,721)	240	-	(1,667,563)
III. TOTAL COMPREHENSIVE INCOME FOR THE YEAR, AFTER TAXATION	8,112,469	16,691,149	1,636,338	-101,036	69,917	26,408,836
- ATTRIBUTABLE TO MINORITY INTEREST	-	(23,230)	-	-	-	(23,230)
- ATTRIBUTABLE TO CONTROLLING COMPANY	8,112,469	16,714,379	1,636,338	(101,036)	69,917	26,432,066

Consolidated statement of comprehensive income for the period from 1 January 2013 to 31 December 2013 in accordance with the Decision on Annual Reports of Insurance Undertakings – Adjusted

in EUR	Life insurance	Non-life insurance	Supplemental health insurance	Other health insurance	Intersegment eliminations on consolidation	Total
I. NET PROFIT OR LOSS FOR THE FINANCIAL YEAR AFTER TAXATION	2,777,413	4,676,638	5,071,442	328,713	2,456	12,856,663
II. OTHER COMPREHENSIVE INCOME AFTER TAXATION	(187,902)	(645,515)	(323,961)	7,824	-	(1,149,553)
a) Items not to be allocated to profit or loss in subsequent periods	-	(16,282)	-	-	-	(16,282)
7. Gain/loss from translation of financial statements of foreign operations	-	(16,282)	-	-	-	(16,282)
b) Items that may be allocated to profit or loss in subsequent periods	(187,902)	(629,233)	(323,961)	7,824	-	(1,133,271)
1. Net gain/loss from re-measurement of available-for-sale financial assets	(232,948)	(834,698)	(387,279)	9,420	-	(1,445,504)
1.1. Gain/loss, recognised in revaluation surplus	(360,210)	(11,070,029)	256,431	2,623	-	(11,171,185)
1.2. Transfer of gain/loss from revaluation surplus to income statement	127,263	10,235,331	(643,710)	6,797	-	9,725,681
3. Associated net gain/loss related to capital investments in associates and joint ventures, calculated using the equity	-	52,644	-	-	-	52,644
5. Tax on items that may be allocated to profit or loss in subsequent periods	45,046	152,821	63,318	(1,596)	-	259,589
III. TOTAL COMPREHENSIVE INCOME FOR THE YEAR, AFTER TAXATION	2,589,511	4,031,123	4,747,482	336,538	2,456	11,707,109
- ATTRIBUTABLE TO MINORITY INTEREST	-	(38,568)	-	-	-	(38,568)
- ATTRIBUTABLE TO CONTROLLING COMPANY	2,589,511	4,069,691	4,747,482	336,538	2,456	11,745,677

8. NOTES TO INDIVIDUAL ITEMS OF FINANCIAL STATEMENTS

8.1 INTANGIBLE ASSETS

in euros	Goodwill	Material in rights and licences	Software	ND assets in the process of acquisition	Total
AT COST					
Balance as at 1 Jan 2013		1,431,755	12,948,679	6,834	14,387,268
Direct increases - investments		-	1,571,102	-	1,571,102
Decreases during the year		-	(324,282)	-	(324,282)
Transfers between intangible assets, and property, plant and equipment		-	11,130	-	11,130
Balance as at 31 Dec 2013		**1,431,755**	**14,206,629**	**6,834**	**15,645,218**
Spin-off assets					
New balance as at 1 Jan 2014	**-**	**1,431,755**	**14,206,629**	**6,834**	**15,645,218**
Increases due to acquisition of companies	829,201	11,154	150,653	-	991,008
Direct increases - investments		-	2,079,773	2,099	2,081,872
Decreases during the year		(46)	(14,878)	(4,165)	(19,089)
Transfer to use		-	4,165	-	4,165
Balance as at 31 Dec 2014	**829,201**	**1,442,863**	**16,426,341**	**4,768**	**18,703,173**
VALUE ADJUSTMENT					
Balance as at 1 Jan 2013		-	9,022,829	-	9,022,829
Depreciation during the year		-	1,835,904	-	1,835,904
Decreases during the year		-	(324,282)	-	(324,282)
Revaluation owing to impairment of assets		286,351		-	286,351
Transfers between categories within INCA		-	(2,549)	-	(2,549)
Balance as at 31 Dec 2013	**-**	**286,351**	**10,531,902**	**-**	**10,818,253**
Spin-off assets					
New balance as at 1 Jan 2014	**-**	**286,351**	**10,531,902**	**-**	**10,818,253**
Increases due to acquisition of companies		11,151	112,038	-	123,189
Depreciation during the year		3	2,072,690	-	2,072,693
Decreases during the year		(46)	(3,994)	-	(4,040)
Revaluation owing to impairment of assets		286,351	-	-	286,351
Balance as at 31 Dec 2014	**-**	**583,810**	**12,712,635**	**-**	**13,296,447**
BOOK VALUE					
Balance as at 31 Dec 2013	**-**	**1,145,404**	**3,674,727**	**6,834**	**4,826,965**
Balance as at 31 Dec 2014	**829,201**	**859,053**	**3,713,705**	**4,768**	**5,406,726**

As at 31 December 2014, the operating liabilities to suppliers of intangible assets amounted to 163,282 euros, which are disclosed under the Group's other liabilities. The Group has no financial liabilities arising from the purchase of intangible assets, no intangible assets pledged as security, no legal restrictions were put on intangible assets nor were these assets pledged as collateral for debt. The Group does not have any internally generated intangible assets nor does it have any intangible assets acquired by a government grant.

The intangible assets will be finally amortised by 2028 based on their determined useful lives and the applied amortisation rates. The Group uses the straight-line amortisation method and in 2014 it did not change the amortisation rates. Amortisation of intangible assets is posted in the income statement among operating costs.

The Group determined that as at 31 December 2014 there was no need for impairment of intangible assets.

The goodwill of the Group as at 31 December 2014 arises from the completed acquisition of the 100 % stake of Croatian insurance company KD životno osiguranje d.d. in 2014 and is fully related to the life insurance segment. As at 31

December 2014, there was a valuation of the life insurance portfolio of the parent company Adriatic Slovenica and the subsidiary KD življenjsko osiguranje made by applying the traditional actuarial method for the valuation of internal value of insurance companies. The same method was used in the valuation of KD životno osiguranje life insurance company as at 31 December 2013. The value was therefore estimated based on the estimation of the internal value of the insurance company and its goodwill. On the basis of both valuations as at 2014 year-end, it is assumed that also the net value of assets of KD životno osiguranje d.d. is higher, especially due to the increase in total written premium. The assumptions that affect the portfolio and goodwill value estimation were not changed significantly in 2014. After the estimation of these values, there was no need for impairment of goodwill.

8.2 PROPERTY, PLANT AND EQUIPMENT

Movements in property, plant and equipment

in euros	Land and building	Office and other equipment	Property, plant and equipment in process of acquisition	Investment in foreign tangible fixed assets	Total
AT COST					
Balance as at 1 Jan 2013	**23,782,873**	**16,211,289**	**660,961**	**159,198**	**40,814,321**
Direct increases - investments	-	226,422	497,716	8,709	**732,846**
Direct increases - advance payments	-	261,738	140,293	-	**402,031**
Activation of assets in process of acquisition	11,183	-	-	-	**11,183**
Decreases during the year	-	(902,746)	(8,751)	(63,269)	**(974,766)**
Transfers between intangible assets, investment property, and property, plant and equipment	2,495,400	-	-	-	**2,495,400**
Transfers between categories within INCA	-	-	(11,184)	-	**(11,184)**
Other changes	**-**	**(4,754)**	**-**	**(965)**	**(5,719)**
Balance as at 31 Dec 2013	**26,289,456**	**15,791,948**	**1,279,035**	**103,673**	**43,464,112**
New balance as at 1 Jan 2014	**26,289,456**	**15,791,948**	**1,279,035**	**103,673**	**43,464,112**
Direct increases - investments	15,125	1,663,061	724,644	4,359	2,407,189
Direct increases – advance payments	-	-	291,260	-	291,260
Activated assets in the process of acquisition	352,393	7,479	-	-	359,872
Decreases during the year	(87,889)	(918,606)	-	(4,947)	(1,011,442)
Transfers between intangible assets, investment property, and property, plant and equipment	(162,733)	-	(1,142,678)	-	(1,305,411)
Transfers between categories within intangible fixed assets	-	-	(370,941)	-	(370,941)
Other changes	-	-	-	-	-
Balance as at 31 Dec 2014	**26,472,134**	**16,606,455**	**781,320**	**112,578**	**43,972,487**
VALUE ADJUSTMENT					
Balance as at 1 Jan 2013	**3,270,472**	**11,738,623**	**-**	**99,177**	**15,108,272**
Depreciation during the year	252,321	1,125,444	-	22,694	1,400,460
Decreases during the year	-	(740,588)	-	-	(740,588)
Transfers between intangible assets, investment property, and property, plant and equipment	330,917	-	-	-	330,917
Balance as at 31 Dec 2013	**3,853,711**	**12,121,176**	**-**	**81,523**	**16,056,410**
	-	-	-	-	-
New balance as at 1 Jan 2014	**3,853,711**	**12,121,176**	**-**	**81,523**	**16,056,410**
Increases due to acquisition of companies	41,577	58,067	-	8,945	108,589
Depreciation during the year	344,968	964,339	-	15,372	1,324,679
Decreases during the year	(71,074)	(889,769)	-	(4,215)	(965,058)
Transfers between intangible assets, investment property, and property, plant and equipment	(49,524)	-	-	-	(49,524)
Balance as at 31 Dec 2014	**4,119,658**	**12,253,813**	**-**	**101,625**	**16,475,096**
BOOK VALUE					
Balance as at 31 Dec 2013	**22,435,745**	**3,670,772**	**1,279,035**	**22,150**	**27,407,703**
Balance as at 31 Dec 2014	**22,352,477**	**4,352,642**	**781,320**	**10,953**	**27,497,391**

The Group has no property, plant and equipment pledged as security, no legal restrictions were put on them nor were these assets pledged as collateral for debt.

As at 31 December 2014, the operating liabilities to suppliers of property, plant and equipment amounted to 375,951 euros, which are disclosed under other liabilities of the Group.

With the exception of land and buildings, which have longer useful lives and are expected to be fully depreciated by 2091, it is expected that all other items of property, plant and equipment at the disposal of the Group to be fully depreciated based on the determined useful lives and depreciation rates by the year 2024. The Group uses the straight-line depreciation method and in 2014 it did not change the depreciation rates. Amortisation of property, plant and equipment is posted in the income statement among operating costs.

In September 2014, the Group purchased (under normal market conditions) business premises for its business operations in Kranj in the total amount of 192,811 euros and allocated it under property, plant and equipment.

At the end of October 2014, the building and land in the area of Nova Gorica was rented out, and therefore it fulfilled the conditions for investment property. Upon the transfer, the carrying value of the building was 113,209 euros. The transfer of the building to investment property is displayed in the table above. The fair value of the building and land, transferred to investment property on 31 December 2014, totalled 109,886 euros and is lower than the carrying value, amounting to 112,889 euros. Despite the fact that the carrying value exceeds the recoverable amount, there was no need for impairment because the determined surplus amount is lower than 20 %.

Due to potential impairments needed, the Group reviews the fair value of all real property by means of appraisals, performed by authorised external appraisers for valuation of real property every two years. In order to review the carrying value of real property for business operations, there was an estimation of fair (market) value conducted in June 2014 by an authorised appraiser, who also evaluated the fair value of investment property. The details on the method and the applied assumptions are provided in the chapter on investment property (Section 8.3).

The estimated fair value of the real property (buildings and land) for business operations as at 31 December 2014 amounts to 22,659,308 euros and is higher than its carrying value which amounts to 22,401,863 euros.

The Group decided that as at 31 December 2014, there is no need for impairment of property, plant and equipment.

8.3 INVESTMENT PROPERTIES

Movements in investments in land and buildings

in EUR	2014	2013
AT COST VALUE		
Balance as at 1 Jan	**30,292,870**	**33,072,632**
Direct increases - investments	172,130	3,334,000
Decreases during the year	(98,666)	(3,618,361)
Transfer from/to property, plant and equipment	1,305,411	(2,495,400)
As at 31 Dec	**31,671,745**	**30,292,870**
VALUE ADJUSTMENT		
Balance as at 1 Jan	**1,936,177**	**2,642,294**
Depreciation in the financial year	338,498	345,306
Decreases during the year	(28,177)	(720,505)
Transfer from/to property, plant and equipment	49,524	(330,917)
As at 31 Dec	**2,296,022**	**1,936,177**
BOOK VALUE		
As at 31 Dec	**29,375,723**	**28,356,692**

The Group leases entire investment properties or business premises that are part of investment properties/buildings. All operating leases can be cancelled. Rents are charged at market prices and are re-assessed if necessary.

During the year, the Group transferred property, plant and equipment in the amount of 113,209 euros to investment properties. More detailed information is provided in the section on changes in property, plant and equipment (Section 8.2) and in the table above.

In March 2014, the Group sold an investment property in Lucija area in the amount of 70,000 euros. Upon its disposal, a loss totalling 1,992 euros was recognised. The loss also includes the paid tax on real estate sales. The receivables from the sale were paid in full.

In July 2014, under normal market conditions, the Group purchased business premises in Ljubljana in the amount of 280,000 euros and classified it as investment property. Furthermore, in 2014, due to investments carried out, the value of one investment property in Ljubljana increased by 1,034,808 euros.

All the liabilities from purchases and receivables from sales of investment properties were in 2014 settled in full. Nevertheless, as at 31 December 2014, the Group recognised liabilities from investment property suppliers totalling 709,517 euros, as a result of outstanding contractual provisions of the real property seller in the acquisition of real property in 2012.

The Group has no financial liabilities arising from the acquisition of investment properties, no investment properties pledged as security, no legal restrictions were put on them nor were they pledged as collateral for debt.

The straight-line depreciation method is used for the calculation of investment property depreciation. In 2014, the depreciation rates remained unchanged. The depreciation of investment properties is recognised in the income statement under other operating expenses as investment property expenses.

Due to potential impairments, the Group checks the fair value of investment properties by appraisals made by external certified appraisers for real estate valuation every two years. In order to review the carrying value of investment properties, there was an appraisal of fair (market) value conducted in June 2014 by an authorised appraiser.

The applied methods and assumptions in the appraisal as at 30 June 2014:
- the fair value estimation was conducted by applying the income capitalisation approach, more precisely the direct capitalisation method;
- on average, the capitalisation rate in the interval from 9 % to 11 % was applied. The assessment of capitalisation rate was determined based on domestic and foreign market revenue, adjusted according to key market factors;
- within the risk assessment, a supplement for illiquidity was added on average from 0.5 % to 1 %, which in terms of time effect means 1 – 2 years realisation.

The fair value of investment properties as at 31 December 2014 amounts to 29,861,357 euros and is higher than the carrying value which amounts to 29,375,722 euros. Based on the performed appraisals, the management at the end of 2014 decided that there is no need for impairments.

Income and expenses from investment properties

in EUR	31 Dec 2014	31 Dec 2013
Revenues from investment properties	**1,237,178**	**1,547,877**
Other revenues arising from rents charged on investment properties	1,237,178	1,547,877
Revenues from reversal of impairment of receivables	14,800	-
Expenses for investment properties	**(387,186)**	**(1,637,816)**
Depreciation	(338,498)	(345,306)
Direct operating expenses for investment properties that generate rental income	(434,116)	(298,381)
Direct operating expenses for investment properties that do not generate rental income	(4,941)	-
Expenses from impairment of receivables from investment properties	542,361	-
Expenses from disposal of investment properties	(151,992)	**(994,128)**

8.4 FINANCIAL INVESTMENTS IN ASSOCIATES

Investments in the associate

Company name	Ownership interest*		Balance in the books of account in EUR	
Associate	2014	2013	2014	2013
Nama trgovsko podjetje d.d., Slovenia	48.51	48.49	11,705,901	11,701,893

*The share of voting rights is equal to equity stake.

The investment in the associate Nama d.d. is recognised in the financial statements at carrying value. For the purpose of financial reporting and potential impairments of investment in associate, the Group measures the market value of the investment based on appraisals performed by external appraisers. For the purpose of preparation of financial statements for 2014, as at 30 June 2014, Adriatic Slovenica reviewed the fair value of the investment in Nama d.d. associate. The basis for the valuation was the appraisal of the real property owned by Nama d.d.

The appraisal of the fair value of real property was prepared by an independent authorised real estate appraiser. The methods and assumptions applied in the appraisal conducted as at 30 June 2014 are:

- the estimation of fair value was based on the income-based approach which proved to be the most appropriate for the real property in question,
- within the income-based approach, the income capitalisation method was applied – the income is realised as the difference between inflows and outflows, charged to the owner,
- the capitalisation rate for the real property in question was estimated at 9.41 % and consisted of risk-free rate of return of 3.38 %, risk premium of 2 %, investment illiquidity premium of 1.5 %, investment management premium of 1 % and the compensation for the preservation of capital of 1.54 %.

The estimated value of rights on the Nama d.d. real property exceeded the proportional value of investment in the associate and therefore, there was no need for profit /loss under the equity method.

Movements in investments in the associate

in EUR	2014	2013
Associates		
As at 1 Jan	12,155,329	12,163,725
Acquisition	-	4,008
Interest (dividend) received	(77,175)	(77,175)
Profit /loss under the equity method	89,542	12,127
Change in revaluation surplus	(16,454)	52,644
As at 31 Dec	**12,151,241**	**12,155,329**

In 2014, the Group received 77,175 euros of dividends from Nama d.d. They were reimbursed in full on 20 June 2014.

Information on property and financial position of the associate

Company name in euros	Assets		Capital		Revenues		Profit or loss for the year	
Associates	2014	2013	2014	2013	2014	2013	2014	2013
Nama trgovsko podjetje d.d.	12,475,584	12,500,080	10,462,015	10,470,432	12,920,493	12,852,128	184,584	24,999

8.5 FINANCIAL INVESTMENTS

In the Slovene financial market history, the year 2014 will definitely be remembered as one of the most successful years since the outburst of the global financial crisis, although its consequences still impede the domestic as well ag global economic growth. As opposed to the previous year when Slovenia was dealing with banking sector problems, the stabilisation of the banking system / multi-billion recapitalisation of three largest banks in 2014 was the key local catalyst which returned trust in the financial market

The most important contribution to the yield of investment portfolio of long-term business funds without investment risk was in 2014 made by investing in European state bonds, especially Slovene and Italian, and in stocks of Sava reinsurance company. At the same time, the total yield of all investments was burdened by impairment of investments – equity and debt securities.

In the following text, we are presenting the position of investments as at 31 December 2014 per groups and compared to 2013 year-end.

Financial assets measured at fair value through profit or loss

Financial assets measured at fair value through profit or loss – at initial recognition

in EUR	31 Dec 2014	31 Dec 2013
Equity securities	**1,948,514**	**-**
Listed securities	1,948,514	-
Debt securities	**8,462,600**	**10,167,434**
Listed securities	8,398,386	10,037,161
Government bonds	64,214	130,274
Total	**10,411,114**	**10,167,434**

Financial assets measured at fair value through profit or loss – held for trading

in EUR	31 Dec 2014	31 Dec 2013
Equity securities	**3,231,457**	**3,454,179**
Listed securities	3,231,457	3,454,179
Debt securities	**25,590,487**	**22,751,790**
Listed securities	10,870,536	16,950,102
Government bonds	14,719,951	5,801,688
Total	**28,821,944**	**26,205,969**

The value of financial assets measured at fair value through profit or loss was in 2014 decreased mostly because of the partial disbursement of assets from management at one of the private banks and the consequent reduction of debt securities, managed at this bank.

Available-for-trading financial assets

in EUR	31 Dec 2014	31 Dec 2013
Equity securities	**52,822,040**	**46,805,074**
Listed securities	41,726,302	31,729,005
Non-listed securities	11,095,738	15,076,069
Debt securities	**92,538,359**	**85,194,789**
Listed securities	25,220,704	21,732,248
Non-listed securities	6,765,386	6,764,852
Government bonds	60,552,268	56,697,689
Impairment of the value of securities	**(6,547,650)**	**(5,780,547)**
Total	**138,812,749**	**126,219,316**

At the end of 2014, the Group evaluated the fair value of investments allocated to available-for-sale financial assets and carried out an annual assessment of impairment needs, especially for the high value non-market securities from the past years valued at cost. Based on expert assessment and internal accounting policies, the Group permanently impaired investments, the fair value of which is lower than their acquisition costs for a longer period of time. The loss due to the permanent impairment in the amount of 2,676,952 euros was immediately recognised under financial expenses in the income statement, while other revaluations of these assets were recognised in the statement of other comprehensive income.

Held-to-maturity financial assets

in EUR	31 Dec 2014	31 Dec 2013
Debt securities	**33,665,744**	**38,096,356**
Listed securities	21,312,271	20,643,047
Non-listed securities	(0)	302,874
Government bonds	12,353,473	17,150,435
Total	**33,665,744**	**38,096,356**

The value of held-to-maturity debt securities decreased in 2014 by 4,932,543 euros, especially due to maturity of these securities and reinvestments of available assets, mostly in debt securities allocated as available-for-sale assets, the value of which was in the same period increased by 5,630,638 euros. The value of available-for-sale equity securities was in 2014 increased mostly due to a new investment in shares.

Effective interest rates (in %) for debt instruments not measured at fair value:

As at 31 Dec	2014	2013
Debt securities		
– held-to-maturity	8.19%	8.07%

For the market value of the held-to maturity assets see Section 4.5.5, table Book and fair values

Loans, deposits and financial receivables

Loans, deposits and financial receivables

in EUR	31 Dec 2014	31 Dec 2013
Loans	**31,874,189**	**24,223,928**
Long-term	5,427,646	5,121,444
Short-term	26,446,542	19,102,484
Deposits placed with banks	**17,978,744**	**38,764,371**
Long-term	5,371,516	12,286,063
Short-term	12,607,228	26,478,307
Financial receivables	**2,334,464**	**2,179,697**
Total	**52,187,396**	**65,167,996**

Effective interest rates on loans and deposits

in %	31 Dec 2014	31 Dec 2013
Long-term loans in		
- foreign currency	5.00%	-
- local currency	3.79%	4.81%
Short-term loans in		
- foreign currency	5.00%	-
- local currency	5.38%	7.13%
Deposits placed with related parties		
Short-term deposits	0.94%	4.35%
Long-term deposits	2.60%	5.24%

Financial receivables

in EUR	31 Dec 2014	31 Dec 2013
Financial receivables arising from investment properties	1,289,373	964,705
Other financial receivables	1,045,090	1,214,992
Total	**2,334,464**	**2,179,697**

Movements in financial assets

in euros	Fair value through profit or loss - at initial recognition	Fair value through profit or loss - held for sale	Held to maturity	Available for sale	Loans, deposits and financial receivables	Total
Balance as at 1 Jan 2013	**10,663,522**	**27,288,234**	**39,374,555**	**126,175,066**	**76,797,383**	**280,298,759**
Exchange rate differences	-	48,390	-	-	(45,914)	2,476
Increase	15,891,402	30,021,247	1,044,450	121,654,496	1,005,835,616	1,174,447,211
Change of fair value (+/-)	(15,636)	(371,271)	100,019	12,435,168	-	12,148,280
Change of fair value (+/-) through revaluation surplus	-	-	-	(14,049,916)	-	(14,049,916)
Increase due to interest	751,231	992,149	2,899,780	4,701,717	3,613,478	12,958,357
Decrease	(17,123,085)	(31,772,779)	(5,012,533)	(112,262,046)	(1,021,032,567)	(1,187,203,011)
Impairment to lower (fair) value	-	-	(309,916)	(12,435,168)	-	(12,745,084)
Balance as at 31 Dec 2013	**10,167,434**	**26,205,969**	**38,096,356**	**126,219,317**	**65,167,996**	**265,857,072**
New balance as at 1 Jan	**10,167,434**	**26,205,969**	**38,096,356**	**126,219,317**	**65,167,996**	**265,857,072**
Exchange rate differences	(7,886)	173,315	(39)	41,445	(175,067)	31,768
Increase	14,367,922	28,691,901	4,925,085	148,718,278	889,888,515	1,086,591,701
Change of fair value (+/-)	(55,829)	721,940	-	2,676,952	-	3,343,063
Change of fair value (+/-) through revaluation surplus	-	-	-	6,016,378	-	6,016,378
Increase due to interest	409,765	812,381	2,758,965	3,288,583	1,920,646	9,190,340
Decrease	(14,470,294)	(27,783,561)	(11,699,505)	(145,471,252)	(904,614,694)	(1,104,039,306)
Impairment to lower (fair) value	-	-	(415,117)	(2,676,952)	-	(3,092,070)
Balance as at 31 Dec 2014	**10,411,113**	**28,821,944**	**33,665,744**	**138,812,750**	**52,187,397**	**263,898,947**

8.6 UNIT-LINKED LIFE INSURANCE ASSETS

Structure of unit-linked life insurance assets

Name of mutual fund	Net value of investments as at 31 Dec 2014 in EUR	Net value of investments as at 31 Dec 2013 in EUR
ALTA GLOBAL	2,852,921	2,541,156
Depozit na odpoklic DEŽELNA BANKA SLOVENIJE d. d.	769,521	1,776,663
Depozit na odpoklic BANKA KOPER d. d.	277,933	352,873
Depoziti na odpoklic ABANKAVIPA D.D.	100	455,924
Depoziti na odpoklic HYPO D.D.	8,800	
DEUTSCHE BK LOND DB 0 06/01/17	2,923,450	2,790,000
DEUTSCHE BK LOND DB 0 12/01/16	5,015,155	4,927,620
DEUTSCHE BK LOND DB 0 12/01/27	2,183,370	2,624,205
EKSKLUZIV S.	4,419,176	975,105
GZUR GY	78,875	56,515
KD Balkan	17,208,106	11,394,384
KD Bond	2,681,544	2,457,151
KD Dividendni, delniški	88,724	13,265
KD Galileo	35,749,344	32,176,995
KD Indija - Kitajska	13,402,324	14,458,291
KD Latinska Amerika	799,936	7,988,426
KD Maximus	-	5,860,323
KD MM	1,449,362	1,557,312
KD Novi trgi	13,822,229	12,428,974
KD Prosperita	965,092	1,304,015
KD Prvi Izbor	14,690,617	11,879,826
KD Rastko	26,027,590	13,583,871
KD Russia	5,455,461	6,660,396
KD Surovine in energija	4,209,130	4,381,817
KD Tehnologija	8,474,631	5,722,475
KD Victoria	2,751,397	1,864,411
KD Vitalnost	8,230,193	5,507,769
KD Vzhodna Evropa	3,824,139	5,542,520
KS Aktivni naložbeni paket	16,972,286	12,460,290
KS Dirigent	9,468,109	8,667,830
KS KD Vrhunski	10,810,234	10,157,274
MAX GARANT PLUS ENKRATNI S.	455,800	380,720
MAX GARANT PLUS OBROČNI S.	2,416,786	1,373,789
MAX GARANT S.	11,623,810	6,293,700
Policna posojila	12,193,136	8,886,541

Structure of unit-linked life insurance assets - continued

Name of mutual fund	Net value of investments as at 31 Dec 2014 in EUR	Net value of investments as at 31 Dec 2013 in EUR
POTENCIAL PLUS S.	1,049,068	570,746
POTENCIAL S.	1,024,520	210,220
PSP MODRA LINIJA	75,011	72,670
PSP OPTIMA	8,665	7,022
PSP PIKA	99,924	105,923
PSP ŽIVA	383,594	414,218
SafePort Focus Fund	84,558	70,774
SafePort Gold&Agriculture Fund	21,187	8,522
SafePort Gold&Silver Mining Fund	171,407	118,782
Safeport LOICK Bio-Products&Bio-Energy Fund	54,212	4,891
SafePort Physical Gold 95+ Fund	131,062	35,540
SafePort Physical Silver 95+	866,465	480,499
SafePort Precious Metals 95+ Fund	174,619	82,185
SafePort Silver Mining Fund	486,287	374,088
SafePort Strategic Metals&Energy Fund	789,136	979,101
TREND PLUS S.	1,906,638	321,640
TREND S.	2,286,000	455,400
VZLE GY	113,268	111,220
POTENCIAL EUROPA AS S.	1,219,690	-
Certinvest Dinamic	5,313,701	-
ZB Europlus	111,388	-
ZB Global	3,812	-
ZB Plus	3,651	-
ZB Aktiv	7,301	-
ZB Euroaktiv	1,489	-
KD BALANCED	183,486	-
KD NOVA EUROPA	1,510,145	-
KD ENERGIJA	186,703	-
Total	**260,566,270**	**213,925,867**

The investments made for the benefit of unit-linked life insurance policyholders in the total amount of 213,925,868 euros were completely invested in mutual funds, in accordance with the choice of the policyholders. The assets of the policyholders invested in the products of DEUTSCHE BK LOND DB 0 12/01/16, DEUTSCHE BK LOND DB 0 06/01/17 and DEUTSCHE BK LOND DB 0 12/01/27 totalled 10,341,825 euros and were invested in structured securities linked to the index of selected equity funds and with the principle guaranteed by the issuer Deutsche Bank AG London. Compared to the year before, at the end of 2013, the investments of unit-linked policyholders increased significantly, mostly due to the transfer of the portfolio of such insurance from the former insurance company KD Življenje.

Movements in unit-linked life insurance financial assets

IN euros	2014	2013
Balance as at 1 Jan	213,925,866	24,605,609
Spin-off assets	-	179,905,347
New balance as at 1 Jan - after spin-off	**213,925,866**	**204,510,956**
Increase	83,225,709	51,892,283
Decrease	(76,770,247)	(42,360,544)
Change of fair value (+/-) through profit or loss (market rates)	36,923,891	965,783
Deposit placement	66,817,763	79,232,483
Deposit withdrawal	(63,853,078)	(80,385,944)
Accrued interest	296,366	70,849
Balance as at 31 Dec	**260,566,270**	**213,925,866**

8.7 AMOUNT OF TECHNICAL PROVISIONS TRANSFERRED TO REINSURERS

Share of reinsurers/co-insurers in technical provisions

in EUR	31 Dec 2014	31 Dec 2013
- from insurance contracts for incurred and reported claims	8,762,170	6,890,162
- from insurance contracts for incurred, but not reported claims	6,670,396	6,045,741
Total non-current part	**15,432,565**	**12,935,903**
- unearned premiums	879,285	787,861
- from insurance contracts for incurred and reported claims	9,099,070	9,050,861
- from insurance contracts for incurred, but not reported claims	3,951,406	3,695,116
Total current part	**13,929,760**	**13,533,839**
Total	**29,362,326**	**26,469,742**

8.8 RECEIVABLES

Balance of receivables

in EUR	As at 31 Dec 2014	As at 31 Dec 2013 (adjustment)
Receivables from direct insurance operations	**22,986,037**	**25,503,287**
gross value	49,213,233	49,928,481
value adjustment	(26,227,197)	(24,425,194)
Receivables from reinsurance and co-insurance	**6,313,751**	**41,568,126**
gross value	6,523,061	41,685,194
value adjustment	(209,310)	(117,068)
Income tax receivables	**3,531,447**	**2,268,597**
OTHER RECEIVABLES	**15,110,280**	**36,420,332**
Other current receivables from insurance operations	**4,305,067**	**26,122,082**
gross value	4,528,726	26,406,113
value adjustment	(223,659)	(284,031)
Recourse receivables	**8,421,273**	**9,129,695**
gross value	31,595,379	30,711,362
value adjustment	(23,174,106)	(21,581,667)
Operating receivables from the state	**372,968**	**328,013**
gross value	382,033	328,013
value adjustment	(9,065)	-
Operating receivables for advances given	**64,120**	**112,874**
gross value	138,261	112,874
value adjustment	(74,141)	(73,919)
Other current operating receivables	**1,913,948**	**700,037**
gross value	3,010,764	1,795,456
value adjustment	(1,096,816)	(826,239)
Long-term receivables	**32,903**	**27,630**
Total receivables	**47,941,514**	**105,760,342**

Compared to the previous year, as at 31 December 2014 receivables were 55 % lower. This is mainly the consequence of reimbursement of contractual liabilities from a quota share reinsurance with maturity at the end of April 2014. With the payment of these liabilities in the amount of 11,058,799 euros, the receivables from reinsurance claims decreased by 40,701,214 euros, and the reinsurance commissions decreased by 30,897,736 euros. The effect of the payment of these liabilities also reflects in a significant fall of liabilities from reinsurance premiums (refer to Section 8.16 - operating liabilities).

Within the structure of receivables as at 31 December 2014, receivables from direct insurance operations prevail with 48 % share. These comprise receivables from policyholders' concluded insurance premiums. Following are the receivables from reinsurance and co-insurance and reinsurance commissions within other short-term receivables from insurance operations.

Every reporting period, the Group checks the adequacy of fair value assessments – liquid value of receivables or assess the net realisable value based on actual realised cash flows in the last observed period for an individual type of receivables (it applies to receivables from insurance premiums and subrogated receivables). If such data is not available, a projection is performed based on other credible sources (see Section 6.2).

Movements in receivable allowances

in EUR	Receivables from insurance operations	Subrogations	Other receivables	Total
As at 1 January 2013	**24,063,879**	**20,587,576**	**1,933,086**	**46,584,541**
Changes during the year	478,383	994,091	(748,897)	723,577
As at 31 December 2013	**24,542,262**	**21,581,667**	**1,184,189**	**47,308,118**
New balance as at 1 January	**24,542,262**	**21,581,667**	**1,184,189**	**47,308,118**
Changes during the year	1,894,245	1,592,439	219,492	3,706,176
As at 31 December 2014	**26,436,507**	**23,174,106**	**1,403,681**	**51,014,294**

8.9 OTHER ASSETS

Other assets – balance total

in EUR	31 Dec 2014	31 Dec 2013
Inventories	26,022	14,553
Deferred acquisition costs	4,648,983	4,143,930
Deferred expenses and accrued revenues	842,752	2,195,863
Total	**5,517,757**	**6,354,346**

At the end of 2014, compared to 2013, the balance of deferred expenses and accrued revenues fell by 1,353,112 euros or more than 62 %, mainly due to active settlement of claims cases complaints, for which, the insurance company accounted with accrued revenues in the past.

8.9.1 Deferred acquisition costs

Movements in deferred acquisition costs

in EUR	Long-term deferred acquisition costs	Short-term deferred acquisition costs
Balance as at 1 Jan 2013	**1,254,231**	**3,478,017**
Utilised in 2013	1,204,278	3,647,126
Formed in 2013	32,061	4,231,024
Balance as at 31 Dec 2013	**82,014**	**4,061,916**
New balance as at 1 Jan 2014	**82,014**	**4,061,916**
Utilised in 2014	41,234	3,688,184
Formed in 2014	68,531	4,165,940
Balance as at 31 Dec 2014	**109,310**	**4,539,672**

8.10 CASH AND CASH EQUIVALENTS

Cash and cash equivalents

in EUR	31 Dec 2014	31 Dec 2013
Cash on hand and cheques received	1,405	47,715
Balances on accounts	3,269,485	2,210,141
Short-term deposits redeemable on demand	8,358,196	-
Short-term deposits placed (maturity date up to 3 months)	-	8,064,996
Other cash	186,505	116,642
Total	11,815,591	10,439,494

The effective interest rate in 2014 paid on call deposits was between 0.25 % and 1.7 % (2013: from 0.35 % to 1.7 %).

8.11 EQUITY

Balance of equity

in EUR	31 Dec 2014	31 Dec 2013
Share capital	**42,999,530**	**42,999,530**
Capital reserves	**4,211,782**	**4,211,782**
Reserves from profit	**15,771,095**	**15,333,563**
Legal reserves	1,519,600	1,519,600
Other reserves from profit	14,251,495	13,813,963
Reserves for equalisation of credit risk	1,014,505	1,011,998
Reserves for equalisation of catastrophic claims	3,798,823	3,363,797
Other reserves from profit	9,438,167	9,438,167
Translation differences	**(1,857,425)**	**(1,587,414)**
Revaluation surplus	**6,119,423**	**(2,078,134)**
Retained net profit	**24,041,737**	**27,812,396**
Net profit for the financial year	**18,157,469**	**9,722,050**
TOTAL	109,443,611	96,413,773
Minority interest	138,515	159,517

Minority interest

Minority interest is the share capital of minority stakeholders of insurance company AS neživotno osiguranje a.d.o., Serbia.

Share capital

As at 31 December 2014, the subscribed and fully paid in share capital of the insurance company amounted to 42,999,530 euros. The share capital is divided into 10,304,407 ordinary no-par value shares. All shares are registered shares. In 2014, the share capital did not change.

Distribution of distributable profit

The net profit for the year is transferred to distributable profit of Adriatic Slovenica d.d (parent company) and used for dividend payments together with the rest of distributable profit.

At the General meeting held on 22 May 2014, the direct owner and only shareholder of Adriatic Slovenica decided on the distribution of balance sheet profit for 2013. A part of the balance sheet profit in the amount of 13,400,000 euros were used for payments. The rest of balance sheet profit in the amount of 19,586,990 euros remained unallocated and was transferred to the distributable profit for 2014. Dividends were paid in full by 30 May 2014.

Ownership structure

As at 31 December 2014, KD Group d.d. held 10,304,407 shares, i.e. 100 %. In 2014, its stake remained unchanged.

Distribution of accumulated profit and loss coverage

Adriatic Slovenica Group ended 2014 with a profit before tax totalling 22,305,501 euros and a net profit for the year amounting to 18,489,438 euros. After the completion of financial statements, the management adopted a decision on the of net profit, determined the accumulated profit and formed a proposal on accumulated profit distribution.

Within its responsibilities, the Management Board of the parent company have to decide on covering the loss from the previous years. The Management Board also decides only on the distribution of net profit by insurance segments of life, non-life and health insurance, therefore, it can also decide about covering of loss within the segments.

At the end of 2014, the Management Board of the parent company immediately used the current year net profit from life insurance in the amount of 9,383 euros for covering past periods' losses from unit-linked life insurance in the amount of 9,383 euros.

On 31 December 2014, the Management Board of the parent company covered the loss of other health insurance in full with the profit carried forward from past years in the amount of 99,864 euros.

After covering losses from past and current periods and forming reserves, the final amount of net profit for the current year is 18,504,520 euros. Together with the unallocated profit brought forward from previous years in the amount of 19,496,508 euros, the distributable profit as at 31 December 2014 amounts to 42,199,206 euros.

Reserves and revaluation surplus

The parent company forms profit reserves on the basis of the provisions laid down in the Companies Act (ZGD-1) with regard to forming statutory reserves and on the basis of the decision passed by the Management Board with the approval of the Supervisory Board with respect to the requirements to achieve and maintain the appropriate capital adequacy level (other profit reserves).

After 2014 ended, in accordance with the Insurance Act, the Company additionally formed other profit reserves in the amount of 437,532 euros, of which 435,025 euros were allocated for catastrophic loss equalisation (135,700 euros for nuclear peril and 299,325 euros for earthquake) and 2,507 euros for credit risk equalisation.

In line with the Decision on Annual Reports and Quarterly Financial Statements of Insurance Undertakings - SKL 2009 (Official Gazette of the Republic of Slovenia No 89/2014), the insurance company in 2014 transferred 5,798,769 euros of other reserves from profit from the positive result of supplementary health insurance (formed until 2013 in accordance with the Health Care and Health Insurance Act ZZVZZ-H) to other reserves from profit, and these are not separately presented in the statement of changes in equity any more. Due to this change, the 2013 statement of changes in equity has been adjusted.

Capital reserves

As at 31 December 2014, the capital reserves of the parent company are divided into payments, exceeding the minimum amount of issue of shares or the amount of basic capital contribution (paid capital surplus) in the amount of 1,724,217 euros, and the refund of the general revaluation adjustment of capital in the amount of 2,487,565 euros.

Treasury shares

In 2014, neither the Group nor any third party for the account of the companies within the Group accepted any new treasury shares as security. Moreover, as at 31 December 2014 neither the Group nor any third party for the account of the companies within the Group held any treasury shares as security.

Revaluation surplus

The revaluation surplus entirely refers to revaluation of non-current financial assets available for sale to fair value. Within equity, the revaluation surplus was decreased by the deferred taxes payable.

As at the 2014 year-end, the revaluation surplus from pension insurance amounting to 205,398 euros was recognised as an increase in mathematical provisions.

Revaluation surplus

in EUR	31 Dec 2014	31 Dec 2013
Specific revaluation of equity	6,119,423	(2,078,134)
exchange rate differences in associated companies	249,229	265,684
from reinforcement of property, plant and equipment	141	141
from reinforcement/impairment of available-for-sale financial assets	7,057,446	(2,824,128)
from adjustment for deferred taxes	(1,187,394)	(480,169)
Total revaluation surplus	**6,119,423**	**(2,078,134)**

Movements in revaluation surplus from available-for-sale financial assets with profit

in EUR	2014	2013
Balance as at 1 Jan	**(2,078,135)**	**(451,948)**
Spin-off assets	-	**(492,914)**
New balance as at 1 Jan - after spin-off	**(2,078,135)**	**(944,862)**
Effect of lowered tax rate	**-**	**13,786**
Profits (losses) recognised in revaluation surplus	**12,276,724**	**(9,219,440)**
Net change due to revaluation	14,796,277	(11,171,185)
Change in deferred taxes due to revaluation	(2,502,974)	1,899,101
Change of a surplus arising from the revaluation of associated company	(16,454)	**52,644**
Gain/loss from translation of financial statements of foreign operations	(125)	**-**
Transfer of profits (losses) from revaluation surplus to profit or loss	**(4,079,167)**	(8,072,248)
Change in revaluation surplus transferred on disposal to profit or loss	(7,591,530)	(2,709,488)
Change in deferred taxes on realisation of revaluation surplus	1,290,493	460,680
Transfer of negative revaluation surplus to profit or loss on impairment	2,676,952	12,435,168
The change deferred taxes from impairments through profit or loss	(455,082)	(2,113,979)
Balance as at 31 Dec	**6,119,422**	**(2,078,135)**

8.12 TECHNICAL PROVISIONS

Technical provisions (liabilities arising from insurance contracts) – gross and net

in EUR	Gross + received co-insurance as at 31 Dec 2014	Reinsurance + ceded co-insurance as at 31 Dec 2014	Net as at 31 Dec 2014	Gross + received co-insurance as at 31 Dec 2013	Reinsurance + ceded co-insurance as at 31 Dec 2013	Net as t 31 Dec 2013
Unearned premiums	43,441,723	805,230	42,636,492	42,928,466	706,497	42,221,969
Claims provisions for	**114,194,046**	**28,334,567**	**85,859,479**	**119,529,302**	**25,336,004**	**94,193,297**
- reported claims	53,416,379	17,713,264	35,703,115	54,208,231	15,812,569	38,395,663
- not reported claims	60,777,667	10,621,303	50,156,363	65,321,070	9,740,857	55,580,213
Provisions for bonuses and discounts	395,257	-	395,257	397,179	-	397,179
Mathematical provisions	1,991	-	1,991	-	-	-
Other insurance technical provisions	1,061,869	-	1,061,869	2,316,339	-	2,316,339
Total non-life insurance	**159,094,886**	**29,139,798**	**129,955,088**	**165,171,286**	**26,042,501**	**139,128,785**
Unearned premiums	8,011,577	-	8,011,577	9,219,471	-	9,219,471
Claims provisions for	**5,564,511**	**-**	**5,564,511**	**6,091,059**	-	**6,091,059**
- reported claims	868,571	-	868,571	969,034	-	969,034
- not reported claims	4,695,940	-	4,695,940	5,122,025	-	5,122,025
Provisions for bonuses and discounts	625	-	625	790	-	790
Other insurance technical provisions	476,372	-	476,372	-	-	-
Total health insurance	**14,053,085**	**-**	**14,053,085**	**15,311,320**	**-**	**15,311,320**
Unearned premiums	485,282	74,055	411,228	534,060	81,364	452,695
Claims provisions for	**5,697,242**	**148,474**	**5,548,768**	**6,346,980**	**128,455**	**6,218,524**
- reported claims	1,683,599	148,021	1,535,578	1,736,338	128,455	1,607,882
- not reported claims	4,013,643	453	4,013,190	4,610,642	-	4,610,642
Mathematical provisions	97,613,026	-	97,613,026	94,975,223	-	94,975,223
Other insurance technical provisions	319,683	-	319,683	462,628	-	462,628
Total life insurance with DPF	**104,115,233**	**222,529**	**103,892,704**	**102,318,889**	**209,820**	**102,109,070**
Total liabilities arising from insurance contracts	**277,263,204**	**29,362,327**	**247,900,878**	**282,801,495**	**26,252,321**	**256,549,175**

Movements in technical provisions

in EUR	Gross 2014	Reinsurance 2014	Net 2014	Gross 2013	Reinsurance 2013	Net 2013
Movements in unearned premium						
Balance as at 1 Jan	52,608,836	787,861	51,820,975	58,000,846	664,578	57,336,268
Spin-off assets	3,418	-	3,418	46,642	-	46,642
New balance as at 1 Jan - after spin-off	52,612,254	787,861	51,824,393	58,047,487	664,578	57,382,909
Increase in liabilities	49,685,753	879,285	48,806,468	49,745,000	787,861	48,957,139
Decrease in liabilities	50,359,426	787,861	49,571,565	55,110,491	664,578	54,445,913
Balance as at 31 Dec	51,938,582	879,285	51,059,297	52,681,997	787,861	51,894,135
Movements in mathematical provisions						
Balance as at 1 Jan	94,975,223	-	94,975,223	70,011,390	-	70,011,390
Spin-off assets	292,649	-	292,649	27,973,807	-	27,973,807
New balance as at 1 Jan - after spin-off	95,267,872	-	95,267,872	97,985,197	-	97,985,197
Increase in the period	12,535,995	-	12,535,995	10,468,005	-	10,468,005
Decrease in the period	11,460,968	-	11,460,968	14,201,190	-	14,201,190
Change of current-year DPF part	1,272,118	-	1,272,118	723,211	-	723,211
Balance as at 31 Dec	97,615,017	-	97,615,017	94,975,223	-	94,975,223
Movements in claims outstanding						
Reported claims	56,851,819	15,929,378	40,922,442	58,216,585	15,053,543	43,163,042
Not reported claims	75,015,092	9,740,857	65,274,235	77,373,338	7,996,360	69,376,978
Balance as at 1 Jan	131,866,912	25,670,235	106,196,677	135,589,923	23,049,903	112,540,020
Spin-off assets	113,688	463	113,226	5,974,928	168,287	5,806,641
New balance as at 1 Jan - after spin-off	131,980,600	25,670,698	106,309,902	141,564,850	23,218,190	118,346,661
Decrease in provisions due to payments	39,351,620	9,778,687	29,572,934	40,712,364	8,146,863	32,565,501
Change in provisions from preceding years +/-	(14,470,471)	(434,045)	(14,036,426)	(19,262,676)	(2,039,050)	(17,223,626)
Increase in provisions in the current year	47,297,290	13,025,076	34,272,215	51,160,607	12,432,183	38,728,424
Reported claims	55,968,550	17,861,285	38,107,265	56,913,603	15,723,602	41,190,001
Not reported claims	69,487,250	10,621,757	58,865,493	75,053,737	9,740,857	65,312,880
Balance as at 31 Dec	125,455,799	28,483,042	96,972,758	131,967,340	25,464,459	106,502,881
Movements in other insurance technical provisions						
Balance as at 1 Jan	3,162,997	-	3,162,997	3,232,344	-	3,232,344
Spin-off assets	-	-	-	461,733	-	461,733
New balance as at 1 Jan - after spin-off	3,162,997	-	3,162,997	3,694,077	-	3,694,077
Increase in the period	1,812,169	-	1,812,169	2,448,501	-	2,448,501
Decrease in the period	2,721,359	-	2,721,359	2,965,641	-	2,965,641
Balance as at 31 Dec	2,253,806	-	2,253,806	3,176,936	-	3,176,936

8.13 TECHNICAL PROVISIONS FOR UNIT-LINKED LIFE INSURANCE POLICYHOLDERS

Technical provisions for unit-linked life insurance policyholders

in EUR	Gross + received co-insurance as at 31 Dec 2014	Reinsurance + ceded co-insurance as at 31 Dec 2014	Net as at 31 Dec 2014	Gross + received co-insurance as at 31 Dec 2013	Reinsurance + ceded co-insurance as at 31 Dec 2013	Net as t 31 Dec 2013
Claims provisions	326,627	-	326,627	244,820	-	244,820
- reported claims	326,627	-	326,627	244,820	-	244,820
Provisions for unit-linked life insurance policyholders	257,277,164	-	257,277,164	211,832,611	-	211,832,611
Total unit-linked life insurance	257,603,791	-	257,603,791	212,077,431	-	212,077,431

Movements in technical provisions for unit-linked life insurance policyholders

in EUR	Gross 2014	Reinsurance 2014	Net 2014	Gross 2013	Reinsurance 2013	Net 2013
Movements in claims outstanding						
Reported claims	244,820	-	244,820	1,121	-	1,121
Balance as at 1 Jan	244,820	-	244,820	1,121	-	1,121
Spin-off assets	-	-	-	110,513	-	110,513
New balance as at 1 Jan - after spin-off	244,820	-	244,820	111,634	-	111,634
Decreased provisions due to payments	180,707	-	180,707	60,521	-	60,521
Change in provisions from preceding years +/-	(53,691)	-	(53,691)	(1,567)	-	(1,567)
Increase in provisions in the current year	316,205	-	316,205	195,274	-	195,274
Reported claims	326,627	-	326,627	244,820	-	244,820
Balance as at 31 Dec	326,627	-	326,627	244,820	-	244,820
Movements in claims outstanding for reported and non-reported claims for unit-linked life insurance policyholder						
Balance as at 1 Jan	211,832,611	-	211,832,611	24,009,497	-	24,009,497
Spin-off assets	2,280,599	-	2,280,599	177,218,929	-	177,218,929
New balance as at 1 Jan - after spin-off	214,113,211	-	214,113,211	201,228,426	-	201,228,426
Increase in the period	65,776,171	-	65,776,171	33,244,547	-	33,244,547
Decrease in the period	22,612,218	-	22,612,218	22,640,361	-	22,640,361
Balance as at 31 Dec	257,277,164	-	257,277,164	211,832,611	-	211,832,611

8.14 OTHER PROVISIONS

Provisions for employee benefits

in EUR	31 Dec 2014	31 Dec 2013
Provisions for termination benefits	1,065,760	998,881
Provisions for jubilee benefits	2,227,318	1,938,592
Total	3,293,078	2,937,473

Movements in provisions for employee benefits

in EUR	2014	2013
Balance as at 1 Jan	2,937,473	3,018,372
Spin-off assets	5,864	204,044
New balance as at 1 Jan - after spin-off	2,943,337	3,222,417
Increase in the current period	284,562	375,727
Decrease due to paid termination benefits and jubilee benefits	(310,522)	(355,399)
Other changes	375,700	(305,271)
Balance as at 31 Dec	3,293,078	2,937,473

The calculation for 2014 used different assumptions about the discount rate and expected increase in salaries than in 2013.

The main assumptions applied in the calculation of provisions for termination and jubilee benefits:

- discount rate 1.24 % (31 Dec 2013: 2.86 %),
- expected increase in salaries in the insurance company, including the expected increase in salaries due to promotions 1.6 % (31 Dec 2013: 2.7 %),
- expected mortality is determined based on Slovene mortality tables from 2007 (the same on 31 Dec 2013),
- future fluctuation is determined based on the age of employees: 18 % for the age group from 20 to 30 years, 10 % for the age group of 30 to 40 years and 5 % for 40 years of age and above (the same on 31 Dec 2013).

The provision amounts in 2014 include taxes and contributions. The effect of changes in assumptions amounted to 166,243 euros.

8.15 OTHER FINANCIAL LIABILITIES

Movements in loans and other current financial liabilities

in EUR	2014	2013
Balance as at 1 Jan	**741,951**	**3,982,099**
Increase	49,871	36,858
Decrease	(386,879)	(3,273,625)
Mutual eliminations	306,869	319,245
Balance as at 31 Dec	**711,811**	**741,951**

8.16 OPERATING LIABILITIES

Adriatic Slovenica Group has no secured liabilities.

Operating liabilities

in EUR	31 Dec 2014	31 Dec 2013
Liabilities arising from direct insurance contracts	4,745,099	6,043,336
Liabilities arising from reinsurance and co-insurance	11,527,057	84,474,927
Tax liability	6,029,026	2,557,692
Total	**22,301,181**	**93,075,956**

Compared to 2013, the operating liabilities as at the 2014 year-end decreased by 76 %, mainly as a result of lower liabilities from reinsurance and co-insurance. Lowering of these liabilities was affected by the payment of contractual liabilities from quota share reinsurance for car insurance in the amount of 11,058,799 euros which fell due at the end of April 2014. With the maturity of these contractual liabilities, like the receivables, also the liabilities from reinsurance premiums decreased by 82,657,749 euros (refer to Section 8.8, receivables), while for the settlement of commissions, on the liabilities side, an outstanding liability was posted for the received commission advance in the amount of 5,459,290 euros (refer to the next section on other liabilities – Section 8.17).

For 2014, the Group accounted for the current tax liabilities at a 17 % tax rate by individual guarantee funds and by individual statements of insurance segments. The current tax liability is shown in the table above in the amount as charged at the Group level (see notes in Section 8.24).

8.17 OTHER LIABILITIES

Other liabilities

in EUR	31 Dec 2014	31 Dec 2013
Other operating (trade) liabilities	18,476,090	11,007,548
Accrued costs/expenses and deferred revenues	7,064,721	6,263,616
Total	**25,540,811**	**17,273,387**

Adriatic Slovenica Group does not have any liabilities with a maturity date over 5 years.

8.17.1 Other operating liabilities

Other operating liabilities

in EUR	31 Dec 2014	31 Dec 2013
Long-term operating liabilities	**8,605**	**42,519**
Other long-term operating liabilities	8,605	42,519
Current operating liabilities	18,467,485	**10,965,028**
Current operating liabilities to suppliers	1,242,773	1,845,975
Current operating liabilities to employees	2,388,831	2,419,543
Other current liabilities from insurance operations	10,084,708	3,260,732
Current operating liabilities to the state (except for income tax)	485,319	598,900
Current liabilities for received advances	34,229	34,519
Other current operating liabilities	4,231,624	2,805,359
Total	**18,476,090**	**11,007,548**

In the structure of other operating liabilities, the prevalent item are other current liabilities from insurance operations, accounted for by liabilities for reinsurance commission advances with maturity in the following years. As at 31 December 2014, the total of these liabilities is 6,624,154 euros (in 2013, these liabilities did not exist) and will fall due when all claims will be reported. Moreover, as at 31 December 2014, there are two more large liabilities outstanding within other current liabilities from insurance operations, namely the liability to the Slovene Insurance Association for contributions for coverage of claims for damage on unknown and uninsured vehicles and vessels in the amount of 1,323,340 euros and liability to other insurance companies from supplementary health insurance equalisation schemes in the amount of 1,028,916 euros.

8.17.2 Accrued expenses and deferred income

Accrued expenses and deferred income

in EUR	31 Dec 2014	31 Dec 2013
Accrued expenses - operating	1,850,226	1,163,562
Accrued expenses - for unused annual holidays	1,248,295	1,291,739
Accrued expenses – acquisition costs and unexpired commissions	863,981	833,004
Accrued expenses from equalisation scheme for supplementary health insurance	1,114,856	1,167,585
Other deferred and accrued items	1,987,362	1,807,726
Total	**7,064,720**	**6,263,616**

8.18 REVENUES

8.18.1 Premium revenues from insurance and financial contracts

Net premium revenues from insurance and financial contracts in 2014

in euros	Written gross insurance premiums	Reinsurers'/ coinsurers' share in written premiums	Change in gross unearned premiums	Change in unearned premiums for reinsurance and coinsurance share	Net revenues from insurance premiums
Motor vehicle liability insurance	41,490,346	(17,960,478)	249,163	(2,456)	23,776,575
Land motor vehicle insurance	35,145,460	(17,839,692)	(446,205)	(24,171)	16,835,392
Accident insurance	15,938,981	(3,223,994)	78,262	(15,938)	12,777,312
Fire and natural forces insurance	16,163,802	(3,930,218)	(166,958)	18,641	12,085,267
Other damage to property insurance	12,349,145	(1,560,815)	(318,934)	54,129	10,523,525
General liability insurance	7,560,719	(718,024)	(412,265)	70,638	6,501,068
Credit insurance	20,890	-	528,104	-	548,995
Other non-life insurance, excluding health insurance	9,216,004	(1,958,572)	(82,798)	(2,110)	7,172,524
Insurance contracts for non-life insurance, excluding health insurance	**137,885,347**	**(47,191,793)**	**(571,631)**	**98,733**	**90,220,657**
Health insurance contracts	**108,193,279**	**-**	**1,207,895**	**-**	**109,401,173**
Insurance contracts with discretionary participation feature	18,928,150	(1,244,031)	51,844	(7,310)	17,728,654
Unit-linked insurance contracts	36,061,526	(31,132)	-	-	36,030,393
Investment contracts with discretionary participation feature	995,468	(1,186)	352	-	994,634
Life insurance contracts	**55,985,143**	**(1,276,349)**	**52,196**	**(7,310)**	**54,753,681**
Total	**302,063,769**	**(48,468,142)**	**688,460**	**91,424**	**254,375,511**

Net premium revenues from insurance and financial contracts in 2013

in euros	Written gross insurance premiums	Reinsurers'/ coinsurers' share in written premiums	Change in gross unearned premiums	Change in unearned premiums for reinsurance and coinsurance share	Net revenues from insurance premiums
Motor vehicle liability insurance	43,369,114	(19,693,785)	1,307,354	(1,577)	24,981,107
Land motor vehicle insurance	36,013,654	(19,954,217)	1,737,447	52,697	17,849,582
Accident insurance	16,734,487	(3,735,651)	357,646	15,415	13,371,897
Fire and natural forces insurance	15,598,398	(3,817,063)	(85,209)	8,962	11,705,088
Other damage to property insurance	11,725,637	(1,319,531)	98,833	(12,211)	10,492,728
General liability insurance	6,696,760	(599,190)	(126,385)	23,727	5,994,913
Credit insurance	61,838	-	1,005,005	-	1,066,843
Other non-life insurance, excluding health insurance	9,434,934	(1,688,385)	(33,966)	6,795	7,719,377
Insurance contracts for non-life insurance, excluding health insurance	**139,634,822**	**(50,807,822)**	**4,260,725**	**93,809**	**93,181,535**
Health insurance contracts	**112,602,959**	**-**	**1,053,326**	**-**	**113,656,286**
Insurance contracts with discretionary participation feature	19,171,334	(983,796)	48,773	29,474	18,265,785
Unit-linked insurance contracts	37,012,119	0	-	-	37,012,119
Investment contracts with discretionary participation feature	652,933	-	-	-	652,933
Life insurance contracts	**56,836,385**	**-983,796**	**48,773**	**29,474**	**55,930,837**
Total	**309,074,166**	**-51,791,617**	**5,362,825**	**123,283**	**262,768,657**

8.18.2 Financial revenues and expenses from investments and investments in associates

Financial revenues and expenses from investments in 2014

in euros	Financial investments held-to-maturity	Financial investments available for sale	Financial investments at fair value through profit or loss – held for sale	Financial investments at fair value through profit or loss – at initial recognition	Financial investments in loans and financial receivables	Total
Financial revenues arising from interest and dividend	2,763,868	4,084,779	1,233,826	853,855	4,031,519	12,967,846
Financial revenues arising from interest	2,763,868	3,336,554	1,189,310	688,887	4,031,519	12,010,138
Financial revenues arising from dividend	-	748,225	44,516	164,968	-	957,708
Financial revenues arising from unrealised gains	43,019	8,919,441	485,372	969,469	-	10,417,301
Financial revenues arising from net unrealised gains (i.e. reversals of impairment)	-	-	721,940	36,871,326	-	37,593,266
Financial revenues arising from net positive foreign exchange differences	-	-	-	-	79,393	79,393
REVENUES FROM INVESTMENTS	**2,806,887**	**13,004,220**	**2,441,138**	**38,694,650**	**4,110,912**	**61,057,806**
Financial expenses arising from investments in associates due to impairment	-	(0)	-	-	-	(0)
Financial expenses arising from impairment of financial assets not measured at fair value through profit or loss	(415,117)	-	-	-	-	(415,117)
Financial expenses arising from realised capital losses	-	(1,328,130)	-	(2,906)	-	(1,331,035)
Financial expenses arising from net unrealised capital losses	-	(2,676,952)	-	(3,262)	-	(2,680,214)
Financial expenses arising from net negative foreign exchange differences	-	-	-	-	-	-
EXPENSES FOR INVESTMENTS	**(415,117)**	**(4,005,082)**	**-**	**(6,167)**	**-**	**(4,426,367)**
Net financial result from investments	**2,391,770**	**8,999,138**	**2,441,138**	**38,688,482**	**4,110,912**	**56,631,440**

Financial revenues and expenses also include net financial revenue/expenses of unit-linked life insurance policyholders. In 2014, the net financial result of these was 37,875,014 euros. The value of guarantee funds for unit-linked life insurance increased in 2014, mostly because of capital growth of investments in mutual funds and bonds. In the same period, the technical provisions of these funds increased, therefore, it is important to take into account the technical provisions which contribute to a realistic display of results of yields in guarantee funds for unit-linked life insurance. The change in these technical provisions (refer to Section 8.13) in 2014 totalled 45,526,359 euros and therefore lowered the final result in this amount.

Financial revenues and expenses from investments in 2013

in euros	Financial investments held-to-maturity	Financial investments available for sale	Financial investments at fair value through profit or loss – held for sale	Financial investments at fair value through profit or loss – at initial recognition	Financial investments in loans and financial receivables	Total
Financial revenues arising from interest and dividend	2,868,271	4,204,298	908,216	2,429,977	4,628,042	15,038,805
Financial revenues arising from interest	2,868,271	3,794,792	862,950	2,234,994	4,628,042	14,389,049
Financial revenues arising from dividend	-	409,507	45,266	194,983	-	649,755
Financial revenues arising from unrealised gains	-	4,235,774	191,999	890,558	-	5,318,331
Financial revenues arising from net unrealised gains (i.e. reversals of impairment)	-	-	52	9,560	-	9,612
Financial revenues arising from net positive foreign exchange differences	-	-	-	-	262,896	262,896
REVENUES FROM INVESTMENTS	**2,868,271**	**8,440,073**	**1,100,267**	**3,330,095**	**4,890,938**	**20,629,643**
Financial expenses arising from impairment of financial assets not measured at fair value through profit or loss	(309,916)	-	-	-	-	(309,916)
Financial expenses arising from realised capital losses	(2,419,298)	(1,526,287)	(1,820)	(90,996)	-	(4,038,401)
Financial expenses arising from net unrealised capital losses	-	(12,435,168)	(371,324)	(1,514,178)	-	(14,320,669)
EXPENSES FOR INVESTMENTS	**(2,729,214)**	**(14,605,433)**	**(373,144)**	**(1,605,174)**	**-**	**(18,668,986)**
Net financial result from investments	**139,057**	**(6,165,360)**	**727,124**	**1,724,921**	**4,890,938**	**1,960,657**

Financial revenues and expenses also include net financial revenue/expenses of unit-linked life insurance policyholders. In 2013, the net financial result of these was 1,784,222 euros.

Net gains/losses from held-for-trading financial assets

in EUR	2014	2013
Realised profits	678,495	897,637
Unrealised profits	1,392,140	1,219,229
Realised losses	(193,123)	(707,458)
Unrealised losses	(670,200)	(1,590,500)
Total	**1,207,312**	**(181,092)**

Net gains/losses from financial assets at initial recognition through profit or loss, excluding investment risk

in EUR	2014	2013
Realised profits	551,015	178,260
Unrealised profits	641,477	276,194
Realised losses	(233,611)	(290,866)
Unrealised losses	(697,303)	(291,831)
Total	**261,578**	**(128,242)**

Net gains/losses from financial assets at initial recognition through profit or loss pertaining to unit-linked life insurance amount to 37,413,612 euros (2013: loss in the amount of 576,815 euros). The effect of revaluation of financial investments, available-for-sale financial assets, are in 2014 recognised in the statement of other comprehensive income and are presented in Section 8.11.

Impairment of securities of available-for-sale financial assets

in EUR	31 Dec 2014	31 Dec 2013
Impairment through profit and loss		
Equity securities	1,010,048	3,992,518
Debt securities	1,666,904	8,442,650
Total	**2,676,952**	**12,435,168**

Within the available-for-sale financial assets, permanent impairments were made, predominantly of Banka Celje d.d. bonds. A large part of impairments is also related to impairments of shares of Cimos d.d. and Deželna Banka Slovenije d.d. Losses due to permanent impairment of these investments were recognised in financial expenses in the income statement within the available-for-sale financial assets.

Impairment of securities of held-to-maturity financial assets

in EUR	31 Dec 2014	31 Dec 2013
Impairment through profit and loss		
Debt securities	415,117	309,916
Total	**415,117**	**309,916**

Within the held-to-maturity financial assets, impairments of Banka Celje d.d. bonds were made. Losses due to impairment of these investments were recognised in financial expenses in the income statement.

8.18.3 Other insurance revenues

Revenues from management commission and other insurance revenues

in EUR	2014	2013 (adjusted)
Fee and commission income	13,183,879	14,599,638
Other fee income for management of investment contracts with DPF	37,189	-
Total	**13,221,068**	**14,599,638**

Other insurance revenues consist entirely of revenues from reinsurance commissions from participation in the positive technical result from individual reinsurance contracts. Revenues from reinsurance contracts have decreased in 2014 by 1,415,759 euros, mostly due to lower result of car insurance quota share reinsurance premium, and to a lower degree due to the low claims result in the current year and the improvement of claims result of the past years.

In 2014, the Group does not display revenues from insurance contracts management because they have been offset with the expenses of the same type – in 2014, the insurance company began to perform offsetting of revenues/expenses of management commissions among long-term life insurance funds (for details, refer to Section 3.4 - changes).

8.18.4 Other operating revenues

Other operating revenues

in EUR	2014	2013 (adjusted)
Other net insurance revenues	4,445,976	4,262,763
Revaluation operating revenues	435,881	6,212,305
Revenues arising from rents charged for investment properties	1,237,178	1,547,877
Other operating revenues	2,266,452	2,579,171
Other operating revenues	**8,385,486**	**14,602,116**

Other net insurance revenues have risen in comparison to 2013 due to the new insurance company/subsidiary in the Group.

in EUR	2014	2013
Revenue for management of insurance contracts	710,298	797,845
Revenue from other services provided to KD Funds	747,940	537,664
Revenue from insurance services provided to foreign insurance companies	326,986	252,991
Revenue from rent on parking lot and cars	191,530	178,865
Revenue from Green Card sales	477,440	489,733
Revenue from other services	1,991,782	2,005,664
Total	**4,445,976**	**4,262,763**

Revaluation operating revenues mostly originate in the reversal of impairment of premium receivables, recourse receivables, other receivables and financial receivables. In 2014, due to significantly lower reversals of impairments, these revenues are substantially lower (in 2014, they totalled 294,824 euros, compared to 6,148,635 euros in 2013). The reason for this is that the parent company in the past years sold out the largest part of “old” receivables (with high adjustments formed) to its subsidiary Prospera d.o.o., the main activity of which is debt collection. Therefore, in the current year, the release of adjustments in the insurance company’s receivables could not be as high as in the past years.

8.19 NET CLAIMS INCURRED

Net claims incurred in 2014

in EUR	Gross claims settled	Revenues from recourse receivables	Share of reinsurance/ coinsurance in claims/ benefits paid	Change in gross outstanding claims provisions	Change in outstanding claims provisions for reinsurance/ coinsurance share	Expenses from equalisation scheme	Net expenses for claims/ benefits paid
Motor vehicle liability insurance	27,396,687	(1,664,192)	(8,380,083)	(861,459)	(3,893,823)	-	12,597,130
Land motor vehicles insurance	26,630,059	(834,364)	(12,373,222)	(783,198)	354,288	-	12,993,563
Accident insurance	7,347,809	(3,276)	(517,980)	(1,242,341)	(4,472)	-	5,579,740
Fire and natural disasters Insurance	8,916,751	(200,554)	(2,964,454)	519,843	(72,537)	-	6,199,050
Other damage to property insurance	9,009,217	(166,635)	(328,894)	(12,883)	199,467	-	8,700,272
General liability insurance	3,183,126	(10,696)	(38,044)	(2,074,629)	50,052	-	1,109,810
Credit insurance	693,447	(710,003)	-	(83,266)	-	-	(99,821)
Other non-life insurance, excluding health insurance operations	5,444,376	(168,011)	(1,416,977)	(696,445)	571,854	-	3,734,798
Non-life insurance contracts, excluding health insurance contracts	88,621,472	(3,757,729)	(26,019,654)	(5,234,377)	(2,795,171)	-	50,814,540
Health insurance contracts	88,631,491	(203,611)	-	(526,547)	-	4,284,356	92,185,688
Life insurance	13,332,309	-	(322,554)	(747,759)	(19,521)	-	**12,242,475**
Unit-linked insurance contracts	22,207,246	-	(11,538)	81,807	-	-	**22,277,515**
Additional pension insurance	391,682	-	(2,257)	(15,747)	-	-	**373,677**
Insurance contracts and investment life insurance contracts	35,931,237	-	(336,349)	(681,699)	(19,521)	-	34,893,668
Total	213,184,199	(3,961,340)	(26,356,003)	(6,442,624)	(2,814,691)	4,284,356	177,893,896

Net claims incurred in 2013

in EUR	Gross claims settled-adjusted	Revenues from recourse receivables	Share of reinsurance/ coinsurance in claims/ benefits paid	Change in gross outstanding claims provisions	Change in outstanding claims provisions for reinsurance/ coinsurance share	Expenses from equalisation scheme	Net expenses for claims/ benefits paid
Motor vehicle liability insurance	28,577,702	(1,002,533)	(8,369,877)	(5,909,329)	(2,890,272)	-	10,405,691
Land motor vehicles insurance	30,445,613	(703,761)	(13,864,416)	(1,021,946)	91,235	-	14,946,726
Accident insurance	7,286,753	(4,970)	(460,463)	(1,360,338)	(201,324)	-	5,259,659
Fire and natural disasters Insurance	9,031,797	(75,185)	(1,697,640)	(1,386,823)	907,723	-	6,779,872
Other damage to property insurance	8,980,189	(17,057)	(535,118)	533,285	(122,256)	-	8,839,043
General liability insurance	3,681,183	(27,407)	(281,860)	635,261	24,427	-	4,031,605
Credit insurance	1,048,465	(892,136)	-	(72,777)	-	-	83,552
Other non-life insurance, excluding health insurance operations	3,425,098	(69,522)	(607,721)	(20,571)	(124,208)	-	2,603,076
Non-life insurance contracts, excluding health insurance contracts	92,476,800	(2,792,571)	(25,817,094)	(8,603,237)	(2,314,674)	-	52,949,224
Health insurance contracts	91,938,863	(74,271)	-	(442,596)	-	4,304,559	95,726,554
Life insurance	12,088,396	-	(291,520)	(556,032)	56,180	-	11,297,024
Unit-linked insurance contracts	21,065,802	-	-	133,186	-	-	21,198,988
Additional pension insurance	710,717	-	-	-	-	-	710,717
Insurance and financial contracts - life insurance	33,864,915	-	(291,520)	(422,846)	56,180	-	33,206,728
Total	218,280,578	(2,866,842)	(26,108,614)	(9,468,680)	(2,258,494)	4,304,559	181,882,507

The increase in net claims expenses in 2013 is also a consequence of operating expenses and other operating expenses which were transferred to gross expenses for claims paid in the amount of 6,162,300 euros.

Net claims incurred classified into expenses for the current year and expenses for previous years

in EUR	Gross 2014	Reinsurance 2014	Net2014	Gross 2013	Reinsurance 2013	Net2013
Expenses for claims and benefits paid for current year	**220,460,876**	**29,665,440**	**190,795,436**	**228,499,024**	**30,088,236**	**198,410,788**
Claims and benefits paid	169,164,174	16,640,400	152,523,774	172,831,918	17,647,903	155,184,015
Change in outstanding claim provisions	47,012,346	13,025,040	33,987,306	51,362,548	12,440,333	38,922,215
Expenses from equalisation scheme	4,284,356	-	4,284,356	4,304,559	-	4,304,559
Expenses for claims and benefits paid for previous years	**(13,396,285)**	**(494,746)**	**(12,901,539)**	**(18,249,409)**	**(1,721,127)**	**(16,528,282)**
Claims and benefits paid	40,058,685	9,718,985	30,339,700	42,581,819	8,460,711	34,121,108
Change in outstanding claim provisions	(53,454,969)	(10,213,731)	(43,241,239)	(60,831,228)	(10,181,838)	(50,649,389)
Total	**207,064,591**	**29,170,695**	**177,893,897**	**210,249,615**	**28,367,109**	**181,882,507**

8.20 COSTS/ EXPENSES

8.20.1 Costs/ expenses by natural groups

in EUR	2014	2013
Operating costs for material	1,182,990	1,433,649
Acquisition costs	24,919,373	23,903,808
Operating costs for services	21,036,927	22,449,181
Depreciation/amortisation	3,397,369	3,237,809
Labour costs	30,661,960	29,534,968
Payroll – wages and salaries	22,391,713	21,550,683
Social security costs	1,597,135	1,505,093
Pension insurance costs	2,137,547	2,106,705
Other labour cost	3,866,698	4,016,064
Provisions for termination benefits and jubilee benefits	668,866	356,424
Total	**81,198,619**	**80,559,416**

8.20.2 Costs/ expenses by functional groups

in EUR	2014	2013
Costs related to acquisition of insurance and investment contracts	24,927,344	20,590,920
Costs related to financial asset management	2,492,402	1,745,133
Costs related to PPE management	657,209	1,024,062
Other costs for management fees	2,344,289	2,316,168
Costs of sale	23,308,366	22,776,253
Other costs/expenses	21,333,003	25,971,277
Total costs/expenses by functional groups	**75,139,958**	**74,423,814**

Costs by functional groups differ from costs by natural groups by the cost of liquidation, accounted for by the Group among net expenses for claims paid. These costs in 2014 amounted to 6,058,661 euros (2013: 6,135,602 euros). The costs by functional groups differ from costs by natural groups by the cost of liquidation, accounted for by the Group among gross expenses for claims paid. Together with the transfer of a part of other expenses in the amount of 34,193 euros (2013: 26,698 euros), there were 6,092,854 euros transferred to gross expenses for claims paid (2013: 6,162,300 euros).

8.20.3 Labour costs for own agents

in EUR	2014	2013
Labour costs	6,851,470	6,857,877
Wages and salaries	4,905,335	4,945,037
Social security costs	374,257	370,443
Pension insurance costs	559,463	553,587
Other labour cost	1,012,415	988,811
Costs of services provided by private individuals	370,415	369,043
Total	**7,221,885**	**7,226,921**

8.20.4 Auditor's remuneration

The audit of annual consolidated financial statements of the parent company Adriatic Slovenica for 2014, as well as 2013, was performed by the audit firm KPMG Slovenija d.o.o. The same firm performed the audit of the subsidiary AS neživotno osiguranje a.d.o., Serbia. Audit of the subsidiary KD Životno osiguranje d.d., Croatia was performed by the audit firm Antares revizija d.o.o.

Fees paid for auditor's services in 2014

in EUR	KPMG Slovenia d.o.o.	KPMG rest of the world	Antares revizija d.o.o.	Other	Total
Statutory audit of the annual report 2013	37,039	-	23,462	-	**60,500**
Statutory audit of the annual report 2014	118,226	-	19,240	-	**137,465**
Tax counselling services	-	-	-	59,110	**59,110**
Other non-audit services	4,457	13,978	-	33,077	**51,512**
Total fees for independent auditor's services	**159,721**	**13,978**	**42,701**	**92,187**	**308,587**

Fees paid for auditor's services in 2013

in EUR	KPMG Slovenija d.o.o.	Other	Total
Statutory audit of the annual report 2012	-	10,960	**10,960**
Statutory audit of the annual report 2013	75,579	-	**75,579**
Other audit services	88,521	-	**88,521**
Tax counselling services	-	19,311	**19,311**
Other non-audit services	-	4,792	**4,792**
Total fees for independent auditor's services	**164,100**	**35,063**	**199,163**

8.21 OTHER INSURANCE EXPENSES

Other insurance expenses

in EUR	2014	2013 (adjusted)
Expenses for preventive activities	875,900	875,427
Contribution for covering losses caused by uninsured and unknown vehicles	503,978	108,401
Other net insurance expenses	5,330,756	8,922,760
Total	**6,710,633**	**9,906,589**

The expenses for preventive activities relate to expenses for payment of fire fees. Insurance companies that offer non-life insurance must charge and pay fire fees to the Slovenian Insurance Association (SZZ) as stipulated by the association's rules. Adriatic Slovenica pays the fire fees in the amount depending on the market share and premium written from fire insurance. In 2014, these expenses are on the same level as last year.

The contribution for covering damage on uninsured and unidentified vehicles is a "special fee" that the insurance company pays to the Slovenian Insurance Association (SZZ), depending on the market share of motor vehicle liability insurance. In 2012, the insurance company paid more fee than it should because the actual amount was determined subsequently. Therefore, these expenses were in 2013 much lower from the expected amount arising from these events. However, in 2014, this fee was paid in the expected amount.

Other net insurance expenses are in volume the largest part of other insurance expenses and are generated from:

- claims write-offs from insurance premiums in the amount of 1,650,470 euros (2013: 3,774,574 euros),
- recourse receivables write-offs in the amount of 1,557,114 euros (2013: 3,680,240 euros),
- write-offs of other receivables in the amount of 250,308 euros (2013: 127,917 euros),
- insurance expenses for car assistance in the amount of 1,545,148 euros (2013: 1,052,048 euros),
- expenses of supervisory bodies and other net insurance expenses in the amount of 327,716 euros (2013: 287,981 euros).

Annually, the Group reviews the recoverability of older and overdue receivables and decides about write-offs of receivables, the recoverability of which had been proven several times and there is solid proof (inability to repay, bankruptcy, personal bankruptcy…) that these receivables would not be repaid in the future. Based on a conclusion of the Management Board and checks performed by the inventory commission, write-offs are made. In 2014, compared to 2013, the amount of write-offs of receivables from insurance cases and recourse receivables is significantly lower, mostly because of lowering of the structure of older and overdue receivables. This is because the insurance company in the last years sold most of its overdue and unpaid receivables to its subsidiary Prospera d.o.o.

8.22 OTHER EXPENSES

Other expenses

in EUR	2014	2013 (adjusted)
Revaluation operating expenses	3,363,954	1,271,629
Expenses for depreciation of investment properties	338,498	345,306
Other expenses for investment properties	439,057	298,381
Expenses for disposal of investment properties	151,992	994,128
Other operating expenses	1,427,462	1,624,405
Finance expenses	580,093	886,953
Total	**6,301,057**	**5,420,803**

Revaluation operating expenses that present an important part of other expenses in 2014 were generated by revaluation or impairment of receivables in the amount of 2,881,930 euros (2013: 1,451,294 euros). Expenses from impairment of receivables arise from impairment of premium receivables, recourse receivables and impairment of receivables and deposits measured at amortised cost.

Expenses from amortisation of investment property remain on a similar level than last year since there were no important changes in the structure of investment properties.

Other expenses from investment properties mostly relate to expenses from rented investment property. In 2014, these expenses increased by more than 30 % due to the acquisition of a new investment property (on 22 Slovenčeva street in Ljubljana).

Other operating expenses are an important part of other expenses, therefore, they are presented in further detail in the section below.

Other operating expenses

in EUR	2014	2013
Payments for charity and cultural purposes	117,741	90,881
Benefits not depending on operating profit or loss	210,651	98,246
Financial penalties and compensations	5,997	5,300
Other operating expenses	1,043,193	1,369,120
The rest of other operating expenses	49,880	60,858
Total	**1,427,462**	**1,624,405**

Finance expenses, which decreased compared to the year before, are below presented in further detail.

Finance expenses

in EUR	2014	2013
Other finance expenses	580,093	886,953
Finance expenses arising from other financial liabilities	84,636	338,038
Finance expenses arising from fees and commissions	396,541	78,569
Finance expenses arising from operating liabilities	98,916	470,346
Total	**580,093**	**886,953**

8.23 REINSURANCE RESULT

The reinsurance result shown below by insurance class presents the net reinsurance result, which does not include any reinsurance premiums or claims from co-insurance.

Reinsurance result for non-life insurance in 2014

Insurance class in EUR	Reinsurance premiums	Reinsurance claims	Gross reinsurance result	Reinsurance commissions	Net reinsurance result
Accident insurance	3,223,994	517,980	2,706,014	1,013,715	1,692,299
Land motor vehicle insurance	17,839,692	12,373,222	5,466,470	5,235,146	231,323
Aircraft insurance	858	-	858	64	794
Marine loss insurance	163,860	345,934	(182,073)	-	(182,073)
Transportation (goods in transit) insurance	356,639	436,685	(80,047)	14,614	(94,660)
Fire and natural disaster insurance	3,718,321	2,946,985	771,336	658,296	113,040
Other damage to property insurance	1,457,553	336,611	1,120,942	109,716	1,011,226
Motor vehicle liability insurance (MTPL)	17,981,079	8,380,083	9,600,996	5,695,025	3,905,971
Aircraft liability insurance	11,972	-	11,972	1,173	10,800
Ship/boat liability insurance	61,422	-	61,422	-	61,422
General liability insurance	627,995	22,757	605,238	18,259	586,979
Suretyship insurance	35,846	7,847	27,999	-	27,999
Miscellaneous financial loss insurance	82,719	31,531	51,188	12,168	39,021
Legal expenses insurance	66,213	(124)	66,336	21,889	44,447
Insurance of assistance	1,160,789	594,980	565,809	363,741	202,068
Total non-life insurance	**46,788,952**	**25,994,491**	**20,794,461**	**13,143,806**	**7,650,655**

Reinsurance result for non-life insurance in 2013

Insurance class in EUR	Reinsurance premiums	Reinsurance claims	Gross reinsurance result	Reinsurance commissions	Net reinsurance result
Accident insurance	3,735,651	460,463	3,275,188	1,179,976	2,095,212
Land motor vehicle insurance	19,954,217	13,864,416	6,043,985	6,101,335	12,392
Aviation insurance	661	-	661	-	661
Marine loss insurance	70,011	-	70,011	-	70,011
Transportation (goods in transit) insurance	223,575	19,989	203,586	9,769	193,817
Fire and natural disaster insurance	3,648,895	1,686,174	2,497,907	531,371	1,985,261
Other damage to property insurance	1,310,027	535,011	735,039	64,191	679,114
Motor vehicle liability insurance (MTPL)	19,693,785	8,369,877	11,296,019	6,282,178	5,013,841
Aircraft liability insurance	16,197	-	16,197	1,607	14,589
Ship/boat liability insurance	64,598	-	64,598	-	64,598
General liability insurance	540,124	271,069	268,066	3,831	264,236
Suretyship insurance	44,536	-	44,536	-	44,536
Miscellaneous financial loss insurance	102,398	542	96,457	16,154	80,814
Legal expenses insurance	72,307	(32)	72,339	24,744	47,594
Insurance of assistance	1,082,648	587,189	495,460	350,213	145,247
Total non-life insurance	**50,559,629**	**25,794,698**	**25,180,049**	**14,565,369**	**10,711,924**

8.24 CORPORATE INCOME TAX

Taxes

in EUR	2014	2013
Corporate income tax charge	(4,284,401)	(1,955,524)
Deferred tax income/(expense)	468,338	(451,407)
Total	**(3,816,063)**	**(2,406,931)**

Tax base and rate for the calculation of corporate income tax

in EUR	2014	2013
Profit or loss before taxes	**22,305,501**	**15,263,594**
Revenue adjustment to level recognised for tax purposes	(11,548,826)	(16,203,188)
Expense adjustment to level recognised for tax purposes	16,343,134	14,223,086
Tax allowance	(1,897,448)	(1,780,409)
Total tax base	25,202,361	11,503,083
Rate used for income tax calculation	**17.00%**	**17.00%**
Income tax	**(4,284,401)**	**(1,955,524)**
Effective tax rate	**15.77%**	**15.77%**

Adjustment between the actual and the calculated tax expense by applying the effective tax rate

	2014		2013	
in EUR	Rate	Value	Rate	Value
Profit or loss before taxation		**22,305,501**		**15,263,594**
Tax calculated by using official tax rate (2014: 17%, 2013: 17%)	**17**	**(3,791,935)**	**17**	**(2,594,811)**
Income excluded from the tax base		**1,932,492**		**2,844,835**
Dividend income exempt from tax		180,357		128,565
Adjustment of income to the level recognised for tax purposes (decrease)		1,752,135		2,716,270
Expenses not recognised in the tax base		**(2,456,581)**		**(2,253,160)**
Increase in expenditure (not recognised for tax purposes in previous years)		554,956		11,214
Adjustment of income to the level recognised for tax purposes		(3,011,535)		(2,264,375)
Use of tax allowance in the current year		320,517		300,866
Other changes in deferred taxes in the income statement		468,338		704,661
Profit or loss after taxation		**(3,816,063)**		**(2,406,931)**
Effective tax rate (in %)		**17.11%**		**15.77%**

Under the Slovene tax legislation, it is possible that the tax authority in certain cases levies tax on the entity's operating activities by using an approach that differs from the one used by the Group. In 2014, the Tax Administration of the Republic of Slovenia did not conduct any corporate tax inspections. Therefore, a possibility exists that a tax inspection will take place at a later date and it may result in additional tax charges being imposed. However, the management believes that the corporate income tax return encompasses all expenses and income in accordance with the provisions of the law and that no further obligations will be imposed in the event of a tax inspection.

As a rule, the tax base calculated for corporate income tax is higher than profit before tax posted in the income statement as a result of the portion of non-deductible expenses, representing permanent differences. The ratio between the tax expense (including deferred tax) and the determined financial result before tax for 2014 is 17.11 % (2013: the effective tax rate was 15.77 %).

In Slovenia, the tax liability from the tax base for 2014 was calculated at a 17 % tax rate, which is the same as the previous year. In the subsidiary AS Neživotno osiguranje, Serbia, tax for 2014 and 2013 was calculated at a 15 % tax rate, as prescribed by the local legislation in Serbia, while in the subsidiary KD životno osiguranje d.d. Zagreb and indirect subsidiary Permanens d.o.o Zagreb, tax for 2014 and 2013 was calculated at a 20 % tax rate, as prescribed by the local legislation in Croatia.

8.25 DEFERRED TAXES

Deferred taxes are the result of calculating current and future tax effects, i.e. the future recovery (settlement) of the book value of assets (liabilities) recognized in the balance sheet of the Group and the transactions and other business events during the relevant period, offset and recognized in the financial statements of the Group in the case of the same tax authority.

Recognised deferred tax amounts

in EUR	31 Dec 2014	31 Dec 2013
Deferred tax assets	**3,957,936**	**3,954,442**
– receivables for deferred tax to be recovered	3,957,936	3,954,442
Deferred tax liabilities	**1,194,632**	**27,011**
– liabilities for deferred taxes pending payment	1,194,632	27,011

Overview of bases for deferred tax receivables

in EUR	Base 2014	Deferred tax liability 2014	Base 2013	Deferred tax liability 2013
Due to impairment/value adjustments of receivables for premiums, for recourse receivables and for other current receivables	13,817,012	2,348,892	12,420,744	2,111,526
Due to impairment/value adjustments of financial investments	7,868,973	1,337,725	8,613,918	1,464,366
Due to impairment/value adjustments of provisions and depreciation above the statutory rate	1,595,989	271,318	2,226,759	378,549
Total	**23,281,974**	**3,957,936**	**23,261,420**	**3,954,441**

Overview of bases for deferred tax liabilities

in EUR	Base 2014	Deferred tax liability 2014	Base 2013	Deferred tax liability 2013
Due to reversal of increase of financial investments	7,027,247	1,194,632	8,895	27,011
Total	**7,027,247**	**1,194,632**	**8,895**	**27,011**

Deferred taxes taken to equity in a given year

in EUR	31 Dec 2014	31 Dec 2013
Revaluation surplus (deferred taxes)		
Available-for-sale financial assets	(1,642,065)	234,090
Total	**(1,642,065)**	**234,090**

Movements in deferred taxes

in EUR	Total
Net balance of assets and liabilities as at 1 Jan 2013	**4,120,609**
Debited/credited to income statement	(687,911)
Debited/credited to equity	220,304
Debited/credited to income statement due to change in tax rate	260,644
Debited/credited to equity due to change in tax rate	13,786
Net balance of assets and liabilities as at 31 Dec 2013	**3,927,432**
	-
New balance as at 1 Jan	**3,927,432**
Debited/credited to income statement	477,937
Debited/credited to equity	(1,642,065)
Net balance of assets and liabilities as at 31 Dec 2014	**2,763,304**

Movements in deferred tax liabilities (without offsetting)

v EUR	Impairment reversal to fair value	Other	Total
Balance as at 1 Jan 2013	**48,129**	**-**	**48,129**
Debited/credited to equity	(24,126)	-	(24,126)
Debited/credited to equity due to change in tax rate	3,008	-	3,008
Balance as at 31 Dec 2013	**27,011**	**-**	**27,011**
New balance as at 1 Jan 2014	**27,011**	**-**	**27,011**
Debited/credited to equity	1,167,621	-	1,167,621
Balance as at 31 Dec 2014	**1,194,632**	**-**	**1,194,632**

Deferred tax assets by calculation basis

in EUR	Receivables from direct insurance contracts	Non-current and current financial investments	Other non-current receivables from insurance contracts	Reserves for jubilee and termination benefits at retirement	Amortised above mandatory rate for computer software	Other current receivables	Provisions for unused R&D tax incentives	Total
Balance as at 1 Jan 2013	**1,645,873**	**1,093,676**	**671,239**	**264,270**	**142,345**	**281,519**	**-**	**4,098,923**
Debited/credited to income statement	(243,739)	10,703	(423,373)	(46,858)	(47,368)	67	38,583	(711,985)
Debited/credited to equity	-	306,861	-	-	-	-	-	306,861
Debited/credited to income statement due to change in tax rate	92,760	53,126	41,952	32,715	8,280	31,811	-	260,644
Balance as at 31 Dec 2013	**1,494,894**	**1,464,366**	**289,818**	**250,127**	**103,256**	**313,397**	**38,583**	**3,954,442**
New balance as at 1 Jan 2014	**1,364,634**	**1,464,366**	**306,478**	**235,179**	**93,387**	**313,397**	**38,583**	**3,816,023**
Debited/credited to income statement	229,393	347,803	2,257	31,764	(41,148)	80,494	(34,206)	**616,356**
Debited/credited to equity	-	(474,443)	-	-	-	-	-	**(474,443)**
Balance as at 31 Dec 2014	**1,594,027**	**1,337,726**	**308,734**	**266,943**	**52,239**	**393,891**	**4,376**	**3,957,936**

8.26 NET EARNINGS (LOSS) PER SHARE

The basic net earnings per share that refers to the holders of ordinary shares and is calculated by dividing the net profit (loss) for the year attributable to the holders of ordinary shares (numerator) with the weighted average number of ordinary outstanding shares for the reporting period (at the reporting date).

Earnings (loss) per share

in EUR	31 Dec 2014	31 Dec 2013
Net profit or loss for the financial year	18,504,520	12,894,335
Weighted average number of ordinary shares outstanding	10,304,407	9,827,497
Basic and adjusted net earnings / loss per share (in euros)	**1.80**	**1.31**

All shares issued by the parent company are ordinary registered shares; therefore, the diluted net earnings per share are equal to the basic net earnings per share.

Movements in shares

	2014	2013
As at 1 Jan	10,304,407	9,666,780
Change (recapitalisation/disposal)	-	637,627
As at 31 Dec	**10,304,407**	**10,304,407**

8.27 ISSUES, REDEMPTIONS AND PAYOUTS OF SECURITIES AND DIVIDENDS

In 2014, Adriatic Slovenica Group did not issue, redeem or pay out any debt or equity securities.

Dividend per share

	2014	2013
Amount of dividends (in euros)	13,400,000	11,000,000
Dividend per share (in euros)	1.30	1.14

Dividends are formed from the accumulated profit determined by the parent company after the financial year ended and are paid in the foreseen amount after the General Meeting of Shareholders adopted such a resolution.

On 22 May 2014, the General Meeting of Shareholders of Adriatic Slovenica adopted a resolution to allocate 13,400,000 euros for the payment of dividends to the shareholders at the latest by 30 May 2014.

9. RELATED PARTY TRANSACTIONS

In this section, the Group discloses transactions with related legal entities, the owner of the controlling entity KD Group d.d. and the senior management of companies within the Group. In 2014, there were no significant transactions between the related parties carried out under unusual market conditions and likely to affect the presentation of the Group's financial position. In the reporting year, the Group received adequate payments and reimbursements in all transactions made with the parent company KD Group and those transactions were carried out at arm's length.

9.1 RELATED PARTIES

The related parties of Adriatic Slovenica Group as at 31 December 2014 are listed below:

KD Group d. d.- direct owners of the parent company within Adriatic Slovenica Group

Associate NAMA d. d. Ljubljana

Other related parties of Adriatic Slovenica Group:

Other related parties are the companies which are associated with the Group through management and supervisory bodies, i.e. Management and Supervisory Board members.

Associate

NAMA d. d. Ljubljana

Head office: Tomšičeva ulica 1, 1000 LJUBLJANA
Company registration number: 5024811
VAT identification number: SI22348174
No. of employees as at 31 December 2014: 164
Company objects: The principal activity of Nama is retail trade services of food and non-food products.
As at 31 December 2014, Adriatic Slovenica d.d. had a 48.51 % equity stake in the associate. The reporting period of the financial statements is equal to the calendar period ended 31 December 2014.
The tax rate applied in the calculation of the corporate income tax was 17 %.
Adriatic Slovenica Group did not receive or give any loans to the subsidiary Nama in 2014.

In its consolidated financial statements, Adriatic Slovenica d.d. accounts for Nama d.d. Ljubljana using the equity method.

Shareholders

With a 100 % equity stake, KD Group d.d. is the sole shareholder of the parent company within Adriatic Slovenica Group. Business cooperation with KD Group d.d., the owner of the parent company within Adriatic Slovenica Group, is outlined in the text below.

Sale of goods and services

in EUR	2014	2013
Shareholder of Adriatic Slovenica d.d	248,561	205,796
Associate of Adriatic Slovenica d.d.	321	2,160
Other associated/affiliated companies of Adriatic Slovenica d. d.	1,229,191	743,575
Total	**1,478,073**	**951,531**

Purchase of goods and services

in EUR	2014	2013
Shareholder of Adriatic Slovenica d.d	559,008	442,533
Associate of Adriatic Slovenica d.d.	12	-
Other associated/affiliated companies of Adriatic Slovenica d. d.	3,768,048	1,009,354
Total	**4,327,067**	**1,451,887**

Receivables of the Group from related parties

in EUR	31 Dec 2014	31 Dec 2013
Shareholder of Adriatic Slovenica d.d	4,114	-
Associate of Adriatic Slovenica d.d.	-	107
Other associated/affiliated companies of Adriatic Slovenica d. d.	154,564	108,038
Total	**158,678**	**108,145**

Liabilities of the Group from related parties

in EUR	31 Dec 2014	31 Dec 2013
Shareholder of Adriatic Slovenica d.d	136,206	150,922
Associate of Adriatic Slovenica d.d.	12	12
Other associated/affiliated companies of Adriatic Slovenica d. d.	174,015	103,468
Total	**310,233**	**254,401**

Purchase of investment properties from related parties

in EUR	2014	2013
Other associates of Adriatic Slovenica d.d.	-	1,424,000
Total	**-**	**1,424,000**

In 2014, the Group did not sell any investment properties to its related parties.

Purchase of securities from related parties

in EUR	2014	2013
Associate of Adriatic Slovenica d.d.	-	4,008
Other associates of Adriatic Slovenica d.d.	-	649,867
Total	**-**	**653,875**

Sale of securities to related parties

in EUR	2014	2013
Other associates of Adriatic Slovenica d.d.	-	(103,277)
Total	**-**	**(103,277)**

Bonds issued by the shareholder of the parent company

in EUR	2014	2013
At the beginning of year	**-**	**6,853,801**
Spin-off assets	-	1,316,282
New balance as at 1 January - after spin-off	**9,652,626**	**8,170,083**
Bonds purchased from third parties	-	973,301
Interest charged	676,656	559,050
Interest received	(573,908)	(559,050)
Valuation/measurement	1,317,018	509,242
At the end of the reporting period	**11,072,392**	**9,652,626**

Bonds issued by other related parties

in EUR	2014	2013
At the beginning of year	**-**	**3,914,942**
Spin-off assets	-	**534,808**
New balance as at 1 January - after spin-off	**6,050,921**	**4,449,750**
Bonds purchased in the Group	168,019	1,658,524
Interest charged	411,145	412,440
Interest received	(427,630)	(412,440)
Valuation/measurement	10,421	(57,353)
At the end of the reporting period	**6,212,877**	**6,050,921**

Shares issued by the shareholder of the parent company

in EUR	2014	2013
At the beginning of year	**116,105**	**537,372**
Valuation/measurement	46,735	(421,267)
At the end of the reporting period	**162,840**	**116,105**

Shares of the associate

in EUR	2014	2013
At the beginning of year	**11,705,901**	**11,701,893**
Shares purchased from other related companies	-	4,008
Dividends paid	77,175	77,175
Dividends received	(77,175)	(77,175)
At the end of the reporting period	**11,705,901**	**11,705,901**

Shares of other related parties

in EUR	2014	2013
At the beginning of year	-	**8,053,672**
Spin-off assets	**-**	**(4,691,590)**
New balance as at 1 January - after spin-off	**2,812,704**	**3,362,082**
Shares purchased from other related companies	-	649,867
Shares sold to other related companies	(1,752,487)	(103,277)
Dividends paid	289,294	54,457
Dividends received	(289,294)	(54,457)
Valuation/measurement	219,675	(752,887)
Permanently impaired	-	(343,081)
At the end of the reporting period	**1,279,892**	**2,812,704**

The transactions carried out by the Group with its related parties in 2014 involved the following:

- insurance contracts, claims, payment of insurance fees/commissions;
- renting of business premises and parking spaces;
- purchase and sale of investment properties;
- purchase and sale of securities.

Loans received and loans given

Loans given to the shareholder of the parent company

in EUR	2014	2013
At the beginning of year	**10,699,997**	**980,012**
Approved loans	17,700,000	29,200,000
Repaid loans	(20,300,000)	(19,480,000)
Interest accrued	433,966	202,507
Interest reduction	(433,966)	(202,522)
At the end of year	**8,099,996**	**10,699,997**
Paid interest	448,306	169,481

The loans were given at market interest rate of 5 % and were adequately secured (bills of exchange).

Loans given to other related parties

in EUR	2014	2013
At the beginning of year	**9,801,611**	3,502,283
Approved loans	11,800,000	11,200,000
Repaid loans	(1,849,100)	(4,900,000)
Interest accrued	508,186	297,657
Interest reduction	(508,862)	(298,329)
At the end of year	**19,751,835**	**9,801,611**
Paid interest	**707,820**	184,778

The loans to other related parties were given at market interest rates from 3.5 % to 6 %. They are secured with equity securities, mortgages on real property, bills of exchange and equity stakes.

Remuneration of members of management and supervision bodies and employees on individual employment agreements – all companies within Adriatic Slovenica Group in 2014

Remuneration type in EUR	Remuneration of management board members	Remuneration of the Audit Committee members	Remuneration of supervisory board members	Remuneration of audit commission members
Salary	888,716	-		4,224,976
Bonuses and other remuneration	145,478	-	-	756,474
Meeting attendance fees	-	12,528	136,800	-
Total	**1,034,194**	**12,528**	**136,800**	**4,981,450**

Payments are presented in gross amounts and were disbursed to the members of management and/or supervision bodies and employees on individual employment agreements (or on employment agreements, for which the tariff section of the collective agreement does not apply) in 2014 for the period in which they had the function of management and/or supervision in the parent company Adriatic Slovenica d.d. and in subsidiaries AS neživotno osiguranje a.d.o., PROSPERA, družba za izterjavo d.o.o., VIZ zavarovalno zastopništvo d. o. o. and KD Životno osiguranje d.d.

Transactions with senior management of the parent company within Adriatic Slovenica Group

Remuneration given to the employees with individual employment agreements and income of the Audit Committee of the parent company are included in the table above, within the remuneration of all companies within the Group. Other remuneration, also included in the table above for the purpose of reporting on Group level, are presented in greater detail in the text below.

Payments to the members of the management bodies in 2014

in EUR		Gross salary	Variable part of remuneration	Regres za letni dopust	Reimbursem ents of costs*	Insurance premiums	Commissions, bonuses and other fringe benefits	Remuneration for work in subsidiaries
Gabrijel Škof	President of the Management Board	158,605	26,600	1,064	2,510	3,313	1,197	-
Willem Jacob Westerlaken	Member of the Management Board	121,923	20,300	1,064	5,841	144	32,077	-
Varja Dolenc, MSc	Member of the Management Board (od 13. 01. 2014)	117,726	-	1,064	1,519	1,457	5,440	-
Matija Šenk	Member of the Management Board (30. 01. 2014)	107,845	-	994	3,629	1,565	1,310	-

*Including travel expenses using own vehicle and daily allowance at home and abroad.

Payments to the members of the supervision bodies in 2014

in EUR		Fees for attending board sessions
Matjaž Gantar, MSc	Chairman	21,600
Aljoša Tomaž	Member	19,200
Sergej Racman	Member (until 22 May 2014)	8,000
Tomaž Butina	Member	19,200
Aleksander Sekavčnik	Member	19,200
Ljuba Miljušević	Member, representative of employees (until 22 July 2014)	11,200
Matjaž Pavlin	Member, representative of employees	19,200
Viljem Kopše	Member, representative of employees	19,200

As at 2014 year-end, the Group carries the following current operating receivables and liabilities related to the management of the parent company within the Group:

- 123 euros of receivables and 11 euros of liabilities from the members of the Management Board. The former fully arise from the insurance business (premiums due), while the latter arise from travel expense reimbursement.
- 859 euros of receivables and no liabilities from the members of the Supervisory Board. All receivables arise from the insurance business (premiums due).
- 6,527 euros of receivables and 1,562 euros of liabilities from the employees employed on the basis of the contract to which the tariff section of the collective agreement does not apply. The bulk of receivables in the amount of 6,095 euros arises from the insurance business (premium due), while a small part arises from rents for parking spaces. The total sum of liabilities arises from travel expense reimbursement.

The above receivables arising from premiums are non-matured receivables. The receivables arising from rents for parking places are the receivables for the rents in December and were settled by deducting the relevant amounts from the payroll in January 2015.

As at 2014 year-end, the parent company within the Group does not carry receivables or liabilities related to members of management or supervision bodies of the associate.

In 2014, the Group did not grant to or receive any loans or advances from the members of the Management Board, the members of the Supervisory Board or the employees employed on the basis of the contract to which the tariff section of the collective agreement does not apply. Furthermore, the management did not participate in any scheme offering share options and no significant transactions were made without entering them in the accounting records of the Group.

Transactions with the immediate family members of members of management and supervision bodies

In 2014, insurance transactions were made between the parent company within the Group and the immediate family members of Management Board, Supervisory Board and Audit Committee members, the immediate family members paying to the insurance company the premium for the taken out insurance as shown below:

- the immediate family members of members of the Management Board paid the aggregate amount of 1,151 euros of insurance premiums,
- the immediate family members of members of the Supervisory Board paid the aggregate amount of 7,442 euros of insurance premiums,
- the immediate family members of members of the Audit Committee paid the aggregate amount of 4,173 euros of insurance premiums.

The insurance premiums paid by the immediate family members of Adriatic Slovenica were paid on the basis of insurance contracts taken out under normal market conditions or according to the tariffs with usual discounts for unrelated parties. In 2014, based on the concluded insurance premiums, the insurance company paid 159 euros for claims to the immediate family members of members of the Supervisory Board and 159 euros for claims to the immediate family members of members of the Audit Committee.

Transactions with senior management of controlling companies of the parent company within Adriatic Slovenica Group

The senior management of the controlling companies comprises all members of the Management Board who manage and control the parent company KD Group d.d. and, at the highest level, the parent company KD d.d. In 2014, the senior management of controlling companies did not receive any compensations from the insurance company, except for the claims under the insurance contracts. The receivables carried in the books of account at the end of 2014 and arising from the senior management of the controlling companies up to the highest parent controlling company amounted to 316 euros. All outstanding receivables refer to the receivables arising from the insurance business (premiums). As at 31 December 2014, there are no outstanding liabilities related to the management members of the controlling companies.

10. CONTINGENT RECEIVABLES AND LIABILITIES

Contingent receivables and liabilities are potential receivables and liabilities, kept in the off-balance sheet. These comprise: received guarantees with pledged securities and mortgage on real property as collateral for given short-term loans in the amount of 10,345,308 euros and receivables from the state in the amount of 2,178,453 euros; and from insurance business the receivables for unrealised recourses in the amount of 8,473,534 euros and receivables for premiums in the amount of 1,114,854 euros.

In 2014, the Group among off-balance liabilities recognised 57,432 euros of contingent liabilities. Among these, there were 17,817 euros of contingent liabilities from insurance-legal cases – for those cases, in which there are no additional provisions formed in the books of account and there is a possibility that the court decides they should be repaid. By the end of 2014, one insurance-legal case in the amount of 3,517 euros was closed and for the remaining cases, there was a provision of 14,300 euros in the financial statements. Among contingent liabilities, there were also two labour-legal cases in the total amount of 39,615 euros. In 2014, one of them (in the amount of 26,615 euros) was closed, while the other in the amount of 13,000 euros was accounted for in deferred costs. As at 31 December 2014, the Group had no remaining off-balance contingent liabilities from insurance-legal cases or labour-legal cases.

Contingent receivables arising from an action against the Republic of Slovenia refer to the action lodged against the Republic of Slovenia due to unlawful government interference in the motor vehicle insurance prices in the 1995–1998 period. The action against the Republic of Slovenia was filed so as to seek compensation for the loss incurred due to unlawful government interference in the motor vehicle insurance prices in the 1995–1998 period based on the Prices Act in force at that time. The provision of Article 26 of the Constitution of the Republic of Slovenia provides legal grounds for the claim, which Adriatic Slovenica (Adriatic d.d. and the former Slovenica d.d., each separately) filed against the Republic of Slovenia. The action filed by Adriatic was ruled on by the final judgement of the Higher Court. A parallel proceeding was initiated with respect to the action filed by the former

Slovenica which reached a final judgement of the Higher Court in 2014. The Company has required an audit against the decision of the Higher Court, but did not succeed. After taking advantage of all regular legal remedies, the Company has lodged a constitutional appeal and is waiting for its resolution.

In 2012, Pozavarovalnica Sava d.d. filed an action against Adriatic Slovenica insurance company. The grounds of the dispute between Adriatic Slovenica and Pozavarovalnica Sava was an action won against the Republic of Slovenia, specifically in the part related to the action of Adriatic d.d. Koper. In its action, Pozavarovalnica Sava d.d. refers to reinsurance contracts concluded between Adriatic Zavarovalna družba d.d. Koper and Pozavarovalnica Sava d.d. in the 1995–1998 period, as it believes that in the action won by AS against the Republic of Slovenia, AS received compensation for premiums, which increased the basis used for determining the reinsurance premium. The law firm representing Adriatic Slovenica contested the action in its entirety, also because Adriatic Slovenica did not receive any compensation from the Republic of Slovenia, only damages for the Government's failure to determine compensation for having lowered the prices below the simple reproduction level. In 2014, court hearings were concluded and the court is preparing a first-level verdict.

The Group did not recognise any off-balance sheet liabilities from pension payments or from other Group companies that would not be included in the balance sheet. Furthermore, the Group did not conclude any option contracts in the form of derivatives that would be recognised as off-balance sheet items.

11. EVENTS AFTER THE BALANCE SHEET DATE

No events occurred after the end of the reporting period and before the conclusion of consolidated financial statements that would require adjustments of financial statements for 2014.

Events after the reporting date significant for operations in 2015:

Adriatic Slovenica Group will in 2015 continue its activities that contribute to efficient adapting to the challenging conditions on the market. With the aim of expanding our operations, intensive activities will be carried out on Croatian market. The controlling insurance company Adriatic Slovenica d.d. will establish an AS branch in Croatia that will begin to sell other insurance products (non-life) and take over the sales and life insurance operations that are now conducted on the Croatian market by the subsidiary KD životno osiguranje. By the end of 2015, merging with KD životno osiguranje is also planned.

All activities will be conducted with individual approvals of Slovene and Croatian regulatory bodies. By the date of the issued auditor's opinion, the Group performed the following procedure:

- Submission of an application for the establishment of a branch office at the Insurance Supervision Agency by Adriatic Slovenica d.d. on 1 November 2014.

In January 2015, after the balance sheet date, Adriatic Slovenica additionally increased its investment in subsidiary KD životno osiguranje d.d. by increasing its capital in the amount of 396,492 euros.

The insurance company charges and pays the insurance tax in line with the Insurance Tax Act. On 1 January 2015, the tax rate was raised from 6.5 % to 8.5 % of the tax base.

12. STATEMENT OF MANAGEMENT RESPONSIBILITY

The Management Board of Adriatic Slovenica insurance company is responsible for the preparation of the Consolidated Annual Report of Adriatic Slovenica Group for the year ended on 31 December 2014. In accordance with its responsibility, it confirms that the consolidated financial statements and the notes thereto were prepared on a going-concern basis and that they comply with the applicable legislation and with International Financial Reporting Standards as adopted by the European Union. The Management Board confirms that appropriate accounting policies were consistently applied in the preparation of consolidated financial statements and that the use of accounting judgements and estimates affecting the reported amounts of assets and liabilities and disclosures are based on the principle of prudence. Furthermore, the Management Board confirms that the consolidated financial statements present a true and fair view of the financial position and performance results of the Group for the financial year 2014.

The Management Board is also responsible for proper management of accounting, for taking appropriate measures to protect the assets of the Group as well as other assets and for preventing and detecting fraud and other irregularities or illegal acts.

The tax authorities may at any time inspect the controlling company's books of account and tax returns and other records within five years after the fiscal year in which tax returns should have been filed, which may result in additional tax liabilities, default interest and penalties arising from corporate tax or other taxes and duties. The Management Board is not aware of any circumstances, which may give rise to any material liabilities arising from these taxes and would have a significant impact on the figures presented in the annual report or on the future financial position of the Group.

Koper, 26 March 2015

Management Board of the parent company:

Gabrijel Škof,
President of the Management Board

Varja Dolenc, MSc
Member of the Management Board

Willem Jacob Westerlaken
Member of the Management Board

Matija Šenk
Member of the Management Board

13. INDEPENDENT AUDITOR'S REPORT

KPMG

Independent Auditor's Report

To the Shareholders of Adriatic Slovenica d.d.

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of the company Adriatic Slovenica d.d. and its subsidiaries (the Adriatic Slovenica Group), which comprise the consolidated statement of financial position as at 31 December 2014, the consolidated income statement, the consolidated statement of other comprehensive income, the consolidated statement of changes in equity, the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards as adopted by EU, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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 about whether the financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Adriatic Slovenica Group as at 31 December 2014, its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by EU.

Report on Other Legal and Regulatory Requirements

As required by the Slovenian Companies Act we herewith confirm that the information in the management report is in conformity with the accompanying financial statements.

KPMG SLOVENIJA,
podjetje za revidiranje, d.o.o.

Damjan Ahčin, *ACCA*	Katarina Sitar Šuštar
Certified Auditor	*Partner*

KPMG Slovenija, d.o.o.

Ljubljana, 23 March 2015

The Independent Auditor's Report hereof is a translation of the original Independent Auditor's Report in Slovene, issued on the financial statements and the notes thereto in Slovene. The Slovene version shall prevail in case of inconsistencies between the original and the translation of the annual report including the auditor's report.