

**Adriatic Slovenica d.d.  
and  
Adriatic Slovenica Group**

**ANNUAL REPORT 2015**

**AUDITED**



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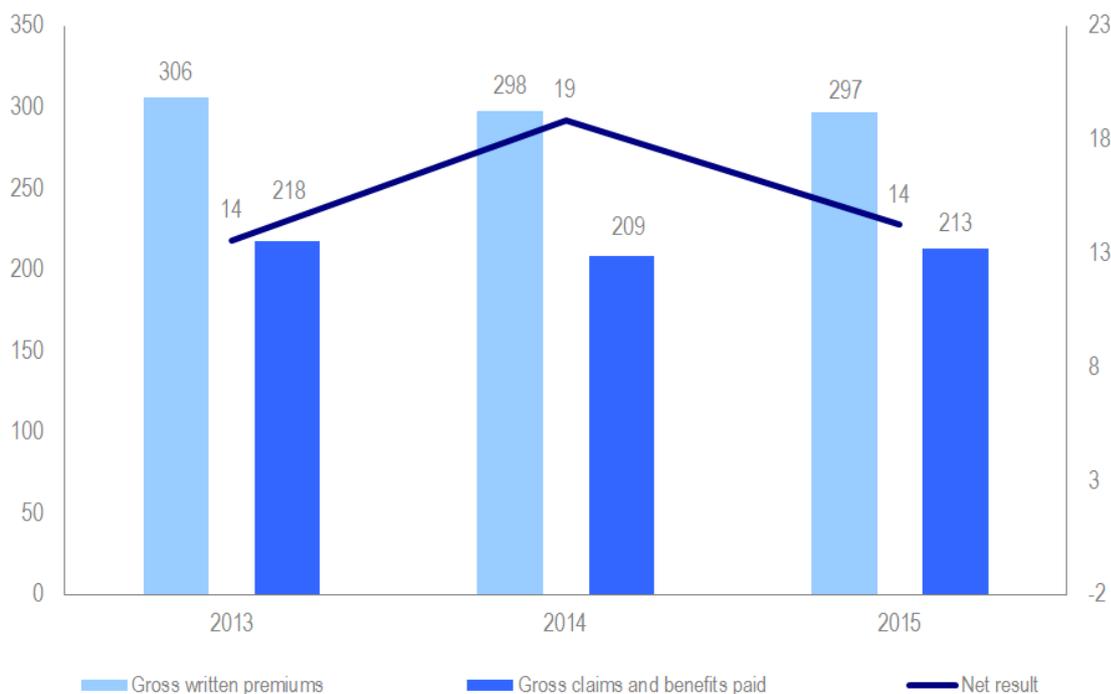
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## 1. OPERATING HIGHLIGHTS

## 1.1 FINANCIAL AND OTHER HIGHLIGHTS OF THE PARENT COMPANY IN 2015

	2015	2014 (adjusted)
Gross written premiums (in millions of euros)	296.6	297.9
Gross claims and benefits paid (in millions of euros)	213.4	208.8
Market share	15.0%	15.4%
Profit/(loss) before tax (in millions of euros)	16.8	23.0
Profit/(loss) after tax (in millions of euros)	14.3	19.3
Financial investments, cash and cash equivalents (as at 31 December) (in millions of euros)	573.7	576.4
Gross liabilities arising from insurance contracts (as at 31 December) (in millions of euros)	528.7	527.8
Number of employees (as at 31 December)	1,092	1,027
Premium per employee (in thousands of euros)	271.7	290.0
Total investment yield	2.53%	9.72%
Return on equity (ROE)	13.7%	19.3%
Book value of equity (as at 31 December) (in millions of euros)	100.9	106.9
Book value of share in euro (as at 31 December)	9.79	10.37
Capital adequacy index	172	173
Ratings (as at 31 December), Fitch Ratings	BBB- stabilna (Fitch Ratings)	BBB- stabilna (Fitch Ratings)

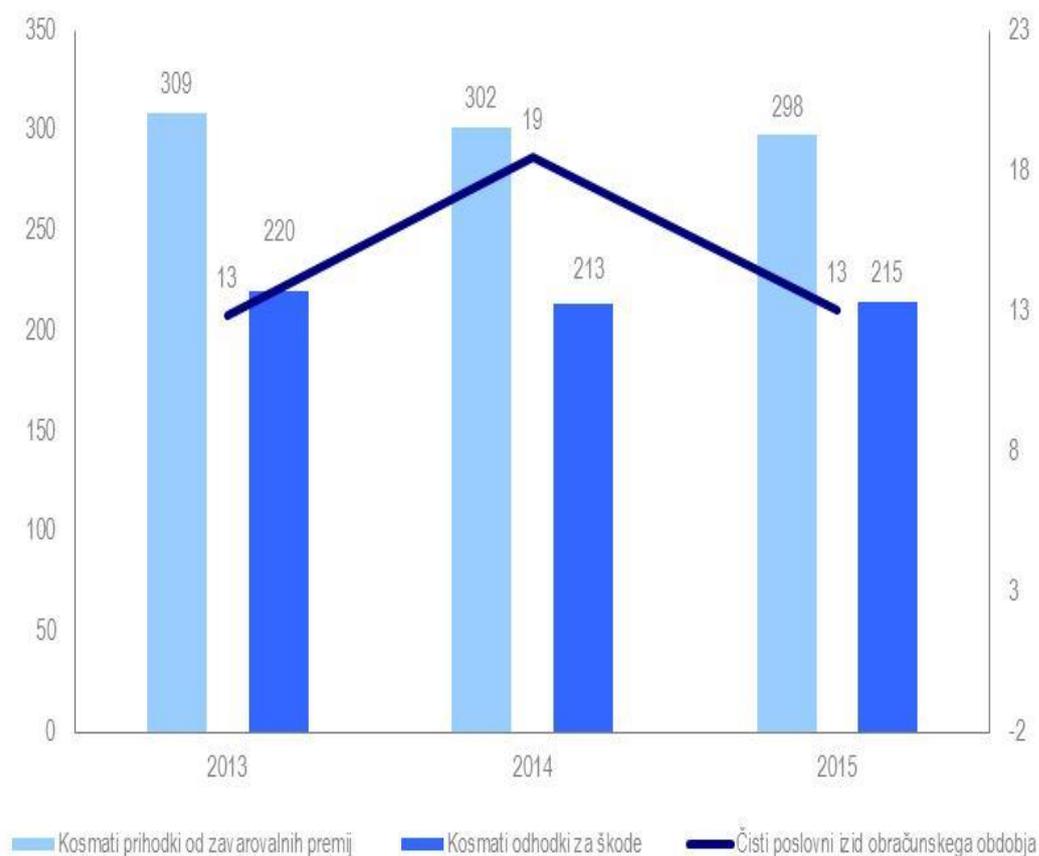
**Movement in gross written premiums, gross claims and benefits paid, and net result of the parent company in million euros**



## 1.2 FINANCIAL AND OTHER HIGHLIGHTS OF THE GROUP IN 2015

	2015	2014 (adjusted)
Gross written premiums (in millions of euros)	298.2	302.1
Gross claims and benefits paid (in millions of euros)	214.9	213.5
Profit/(loss) before tax (in millions of euros)	15.6	22.7
Profit/(loss) after tax (in millions of euros)	13.1	18.9
Financial investments, cash and cash equivalents (as at 31 December) (in millions of euros)	572.2	576.1
Gross liabilities arising from insurance contracts (as at 31 December) (in millions of euros)	531.4	534.1
Number of employees (as at 31 December)	1,201	1,152
Premium per employee (in thousands of euros)	248.3	262.1
Return on equity (ROE)	12.3%	18.3%
Book value of equity (as at 31 December) (in millions of euros)	102.5	109.7
Book value of share in euro (as at 31 December)	9.95	10.64

**Movement in gross written premiums, gross claims and benefits paid, and net result of the Group in million euros**



### 1.3 STATEMENT BY THE PRESIDENT OF THE MANAGEMENT BOARD

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

The business conditions on the domestic market improved only slightly, but the economic and financial environment maintained the positive trend. After years of stagnation, the scale of operations of Slovene insurance companies was almost 2 % higher and the progress is most evident in the segments of life and pension insurance.

Despite the strong competition, Adriatic Slovenica (AS) was operating securely and with profit, and maintained its focus on development. The business plans of the insurance company and AS Group were successfully fulfilled, since the parent company completed the acquisition of Croatian insurance company KD životno osiguranje, which, since the beginning of 2016, continues with its operations as a composite branch in Zagreb.

We have retained our market share, for AS remains the second largest insurance company in Slovenia. Also in 2015, we were successfully implementing the strategy of our parent company KD Group. The financial strength and solid position of the insurance company on Slovene insurance market are confirmed by the Fitch Ratings rating of "BBB-" with "stable" trend assessment. This rating was re-confirmed by Fitch Ratings in October 2015.

Growth on domestic market and abroad and satisfaction of our clients remain the key goals for this year and independent surveys reaffirm our efforts. AS clients are most satisfied with claims resolution, and at the same time, we fulfil their expectations about quality and modern insurance products by providing them with a full circle of safety.

The successful operations in 2015 resulted in 14.3 million euros of net profit. The results from insurance activities are a consequence of the positive outcome in two basic insurance segments since net profit has been generated in non-life, as well as life insurance. The good results of our core business are substantiated by the insurance company's net combined ratio of 96 %.

Already before the implementation of the new insurance directive, stress tests have shown that the insurance company is secure and appropriately controls insurance risks. The available capital of the insurance company exceeds both the current legal requirements, as well as the requirements of the Solvency II Directive, which came into effect at the beginning of 2016. At the end of 2015, the available capital of AS surpasses the required minimum capital significantly since the company's capital adequacy index as per requirements of Solvency 1 stands at 172. The total assets of the insurance company at the end of 2015 totalled 665.4 million euros. The company's capital amounted to 100.9 million euros while maintaining a high net return on equity, reaching 13.7 %.

Most of our activities in the past year were conducted on the domestic market. On other markets, where our subsidiaries operated, as the parent company within the Group, we have reinforced and redirected our activities. At the end of the year, we have merged the Croatian life insurance company and the composite branch. Almost all the written premium (99 %) of the Group was collected on the Slovene market, and only 1 % on Croatian and Serbian insurance markets

With 296.6 million euros of premium written in the past year, we are solidly in the second place on the domestic insurance market and we have retained our market share of 15 % on quite the same level as the year before. The written premium is 1.3 million euros lower (2014: 297.9 million euros). In the segment of non-life insurance, including health insurance, our market share at year-end was 16.8 %, and in life insurance, it was 10.7 %. We are particularly proud of the premium growth in life and pension insurance segments, where we have achieved one of the highest growth rates – the premium grew by 12 %. However, we are less satisfied with the 2 % decrease in health insurance market share, therefore, we are intensely focused on expanding our supplementary insurance offers, efficient counselling and providing medical services for the insureds.

The largest portion of premium was collected in the non-life insurance segment, which, together with health insurance, presents 80 % of our portfolio. Life insurance at the end of the year accounted for one fifth of the written premium and its portion is growing every year due to the consolidation of the insurance segment within the parent company, as well as due to the expanding offer of life insurance and new pension insurance products.

In 2015, there were no catastrophic natural disasters in Slovenia, but in spite of this, the average compensations were higher and gross claims went up by 2.2 %. In the structure of net expenses for claims, the prominent segment is health insurance (almost 43 % share), followed by non-life insurance (38 % share) and life insurance (19 % share).

Regardless of the sales channel, we wish to provide an excellent user experience to our clients and enable modern ways of doing business and communicating. The insurance products, together with financial and assistance solutions, form a complete circle of safety. The services are more and more accessible also via the newest sales channels. At the end of the year, we offered comprehensive services on 366 points of sale, some of them also offered KD Skladi investment products, in one bank and via direct sales. The latter accounted for 2 % share, but we expect it to expand with the help of modern technology and younger generations since its main benefits are a simple way of taking out insurance, comparison of prices, the possibility of purchasing insurance at any time of the day and the same quality of service. Already since 2003, it is possible to take out insurance on the as.si portal; in 2012, we have introduced the on-line services trademark WIZ, and at the beginning of 2016, we have built Moj AS portal, where the clients can have a full overview of their insurance products. Using the portal, they can also communicate with the insurance company and submit claims.

The Management Board successfully led the company on the way to fulfil its strategy and worked in full throughout the business year. The insurance company, together with its management, has a good reputation in business circles. At the beginning of 2016, the Management Board had three members, since the international expert Willem Jacob Westerlaken stepped down as a Member of the Management Board at the end of 2015.

Our care for the active population is supplemented by providing insurance products that ensure better quality of life also in the third age. We have enriched our offer by introducing new pension and life insurance products with investment component and supplementary health insurance. Different types of health insurance are merged into a comprehensive offer that is based on complementary insurance, development of holistic counselling and access to services above those, provided by the public system.

AS information technology is supporting the new products and merges business processes while keeping the client in the centre. We are proud that in many areas, we are ahead of the requirements of the business environment. We are aware that business operations of good quality, good sales and aftersales services are in our hands, therefore, we are learning constantly, we follow the trends on the domestic and foreign markets, while our main guidelines are wishes and needs of customers, and working responsibly. The clients' trust brought us many awards, among which, there were also awards for marketing excellence, which prove that our guidelines are correct, our clients are satisfied, and also the satisfaction of our employees, who support our common goals, grows every year. We believe in long-term relationships, knowledge support, individuals with high potential and positive encouragements from the environment.

In KD Group, we go together along this path and I am certain that also in 2016, we will find the right solutions for business challenges and answers to questions to achieve progress, as well as cross-generation and social solidarity in Slovenia and abroad.

Sincerely,

Koper, 15 March 2016

Gabrijel Škof  
President of the Management Board



## 1.4 SUPERVISORY BOARD REPORT – Summary

### Supervisory Board report on the review of the Annual report for 2015

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

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 of the public limited company 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 2015 composed of 6 members, 2 of whom were representatives of employees.

The Supervisory Board operated in compliance with the agreed model of supervision over activities of the Management Board. In 2015, the Supervisory Board held nine regular sessions and four meetings by correspondence. Within its regular sessions, the Supervisory Board 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 2015, approved the annual report of Adriatic Slovenica d.d. for 2014 and the consolidated annual report of Adriatic Slovenica for 2014. 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, and the cross-border merger with the subsidiary KD životno osiguranje.

In its meetings by correspondence, the Supervisory Board was mainly focused on supervision over measures for the sale / transfer of the portfolio of AS Osiguranje a.d.o. subsidiary. At the meeting by correspondence at the end of the year, the Supervisory Board agreed with the adoption of policies and naming of owners of key functions in relation to the adoption of the new legislation in 2016.

The Insurance Act also stipulates that the Supervisory Board must monitor the activities of the Internal Audit department. In relation to this, the Supervisory Board approved the plan of activities of the Internal Audit for 2015, addressed the reports on the activities of the Internal Audit in 2014, and separately the report on its activities in the first half of 2015. Based on all the reports on Internal Audit 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 was focused on risk control and effectiveness of internal controls, effectiveness of internal audit function, financial statements and external audit, and monitoring of the review progress and decisions issued by the regulators. After the end of the business year 2015 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 2016.

#### Review and approval of the annual report

In its 80th meeting on 25 March 2016, the Supervisory Board discussed about the annual report and consolidated annual report on the business operations of Adriatic Slovenica for 2015, 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. Adriatic Slovenica d.d. 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 (until the cross-border merger on 30 December 2015). The subsidiaries and the parent company together form Adriatic Slovenica Group.

As expressed in the opinion of the certified auditor, the financial statements as at 31 December 2015 are a fair presentation of the Company's financial position and also of its financial result and cash flows as at that date, in line with the IFRS.

The Supervisory Board was informed about the report of the Audit Committee which included the positive opinion on the annual report and the consolidated annual report.

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 2015 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 in the second half of 2015 and report on its activities in 2015. The Supervisory Board has a positive opinion on the annual report of the Internal Audit for 2015.

The Supervisory Board was also informed about the report of the Management Board on the relationship with the controlling company in 2015 and the auditor's opinion on the review this report, prepared on the basis of Article 546 of the Companies Act (ZGD-1). As expressed in the auditor's opinion, it could not be observed from the collected data that the information in the Report on the relationship with the controlling company would not be accurate, or that the values of the company's involvement in transactions would be disproportionately high, or that there would be an assessment of disadvantage, different from the one given by the Management Board.

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. Based on its reviews of the annual report and auditor's opinion for 2015, the Supervisory Board:

- approves the annual report for 2015,
- approves the consolidated annual report for 2015,
- 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 2015 amounts to 34,635,458.16 EUR.
2. A part of the balance sheet profit in the amount of 13,246,819.60 EUR shall be used for dividend payment on 15 April 2016.
3. The rest of the distributable profit in the amount of 21,388,638.56 EUR remains unallocated.

Koper, 25 March 2016

Matjaž Gantar  
Chairman of the Supervisory Board



## 1.5 REPORT OF THE AUDIT COMMITTEE OF THE SUPERVISORY BOARD - Summary

Report of the Audit Committee of the Supervisory Board on the work performed in 2015 and on the review of materials for the approval of the annual report for 2015

### Formal aspect

The purpose of the Report of the Audit Committee 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 decides 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 and the opinions of the certified actuaries for life and non-life insurance in 2015.

The Audit Committee provides expert support to the Supervisory Board in its supervision over management of the Company's operations. In 2015, 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;
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)

In 2016, the Audit Committee also held two meetings in which materials related to approval of the annual report for 2015 were discussed.

In 2015, the Audit Committee consisted of five members: Chairman Matjaž Gantar, Vice-chairman Jure Kvaternik 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, members of the Audit Committee also monitored the appropriateness of risk management.

The Audit Committee was informed about actuarial reports for the business year 2015 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 2015, the amount of capital of the insurance company is adequate, carrying a surplus of capital. Based on the opinions of owners of actuarial functions, an expert assessment can be made that the amount of premiums written in 2015 and the amount of technical provisions as at 31 December 2015 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

The Audit Committee regularly monitors the operations of the Internal Audit team, appropriateness of procedures, the team's effectiveness and performance, including its compliance with the international standards of internal auditing. In 2015, the Internal Audit operated in line with the annual plan of activities and carried out all the important activities. 14 regular and 3 extraordinary audit reviews were performed. The Audit Committee discussed all the individual audit reports, presented by the Director of Internal Audit. Moreover, it reported on a quarterly basis about the fulfilment of recommendations to the auditees – for AS, as well as ASO. For this purpose, 4 reports were issued. Among other tasks, the Internal Audit 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 2015, the Internal Audit issued 86 recommendations. The auditees were successful in eliminating the deficiencies since most of the recommendations were realised in the predicted time frame.

It is also evident from the proceedings of the Insurance Supervision Agency about the review on 5 February 2015 that there were no deficiencies found in relation to Internal Audit.

Based on the above information, the Audit Committee concludes that the activities of Internal Audit in 2015 were carried out successfully and efficiently, and that appropriate procedures were applied.

#### Financial statements and external audit

In compliance with its responsibilities, the Audit Committee was involved in the process of selecting the 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 2015 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.

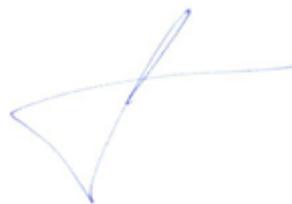
#### Conclusions

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 for the second half of 2015 and for the year 2015;
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 2015.

Koper, 25 March 2016

Audit Committee of the Supervisory Board  
Matjaž Gantar  
Chairman of the Audit Committee



## 1.6 SIGNIFICANT BUSINESS EVENTS OF THE PARENT COMPANY IN 2015

January

- On 5 January, Adriatic Slovenica introduced a new “**Paket Športnik**” (Sportsman Package), an innovative combination of accident and supplementary health insurance. It provides athletes with quicker and more efficient recovery after illness or accident by means of a wide range of coverages in the segment of accident insurance (disability due to accident with progression, fractures, dislocations and burns, surgery due to accident) and supplementary health insurance (self-funding services in specialist clinics, medicine insurance, above-standard accommodation in spa and hospital treatment, orthopaedic devices).
- On 15 January, Adriatic Slovenica rewarded its car insurance policyholders who incurred a loss with coupons for “**Moj servis**” (My service) services. This service provides the insureds with quality car service in AS network of services, where they can get everything settled at one place – from submitting claims, claim adjustment and repair. The insured’s decision to use AS service network is also rewarded with free-of-charge use of replacement vehicle and a discount coupon for extending the existing car insurance policy or taking out a new one.
- On 16 January, Adriatic Slovenica earned the “**Družini prijazno podjetje**” (Family Friendly Enterprise) basic certificate and prepared a plan for the introduction of measures for improvement of work processes and quality of work environment to achieve a better work-life balance. The basic certificate and the plans for its upgrade show the positive attitude of the insurance company towards the needs of its employees, arising from their family life.
- In January, Adriatic Slovenica submitted a supplemented application for the establishment of a new branch in Croatia.
- On 22 January, at a press conference, the Post of Slovenia introduced a new service, provided at 97 of its points of sale: insurance sales. Adriatic Slovenica is the exclusive provider of personal insurance.
- On 24 January, the Decree on co-financing of insurance premiums for agricultural production and fisheries came into effect, which decreased the state funding of animal insurance premium from 30 to 20 per cent, and the funding of crop insurance from 40 to 20 per cent, which will further impact the reducing extent of agricultural insurance on the market and in Adriatic Slovenica.
- To achieve an even more successful presence on the market, Adriatic Slovenica reorganised the sales team and organisation of branch offices.

## February

- On 1 February, Adriatic Slovenica launched “**Podjetnik AS**” (AS Businessman), a new insurance package for small enterprises, targeted at hospitality, trade, hairdressing and cosmetic services. On one insurance policy, it offers coverage of company property in case of fire, operations standstill, burglary, breaking of glass surfaces and other perils. The insurance company additionally offered a wide range of liability coverages, providing quality protection against claims from third parties.
- On 13 and 14 February, Adriatic Slovenica organised its main sales network event in Portorož – the 7<sup>th</sup> Sales conference, attended by over 300 participants.
- Adriatic Slovenica started with the establishment of a reference network of health services providers, by means of which, it wants to offer its insureds high-quality health services without waiting times.

## March

- On 1 March, Adriatic Slovenica introduced new premium rates for flood insurance due to frequent flooding, and slightly changes the allocation of locations into classes of risk.
- A new point of sale on Bloke, part of Postojna branch office, opened its doors for customers.
- On 5 March, the international rating agency Fitch Ratings confirmed KD Group's existing rating of BB-, and Adriatic Slovenica's financial strength rating of BBB-. The rating trend was assessed as "stable". The rating confirmation of KD Group and Adriatic Slovenica was made based on the released information about KD Group signing a long-term syndicated loan contract.
- On 20 March, Adriatic Slovenica introduced a new **insurance for dispensation of premium payment**, applicable to household, car and complementary health insurance. This insurance eases financial distress and covers premium payment in case of loss of employment or temporary inability to work due to illness or accident. Moreover, it provides additional coverage of urgent costs, namely the amount, paid monthly by the insurance company to the insured in case they lose their employment or are unable to work.
- On 24 March, Adriatic Slovenica presented "**Varna leta AS**" (AS Secure years) a new, innovative permanent life insurance with guaranteed payment, which offers the insureds security in the event of accident or illness, and also provides additional security to their families. This insurance package offers multiple benefits for cancer treatment, numerous accident coverages (dislocations, fractures and burns, to name a few), benefits for hospital care and accident annuity in case of disability, surgery coverage, above-standard accommodation in spa and permanent exemption from premium payment in case of permanent disability.

## April

- On 15 April, at the Small and Medium Enterprises Conference, Adriatic Slovenica was promoting the "Podjetnik AS" (AS Businessman) insurance package. Around 120 Slovene and foreign businessmen and the PM Miro Cerar attended the conference. Adriatic Slovenica was intensely promoting the new insurance package; moreover, on 18 March, the insurance company also sponsored the "500 Businesswomen" business event.
- The Analysis of the Slovene Insurance Industry on the Web 2015, prepared by E-laborat, placed the website of Adriatic Slovenica's subsidiary Viz d.o.o., named WIZ, on the first place in the category "Presentation of products".

## May

- To achieve more successful communication between managers and employees and to effectively fulfil the common business goals, Adriatic Slovenica introduced "AS Dialog" (AS Dialogue) – the internal system for constant and structured communication between managers and employees. Workshops, in which the company's competences model was presented in detail, were organised for all employees.
- On 7 May, Adriatic Slovenica finished an important project of developing a system for fraud detection and management in the segment of health insurance, assisted by SPSS tool. A comprehensive analytics platform was established as the basis for the strategic development of the insurance company's business analytics. The functionalities of the platform are useful not only for fraud detection, but on all business areas.
- On 17 May, Arboretum Volčji potok was the venue of "Koncert v cvetju" (Flowery concert), hosted by Adriatic Slovenica in association with RTV Slovenia Big Band. All the partners from complementary sales channels, health care providers and external visitors were invited. At the same time, this was an

opportunity to show appreciation for excellent young musicians, studying abroad with the support of AS Foundation, behind which are the companies of KD Group.

- On 18 May, Adriatic Slovenica launched a new insurance package "Preventiva AS" (AS Prevention) which includes coverage for critical illnesses (benefits for medical treatment) and a preventive health service (three DNA analyses). Preventiva AS can be combined with existing and new life insurance with instalment premium payments and saving component under the condition that the insurance expires in more than ten years.
- Adriatic Slovenica complemented the "ZASE" (For oneself) package, which is promoted via call centre, with the new supplementary "Preventiva AS" insurance.

## June

- Adriatic Slovenica won the "Marketinška odličnost" (Marketing Excellence) award in the category of large enterprises mostly dealing with customers (B2C). This year, the award was for the first time presented by the Slovenian Marketing Association at the 20<sup>th</sup> Slovenian Marketing Conference.
- Adriatic Slovenica organised a series of events, named "Zajtrk prihodnosti" (Breakfast of the future). They took place in Nova Gorica, Smlednik, Ankaran and Velenje and were intended for business partners, existing and potential new clients. Experts presented their solutions for companies and their employees, in relation to pension legislation; with these solutions, companies can save money, and at the same time bring improved security for the employees when they retire.
- In line with the Decision on the maximum interest rate (Official Gazette of the Republic of Slovenia No 95/2014), issued by the Insurance Supervision Agency, on the decrease of the maximum prescribed technical interest rate (Official Gazette of the Republic of Slovenia No 95/2014), Adriatic Slovenica modified its insurance products; namely the life insurance combined with additional insurance with guaranteed payment in case of death (and endowment) and annuity insurance. In the segment of investment insurance, a new investment with guaranteed yield was introduced – "Zajamčeni AS 2" (AS Guaranteed 2). Moreover, the "Preventiva AS" package was added to all savings products. The existing life insurance products were updated as well – with additional coverages for exemption of premium payment and monthly benefit in case of unemployment or inability to work, and exemption of premium payment in case of permanent disability. "Vita AS Royal" and "Vita AS Royal Plus" were substituted by the unified "Vita Royal AS".
- Within the "Super AS 2015" marketing campaign, Adriatic Slovenica launched a special offer for all clients who took out new complementary health insurance for the period of two years.

## July

- Adriatic Slovenica prepared a special offer, called "Paket upokojencev" (Pensioners' package), a unique combination of health and accident insurance, tailored to the needs of the elderly population. The package was designed for both individual sales and sales via pensioners' organisations.
- The insurance company added the option of limiting the insurance period to the "Varna leta AS" package. Upon taking out insurance, since then, insureds can opt for either lifetime insurance or limited duration of the insurance, which can be between 10 and 20 years.

## August

- On 16 August, Adriatic Slovenica began a new marketing campaign promoting insurance for children and youth under 26 years of age. As the first and the only insurance company on the market, we introduced very affordable homeopathic medicines insurance.
- Adriatic Slovenica's decision to become an important player on the pension insurance market led to a large-scale transfer (in total around 2.8 million EUR) of funds from the competition to AS pension plan.
- On 27 August, based on the new methodology, Fitch Ratings confirmed Adriatic Slovenica's existing financial strength rating of "BBB-" and the rating trend, which remained "stable". As for KD Group, in line with the changed criteria, Fitch Ratings improved its rate to "BB", again with "stable" trend assessment.

## September

- On 4 September, Adriatic Slovenica introduced a new investment life insurance, "Naložbena Zvezda AS" (AS Investment star). It was developed in cooperation with BNP Paribas Arbitrage Issuance, member of the BNP Paribas banking group. The insurance is linked to a ten-year debt security, which is a combination of investments in Income Fund Stars index and zero coupon bonds.
- "Mlinček" (Little mill) tool was implemented in production for all Adriatic Slovenica's own agents and some agents from other sales channels, with the aim of increasing the cross-sell index.

## October

- On 6 October, based on the new methodology, Fitch Ratings again confirmed Adriatic Slovenica's existing financial strength rating of "BBB-" while the rating of KD Group was improved to "BB" in line with the changed criteria. The rating trend of both remained "stable".
- The insurance company started e-LIFE support project, which would enable automation of the process of taking out insurance and life insurance underwriting.

## November

- Together with critical illness insurance, we started to promote preventive services (we have included the existing coverage of preventive health services in the additional critical illness insurance within the "Življenjski kasko Asistenca življenja") for critical illness insurance with premium above (and including) 10 EUR. The purpose of the campaign is to boost the average premium in additional critical illness insurance, and promotion of sales of this coverage.

## December

- In line with the change of pension insurance legislation, collective and individual pension plans for voluntary additional pension insurance under the name "Pokojninsko varčevanje AS" (AS Pension saving), intended for the period of saving, were approved. The rules of management and statements on investment policy were approved as well.
- On 4 December, Adriatic Slovenica commemorated 25 years of success at the "Dan D" (D day) event for employees and business partners.
- As a result of a cross-border merger of KD životno osiguranje and parent company Adriatic Slovenica, a new branch was established in Zagreb and it took over the portfolio of KD životno osiguranje insurance company. As part of this process, life insurance and additional insurance packages were adjusted to changes in legislation.

- On 21 December, Ribnica point of sale (a sub-branch of Postojna branch office) opened the doors of its new office on the address Merharjeva 3a.
- On 30 December, in cooperation with Bled Tourism Institute and Olympic Committee of Slovenia, we have organised an important event in Bled, called "Olimpijski krog varnosti" (Olympic circle of safety). The purpose of the event was to promote Olympic spirit and support Slovene athletes before their departure to Rio Olympic games in summer 2015. Together with 5,712 visitors, we made a live circle around Bled lake and made an attempt to make it into the Guinness Book of World Records by simultaneously igniting the largest number of torches.

## 1.7 SIGNIFICANT BUSINESS EVENTS OF THE PARENT COMPANY AT THE BEGINNING OF 2016

### January

- On 1 January, the company adopted a new business collective agreement (KPAS), which was signed by AS management board and trade union after the negotiations were finished on 29 December 2015 in Ljubljana. The most significant change compared to the previous KPAS is in the one-off increase of the starting salary by a percent, and introduction of a new model of salary increase. At the same time, a similar arrangement came into effect in Prospera d.o.o. subsidiary because both companies ensure an equal level of rights for their employees.
- At a press conference on 27 January in Zagreb, there was a presentation of car insurance sales over the web page [www.as-direct.hr](http://www.as-direct.hr), which is promoted by the Zagreb branch of Adriatic Slovenica under the trademark AS Osiguranje.
- At the end of January 2016, Celje branch office moved into completely renovated offices on Lava 7 in Celje.

### February

- On 5 and 6 February, we have organised the 8<sup>th</sup> Adriatic Slovenica Sales conference, titled "Povej naprej" (Spread the word) in Opatija, Croatia. The purpose of the largest annual educational-motivational event is to strengthen long-term sales goals, to get familiar with the company's strategy for 2016, to share good practices and to commend the best sales persons. For the first time, directors of exclusive agencies joined Adriatic Slovenica's own sales network at the event, which together makes up for almost 450 participants.
- On 2 February 2016, Adriatic Slovenica d.d. acquired 100% shareholding in the subsidiary ZDRAVJE AS ZDRAVSTVENE STORITVE d.o.o. (abbreviated ZDRAVJE AS d.o.o.), headquartered in Koper. This will enable Adriatic Slovenica to offer its insureds out-of-hospital health services and in this way expand the range of services for them. The share capital of the company is 352,490.00 euros.

## 1.8 SIGNIFICANT BUSINESS EVENTS OF THE SUBSIDIARIES IN 2015

### January

- On 29 January, the parent company recapitalised KD životno osiguranje subsidiary by 396,492 euros.

### February

- KD životno osiguranje insurance company recapitalised Permanens subsidiary in the amount of 9,270 euros.
- There was a new branch office established in Croatia - Adriatic Slovenica d.d., Podružnica Zagreb (hereinafter referred to as Zagreb branch)

### May

- Viz d.o.o. subsidiary and WIZ insurance trademark celebrated their third anniversary.
- On 29 May, the parent company recapitalised Viz d.o.o. subsidiary in the amount of 80,000 euros.

## June

- At the 16<sup>th</sup> Regional conference “Information and Communication Technology and Insurance – ICTI 2015”, WIZ website was awarded as the best website in the category “Representative and insurance agencies and websites for price comparison and taking out insurance”.
- KD životno osiguranje insurance company recapitalised Permanens subsidiary in the amount of 10,590 euros.

## September

- On 11 September, WIZ website was awarded the WEBSI Spletni prvaki (Web Champions) 2015 prize in the category “Business websites”.
- At the Croatian Insurance Association (Hrvatski ured za osiguranje – HUO) Assembly, held on 25 September, Adriatic Slovenica became a full member of the HUO.

## November

- On 19 November, WIZ insurance received a SPORITO award in the category “Best personal sponsorship of an athlete” for the #resnicnofajn campaign with Filip Flisar, which started in August.

## December

- Zagreb branch acquired all the required permits for operating and selling motor vehicle liability insurance. At the end of December, [www.as-direct.hr](http://www.as-direct.hr) website was launched, where clients from Croatia can take out motor vehicle liability insurance.
- The registration of Prospera subsidiary’s activities was completed with the aim of entering the competitive free market. They started with activities for the settlement of external image of the company (telephone lines, web page, branding of the company’s headquarters ...) and the legal framework for putting new products on the market. There was also a contract signed by Prospera and Assistance CORIS d.o.o. companies for carrying out recovery on commission.
- The parent company discontinued its insurance operations in the Republic of Serbia via the subsidiary AS neživotno osiguranje. Activities were started to close down this subsidiary, and it is planned that they will be finished by the end of 2016.

## 1.9 SIGNIFICANT BUSINESS EVENTS OF THE SUBSIDIARIES AT THE BEGINNING OF 2016

### Februar

- At the end of 2015, insurance company AS neživotno osiguranje a.d.o., Beograd signed a contract with Sava osiguranje, a.d.o., Beograd, based on which, AS neživotno osiguranje will transfer its complete insurance portfolio, including liabilities, to the contractual partner. In February 2016, AS neživotno osiguranje a.d.o., Beograd submitted the required documentation to the National Bank of Serbia in order to acquire approval of the transaction.

## 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](mailto:info@as.si)

Website:

[www.as.si](http://www.as.si)

Corporate website:

[www.as-skupina.si](http://www.as-skupina.si)

Company registration number:

5063361

VAT identification number:

SI 63658011

Share capital:

42,999,529.80 EUR

Date of entry into the Court Register:

20 November 1990

Credit rating:

BBB- stable (Fitch Ratings)

President of the Management Board:

Gabrijel Škof

Members of the Management Board:

Varja Dolenc, MSc and Matija Šenk

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 six more branch offices and 38 representative offices. Within a network of contractual points-of-sale (agencies), insurance services are also available at 140 agencies and 171 complementary points-of-sale. Altogether, the insurance services of Adriatic Slovenica were at the end of 2015 available at 366 (351 in 2014) points-of-sale; AS insurance was in 2015 available also in two banks. From 2012 to 31 August 2015, Adriatic Slovenica was also offering KD Skladi products in all of its nine regional offices. Since then, KD Skladi still offers its products in some regional offices.

Since 2008, the insurance company is also present in the markets of South-eastern Europe. It established a subsidiary in Belgrade - AS neživotno osiguranje a.d.o. Beograd, authorised to sell non-life and health insurance in Serbia. The insurance company is also present in Croatia since 2008, when it started selling Fondpolica, life insurance linked to investment funds, via its subsidiary KD životno osiguranje d.d. On 24 November 2011, Adriatic Slovenica registered a 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](http://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.

In line with its strategic goals on foreign markets, in March 2015, the insurance company established a branch to conduct life and non-life insurance operations in Croatia. On 1 April 2015, Adriatic Slovenica d.d. acquired KD životno osiguranje d.d. subsidiary, the Republic of Croatia, Zagreb. This was entered into the Court Register on 30 December 2015. KD životno osiguranje d.d. insurance company ceased to operate as an independent legal entity and its operations in Croatia were taken over by Zagreb branch.

In December 2015, the parent company discontinued its insurance operations in the Republic of Serbia via the subsidiary AS neživotno osiguranje and started activities to close down this subsidiary.

## Brief 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 complementary 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 insurance. 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 20<sup>th</sup> 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.

## 2015

In March 2015, Adriatic Slovenica established its first branch in Croatia – Zagreb branch. On 20 November, it was the 25<sup>th</sup> anniversary of the establishment of Adriatic Slovenica, which was commemorated on 4 December 2015 at the “Dan D” (D day) event for employees and business partners.

## 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. In 2015, KD životno osiguranje d.d. and the indirect subsidiary Permanens d.o.o. in Zagreb were also part of the Group. After 31 March 2015, Adriatic Slovenica d.d. acquired KD životno osiguranje d.d. subsidiary, the Republic of Croatia, Zagreb. This was entered into the Court Register on 30 December 2015. KD životno osiguranje d.d. insurance company ceased to operate as an independent legal entity and its operations in Croatia were taken over by Zagreb branch.

### 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 EUR
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 2015):**

Aleksandar Mitrović, President, Executive Director

Bojana Svilar, Member, Executive Director

Willem Jacob Westerlaken, Member, Non-executive Director (until 31 December 2015)

Tomaž Peternelj, Member, Non-executive Director

**Audit Committee (since 1 July 2012):**

Matjaž Rizman, President

Jadranka Maček, Member

Matej Cergolj, Member (until 30 April 2015)

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

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 and in the upcoming years expanded its sales network. 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.

In 2015, the supervisory authority adopted the decision that the insurance company will no longer be conducting its insurance operations in the Republic of Serbia via its subsidiary AS neživotno osiguranje in Belgrade. Activities were started to close down this subsidiary, and it is planned that they will be finished by the end of 2016.

**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 333

Fax: (05) 6643 480

Company registration number:

6074618000

VAT identification number:

SI 34037616

Share capital:

100,000.00 EUR

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.**

Prospera d.o.o. started its operations on 16 December 2011. It was established by the insurance company Adriatic Slovenica d.o.o. Prospera d.o.o. is part of Adriatic Slovenica Group and is included in the consolidated financial statements of the parent company.

Prospera is registered for other unallocated financial services operations apart from insurance operations and pension fund operations.

The principal activity of the company is collection of debt which is difficult to collect, especially where there are legal proceedings in progress. With the aim of optimisation of work processes and ensuring a good competitive position, and consequently achieving good operating results, in 2012, the company additionally got registered for conducting audit and IT services. In line with Prospera's approved business strategy for the future and with the goal of entering the competitive free market with an extensive range of services, in December 2015, Prospera got registered for providing additional activities.

**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: <a href="http://www.wiz.si">www.wiz.si</a>
Company registration number:	6161456000
VAT identification number:	SI87410206
Company objects:	Operations of insurance agents
Share capital:	430,000.00 EUR
Participation of the parent company in subsidiary's capital	100.00 %
Registration date:	14 May 2012

**Management and supervision authorities:**

Directors: Bor Glavić, Marko Štokelj

**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](http://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" (complementary health insurance) and "WIZ Zdravje plus" (a combination of first-rate health and accident insurance).

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 2015, there were almost 150,000 visitors of [www.wiz.si](http://www.wiz.si) website, and over 5,000 new and renewed car insurance and complementary health insurance policies were taken out via the website.

**KD životno osiguranje d.d. (until 31. March 2015)**

Registered company name, head office and address:	KD životno osiguranje d.d.* Draškovićeve 10 10000 Zagreb, Croatia Telephone: +385 1 6285 101 Fax: +385 1 6197 456
Website:	<a href="http://www.as-osiguranje.hr">www.as-osiguranje.hr</a>
Company registration number:	080655516
VAT identification number:	01695526582
Company objects:	Life insurance
Share capital:	6,571,559.16 EUR
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: Zvezdan Karlić

\* In line with the planned strategy, KD životno osiguranje d.d. insurance company after the cross-border merger, performed on 31 March 2015 and entered into the Court Register on 30 December 2015, ceased to operate as an independent legal entity, and its operations in Croatia were taken over by Zagreb branch.

## Adriatic Slovenica d.d., Podružnica Zagreb za osiguranje (since 31 March 2015)

Registered company name, head office and address:	ADRIATIC SLOVENICA d.d., Podružnica Zagreb za osiguranje, Draškovićeva 10 10000 Zagreb, Croatia Telephone: +385 1 6285 101 Fax: +385 1 6197 456
Website:	www.as-osiguranje.hr
VAT identification number, OIB:	05986463089,
Company objects:	Life and non-life insurance
Registered at the Trade Register in Zagreb, number	080962574

### Leadership of the branch:

Director:	Neven Tišma
Deputy Director:	Zvezdan Karlič

### Presentation of KD životno osiguranje d.d. / Zagreb branch

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. It operates in Zagreb (headquarters), Osijek, Varaždin and Split. The company also cooperates with twenty insurance agencies on the Croatian market, which discovered that Fondpolica is 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. In 2015, the process of cross-border merger of KD životno osiguranje and the parent company Adriatic Slovenica was successfully closed. A part of business operations was taken over by Zagreb branch which also started promoting non-life insurance, especially motor vehicle liability 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 EUR
Participation of the parent company in subsidiary's capital:	100.00 %
Registration date:	27.6.2008

### Management and supervision authorities:

Director:	Nikolina Vidović Turković
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### 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. As a consequence of the cross-border merger of KD životno osiguranje and the acquiring company Adriatic Slovenica, all the assets of KD životno osiguranje were transferred to the acquiring company, including the total shareholding in Permanens d.o.o. Since the registration of the cross-border merger, Adriatic Slovenica has been the sole shareholder in Permanens d.o.o. 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. STRATEGIC DIRECTIONS OF THE PARENT COMPANY AND THE GROUP

### Core strategic directions of the parent company in 2016:

- our policyholders are our partners and we are building long-term partnerships with them,
- we provide a comprehensive selection of services and solutions in one place,
- we are cost-effective,
- innovation, wishes and needs of the policyholders are our main guidelines in the development of new insurance solutions; we encourage taking out insurance via internet, mobile devices and develop digital services for different segments of policyholders

Among the strategic business goals for 2016, we would like to stress seven key goals:

1. Maintaining the sales growth: the strategies to achieve sales goals are improvement of productivity of sales channels, supervision over sales activities with emphasis on development of Cross Sell, which is becoming one of the company's most important sales strategies in the upcoming mid-term period.
2. Reducing the negative portfolio changes and building of loyalty programs: we strive to reduce cancellations and increase the number of renewed non-life insurance contracts, limit cancellations of life insurance contracts, increase the share of renewals from endowment and limit terminations of health insurance contracts.
3. Improvement of business profitability: we will work on improving the technical result in insurance segments and the internal value of life insurance portfolio.
4. Our goal is to strengthen the insurance company's capital adequacy in compliance with the requirements of Solvency II and in line with the accepted risk appetite.
5. We want to improve the investment structure in line with the guidelines for improving the credit rating.
6. We want to ensure an adequate amount of profit for payment of dividends to the owner.
7. Our goal is also to commercially and from a business perspective reinforce our composite branch in Croatia, which began selling insurance in January 2016.

**In the segment of non-life insurance**, our activities in 2016 will be directed toward increasing the non-life insurance premium and boosting profitability of products, taking into consideration the insureds' needs and the specifics of different sales channels. In 2016, we expect that the competition in the segment of car insurance will remain harsh price-wise, which will further reduce profitability of the product. Consequently, the development will be directed toward controlling the price policy, automation of conditions for discounts and supervisory over non-life insurance portfolio. When selling non-life insurance, it is essential to maintain a good balance among sales, acceptance of insurance, and claims.

We will continue with the second development phase of the web product WIZ, and with the segmentation of premium for other types of vehicles. We will also finish the integration of car insurance and motor vehicle insurance databases into insurance processes, including the web-based sales channel.

In the segment of liability insurance, in the first half of the year, we will introduce renewed insurance bases and simplify the process of taking out general civil liability insurance. As for other insurance categories, we plan to refresh the "Dom AS" household insurance product, with a greater emphasis on assistance insurance and new coverages. Due to the harsh competition in the category of tourist insurance, we will renew the insurance bases for ZZTA and Multirisk products, describe some coverages in a clearer way and in this way contribute to quicker and easier claims settlement and improve the claims result. Before the start of the nautical season, we will also refresh the conditions for vessel hull insurance.

Moreover, in 2016, we will integrate the technology of coinsurance and fronting into the information system and continue with the important project "Pozavarovanje" (Reinsurance), which will, from the viewpoint of risk elimination, also contribute to process optimisation.

In 2016, we will further reinforce operating and sales of **life and pension insurance**, which provide security to the family or other dependent persons in the event of death of the insured person; lifelong personal financial

security, be it in the case of accidents, illness or other events, affecting the financial stability of the policyholder or lifelong financial stability of insureds.

Our key goal is promotion of products for the second and third pension pillar. By doing so, while considering investment policies for long-term saving, the potentials of KD Group will be utilised. After the pension reform, the second pillar became more attractive to a broader population. It provides a more suitable investment policy for long-term saving and results in a stricter definition of the second pillar as an “extension” of the mandatory pension insurance with a clearer definition of saving for the retirement period.

All of the above factors open new opportunities for Adriatic Slovenica and KD Group, so that they can strengthen their position as a provider of a comprehensive solution for filling the pension gap which arises from reducing the rights from the first pension pillar. This is why we intend to expand our annuity insurance for people of different ages. Special attention will be devoted to life insurance, catering for the needs of different age groups, and expanding additional insurance offers by providing innovative services. We will optimise the process of taking out life insurance on the internet and simplify the process of acceptance of insurance.

In the segment of **health and accident insurance**, the insurance company will focus on the needs of insureds. 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. Based on our many years of experience and partnerships, we will provide comprehensive solutions for health care and financial stability in case of accident. This approach will allow us to ensure added value for the insureds, which will distinguish us positively from other providers on the market.

In 2016, legal changes are expected in the field of complementary health insurance (SHI), which at the moment provides the basic security within the health care system. The insurance company wants to be prepared for these changes and adapt quickly to different conditions on the market. The development of “Safety net” project and execution of the related activities are the basis for a proactive reaction to the announced changes of the health care system. However, until the changes of health care system and health insurance come into effect, complementary health insurance remains a stable and transparent way of financing the public health network. Exercising the rights arising from compulsory health insurance is tightly connected to additional payments which can be extremely high for an individual without SHI. In 2016, modern supplementary health and accident insurance for individual target groups will be added to the SHI.

In the **area of sales** in Slovenia, the insurance company will mainly focus on ensuring comprehensive insurance protection for its policyholders – closing a full circle of safety. By means of a broad range of modern insurance products for different target groups and a wide sales network, the insurance company strives to fulfil the following goals: higher level of satisfaction of insureds, comprehensive insurance for the insureds and excellent sales and aftersales activities. AS is primarily focused on development of services that provide better quality and security of life also for the third age.

In the area of **operational insurance activities**, in 2016, we will continue to search for solutions that will provide our agents, and, of course, our clients, with quick and quality service. We will accomplish this mainly by means of standardisation and automation of our solutions, part of which is the project for innovative electronic process of taking out life insurance. In March 2016, the insurance company will continue the implementation of paperless business operations also for outgoing mail within the framework of DIGIT AS project.

Activities, planned by the **information technology team**, arise from the IT strategy, which follows the requirements of the insurance company's management and the business environment, the demands of the profession and good practices of IT governance. In 2016, we will put more effort into management of IT and information solutions and ensuring uninterrupted operating of information systems. While the IT infrastructure is becoming more reliable, the architecture of information systems is more and more complex and intertwined. IT outages that are becoming increasingly critical for the business are directly related to the complexity of the IT system. A Continuous Development / Continuous Integration environment will be implemented in order to improve software quality, ensure a higher level of control over source code and enable automation of the processes of building, installing, documenting and testing of applications.

In the following years, we will continuously adapt the organisation of IT team, which will allow us to cover two models of IT management: the model that ensures reliability, as well as the model that enforces agility and quick adapting to the business environment. Within the business intelligence team, we will continue to improve our competences of business intelligence, as well as those from the area of data mining. They will enable us to seek for new patterns and knowledge in the data, and preparation of new models, the aim of which will be increasing revenue and reducing costs. Our goal is that in the medium term, business intelligence team would grow into a centre for the insurance company's decision making.

Another long-term goal is also the implementation of Enterprise Service Bus (ESB), by means of which, we want to ensure improved connectivity, monitoring and management of services – those which were already implemented, as well as those that will be in the future, within the framework of Service-oriented architecture.

Upgrades of the core information systems INIS and Amarta will primarily be focused on improved and unified business operations, ensuring greater cost effectiveness and support for new insurance products. Integrations with new information systems will be of key importance as well. We would especially like to highlight the solution for e-taking out life insurance in AS sales network. It will be integrated with the solution for the assessment of the accepted risk, and with the handwritten e-signature solution, which we intend to integrate also with other information solutions and processes of the company in the future.

In 2016, new portals “Moj AS” (My AS) and “Pokojnina AS” (AS Pension) will see the light of day. They will enable the insureds to look into their portfolio and establish a long-term connection with the insurance company. In the future, these portals will be upgraded with additional content and services; moreover, the solutions will also be supported on mobile phones and tablet computers. We will be upgrading information systems, keeping in mind that the client is in the centre of attention. Therefore, within the framework of the target IS architecture components, we will provide support to the concept of 360-degree view of the client, their bonuses, and to the concept of loyalty scheme.

To achieve high levels of services, lower costs and easier management of information solutions, our monitoring system and SIEM system will be upgraded with additional functionalities. Moreover, monitoring tools will be introduced also to environments of other companies within the Group. SIEM system will also be used for logging access to personal data, as required by the Personal Data Protection Act. We will continue performing security reviews and penetration testing of information solutions. A higher level of security will be achieved also by means of implementation of IDS sensors. By providing users of information solutions with adequate support and training, we will contribute to improvement of their satisfaction; a well-trained and satisfied user is one of our basic goals.

**Claims settlement** is following the guidelines of the area's strategy for the period until 2019. The insureds are in the centre of plans for 2016, and the business model is based on three assumptions: business, automation and employees. The implementation of the model will be conducted in the framework of three segmentations: submissions of claims, client ratings and insurance cases. In this way, we will simplify claims settlement processes, improve the level of our services, optimise the processes, build partnerships with our vendors (AS network) and make an important impact on controlling the claims result. Therefore, the key projects in 2016 will be the ones related to automation of processes, employee development and comprehensive solutions in collaboration with our partners.

In the areas of **finance, accounting and payment transactions**, the insurance company will focus on the consolidation of finance and accounting processes in the parent company and branch in Croatia. In the long term, we will have to ensure appropriate accounting evidence of business events, preparation of financial statements and different sorts of reports, and uninterrupted payment transactions in two different currencies. Moreover, in the area of payment transactions, we will continue with activities of payment instruments segmentation with the aim of reaching a maximum portion of payment instruments with low risk.

The **education process** within the company has been subject to significant improvements for the third year in a row, and it now enables a tighter connection between the company's interests and developmental needs of the employees. We will intensify and continue with the successful projects of promoting health in the workplace and

the Family Friendly Enterprise Certificate. To achieve greater satisfaction of our clients, we will in 2016 further upgrade our knowledge and sales excellence skills, and enrich all of the four education pillars of AS Academy – E-learning, certifications, internal and external trainings.

In the **area of investments** in business buildings and premises, the insurance company is planning a number of investments in energy and construction. We are also planning additional purchases of business premises to improve our client services, refurbishment of four vacation apartments for our employees and further modernisation of our vehicle fleet by purchasing more economical, eco-friendly cars.

## Core strategic directions of the subsidiaries in 2016

### AS neživotno osiguranje

Before the end of 2015, AS neživotno osiguranje formally stopped conducting insurance operations in the Republic of Serbia and informed the supervisory authorities about it.

It is planned that by mid-2016, the existing insurance operations - contracts will be discontinued as well, which will be followed by the company being closed down.

### Prospera

In order to reach its strategic goals, the strategy of the company will follow the guidelines of cost-effectiveness, achieving the optimum results in line with the planned categories and innovation in collection processes.

Collection of receivables will be carried out on a highly professional level, taking into consideration the ethical code of conduct and the current legislation. Prospera will follow the vision of becoming a highly professional company, specialised in collection of receivables. Automation of collection processes will ensure an above-average efficiency and rewarding of employees in line with the achieved results.

It is important for the company to have good information systems support for producing accounting records, as well as for the management of collection processes. In the coming years, Prospera will invest in upgrades of information solutions. Based on the successful implementation of an information solution in the parent company (Business Connect), which enables paperless handling with ingoing and outgoing documentation, in 2016, Prospera will implement this solution into its business operations to a highest possible extent as well.

In accordance with the strategy of Prospera operations in the period 2015 – 2020, approved by the parent company, and in accordance with the Prospera Business plan for 2016, the company will be taking over receivables from the parent company in this period in the way that will enable AS Group to achieve the optimum results. At the same time, the company will occasionally purchase receivables on the market and start with debt collection for external clients, especially for the insurers of the parent company. By means of the money surplus, the company will provide for repayments of the paid-up capital to the parent company. Taking into account that one of the goals is also debt collection for known clients, the first activities in 2016 will be to conduct market research and train employees in sales skills.

In 2016, there will be trainings for employees in the fields of sales, finance, tax legislation and legal collection processes, which will enable employees to gain new competences.

In 2016, before entering the market, the company will thoroughly analyse its competition, market potential and prepare a marketing plan. The sales team will investigate the potential market and use the new experience for the company's presentation on the market.

Apart from providing recovery on commission, in the first phase, Prospera is planning (in the first phase for AS clients) also to provide collection consulting services and consulting in legal and insolvency processes.

## Viz

Viz wants to become the most popular insurance agency in Slovenia (based on NPS – Net Promoter Score index) which will play an important role on the Slovene market with its simple and understandable products, affordable price and excellent service. In 2016, the company expects to generate further growth in revenue from commissions from WIZ insurance sales, while having a lower turnover of costs, compared to 2015. The goals and plans of Viz d.o.o. are tightly connected to the development and visibility of the WIZ insurance trademark.

### Goals, achieved in 2015

The insurance company continued with the realisation of its strategy, set in the mid-term business plan. Despite the demanding business conditions on the insurance market, we are maintaining the second position among Slovene insurance companies while achieving the required operating profitability and maintaining a high level of capital adequacy. We have managed to uphold the level of premium written from non-life insurance (health insurance excluded) and at the same time reached 12 % growth of life insurance, which is one of the highest increases. It is mainly a consequence of growth of pension insurance, single investment insurance and acquisition of KD životno osiguranje, Zagreb branch.

Having reached 14.3 million euros of net profit, the insurance company maintains high operating profitability, while the ROE for 2015 was 13.7 %. The capital adequacy of the company, in line with Solvency I methodology, remains on a high level since the capital adequacy index for 2015 reached 172.0.

The company succeeded in retaining high financial stability of operations, confirmed by the international rating agency Fitch Ratings, which rated the insurance company's financial strength as "BBB-". The trend rating remains "stable", which shows the strong position on the Slovene insurance market and confirms the appropriate capital adequacy of the insurance company.

In 2015, sales activities were focused on increasing the insurance security of the policyholders. An important competitive advantage of the insurance company is that we are able to provide everything at one place – from taking out non-life insurance, to health, life and pension insurance. The wishes and needs of our insureds remain our core guideline.

We are developing insurance packages and services that provide security to our clients of all ages. We deliver these services via modern sales channels and complete our offers with a comprehensive sales and aftersales services and effective claims resolution.

In sales, we believe that only with appropriate knowledge, we can ensure quality customer relations, therefore, in 2015, we have designed an extensive educational project for all the staff selling insurance and the company's services, including the directors, managers of sales networks, account managers, agents and other employees in sales department (project Stratos).

In compliance with the strategic policies of Adriatic Slovenica on foreign markets, in 2015, the company decided to establish a branch of Adriatic Slovenica d.d. for conducting insurance operations in the life and non-life insurance segments in Croatia. An acquisition of the subsidiary KD životno osiguranje d.d., Republika Hrvatska, Zagreb was carried out by the parent company Adriatic Slovenica d.d. In line with the planned strategy, KD životno osiguranje d.d. ceased to operate as an individual legal entity and its operations on the Croatian market are continued within the AS Podružnica Zagreb. The purpose of the acquisition was an improved and more efficient use of the existing administrative capacities and human resources of the company and the whole Adriatic Slovenica Group. The plan is to further develop business operations, increase efficiency in the segment of life insurance and expand the business to non-life insurance market. Last but not least, one of the aims of the acquisition is also to improve capital management.

## 5. MANAGEMENT AND CORPORATE GOVERNANCE OF THE PARENT COMPANY AND THE GROUP

### 5.1 SUPERVISORY BOARD OF ADRIATIC SLOVENICA D.D.

#### Chairman:

Matjaž Gantar, MSc

#### Members:

Aljoša Tomaž

Tomaž Butina

Aleksander Sekavčnik

#### Members – representatives of employees:

Viljem Kopše (until 27 September 2015)

Matjaž Pavlin

Borut Šuštaršič (since 28 September 2015)

### 5.2 MANAGEMENT BOARD OF ADRIATIC SLOVENICA D.D.

**President:** Gabrijel Škof

**Member of the Management Board:** Varja Dolenc, MSc

**Member of the Management Board:** Matija Šenk

**Member of the Management Board:** Willem Jacob Westerlaken (until 31 December 2015)

#### 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.).

##### **In 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,
- Member of the Council of the Slovenian Insurance Association,
- 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 and 2015,
- Member of the Supervisory Board of the Nuclear Insurance and Reinsurance Pool,
- Member of the Board of Directors of the Chamber of Commerce and Industry of Primorska,
- Member of the Managers' 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.

### **In 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 Supervisory Board of Projektor d.o.o. (since 17 March 2015)
- President of the Supervisory Board of Zdravje AS d.o.o. (since 2 February 2016),
- Member of the Supervisors Association of Slovenia,
- Member of the Association Of Female Managers FAM,
- Member of the Managers' 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.
- 2002 to 2005 – Member and President of the Management Board of Slovenica, zavarovalniška hiša 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.

### **In 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 (until 30 December 2015),
- 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.

### 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.

#### In Adriatic Slovenica d.d.:

- Since 1 October 2011 – Adviser to the Management Board.
- From 25 November 2011 to 31 December 2015 – 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. (until 31 December 2015),
- Chairman of the Supervisory Board of KD Skladi (until 31 December 2015),
- Member (Non-executive Director) of the Board of Directors of AS neživotno osiguranje Beograd (until 31 December 2015),
- Member of the Supervisory Board of KD životno osiguranje, Croatia (until 31 December 2015),
- Member of the Dutch Actuarial Association,
- Member of the Managers' Association of Slovenia.

## 5.3 SHAREHOLDER STRUCTURE OF THE PARENT COMPANY

### Shareholder structure of Adriatic Slovenica d.d. as at 31 December 2015

Shareholder	No. of shares	Shareholding
KD Group d.d.	10,304,407	100 %
<b>Total</b>	<b>10,304,407</b>	<b>100 %</b>

The share capital of Adriatic Slovenica insurance company as at 31 December 2015 amounted to 42,999,529.80 euros.

## 5.4 SHAREHOLDER STRUCTURE OF SUBSIDIARIES

### AS neživotno osiguranje a.d.o. Beograd

#### Shareholder structure as at 31 December 2015

Shareholder	No. of shares	Shareholding
Adriatic Slovenica d.d.	197,165	97.27 %
KD Kvart	5,537	2.73 %
<b>Total</b>	<b>202,702</b>	<b>100.00 %</b>

**Prospera d.o.o.****Shareholder structure as at 31 December 2015**

Shareholder	Shareholding
Adriatic Slovenica d.d.	100 %
<b>Total</b>	<b>100.00 %</b>

**Viz d.o.o.****Shareholder structure as at 31 December 2015**

Shareholder	Shareholding
Adriatic Slovenica d.d.	100 %
<b>Total</b>	<b>100.00 %</b>

**KD životno osiguranje d.d.****Shareholder structure as at 29 December 2015\***

Shareholder	No. of shares	Shareholding
Adriatic Slovenica d.d.	503,250	100 %
<b>Total</b>	<b>503,250</b>	<b>100.00 %</b>

\*KD životno osiguranje d.d. discontinued its operations based on a cross-border acquisition by the parent company Adriatic Slovenica d.d., entered into the Court Register on 30 December 2015. All the activities were taken over by Podružnica Zagreb. At the same time, Permanens d.o.o. (until then a subsidiary of KD životno osiguranje d.d.) became a branch of the parent company Adriatic Slovenica d.d.

**Permanens d.o.o.****Shareholder structure as at 31 December 2015**

Shareholder	Shareholding
Adriatic Slovenica d.d.	100 %
<b>Total</b>	<b>100.00 %</b>

## 5.5 ORGANISATION AND ORGANISATIONAL STRUCTURE OF THE PARENT COMPANY AND THE GROUP

Already in 2013, Adriatic Slovenica made significant changes in its organisation and made the transition from functional to process-oriented organisation. In line with the new way of organisation, since 2014, when we stabilised the process organisation, core and supporting processes are being carried out by permanent and flexible process teams. Instead of an individual's position within the company (organisational unit), it is more important to whom the results of their work are delivered (process-based interaction of work results).

The business processes within the company are divided into substantive segments which form a comprehensive unit, namely: Sales and development, Operations, Risk and finance, and Corporate affairs.

We encourage the employees to participate in business processes in an effective manner and to fulfil the strategic and developmental goals. We build our business policy on organisational culture, which is based on our values and constant improvements. We constantly monitor the organisational climate and in 2015, the level of employee satisfaction grew even higher.

The business strategy is fulfilled by means of developmental projects and in this way, we are realising our aim to be an innovative and modern insurance company. Our insurants agree with this statement, too.

By performing different roles within the company, we take constant care of information security, business continuity, personal data protection, risk management and quality.

The company's business processes are carried out in the central headquarters, in branch offices and in Podružnica Zagreb.

The company's central business units in Slovenia are its nine area branch offices located in all regional centres of Slovenia: Celje, Koper, Kranj, Ljubljana, Maribor, Murska Sobota, Nova Gorica, Novo mesto and Postojna. Connected to these business units are six more branch offices: in Domžale, Idrija, Krško, Slovenj Gradec, Grgar, Ribnica, 38 (37 in 2014) representative offices and two other points of sale. Within a network of contractual points-of-sale (agencies), insurance services are also available at 140 agencies (134 in 2014) and 171 (166 in 2014) complementary points-of-sale. Altogether, the insurance services of Adriatic Slovenica were at the end of 2015 available at 366 (351 in 2014) points-of-sale and two banks (in Banka Celje until 29 September 2015). From 2012 to 31 August 2015, Adriatic Slovenica was also offering KD Skladi products in all of its nine regional offices. Since then, KD Skladi still offers its products in some regional offices.

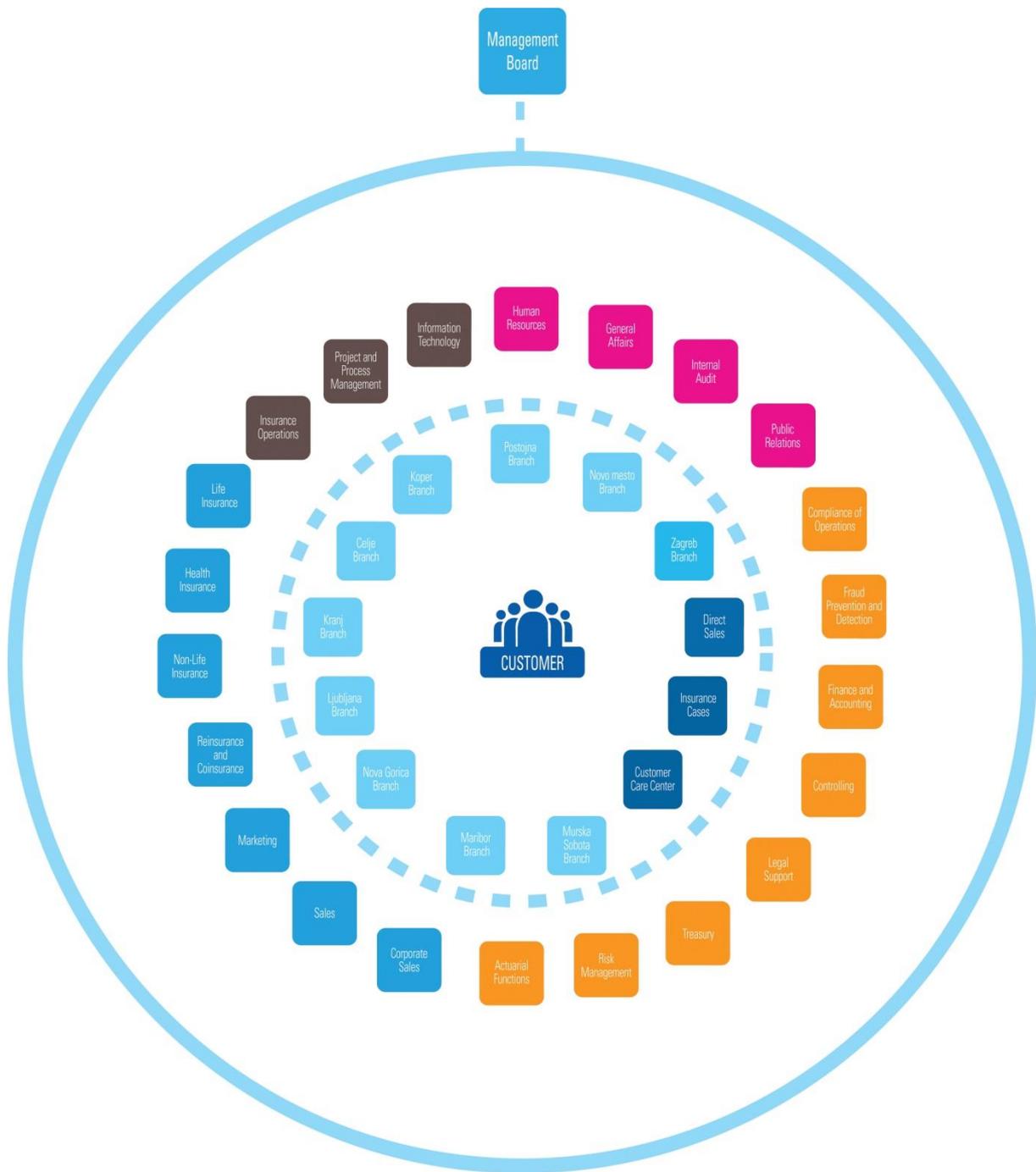
In line with its strategic goals on foreign markets, in March 2015, the insurance company established a branch to conduct life and non-life insurance operations in Croatia. The parent company Adriatic Slovenica d.d. acquired KD životno osiguranje d.d. subsidiary, the Republic of Croatia, Zagreb. KD životno osiguranje d.d. insurance company ceased to operate as an independent legal entity and its operations in Croatia were taken over by Zagreb branch. The sales network consisted of three sales channels, namely: own agency network, Permanens agency, which became a direct subsidiary of Adriatic Slovenica d.d. on 30 December 2015, and independent agencies. Altogether, between 60 and 80 agents were selling insurance there. Branch offices are situated in Zagreb, Osijek, Varaždin and Split. Furthermore, KD životno osiguranje was also in partnership with approximately 20 insurance agencies.

**AS neživotno osiguranje a.d.o.** operated in Serbia with three business units: Beograd (where also the central headquarters are), Čačak and Niš, and 3 branch offices (Vranje, Leskovac and Bor). In 2015, the company actively cooperated with 7 insurance representative agencies and 13 insurance intermediary agencies.

**Prospera d.o.o.** subsidiary was established by Adriatic Slovenica in 2011, and it specialises 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.

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.

Organisational scheme of the parent company\*



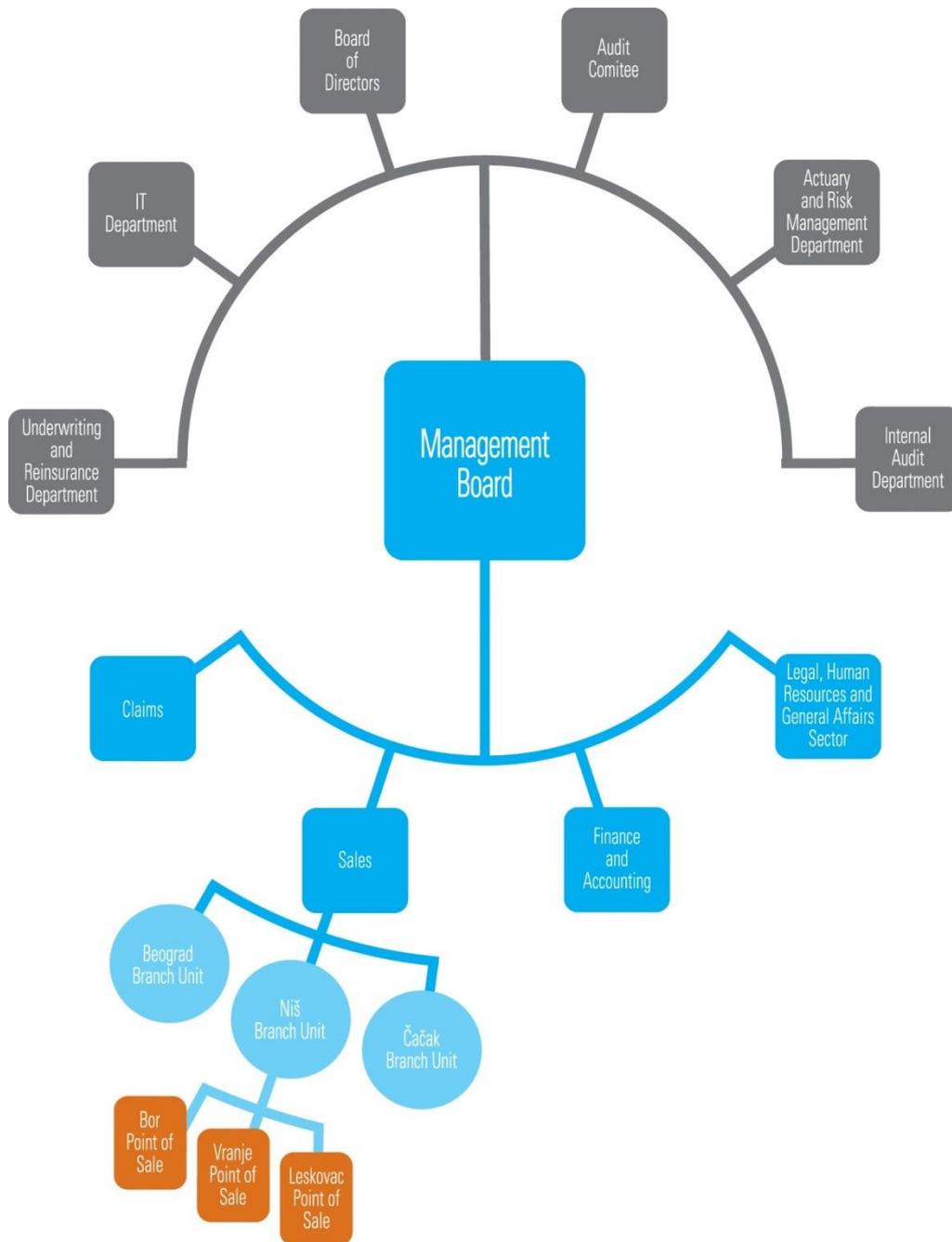
\*The parent company has established process organisation in four substantive segments (Sales and development, Operations, Risk and finance, and Corporate affairs; the customer is at the centre of the company's activities).

Organisational scheme of Adriatic Slovenica Group\*



\*Apart from the controlling parent company, at the end of 2015, AS Group also consisted of AS neživotno osiguranje a.d.o. Beograd, a small subsidiary Permanens d.o.o. in Zagreb, Prospera d.o.o. and Viz d.o.o.

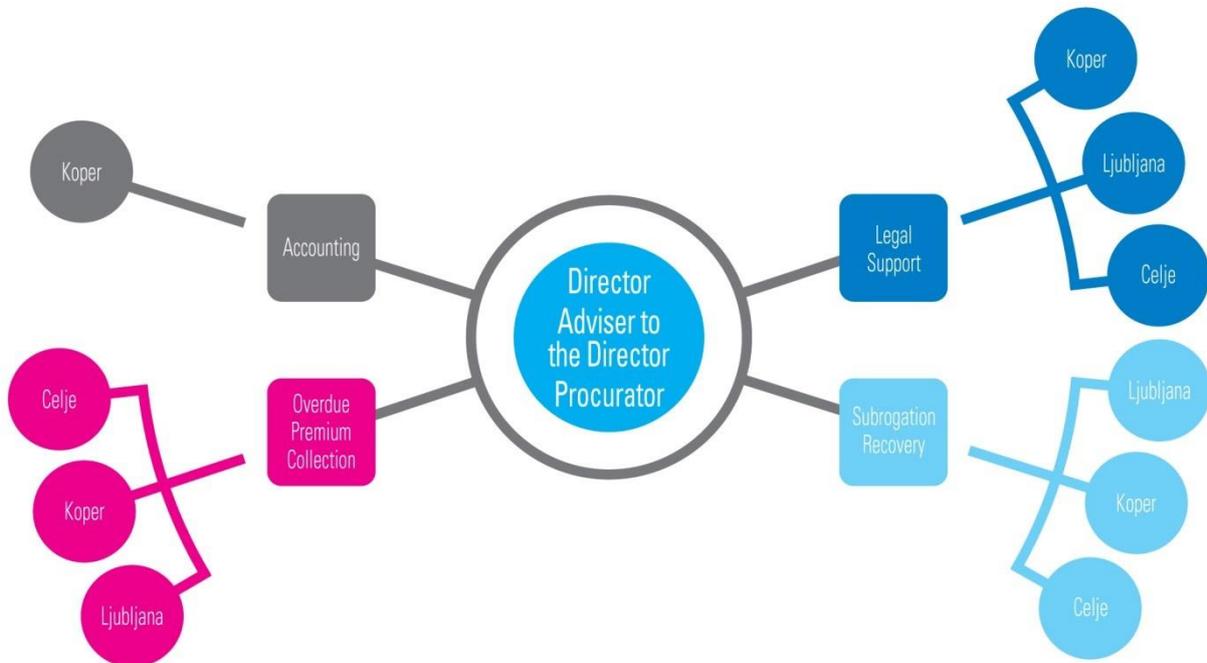
Organisational scheme of AS neživotno osiguranje a.d.o. Beograd



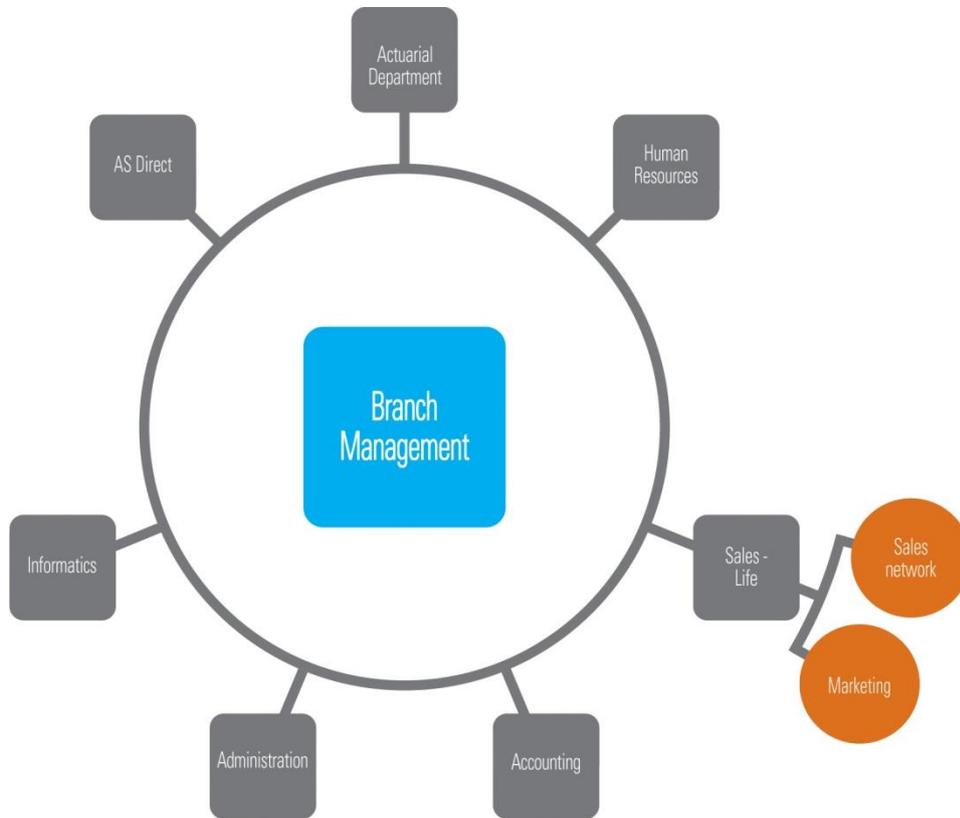
Organisational scheme of VIZ d.o.o.



Organisational scheme of Prospera d.o.o.



### Organisational scheme of Podružnica Zagreb (Zagreb Branch)

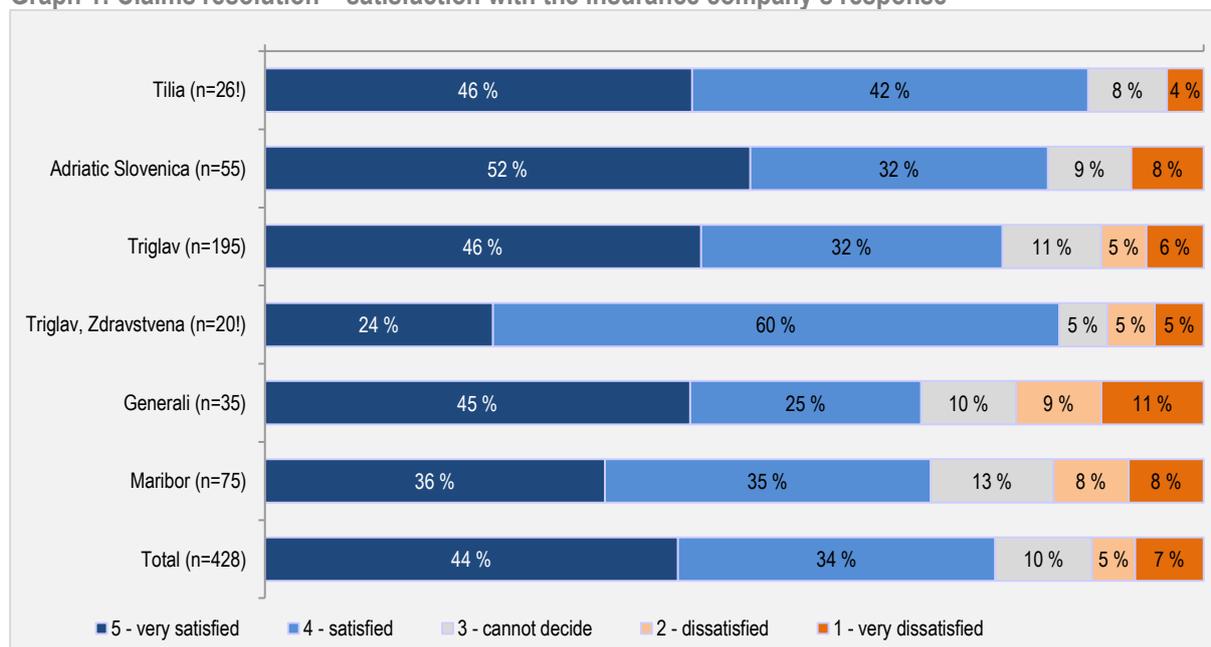


## 5.6 INSURANTS' SATISFACTION, NET PROMOTER SCORE (NPS), VISIBILITY AND REPUTATION OF THE PARENT COMPANY

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.

Again in 2015, the insurance company has participated in two prominent surveys, conducted by external research institutions. The first one was “**Ugled**” (Company reputation) survey (Kline & Partner, 2015), polling 800 representatives of the professional community, screened 60 of the best-known and largest companies in 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 23<sup>rd</sup>. The visibility of Adriatic Slovenica among the companies in the same line of industry ranked 4<sup>th</sup>. Compared to other companies in Slovenia, included in the survey, the professional community placed Adriatic Slovenica in the 34<sup>th</sup> place, and 3<sup>rd</sup> place among financial institutions. The “**Zavarovalniški monitor**” (Insurance monitor) survey (2015) is a continuous insurance market survey, polling the general public (conducted Slovenia since 2001). Adriatic Slovenica comes to minds of the respondents in the 2<sup>nd</sup> place when asked to enumerate insurance companies. Even more important is the information which shows the satisfaction of insurants with claims resolution, since this is an important factor which impacts the insurants' loyalty. Adriatic Slovenica insurants are the most satisfied with the insurance company's response in relation to claims resolution (Graph 1), which placed the company in the 2<sup>nd</sup> 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 – 52 % (score 5 on a scale from 1 to 5).

Graph 1: Claims resolution – satisfaction with the insurance company's response

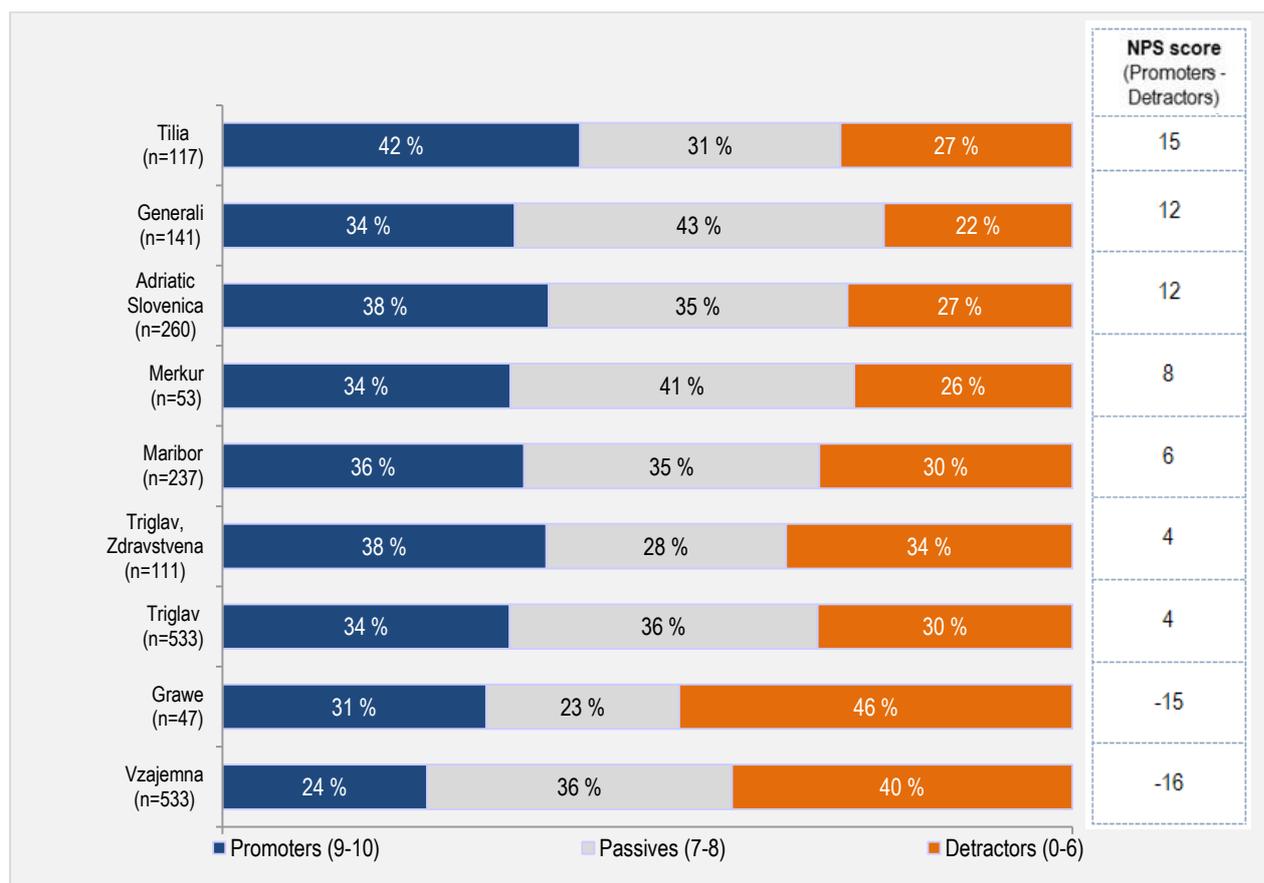


Source: Zavarovalniški Monitor 2015 survey, GfK Slovenija

In the recent surveys of client satisfaction, an increasingly important index is the **NPS** (Net Promoter Score), 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. 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. In 2015, Adriatic Slovenica achieved an NPS of +12 (Graph 2).

Graph 2: Recommendations (NPS)

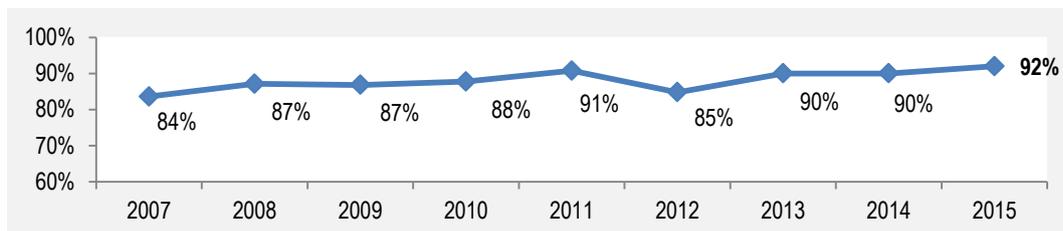


Source: Zavarovalniški Monitor 2015 survey, GfK Slovenija

### Results of the internal client satisfaction surveys

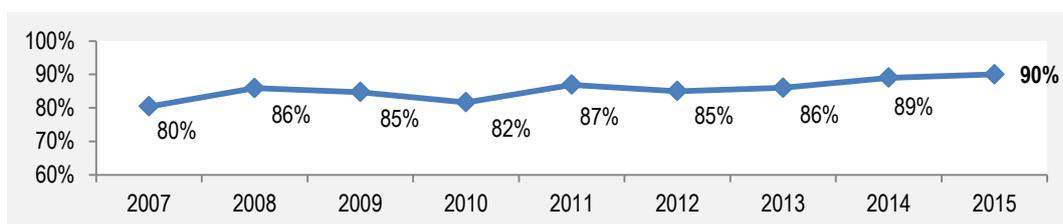
The internal survey on satisfaction of clients in the process of claims resolution was conducted by Adriatic Slovenica for the ninth time in 2015. Among our existing and potential insureds, we have selected a representative sample of 531 individuals who have received compensation for their insured accident or loss in August or September. As in the past, also this year, the results are excellent. They show that more than 92 % of insureds have been satisfied (Graph 3). 90 % of insureds 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 Adriatic Slovenica insurance company.**



Source: The internal survey on the process of claim resolution 2015

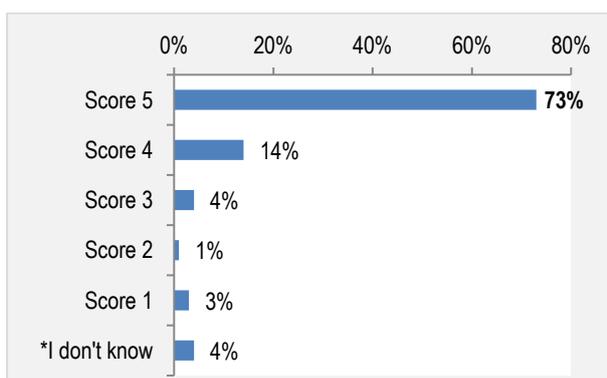
**Graph 4: The results of the internal survey in response to the statement: The insurance products are of high quality, up-to-date and well suited to my needs.**



Source: The internal survey on the process of claim resolution 2015

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 87 % 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 73 % of them rewarded the top score (5) to this statement (Graph 5).

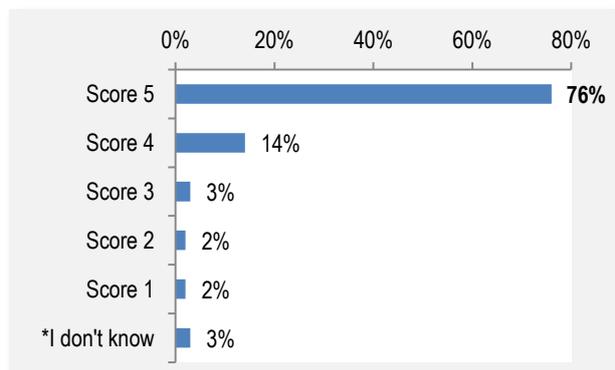
**Graph 5: The results of the internal survey in response to the statement: The reported loss or accident was resolved quickly.**



Source: The internal survey on the process of claims resolution 2015

In our internal research, we have also analysed the insurants' satisfaction with claims resolution. As many as 90 % 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 76 % of the respondents who received a compensation or a benefit awarded this segment with top score (Graph 6).

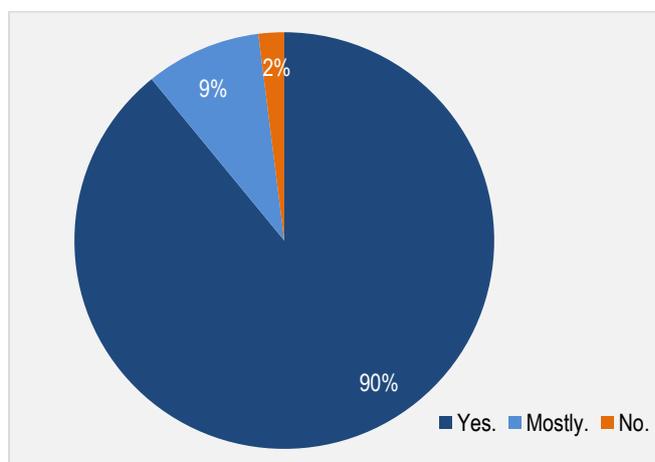
Graph 6: The results of the internal survey in response to the statement: In the field of damage or loss claim resolution, my expectations have been fulfilled.



Source: The internal survey on the process of claims resolution 2015

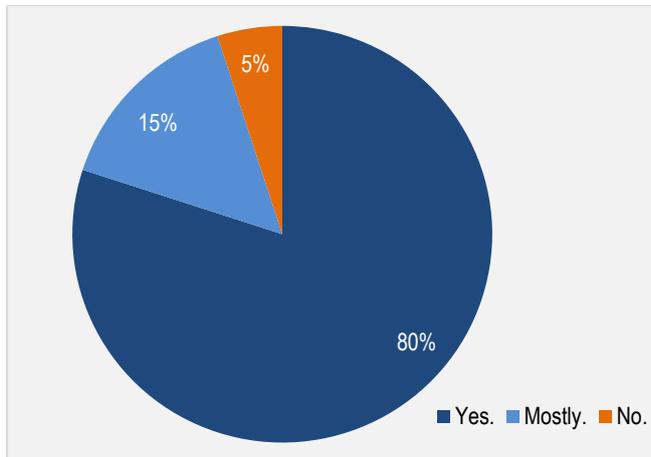
The Survey on satisfaction of insurants with the process of taking out insurance was conducted for the fifth time in 2015. We have selected a representative sample of individuals who recently took out insurance with Adriatic Slovenica. The results of this survey, too, were excellent. They show that on average, the expectations of insurants regarding taking out insurance were fulfilled in the opinion of 90 % of the respondents (Graph 7). Almost 80 % 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 question: Were your expectations in the process of taking out insurance fulfilled?



Source: The internal survey on insurants' satisfaction with the process of taking out insurance 2015

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



Source: The internal survey on insurants' satisfaction with the process of taking out insurance 2015

## 6. BUSINESS OVERVIEW

### 6.1 ECONOMIC LANDSCAPE IN 2015

#### Macroeconomic environment and the Slovene insurance market in 2015

In the third quarter, Slovene economic growth slowed down as a consequence of lower added value in the construction sector and weak state investments, which fell far behind the Government's plans. Therefore, the year-on-year gross domestic product grew by 2.9 % and the contribution to growth was equally distributed between industry and private services.

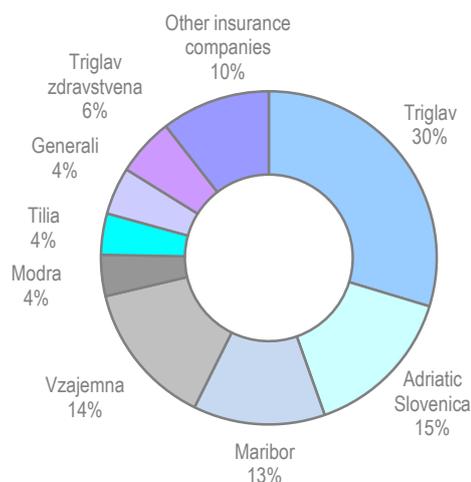
Along with the favourable economic movements, unemployment in 2015 fell by 12.3 % or 113 thousand people. The growth in numbers of employed people was mainly a consequence of higher employment in employment sector, trade, hospitality and manufacturing. The private sector generated growth in average gross wage (0.7 %), which slowed down by the end of the year. We can conclude that the reasons for this are: increased number of employed persons with low wages, tendencies for maintaining the competitive position and lack of price pressure.

At the end of 2015, there was a gradual increase in purchasing power due to deflation reaching -0.5 %. The negative effect of year-on-year lower prices of liquid fuels was even stronger than in the previous period. Therefore, compared to 2014, the lowering was mostly affected by the prices of energy products and services, while the effect of prices of food and industry products remained almost the same.

The Slovene insurance market is one of the small ones on a larger scale. According to the last official data published (Statistični zavarovalniški bilten 2015, Sigma No4/2015), the earned premium in 2014 amounted to 1,938 million euros, which makes up for 0.14 % of the European market. Due to the small size of the Slovene market, it is more adequate to use relative indexes like earned premium per resident and insurance penetration. The earned premium per resident in Slovenia in 2014 was 920 euros. The insurance penetration reached 5.0 %, which is comparable to Spain or Austria, but still way below the Western-European countries average (7.77 %).

According to the data provided by the Slovenian Insurance Association, traditional insurance companies (excluding premium of Craftsmen and Entrepreneurs Fund) in 2015 collected 1,971.4 million euros of premium, from which, 1,409.4 million euros (71.5 %) of non-life and 562.0 million euros (28.5 %) of life insurance premium. The business volume of the 13 insurance companies and other members of the Association therefore increased by 37.2 million euros (1.9 %). The growth in insurance volume was caused by pension insurance, transfers of assets of policyholders from other pension fund managers and favourable economic conditions, which reinforced the extent of legal persons' business activity and increase of the population's disposable income. The upswing of earned premium was therefore significantly affected by 5.6 % increase in life insurance market (30.0 million euros), while the market of other types of insurance grew by 7.2 million euros, which makes up for 0.5 % progress of the observed market.

## Market structure of Slovene insurance market in 2015



In 2015, the Slovene insurance market was again marked by a high level of concentration. Four of the biggest insurance companies controlled 71 % of the insurance market. With its 15 % market share, Adriatic Slovenica strengthened its second place among composite insurance companies. The growth levels of earned premium in 2015, compared to the previous year, are evident especially in insurance companies with predominantly foreign capital. These secure around 11 % of the insurance market.

### Macroeconomic environment and the Serbian insurance market in 2015

According to the professional public, GDP in 2015 grew by 0.8 % compared to the previous year. Following the extensive flooding and the related economic deterioration Serbia was faced with in 2014, the observed year was marked by positive trends in mining industry, energy sector and faster growth of manufacturing.

The average price growth in 2015 was 1.6 % and was below the target tolerance area. The favourable trends were triggered by falling prices of oil and raw materials, as well as low aggregated demand and low inflation in the Eurozone. In the future, the essential elements of inflation movement will be the intensity of economic activity of countries doing business with Serbia, as well as prices of primary raw materials and adjustment of controlled prices.

At the end of 2015, the evaluated unemployment rate was 16.7 %. In relation to the employment rate, net salaries fell in the observed year by 0.4 % or in real terms by 2.2 % compared to the previous year.

In the third quarter of 2015, the premium written on Serbian insurance market amounted to 506 million euros, which makes up for 18.0 % more than the year before. The premium in non-life insurance amounted to 397.2 million euros, which is 17.1 % more than the year before, while 21.5 % of total insurance premium (109.1 million euros) was collected from life insurance, which increased by 21.3 % compared to 2014.

In the third quarter of 2015, 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 35.8 %, followed by life insurance, fire insurance and hull insurance.

The insurance market is heavily concentrated. It consists of 24 active insurance companies, divided into three groups, depending on their share of premium written. The first comprises two insurance companies with each more than 15 % share of total premium, followed by the second group of seven companies with premium lower than 15 %, and the third group of 15 insurance companies with less than 3 % of total premium.

## Macroeconomic environment and the Croatian insurance market in 2015

Strong growth of export of goods and services, reinforcement of private consumption and investment activity in public, as well as in private sector, are the factors which resulted in 1.7 % economic growth of Croatia in 2015. GDP will grow stronger in the future and its intensity will depend on the recovery of labour market, positive consumer attitude, possible additional measures of fiscal consolidation and uncertainty arising from the refugee-migrant crisis.

The rapidly plummeting prices of oil products pushed the average of otherwise slightly higher prices of food supplies down by -0.4 %. Meanwhile, based on weak pressure on the demand side and mild effects of external circumstances, 0.9 % inflation is expected for 2016.

The employment growth numbers in 2015 pushed the registered unemployment rate down to 16.5 %. The number of employed persons grew considerably in the public sector, as well as in defence and education sectors, while construction sector and other services sector faced a slight decrease. The real, as well as nominal wage growth, which are, among other factors, caused by the changes in taxation remuneration, grew by 0.9 %.

In the first 9 months of 2015, Croatian insurance market grew by 2.4 %. Insurance companies collected a total of 879.8 million euros of premium which is 20.9 million euros more than the year before. The reason for this was mainly the volume of life insurance, which increased by 15.0 %, representing 32.3 % or 284.2 million euros in the total premium written.

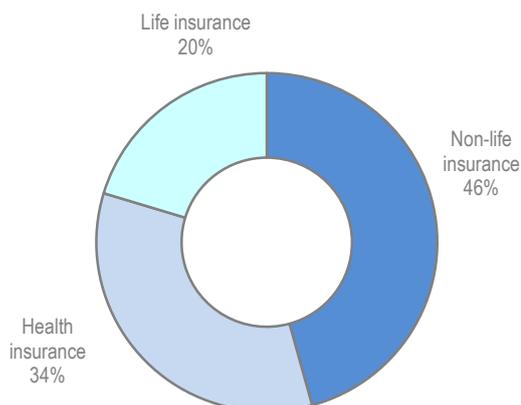
The structure of non-life insurance remained the same in the last period. Again in 2015, the emphasis was on car insurance, accounting for 24.2 % share. 7.9 % of total premium was collected from hull insurance, and the remaining part is divided equally among other insurance segments.

There were 25 insurance companies present on the insurance market. It is a concentrated market since at the end of the year, 3 insurance companies secured 51.3 % of the market. The growth of the market was mainly caused by the intense activity of international insurance companies that in this way substituted the downswing of premiums of domestic insurance companies and designed new trends in the insurance area.

## 6.2 OPERATING PERFORMANCE IN 2015 AND DEVELOPMENT OF INSURANCE CLASSES OF THE PARENT COMPANY

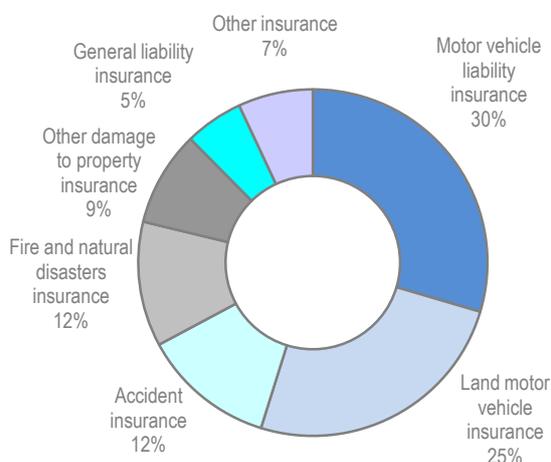
At the end of 2015, the market share of Adriatic Slovenica was 15 % (source: Slovenian Insurance Association - SIA, data on market shares), which puts the insurance company in second place on the Slovene insurance market. Considering its premium income, also in 2015, the largest segment is non-life insurance, followed by health insurance and life insurance.

### Premium structure by class of insurance – parent company



### 6.2.1 Non-life insurance

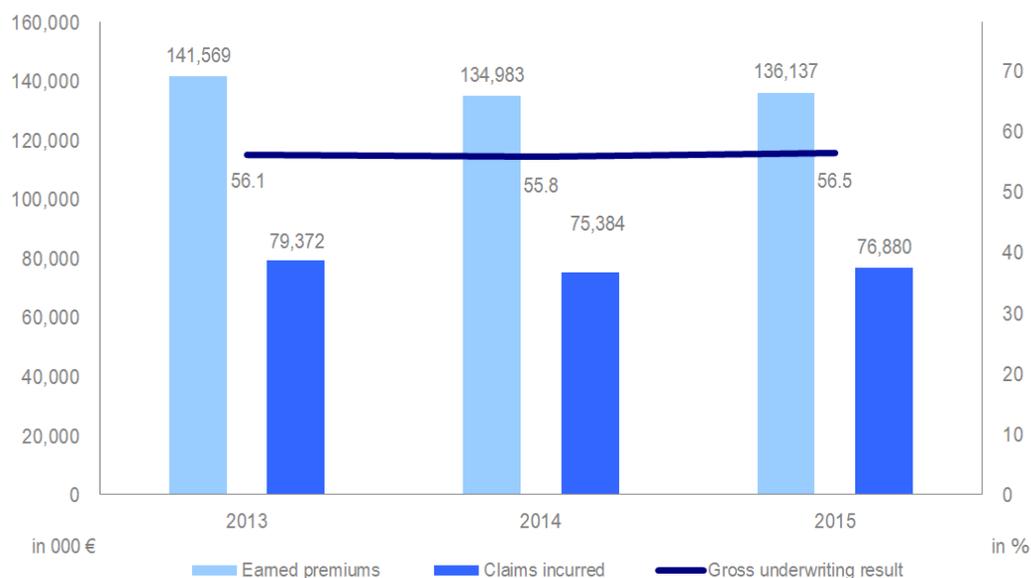
#### Structure of premium written in non-life insurance – parent company



The Slovene non-life insurance market shrank by a bit less than 0.5 % in 2015, which indicates that the past negative trends are calming down. After several years of stagnation of non-life insurance, we are expecting that the market will grow gradually in 2016. In the past year, the insurance company managed to increase its market share in the segment of non-life insurance, which reached 14.6 % at the end of the year (third place on the non-life insurance market). The largest portion of premium was collected from motor vehicle liability insurance (30 %), land motor vehicle insurance (25 %), accident insurance (12 %), fire and natural disasters insurance (12 %), other damage to property insurance (9 %) and general liability insurance (5 %).

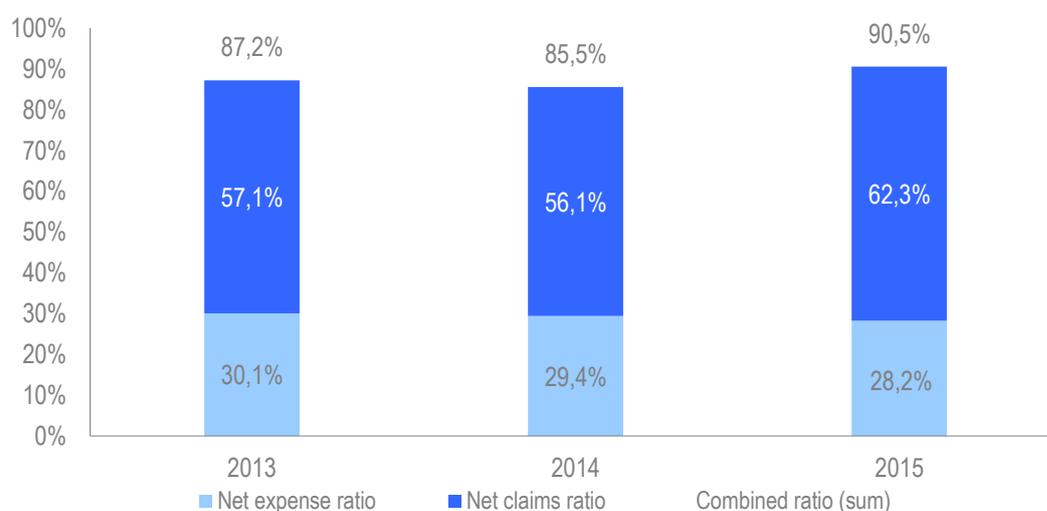
The insurance company succeeded in increasing earned premiums of non-life insurance. Along with the increase of claims incurred, the company also maintained the level of gross underwriting result at 56 %.

## Earned premiums, claims incurred and gross underwriting result of the non-life insurance segment in 2015<sup>1</sup>



Despite the fact that the net combined ratio of non-life insurance grew in comparison to 2014, it demonstrates a positive outcome from the principal activity in the past year; the net combined ratio has reached 90.5 %.

### Graph: Movement of the net combined ratio of non-life insurance in 2013 - 2015



### Motor vehicle liability insurance (MTPL)

Motor vehicle liability insurance is the largest insurance class within non-life insurance. Premiums under this category account for 30 % of all non-life premiums written (without health insurance). Due to severe price competition, the average premium is down year after year, however, the drop was not as significant as in 2014. At the 2015 year-end, the premium was below the premium written in 2014 by 1.3 %.

<sup>1</sup> Earned premium is the sum of written premium and the change in unearned premium. Claims incurred are the sum of settled claims and change in claims provisions less recourse receivables. Settled claims include valuation costs.

Each year, Adriatic Slovenica adapts to the competition by means of different sales promotions aimed at retention of quality existing insurants or attracting new ones. At the end of 2015, we have slightly adjusted the segmented price plan, mainly because of increasing average claims paid.

In 2016, we will continue the segmentation process for other types of vehicles, especially motorcycles and cargo vehicles. Segmentation is a process that must be regularly monitored and adjusted. We will work on establishing a connection with the insurance register in order to be able to obtain data, necessary in the process of insurance purchase. Consequently, the process of insurance purchase will be quicker, the need for controlling of policies will be reduced and correct data about the insurant will be ensured. At the same time, we are also modernising Wiz avto insurance packages, available via the internet.

### Land motor vehicle insurance

The premiums written in land motor vehicle insurance account for 25 % of non-life insurance premiums (health insurance excluded). Premiums written for hull insurance are falling year after year and were lower than in 2014 by 1.0 %, which shows that the decrease of premium written from hull insurance was almost as significant as the decrease of premium written from motor vehicle liability insurance. The shortfall of written hull insurance premium is a result of fierce price competition. Taking into consideration that sales of new cars are growing and the economic indicators are positive, we can expect that in the coming years, the number of insured vehicles will be growing.

In 2016, we intend to improve some of the additional coverages, which will bring our products even closer to certain segments of insurants. Moreover, we are currently in the process of renewal of Wiz avto hull insurance, available on the internet.

### Accident insurance

Accident insurance accounts for 12 % of the non-life insurance portfolio. In 2015, we have been continuously improving the products within this insurance class and connecting them with health insurance and other types of personal insurance. We have proceeded with standardisation and rationalisation of business processes based on identifying bottlenecks. In this way, we have improved cost-effectiveness and defined segregation of duties in individual phases of processing these types of insurance.

As far as insurance products are concerned, we have renewed them particularly in terms of different target groups and distribution channels. Firstly, we have designed a product to supplement the packages targeted at the senior population. "Nezgodno zavarovanje za mlade po srcu" (Accident insurance for the young at heart) is a whole life insurance that can be taken out by persons from 65 to 85 years of age and the premium depends on the age at entry. It consists of the following coverages: disability, death, daily benefits for the time spent in hospital while undergoing medical treatment, one-off compensation for hospital treatment (>5 nights), temporary care (home assistance and transportation to hospital for medical check-ups), fractures, dislocations, burns, surgeries, above-standard accommodation during rehabilitation in spa resort, and funeral expenses (regardless of cause of death). This insurance package is our answer to our competitors in the complementary health insurance segment, and on the other side, it enabled us to extend the offer of accident insurance among a new target group of insurants. Moreover, we have introduced new coverages that enable the insurance company to reinforce its position on the market.

The "Nezgodno zavarovanje otrok in mladine do 26. leta" (Accident insurance for children and youth below 26 years of age) was also upgraded in 2015. We have adjusted the features of the package to the specific segments and target groups (professional athletes, recreational athletes, young athletes ...) and to different distribution channels, and enriched the accident insurance segment, where accident insurance is connected to health insurance and additional coverages, not available with other insurance companies (homeopathic medicinal products). The insurance can be taken out only for a certain time period or as a permanent type of insurance, where we also reduced and simplified the administrative tasks of the insurant.

In 2015, we have combined accident insurance and health insurance products, and upgraded them with new coverages which are not available by other insurance companies, and in this way differentiated our products from those of our competition, which have not changed much in years.

In 2016, we will continue to adapt accident insurance products to different segments and target groups. We will be designing accident insurance products in connection with health and life insurance risks and provide new coverages, not previously offered by our competition.

### Fire and natural forces insurance

The earned premiums of these insurance products are slowly increasing through the years. We have concluded 2015 with 99.8 % index, compared to 2014. In the non-life premium structure, this class of insurance accounts for 12% and remained on the same level as in 2014. The majority, an 85% 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 2015, we have introduced a new "Podjetnik AS" (AS Businessman) package, which consists of numerous coverages, including fire insurance apart from trade and industry. In 2016, we will continue with active promotion of this package. Within the Geoqlick project, we will continue with the analyses, supported by this tool (e.g. graphic demonstration of locations of insurance objects / policies), which will help us with the risk assessment. The display of insured locations will enable us to perform targeted search for potential new insureds.

### Other damage to property insurance

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 66 % of premium from this class of insurance is generated by household insurance and machinery breakdown insurance. The earned premium index in household insurance was 102, and machinery breakdown insurance reached the index of 106, which is a consequence of premium booking based on the insured's claims result and the stricter instructions for bonus and malus calculation, which started to generate results. This class of insurance also comprises crops and livestock insurance, construction and erection insurance, burglary insurance, glass breakage insurance, computer insurance, and Multirisk insurance, which grew by almost 9 %.

The earned premiums in crops insurance collapsed in 2015 – compared to 2014, the index was only 49 %. The reason for this is the policy of reducing premium subsidies by half. Erection insurance fell as well – only 41 % of last year's earned premium was collected, while the premium from construction insurance stayed on the 2014 level.

In 2016, we will renew the Dom AS package, extend some coverages and design new affordable packages.

### General liability insurance

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, product liability / indemnity insurance, various mandatory and optional professional liabilities, and forwarders liability. In 2015, the earned premium fell behind the 2014 level by 0.7 %. While the growth index of general civil liability was 102, the product liability / indemnity and some other types of professional liability insurance dropped, some even by 20 %.

Already in 2015, we started the process of renewal of general liability insurance in order to simplify the processes of taking out insurance and controlling the policies, the aim of which is that the insureds would better understand and accept this type of insurance. General liability insurance is also included in some of the packages, for example Podjetnik AS and Dom AS. Moreover, also in the future, we will devote our attention to the needs of exporters in relation to indemnity insurance, and to different groups of professional liability insurance.

## Other non-life insurance

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 7 % of total non-life insurance premium. In 2015, assistance insurance and goods in transit insurance registered the highest increase in premium. Compared to 2014, lowering of premium written was noted in aircraft insurance, vessel insurance and miscellaneous financial loss insurance.

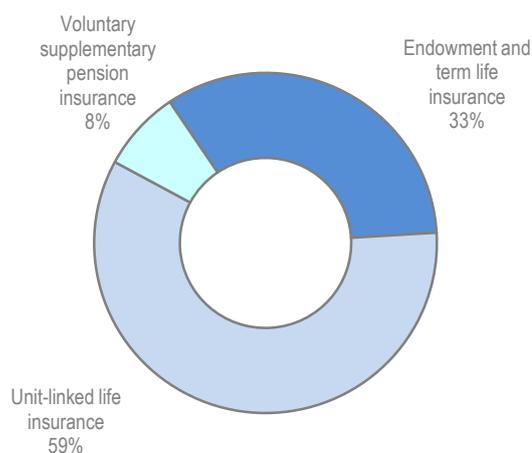
In 2016, we will continue with development of different types of assistance insurance. The renewed insurance bases for suretyship insurance will expand the variety of our products with the aim of acquisition of new insurants. We will start with active promotion of a new product for the insurance of loss of income due to illness, and the renewed solar power station insurance. We will also modernise the insurance of medical assistance abroad – primarily, we want to prepare a clearer set of conditions, which will contribute to quicker claims resolution and a higher level of insurants' satisfaction. By April, we also plan to renew the vessel insurance segment, where our insurance company collects more than 50 % of the total premium on the market.

### 6.2.2 Life insurance

After several years of decline of life insurance market, in 2015, we have witnessed a 5,6 % growth, which is relatively high and was to a large extent influenced by the growth of pension insurance. The insurance company improved its market share to 10.7 % and positioned itself on the fifth place. In general, on the Slovene insurance market, the five largest insurance companies controlled as much as 80 % of life insurance market, which still shows a high level of concentration.

Longer life expectancy and worsening social, health and pension security indicate a possibility of higher demand for life and pension insurance in the future. The insurance company leveraged these circumstances in 2015 and achieved an above-average growth on the life insurance market. The stress was on life insurance products, by which, we wanted 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.

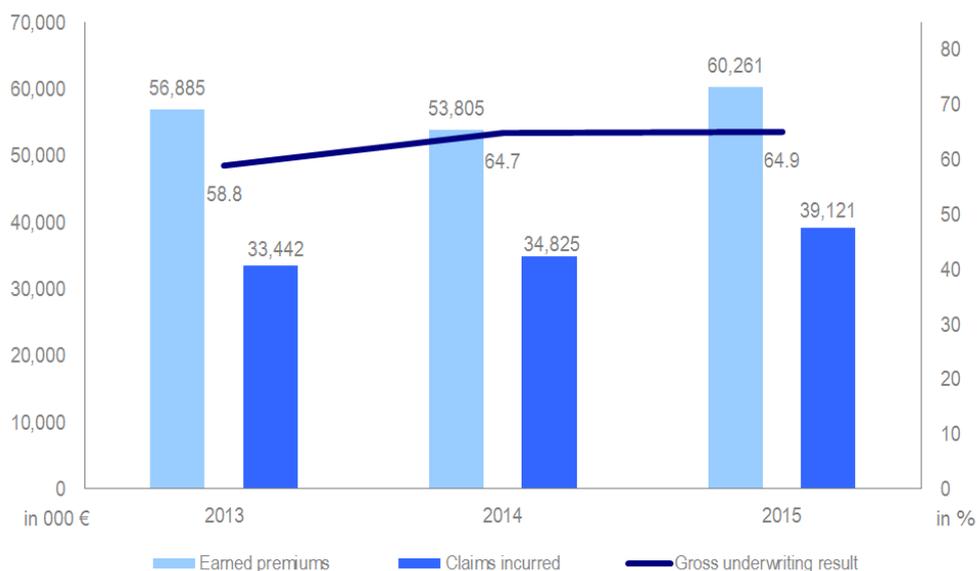
#### The structure of premium written in life insurance segment



In 2015, the insurance company collected 60 million euros of life and pension insurance premiums, which is 12 % more than the year before. The main reason for this is the upswing of pension insurance, caused by the transfer of assets of new insurants, new single premium investment insurance policies and the acquisition of life insurance

company KD životno osiguranje, Zagreb. Compared to the year before, risk life insurance and other additional insurance types have advanced as well. The underwriting result of life insurance was in 2015 mainly affected by ageing of the existing portfolio and the related volume of endowment; also the amount of reimbursements arising from additional insurance (for example disability and critical illnesses) is increasing, which is also a consequence of significantly higher sales of these risks in the past periods.

### Earned premiums, claims incurred and gross underwriting result of the life insurance segment in 2015<sup>2</sup>



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. The predominant life insurance class is unit-linked life insurance with 59 % share, mixed and risk life insurance accounts for 33 % share, and pension insurance, which grew the most in 2015, accounting for 8 %.

#### 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. It provides enhanced security of the insured in case of accident or illness, and contributes to safety of their children and family members in case of unforeseen events. Additional accident insurance comprises enhanced coverage for permanent disability, accident annuity, sum insured for broken bones, daily accident benefits 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. Additional insurance can be agreed to cover a preventive health service with three different DNA analyses.

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.

#### Varna leta AS

“Varna leta AS” (AS Secure years) is a life insurance product that enables the insureds to take care of themselves in case of cancer or accident (additional coverages) and provides their closest ones with assets to

<sup>2</sup> Earned premium is the sum of written premium and the change in unearned premium. Claims incurred are the sum of settled claims and change in claims provisions less recourse receivables. Settled claims include valuation costs.

cover the costs in case of death (basic coverage for case of death). Varna leta AS policyholders can opt for either lifetime insurance or limited period insurance. With an affordable monthly premium, we can be secure in case of illness or accident, and ensure financial security of our closest ones in case of death.

“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.

Similarly, the insurance package “ZASE” (For oneself), which has been adjusted for sale via direct mail, comprises life insurance with death benefit and additional coverage, and provides the basic social and financial security of the insurant and their family.

### Life insurance with a savings component

“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 AS 2” (Guaranteed AS 2), 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.

“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 was a limited offer – it was available only until 31 March 2015.

Unit-linked life insurance policy Fondpolica can provide life-long comprehensive insurance protection and offer diverse investment opportunities. Fondpolica is 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). During the insured period, the insureds can, according to the changed needs, align the investment policy, premium, premium payment period, sum insured, and opt for additional insurance products.

“Vita Royal AS” is an endowment life insurance product providing death and survival benefit, plus accident and health insurance throughout the active life of the insured until 75 years of age. The accident insurance product enables the insured persons to choose from seven different covers. Furthermore, they can include the insurance for their children 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 content of the covers and the amount of the sums insured or get an advance.

Our development of life insurance in 2016 will be about adapting the products to the market conditions and fulfilling the needs of insureds of different ages with new services and additional insurance products. We will design combinations with other insurance types within a more comprehensive framework together with health and non-life insurance. Promotion of products for the second and third pension pillar combined with other insurance products will be of key importance. In 2016, we plan to expand the offer in the segment of annuity insurance and renew life insurance packages for different target groups within the unit-linked life insurance segment.

As far as life and pension insurance is concerned, we will devote special attention to: refreshing the offer of insurance with risk component with the aim of increasing the sales of these products to different age groups; renewing the insurance products with a savings component to improve unit-linked insurance sales; adjusting the pension insurance products to different target groups to promote pension insurance from the second pillar and design of an up-to-date offer of annuity insurance. At the same time, we will optimise our business operations, ensure quality in the process of insurance purchase and aftersales activities, and good customer care for insurants with long-term insurance with the aim of prolonging insurance duration.

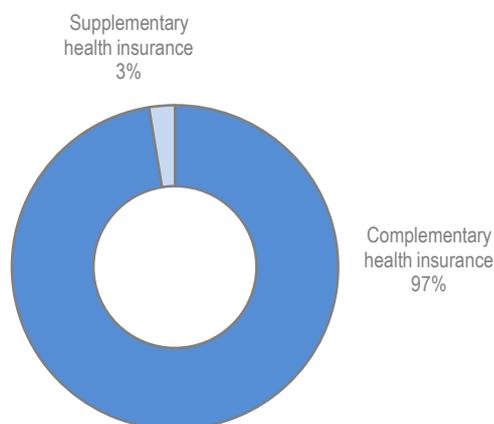
### Pension insurance

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. In 2015, the insurance company was selling voluntary additional pension insurance under a collective pension scheme. Adjusted to the revised pension legislation, Adriatic Slovenica will in 2016 offer both collective and individual voluntary additional pension insurance.

In 2014 and 2015, 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. In 2016, we will begin selling the individual and renewed collective voluntary additional pension, as well as the new pension annuity products.

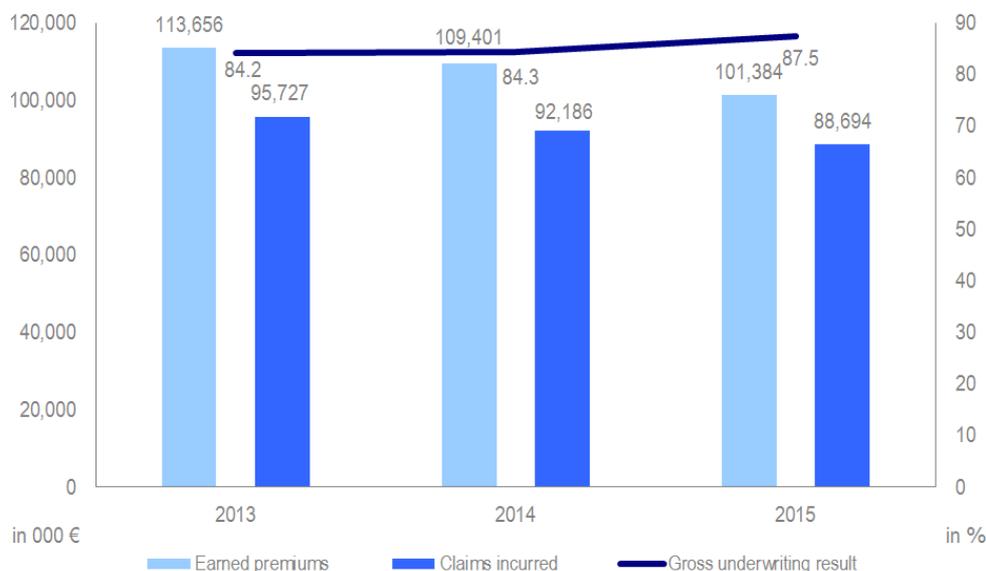
### 6.2.3 Health insurance

#### The structure of premium written in health insurance segment



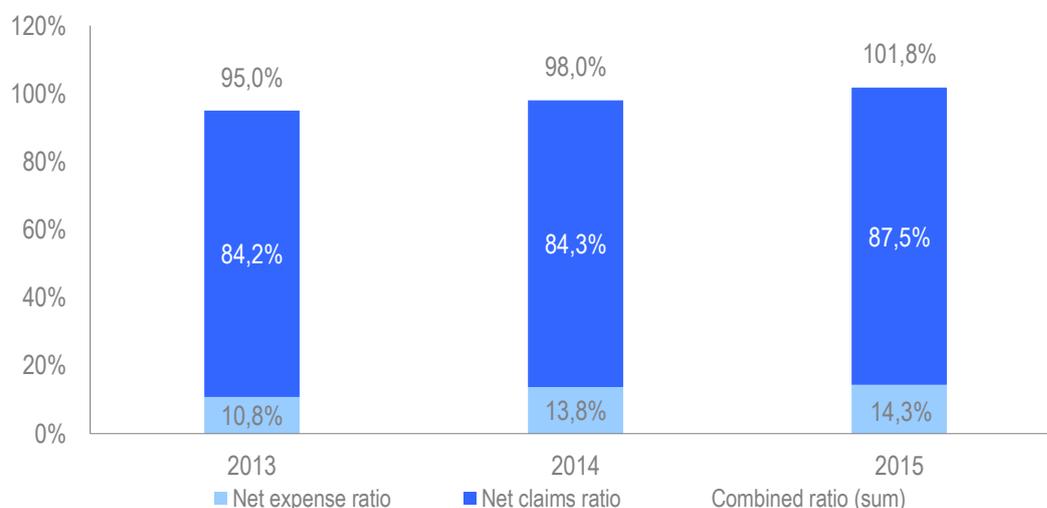
By providing a variety of complementary, supplementary health insurance, Adriatic Slovenica remains one of the prominent health insurers in Slovenia. In 2015, its market share in this segment was 20.8 % (source: SIA). With the development of new supplementary insurance the company will continue to actively 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 aggressive competition and transitions of insurants among complementary health insurance providers, the written premium of the company fell by 7.3 % compared to 2014. At the same time, the insurance company lowered the total amount of gross claims incurred by 3.8 %.

### Earned premiums, claims incurred and gross underwriting result of the health insurance segment in 2015<sup>3</sup>



In 2015, there has been an outflow of complementary health insurants. The lower level of claims incurred did not follow the proportionally lower volume of written premium, therefore, the net combined ratio of health insurance in 2015 has deteriorated to 101.8 %.

#### Graph: Movement of the net combined ratio of health insurance in 2013 - 2015



#### Complementary and supplementary health insurance

In the structure of health insurance premium, complementary health insurance accounted for 97 %, which is 33 % of total premium written by the insurance company. In 2015, we carefully followed the developments in this segment, especially the feedback from the clients and their needs related to rights arising from mandatory health

<sup>3</sup> Earned premium is the sum of written premium and the change in unearned premium. Claims incurred are the sum of settled claims and change in claims provisions less recourse receivables. Settled claims include valuation costs.

insurance, which are the basis for the development of other supplementary health insurance, accident insurance and life insurance.

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 by mandatory health insurance), there can be a long period of time when the person, while having additional needs, does not have sufficient financial security (low disability pensions and compensations, adapting living conditions, special nutrition needs, supplementing traditional treatment with alternative and complementary healing). Therefore, it is important that the insurants can in such situations cover the financial shortfall with a fixed-sums insurance package, covering just these needs. One of the insurance products, protecting the insurant at an affordable premium, is the serious illness and surgery insurance.

In 2015, the insurance company was actively promoting complementary health insurance and supplementary health and accident insurance, using its diverse sales channels, social and sports events. With our marketing campaigns, we have addressed different target groups, namely: the youth, seniors, athletes and other insurants who extended their car or household insurance. When the call centre took over the account management of complementary health insurance policyholders, we also promoted the supplementary health insurance product "Specialisti" (Specialists).

Moreover, in 2015, we have succeeded in standardising the business processes and supervision over providers of health care services. We have also initiated the development and upgrading of contractual sales network of health care services providers in order to ensure successful and efficient provision of voluntary health insurance, especially health insurance products "Specialisti" and "Specialisti Plus".

In 2015, with the implementation of the new SPSS package in the production environment, the insurance company introduced an effective system for prevention of fraud when insurants are exercising their rights from health insurance, especially complementary health insurance.

In the future, Adriatic Slovenica will further develop voluntary health and accident insurance while actively following the developments in the health care and health insurance systems and long-term care, promoting insurance sales and supporting supplementary health insurance operations.

In this segment, the insurance company will keep track of the changes in the environment and the changes in insurants' needs, and adapt its offers by designing innovative health and accident insurance products and the related services that will be aligned with the needs of people of different ages, and by doing this, strengthen its position on the market.

By upgrading of the existing assistance health insurance into "Center Zdravje AS" (AS Health centre), the insurance company will offer its clients simple, clear and efficient solutions for their health problems and guide them through the treatment process.

Thorough health treatment will be ensured by means of quality health services of the selected network of excellent health care services providers who will offer their services in line with the needs of our insurants.

## The number of insured persons and insurance contracts issued by class of insurance in 2015

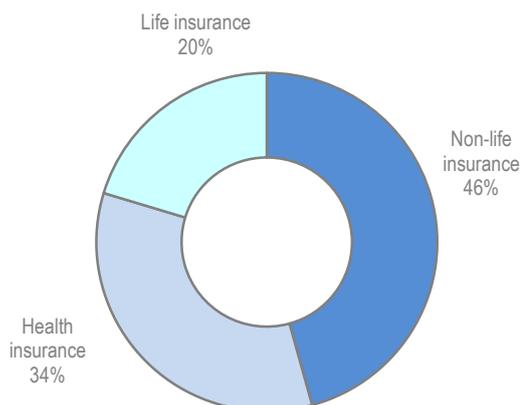
Insurance class	Adriatic Slovenica		Group
	The number of insured persons 2015	The number of insurance contracts issued 2015	The number of insurance contracts issued 2015
Accident insurance	3,169,828	422,575	423,009
Health insurance	697,824	378,728	378,743
Land motor vehicle insurance	147,854	147,854	149,859
Aircraft insurance	7	7	7
Marine loss insurance	1,902	1,902	1,902
Transportation (goods in transit) insurance	2,066	2,066	2,067
Fire and natural disaster insurance	82,654	82,654	83,098
Other damage to property insurance	94,277	94,277	94,847
Motor vehicle liability insurance (MTPL)	281,291	281,291	281,301
Aircraft liability insurance	19	19	19
Ship/boat liability insurance	5,833	5,833	5,833
General liability insurance	12,205	12,205	12,605
Credit insurance	89	89	89
Suretyship insurance	338	338	338
Miscellaneous financial loss insurance	1,878	1,878	1,888
Legal expenses insurance	7,439	7,439	7,439
Insurance of assistance	189,351	189,351	190,253
Life insurance	63,511	61,468	61,468
Unit-linked life insurance	86,539	83,819	83,819
Insurance with capitalised payments	3,355	3,355	3,355

Note: The number of insurance policies sold has since 1 January 2009 been 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.

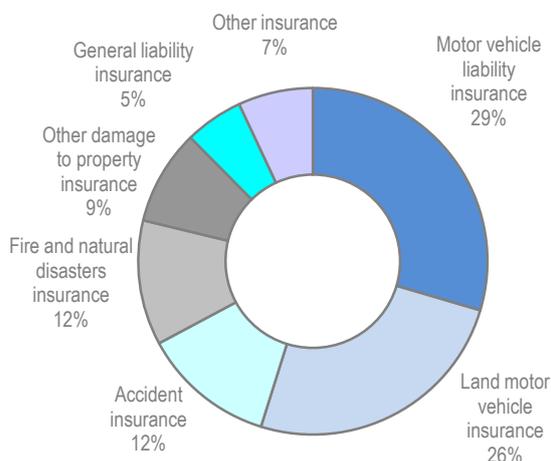
### 6.3 OPERATING PERFORMANCE IN 2015 AND DEVELOPMENT OF INSURANCE CLASSES OF THE GROUP

The largest proportion of the Group's premium was collected in the non-life insurance segment, followed by health insurance, in 2015 accounting for 34 % share, and life insurance with 20 % share. In 2015, the share of life insurance rose, while the share of health insurance went down. AS neživotno osiguranje and Viz subsidiaries only sell non-life insurance, while KD životno osiguranje was selling life insurance for the larger part of 2015. By establishing Podružnica Zagreb, Adriatic Slovenica also entered the Croatian non-life insurance market.

#### The Group's premium structure by insurance class



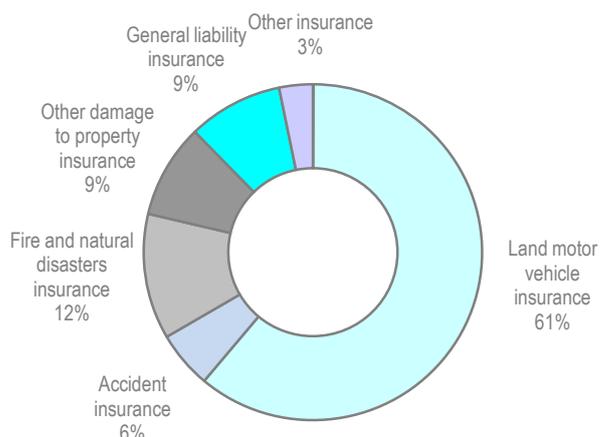
In the non-life insurance premium structure, motor vehicle liability insurance prevails with 29 % share. Together with land motor vehicle insurance, it accounts for 55 % share. They are followed by accident, fire and other damage insurance.



#### AS neživotno osiguranje: operating performance and development by insurance class

The largest portion of premium in the portfolio structure pertains to land motor vehicle insurance, followed by fire insurance, other damage to property insurance, general liability insurance and accident insurance.

## Premium structure of AS neživotno osiguranje by insurance class



### Land motor vehicle insurance

Land motor vehicle insurance, or car hull insurance, is the single largest insurance class after the company's closure of motor vehicle liability insurance activities in line with the consistent realisation of the changed strategy. In 2015, we have collected 640 thousand euros of earned premiums. This is 7 % more than the year before, which is a consequence of the renewed insurance product and intense marketing.

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)

In line with the consistent realisation of the changed business strategy, AS osiguranje almost completely discontinued motor vehicle liability insurance operations in 2015, and limited them only to its own company vehicle fleet.

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 other perils insurance, and other property insurance

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 2015. The company managed to collect 222 thousand euros of earned premiums in the fire and other perils insurance, and other property insurance class, which is approximately 1.6 % more than in the previous year.

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, collision of own motor vehicle into an insured building, manifestations and demonstrations, and fall of an aircraft. Additionally, we 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. Within the company's insurance portfolio, other property insurance / other perils insurance comprises machinery breakdown insurance, contract works and erection works insurance burglary and theft insurance and glass surfaces insurance.

### General liability insurance

In 2015, the earned premiums within this insurance class amounted to 95 thousand euros, which presents a 16 % growth in earned premiums, compared to the previous year.

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 the source of hazard characterises the type of insurance.

### Accident insurance

In AS Osiguranje in 2015, earned premiums in the accident insurance class amounted to 58 thousand euros, which is 3 % less than in 2014. The major part of the accident insurance portfolio structure pertains to collective accident insurance of employees. The main reasons for the 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.

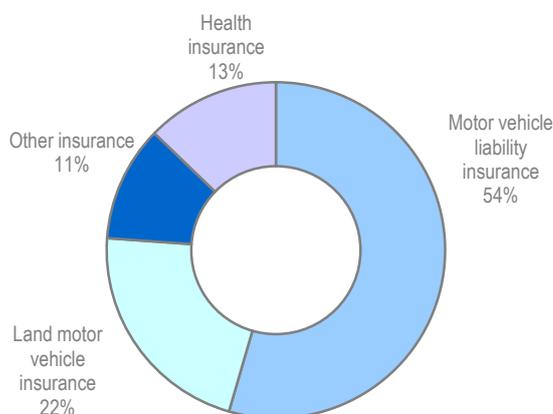
Accident insurance comprises two basic coverages – death and disability due to accident. Other coverages are additional coverages: e.g. coverage for death due to illness, temporary disability due to accident (daily compensation), medical treatment costs and daily benefits for the time spent in hospital 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 development by insurance class

Viz d.o.o. is a subsidiary and one of the parent company's sales channels, providing insurance products available to take out via the internet. The generated insurance premium is included in the total premium of the parent company, but since this sales channel is very important, we will present its results separately in more detail.

In the sales structure of Viz, car insurance accounts for the largest part. Compared to 2014, the share of health insurance grew as well.

#### Premium structure of Viz by insurance class



## Motor vehicle liability insurance (MTPL)

In order to take out any type of WIZ car insurance, insurants have to take out the MTPL insurance as well. In 2015, the earned premiums amounted to 633 thousand euros, which is more than half of the total gross written premium.

Motor third-party liability insurance (MTPL) 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

In 2015, within the land motor vehicle insurance class (WIZ hull insurance), WIZ collected 252 thousand euros of earned premiums, accounting for one fifth of the total premium in 2015.

Hull insurance provides comprehensive security for all types of motor vehicles and their parts from a broad range of insured perils. WIZ insurants can choose the deductible on their own – in the amount of 100, 300, 600 or 900 euros.

## Accident insurance

The earned premiums in accident insurance (WIZ Nezgoda and WIZ Voznik) in 2015 amounted to 78 thousand euros.

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 thousand euros per person.

## Assistance insurance

In 2015, the earned premiums in WIZ assistance insurance class (WIZ Asistent) amounted to 51 thousand euros. 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.

## Complementary health insurance (WIZ Zdravje)

In 2015, WIZ Zdravje complementary health insurance generated 146 thousand euros of premium.

Similarly as complementary health insurance products, WIZ Zdravje covers 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 +)

In combination with WIZ Zdravje (complementary health insurance), the clients can opt for an supplementary WIZ Zdravje plus coverage for a monthly premium of 1.01 euros. In 2015, the premium income was 2 thousand euros. 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.

## 6.4 ANALYSIS OF OPERATIONS, PRESENTATION OF THE FINANCIAL RESULT AND FINANCIAL POSITION OF THE PARENT COMPANY IN 2015

### FINANCIAL RESULT

In the harsh market conditions of 2015, Adriatic Slovenica d.d. reported a strong operating performance which resulted in net profit at year-end. With the net profit of 14.3 million euros, its return on equity reached 13.7 % in 2015.

The statement of financial results by product segments shows positive results in life insurance (4.2 million euros) and non-life insurance (11.0 million euros), while health insurance generated loss in the amount of 903.5 thousand euros.

### Summary of income statement

In 000 EUR	Life insurance	Non-life insurance	Health insurance	2015	Life insurance	Non-life insurance	Health insurance	2014 (adjusted)	Index 15/14	Absolute difference
Gross written premiums	60,214	135,791	100,644	296,649	53,753	135,933	108,193	297,880	99.6	-1,231
Written premium ceded to reinsurers/coinsurers	-1,586	-8,856	0	-10,442	-1,271	-46,986	0	-48,257	21.6	37,815
Change in provision for unearned premiums	43	346	741	1,129	45	-951	1,208	302	374.1	827
<b>Net earned premiums</b>	<b>58,670</b>	<b>127,281</b>	<b>101,384</b>	<b>287,335</b>	<b>52,527</b>	<b>87,997</b>	<b>109,401</b>	<b>249,925</b>	<b>115.0</b>	<b>37,411</b>
Gross claims and benefits paid	-39,804	-85,127	-88,470	-213,400	-35,491	-80,633	-92,712	-208,836	102.2	-4,564
Reinsurers'/coinsurers' share	430	9,264	0	9,693	334	23,268	0	23,602	41.1	-13,909
Change in outstanding claims provisions	742	-3,460	-225	-2,942	685	7,967	527	9,179	-32.1	-12,121
<b>Net claims and benefits paid</b>	<b>-38,631</b>	<b>-79,323</b>	<b>-88,694</b>	<b>-206,649</b>	<b>-34,471</b>	<b>-49,398</b>	<b>-92,186</b>	<b>-176,055</b>	<b>117.4</b>	<b>-30,594</b>
Change in other technical provisions and change in liabilities from investment contracts	-4,730	-239	163	-4,806	-1,884	1,890	-476	-471	1,021.1	-4,335
Change in other technical provisions for the benefit of life policyholders who bear investment risk	-1,826	-	-	-1,826	-42,397	-	-	-42,397	4.3	40,571
Acquisition costs	-8,300	-16,253	-2,546	-27,099	-6,683	-15,491	-2,040	-24,214	111.9	-2,885
Other operating costs	-10,646	-22,711	-11,804	-45,161	-10,479	-22,541	-12,772	-45,791	98.6	630
Net financial profit/(loss) from investing activities	10,130	4,946	789	15,865	47,064	6,075	714	53,852	29.5	-37,987
Other revenues / expenses	264	-721	-386	-843	1,949	7,079	-831	8,196	-10.3	-9,040
<b>Profit/(loss) before taxes</b>	<b>4,930</b>	<b>12,980</b>	<b>-1,094</b>	<b>16,815</b>	<b>5,624</b>	<b>15,610</b>	<b>1,810</b>	<b>23,044</b>	<b>73.0</b>	<b>-6,229</b>
Taxes	-718	-2,024	191	-2,551	-1,045	-2,377	-345	-3,767	67.7	1,216
<b>Net profit/(loss) for the reporting period</b>	<b>4,211</b>	<b>10,956</b>	<b>-904</b>	<b>14,264</b>	<b>4,579</b>	<b>13,233</b>	<b>1,465</b>	<b>19,277</b>	<b>74.0</b>	<b>-5,012</b>

### Revenue from insurance premiums, claims expenses and operating costs

In the reported period, earned premiums of the company amounted to 296.6 million euros, which is 1.2 million (0.4 %) less than the year before. By taking into account the premiums ceded to reinsurers and changes in unearned premiums, the company collected 287.3 million euros of net insurance premiums, which is 15.0 % more than in 2014. This is a consequence of a change in reinsurance security (terminated quota share reinsurance treaty for non-life insurance). The ceded reinsurance premium was 78.4 % lower and amounted to 10.4 million euros, while the release of unearned premiums in 2015 had an insignificant effect on net operating revenue – the drawdown of this type of deferred revenue only amounted to 1.1 million euros.

In the structure of net revenue from insurance premiums, the predominant segment is non-life insurance. In 2015, it reached 127.3 million euros, which is 39.3 million euros (44.6 %) more than in 2014. Non-life insurance segment is followed by health insurance with 101.4 million euros (7.3 % less than in 2014) of net revenue, and life insurance with 58.7 million euros and 20.4 % structural share.

In 2015, the net expenses for claims paid, taking into consideration the changes in claims provisions (2015: increase of 2.9 million euros), amounted to 206.6 million euros, which presents a 17.4 % rise compared to the previous year. This is mainly attributable to lower reinsurers' shares paid, which in 2015 amounted to 9.7 million euros and were 58.9 % lower than the year before (predominantly in non-life insurance).

Claims provisions (including change in reinsurance claims provisions) grew in 2015 by 2.9 million euros, while in 2014, they were released in the amount of 9.2 million euros. An important portion of the difference was caused by the changed reinsurance security.

In the structure of net expenses for claims paid, health insurance is the prevailing segment with 42.9 % share (88.7 million euros), and it decreased by 3.8 % (3.5 million euros) in 2015, compared to 2014. Net expenses for claims paid in the non-life segment went up by 60.6 % and amounted to 79.3 million euros. Net expenses for claims in life insurance stood at 38.6 million euros with 18.7 % structural share.

The ratio between net expenses for claims paid and net revenue from insurance premiums deteriorated by 2.1 % or 1.5 percentage points – it increased from 70.4 % to 71.9 %.

Operating costs in 2015 amounted to 72.3 million euros, having increased by 3.2 % (2.3 million euros) compared to the year before. The rise was caused by 11.9 % change in acquisition costs. Labour costs (23.0 million euros) and costs of materials (1.1 million euros) remained constant.

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

in 000 euros Name of insurance class	2015	
	Revenues	Expenses
Accident insurance	17,384	(13,804)
Health insurance	102,854	(104,533)
Land motor vehicle insurance	36,391	(38,674)
Aircraft insurance	29	(12)
Marine (ship) insurance	666	(622)
Cargo and goods in transit insurance	1,586	(1,103)
Fire and natural forces insurance	16,487	(16,211)
Other damage to property insurance	12,309	(14,528)
Motor vehicle liability insurance	43,550	(33,770)
Aircraft liability insurance	14	(35)
Liability for ship insurance	601	(296)
General liability insurance	8,278	(6,423)
Credit insurance	646	(426)
Suretyship insurance	230	(190)
Miscellaneous financial loss insurance	731	(713)
Legal expenses insurance	124	(24)
Travel assistance insurance	5,773	(4,683)
Life insurance	30,780	(30,671)
Unit-linked life insurance	44,353	(40,562)
Insurance with capitalised payments	5,016	(5,317)

#### Net financial result

The company achieved a net financial result from investing activities in the amount of 15.9 million euros, falling behind the result from 2014 by 38.0 million euros. The main cause for this was on the part of financial revenue, which was 54.6 % (35.9 million euros) lower and amounted to 29.9 million euros. The drop is related to the decrease in net unrealised gains of unit-linked life insurance investments, and lower accrued interest to other companies. On the other side, financial expenses were 3.3 million euros (27.9 %) higher and amounted to 15.2 million euros, which can be connected to higher net unrealised losses of unit-linked life insurance investments, as well as to higher losses from investment disposals.

## Other revenue/expenses

In 2015, the net result of other revenue and expenses totalled -843 thousand euros and was lower than in the previous comparable period by 9.0 million euros. The slip back results from total other expenses, as well as total other revenues. Total other revenues were in 2015 lower by 8.5 million euros and amounted to 11.3 million euros. Their structure was changed as well. The decrease was affected by the drop of other insurance revenue by 9.0 million euros (lower acquired reinsurance commissions). At the same time, in 2015, also total other expenses were higher than the year before by 627 thousand euros and amounted to 12.2 million euros. Their structure was changed as well. The increase was a consequence of higher other expenses by 2,5 million euros (higher expenses from investment property and compensations, and higher provisions for potential lawsuits), while other insurance expenses were lower by 1.9 million euros than the year before.

## Changes in technical provisions

In 2015, mathematical/technical provisions of policyholders who bear the investment risk were changed in volume by 1.8 million euros due to portfolio management and increased asset unit value. Other technical provisions climbed by 4.8 million euros in 2015. Within the life insurance segment, they were 4.7 million euros higher, while in the non-life segment, there was a release of provisions for unexpired risks in the amount of 239 thousand euros; at the same time, in health insurance, due to a similar reason, provisions increased by 163 thousand euros.

## FINANCIAL POSITION

As at 31 December 2015, the total assets of the insurance company stood at 665.4 million euros, which is a 3.1 % decrease, compared to the previous year. To a large extent, it is a consequence of the acquisition of the KD Životno osiguranje d.d. subsidiary, a lower amount of technical provisions being ceded to reinsurers, and a lower amount of receivables. At year-end, the largest portion of assets (61.8 %) belongs to life insurance, 37.2 % of assets are used for non-life insurance operations, and the rest for health insurance.

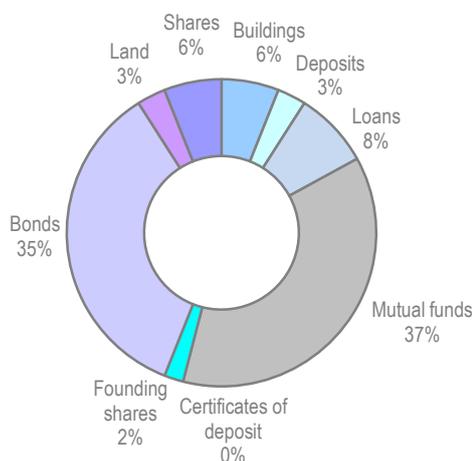
## Structure of assets

in 000 EUR	Structure 31/12/2015		Structure 31/12/2014 (adjusted)		Structure 31/12/2013 (adjusted)	
	in %	in %	in %	in %	in %	in %
Intangible assets	6,065	0.9%	5,398	0.8%	4,597	0.7%
Property, plant and equipment	27,823	4.2%	27,317	4.0%	27,153	3.9%
Non-current assets held for sale	2,030	0.3%	0	0.0%	0	0.0%
Deferred tax assets	2,832	0.4%	3,622	0.5%	3,816	0.5%
Investment properties	30,835	4.6%	29,376	4.3%	28,357	4.1%
Financial investments in subsidiaries and associates	20,190	3.0%	27,419	4.0%	21,973	3.1%
Financial investments	245,974	37.0%	251,419	36.6%	258,536	37.0%
Unit-linked investments of policyholders	263,760	39.6%	257,519	37.5%	213,926	30.6%
Amounts of technical provisions ceded to reinsurer	17,215	2.6%	29,081	4.2%	26,252	3.8%
Assets from investment contracts	0	0.0%	0	0.0%	0	0.0%
Receivables	29,787	4.5%	39,181	5.7%	97,073	13.9%
Other assets	5,940	0.9%	5,469	0.8%	6,291	0.9%
Cash and cash equivalents	12,902	1.9%	10,712	1.6%	10,099	1.4%
<b>Total Assets</b>	<b>665,355</b>	<b>100%</b>	<b>686,514</b>	<b>100%</b>	<b>698,072</b>	<b>100%</b>

As at 31 December 2015, on the assets side, investments were recognised as the most important category. It accounted for 560.8 million euros or 84.3 % of total assets (31 December 2014: 565.7 million euros). Compared to the previous year, the volume of investments was reduced by 0.9 %. At 2015 year-end, there was 263.8 million euros of assets of policyholders who bear the investment risk, 246.0 million euros of other financial investments,

30.8 million euros of investment property and 20.2 million euros of financial investments in companies within the Group. Due to active portfolio management and growth of asset unit value, the assets of policyholders who bear the investment risk increased by 2.4 % compared to the previous year, and accounted for 39.6 % share of total assets as at 31 December 2015 (31 December 2014: 37.5 % share).

### Structure of the insurance company's financial assets by type, as at 31 December 2015



As at 31 December 2015, receivables amounted to 29.8 million euros, accounting for 4.5 % of total assets, decreased by 24.0 % compared to the year before. Despite the decrease, the structural share of receivables remained unchanged in comparison to the previous reporting period. The decrease is a consequence of lower value of receivables from direct insurance operations due to more effective premium collection, settlement of receivables from quota share reinsurance treaty, and other receivables (reinsurance commissions) in the total amount of 9.4 million euros.

As at 31 December 2015, tangible fixed assets and long-term intangible assets totalled 33.9 million euros. Tangible fixed assets accounted for 4.2 % and long-term intangible assets accounted for 0.9 % share of total assets. The structural share of both remained unchanged, compared to the previous year.

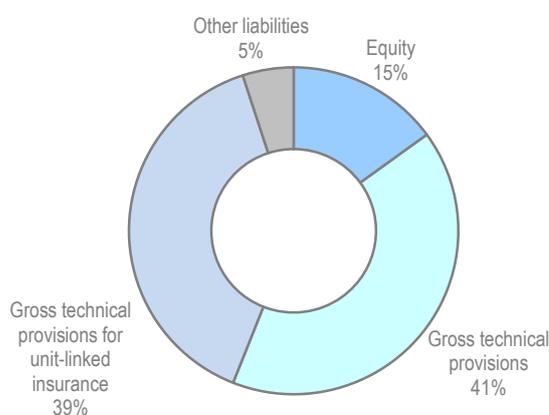
The amount of technical provisions transferred to reinsurance/coinsurance fell by 11.9 million euros - to 17.2 million euros.

### Structure of liabilities

in 000 EUR	31/12/2015	Structure in %	31/12/2014 (adjusted)	Structure in %	31/12/2013 (adjusted)	Structure in %
Equity	100,930	15.2%	106,867	15.6%	93,188	13.3%
Subordinated liabilities	0	0.0%	0	0.0%	0	0.0%
Technical provisions	269,045	40.4%	273,613	39.9%	279,545	40.0%
Insurance technical provisions for unit-linked insurance	259,698	39.0%	254,230	37.0%	211,833	30.3%
Other provisions	4,577	0.7%	3,127	0.5%	2,767	0.4%
Deferred tax liabilities	732	0.1%	1,195	0.2%	27	0.0%
Liabilities from investment contracts	0	0.0%	0	0.0%	0	0.0%
Other financial liabilities	984	0.1%	756	0.1%	1,093	0.2%
Operating liabilities	6,893	1.0%	21,990	3.2%	92,887	13.3%
Other liabilities	22,496	3.4%	24,737	3.6%	16,732	2.4%
<b>Total Equity and liabilities</b>	<b>665,355</b>	<b>100%</b>	<b>686,514</b>	<b>100%</b>	<b>698,072</b>	<b>100%</b>

As at 31 December 2015, the total amount of equity was 100.9 million euros, which is 5.6 % less than the year before. The percentage of capital in the balance sheet total went down by 0.4 percentage points and stood at 15.2 % as at 31 December 2015. The share capital, consisting of 10,304,407 ordinary registered shares, remained unchanged again in 2015, and totalled 43.0 million euros at year-end. The revaluation surplus amount lowered due to a lower amount of financial assets, available for sale, and reached 3.5 million euros at 2015 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 34.6 million euros at year-end. Compared to the previous year, it has changed by the amount of net profit for the current period in the amount of 14.3 million euros, the change in profit reserves in the amount of 227.8 thousand euros and dividends paid in the amount of 17.9 million euros.

### Structure of the insurance company's liabilities as at 31 December 2015



Technical provisions totalled 528.7 million euros at 2015 year-end, maintaining the level from the previous year. At the same time, the structural share of technical provisions within total assets was reinforced and reached 79.5 %. Within the category of technical provisions, the technical provisions of policyholders who bear the investment risk grew by 2.2 % to 259.7 million euros, however, other technical provisions faced a slight decrease to 269.0 million euros.

As at 31 December 2015, operating liabilities stood at 6.9 million euros. Compared to the year before, there was a drop of 68.7 % due to the settlement of payables from quota share reinsurance treaty, and consequently, the structural share fell to 1.0 %. Other liabilities shrank in volume by 2.2 million, to 22.5 million euros.

## 6.5 ANALYSIS OF OPERATIONS, PRESENTATION OF THE FINANCIAL RESULT AND FINANCIAL POSITION OF THE GROUP IN 2015

The consolidated financial statements of the group comprise financial statements of the controlling insurance company Adriatic Slovenica d.d. and subsidiaries AS neživotno osiguranje a.d.o. Beograd, Prospera d.o.o., VIZ d.o.o. and Permanens d.o.o. Zagreb. A substantial part of the value of economic categories of the Group are assets, liabilities, revenues, expenses and costs of the controlling insurance company Adriatic Slovenica.

### FINANCIAL RESULT

In the harsh market conditions of 2015, Adriatic Slovenica d.d. reported a strong operating performance which resulted in net profit at year-end. With the net profit of 13.1 million euros, its return on equity reached 12.3 % in 2015.

The statement of financial results by product segments shows positive results in life insurance (4.4 million euros) and non-life insurance (9.6 million euros), while health insurance generated loss in the amount of 904 thousand euros.

### Summary of income statement

in EUR thousand	Life insurance	Non-life insurance	Health insurance	2015	Life insurance	Non-life insurance	Health insurance	2014 (adjusted)	Index 15/14	Absolute difference
Gross written premiums	60,723	136,855	100,644	298,222	55,985	137,885	108,193	302,064	98.7	-3,841
Premiums ceded to reinsurers and coinsurers	-1,588	-9,369	0	-10,957	-1,276	-47,192	0	-48,468	22.6	37,511
Change in unearned premiums	43	865	741	1,649	45	-473	1,208	780	211.4	869
<b>Net premium income</b>	<b>59,179</b>	<b>128,351</b>	<b>101,384</b>	<b>288,914</b>	<b>54,754</b>	<b>90,221</b>	<b>109,401</b>	<b>254,376</b>	<b>113.6</b>	<b>34,538</b>
Gross amounts of claims and benefits paid	-39,860	-86,538	-88,470	-214,868	-35,931	-84,851	-92,712	-213,495	100.6	-1,374
Reinsurers/coinsurers' shares	430	9,453	0	9,883	336	26,007	0	26,343	37.5	-16,461
Change in claims provisions	735	-3,335	-225	-2,825	701	8,030	527	9,257	-30.5	-12,082
<b>Net expenses for claims and benefits paid</b>	<b>-38,696</b>	<b>-80,420</b>	<b>-88,694</b>	<b>-207,810</b>	<b>-34,894</b>	<b>-50,815</b>	<b>-92,186</b>	<b>-177,894</b>	<b>116.8</b>	<b>-29,917</b>
Change in insurance technical provisions and liabilities arising from financial contracts with DPF	-4,764	-242	163	-4,843	-1,954	2,011	-476	-419	1,155.0	-4,423
Change in insurance technical provisions for unit-linked insurance policyholders	-2,363	-	-	-2,363	-43,166	-	-	-43,166	5.5	40,803
Acquisition costs	-8,395	-16,201	-2,546	-27,142	-7,393	-15,486	-2,040	-24,919	108.9	-2,223
Other operating expenses	-10,963	-25,895	-11,804	-48,662	-11,521	-25,928	-12,772	-50,221	96.9	1,559
Net profit/(loss) from investing activities	10,789	6,577	789	18,155	47,140	8,797	714	56,651	32.0	-38,496
Other revenues/expenses	332	-550	-386	-605	1,970	7,117	-831	8,256	-7.3	-8,861
<b>Profit/(loss) before tax</b>	<b>5,119</b>	<b>11,620</b>	<b>-1,094</b>	<b>15,645</b>	<b>4,937</b>	<b>15,917</b>	<b>1,810</b>	<b>22,733</b>	<b>68.8</b>	<b>-7,089</b>
Corporate income tax	-718	-2,040	191	-2,568	-1,045	-2,426	-345	-3,816	67.3	1,248
<b>Net profit for the reporting period</b>	<b>4,401</b>	<b>9,579</b>	<b>-904</b>	<b>13,077</b>	<b>3,892</b>	<b>13,490</b>	<b>1,465</b>	<b>18,917</b>	<b>69.1</b>	<b>-5,840</b>
Minority interest	0	-38	0	-38	0	-15	0	-15		
Interest of parent company	4,401	9,617	-904	13,115	3,892	13,505	1,465	18,932		

\*Net profit for the period after consolidation eliminations.

### Revenue from insurance premiums, claims expenses and operating costs

In the reported period, earned premiums of the Group amounted to 298.2 million euros, which is 3.8 million (1.3 %) less than the year before. By taking into account the premiums ceded to reinsurers and changes in unearned premiums, the Group collected 288.9 million euros of net insurance premiums, which is 13.6 % more than in 2014. This is a consequence of a change in reinsurance security (terminated quota share reinsurance treaty for non-life insurance). The ceded reinsurance premium was 77.4 % lower and amounted to 11.0 million euros, while the release of unearned premiums in 2015 had an insignificant effect on net operating revenue – the drawdown of this type of deferred revenue only amounted to 1.6 million euros.

In the structure of net revenue from insurance premiums, the predominant segment is non-life insurance. In 2015, it reached 128.4 million euros, which is 38.1 million euros (42.3 %) more than in 2014. Non-life insurance segment is followed by health insurance with 101.4 million euros (7.3 % less than in 2014) of net revenue, and life insurance with 59.2 million euros and 20.5 % structural share.

In 2015, the net expenses for claims paid, taking into consideration the changes in claims provisions (2015: increase of 2.8 million euros), amounted to 207.8 million euros, which presents a 16.8 % rise compared to the previous year. This is mainly attributable to lower reinsurers' shares paid, which in 2015 amounted to 9.9 million euros and were 62.5 % lower than the year before (predominantly in non-life insurance).

Claims provisions (including change in reinsurance claims provisions) grew in 2015 by 2.8 million euros, while in 2014, they were released in the amount of 9.3 million euros. An important portion of the difference was caused by the changed reinsurance security.

In the structure of net expenses for claims paid, health insurance is the prevailing segment with 42.7 % share (88.7 million euros), and it decreased by 3.8 % (3.5 million euros) in 2015, compared to 2014. Net expenses for claims paid in the non-life segment went up by 58.3 % and amounted to 80.4 million euros. Net expenses for claims in life insurance stood at 38.7 million euros with 18.6 % structural share.

The ratio between net expenses for claims paid and net revenue from insurance premiums deteriorated by 2.0 % or 1.5 percentage points – it increased from 69.9 % to 71.9 %.

Operating costs in 2015 amounted to 75.8 million euros, having increased by 0.9% (664 thousand euros) compared to the year before. The rise was caused by 8.9 % change, while other operating costs were 1.6 million euros lower.

### **Net financial result**

The Group achieved a net financial result from investing activities in the amount of 18.2 million euros, falling behind the result from 2014 by 38.5 million euros. The main cause for this was on the part of financial revenue, which was 60.6 % (37.0 million euros) lower. The drop is related to the decrease in net unrealised gains of unit-linked life insurance investments. On the other side, financial expenses were 1.8 million euros (41.5 %) higher, which can be connected to higher net unrealised losses of unit-linked life insurance investments, as well as to higher losses from investment disposals.

### **Other revenue/expenses**

In 2015, the net result of other revenue and expenses totalled -605 thousand euros and was lower than in the previous comparable period by 8.9 million euros. The slip back results from other expenses, as well as other revenues. The latter in 2015 totalled 12.9 million euros and were lower by 8.7 million euros. Their structure was changed as well. The decrease was affected by the drop of other insurance revenue by 9.0 million euros (lower acquired reinsurance commissions). At the same time, in 2015, also other expenses were higher than the year before by 232 thousand euros and totalled 13.6 million euros, while their structure changed as well. The increase was a consequence of other expenses being 2.3 million euros higher (higher expenses from investment property, higher provisions for potential lawsuits), which exceeded the 2.0 million euros decrease in other insurance expenses.

### **Changes in technical provisions**

In 2015, mathematical/technical provisions of policyholders who bear the investment risk were changed in volume by 2.4 million euros due to portfolio management and increased asset unit value. Other technical provisions climbed by 4.8 million euros in 2015. Within the life insurance segment, they were 4.764 thousand euros higher, while in the non-life segment, they were 242 thousand euros higher; at the same time, in health insurance, there was a release of provisions for unexpired risks in the amount of 163 thousand euros.

## FINANCIAL POSITION

As at 31 December 2015, the total assets of the Group stood at 670.5 million euros, which is a 3.8 % decrease, compared to the previous year. To a large extent, it is a consequence of lower amount of technical provisions being ceded to reinsurers, and a lower amount of receivables.

### Balance sheet structure

in EUR thousand	31 Dec 2015	Structure in %	31 Dec 2014 (adjusted)	Structure in %
<b>Assets</b>	<b>670,547</b>	<b>100%</b>	<b>696,814</b>	<b>100%</b>
Intangible assets	6,065	0.9%	6,423	0.9%
Property, plant and equipment	27,824	4.1%	27,497	3.9%
Deferred tax assets	3,303	0.5%	3,958	0.6%
Investments in properties	30,835	4.6%	29,376	4.2%
Financial investments in associates	11,998	1.8%	12,151	1.7%
Financial investments	250,318	37.3%	262,204	37.6%
Unit-linked investments of policyholders	263,760	39.3%	260,566	37.4%
Amounts of technical provisions ceded to reinsurers	18,018	2.7%	29,362	4.2%
Receivables	37,154	5.5%	47,942	6.9%
Other assets	5,945	0.9%	5,518	0.8%
Cash and cash equivalents	15,301	2.3%	11,816	1.7%
<b>Equity and liability</b>	<b>670,547</b>	<b>100%</b>	<b>696,814</b>	<b>100%</b>
Equity	102,512	15.3%	109,671	15.7%
Share capital	102,411	15.3%	109,533	15.7%
Minority interest	100	0.0%	139	0.0%
Technical provisions	271,663	40.5%	276,823	39.7%
Technical provisions for the benefit of unit-linked insurance policyholders	259,698	38.7%	257,277	36.9%
Other provisions	5,135	0.8%	3,294	0.5%
Deferred tax liabilities	732	0.1%	1,195	0.2%
Other financial liabilities	969	0.1%	712	0.1%
Operating liabilities	6,986	1.0%	22,301	3.2%
Other liabilities	22,852	3.4%	25,541	3.7%

### Structure of assets

As at 31 December 2015, on the assets side, investments were recognised as the most important category. It accounted for 556.9 million euros or 83.1 % of total assets (31 December 2014: 564.3 million euros). Compared to the previous year, the volume of investments was reduced by 1.3 %. At 2015 year-end, there was 263.8 million euros of assets of policyholders who bear the investment risk, 250.3 million euros of other financial investments, 30.8 million euros of investment property and 12.0 million euros of financial investments in companies within the Group. The assets of policyholders who bear the investment risk increased by 1.2 % compared to the previous year, and accounted for 39.3 % share of total assets as at 31 December 2015 (31 December 2014: 37.4 % share).

As at 31 December 2015, receivables amounted to 37.2 million euros, accounting for 5.5 % of total assets, decreased by 22.5 % compared to the year before. Despite the decrease, the structural share of receivables remained unchanged in comparison to the previous reporting period. The decrease is a consequence of lower value of receivables from direct insurance operations due to more effective premium collection, settlement of receivables from quota share reinsurance treaty, and other receivables (reinsurance commissions) in the total amount of 10.8 million euros.

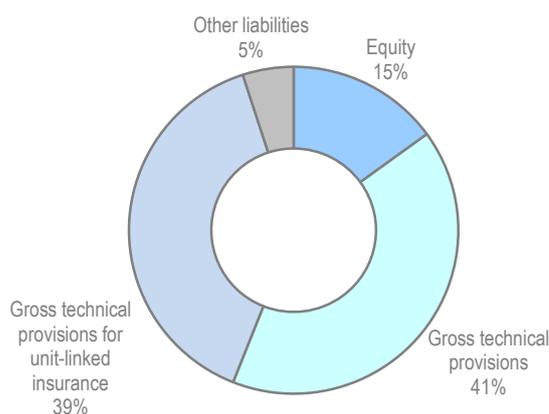
As at 31 December 2015, tangible fixed assets and long-term intangible assets totalled 33.9 million euros. Tangible fixed assets accounted for 4.1 % and long-term intangible assets accounted for 0.9 % share of total assets. The structural share of both remained unchanged, compared to the previous year.

The amount of technical provisions transferred to re(co)insurance fell by 11.3 million euros - to 18.0 million euros.

## Structure of liabilities

As at 31 December 2015, the total amount of equity was 102.5 million euros, which is 6.5 % less than the year before. The percentage of capital in the balance sheet total, which belongs to majority shareholders, went down by 0.4 percentage points and stood at 102.4 million euros or 15.3 % as at 31 December 2015. The revaluation surplus amount lowered due to a lower amount of financial assets, available for sale, and reached 3.8 million euros at 2015 year-end.

### Structure of liabilities of the Group as at 31 December 2015



Technical provisions totalled 531.4 million euros at 2015 year-end, maintaining the level from the previous year. At the same time, the structural share of technical provisions within total assets was reinforced and reached 79.2 %. Within the category of technical provisions, the technical provisions of policyholders who bear the investment risk grew by 0.9 % to 259.7 million euros, however, other technical provisions faced a 1.9 % decrease to 271.7 million euros.

As at 31 December 2015, operating liabilities stood at 7.0 million euros. Compared to the year before, there was a drop of 68.7 % due to the settlement of payables from quota share reinsurance treaty, and consequently, the structural share fell to 1.0 %. Other liabilities shrank in volume by 2.7 million, to 22.9 million euros.

## 6.6 MARKETING AND SALES NETWORK OF THE PARENT COMPANY AND ITS SUBSIDIARIES

### Marketing strategy of the parent company

The primary goal of our strategy in 2015 was to improve the insurance protection of our clients, while their needs and wishes were our main guideline. An important competitive advantage of the company is that we can provide comprehensive insurance protection – the complete circle of security and all insurance products and services in one place, from non-life insurance to health, life and modern pension insurance. We develop innovative insurance solutions that provide security for our insurants of all ages. We deliver the services via modern sales channels and provide a complete offer with comprehensive sales and post-sales services and efficient claims settlement.

### Marketing activities in 2015

**In the first three months**, we were focused on positioning AS as an insurance company which offers their insurants all types of insurance, adjusted to every individual. The concept of unified insurance protection and being fully insured was communicated through all media under a unified marketing campaign “Close your circle of safety”. The circle of safety and comprehensive solutions provide significant financial savings and numerous bonuses for the insurants. To their existing insurance products, insurants can only add those new products that they and their family really need, and in this way close their circle of safety. At the same time, they simplify their insurance and make significant savings.

**In April and May**, we offered our insurants up to 30 % bonus for car insurance as part of “Safe and care-free” campaign.

**May and June** were dedicated to promotion of accident insurance for children and youth. A special emphasis was put on long-term insurance products which bring to the insurants the benefit of the amount being constant throughout the child’s schooling period, and at the same time important savings for the insurance company. One-year accident insurance for children in school were promoted in advertisements and connected with the Circle of safety concept.

**In August**, we have introduced the new mobile application called “ASfalt” (ASphalt), which provides drivers with assistance on the road free of charge. It brings important traffic information, reminders, searches for the parked car, and what is most important, it includes the option to quickly call Car assistance. By introducing modern technologies, we also encourage preventive care and contribute to a higher level of traffic safety.

**In September**, within the “Everything is possible” contest, we have prepared a prize competition called AS Challenge. We sought for modern ideas for the renovation of vacation apartments available to our employees. We invited young artists to participate and as many as 27 of them responded. In November, the jury chose the winning project, which will be realised in 2016.

**In December**, we have closed the Olympic circle of safety in Bled in collaboration with Bled Tourism and Olympic Committee of Slovenia. As many as 5,712 visitors attended the event, among which were many professional athletes, medal winners and candidates for the 2016 Summer Olympic games in Rio. By lighting their torches, they closed the Olympic circle of safety around the lake, which counts as a successful attempt of making a Guinness world record. Mr Borut Pahor, the President of Slovenia, attended the event as well.

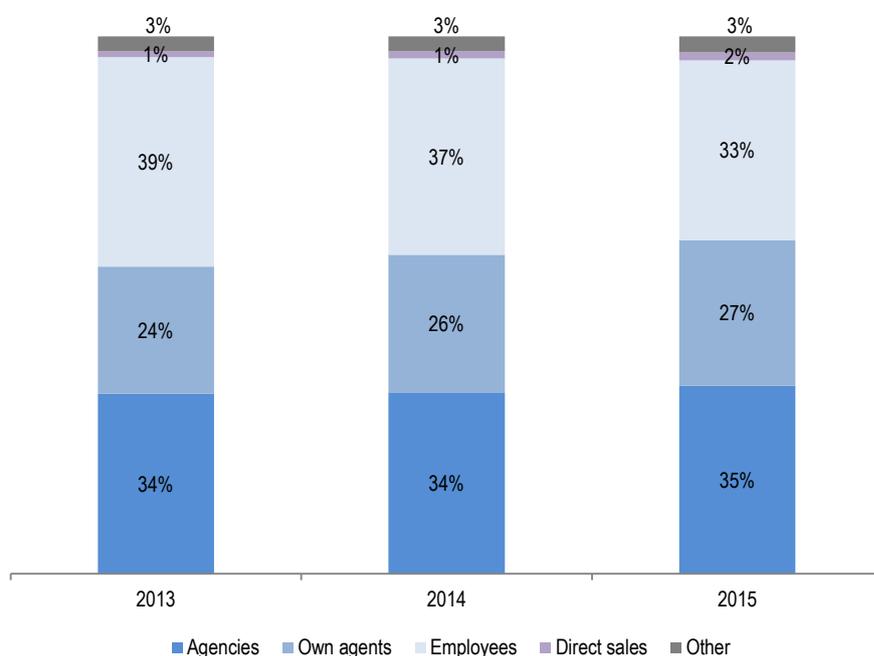
Adriatic Slovenica is addressing more and more clients also via the “**AS Klub ugodnosti**” (AS Bonus club), which was established on 1 July 2013 by renaming the former Klub KD plus. Adriatic Slovenica, being the co-founder of the club together with KD Skladi, took over the management of the club. Activities of the club in 2015 were 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 increasing the number 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.

## Sales network of the parent company in 2015

The company performs its business processes in its central headquarters, in business units and in Podružnica Zagreb.

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 six smaller attached units: in Domžale, Idrija, Krško, Slovenj Gradec, Grgar and Ribnica, 38 (37 in 2014) representative offices and two additional points of sale. Within a network of contractual points-of-sale (agencies), insurance services are also available at 140 (134 in 2014) agencies and 171 (166 in 2014) complementary points-of-sale. Altogether, the insurance services of Adriatic Slovenica were at the end of 2015 available at 366 (351 in 2014) points-of-sale and in two banks (in Banka Celje until 29 September 2015). From 2012 to 31 August 2015, Adriatic Slovenica was also offering KD Skladi products in all of its nine regional offices. Since then, KD Skladi still offers its products in some regional offices.

### Development of distribution channels (in % of gross written premium)



The sales network of Podružnica Zagreb (KD životno osiguranje d.d. until 30 December 2015) consists of three sales channels, namely: own agency network, Permanens agency, which became a direct subsidiary of Adriatic Slovenica d.d. on 30 December 2015, and independent agencies. Altogether, between 60 and 80 agents were selling insurance there. Branch offices are situated in Zagreb, Osijek, Varaždin and Split. Furthermore, KD životno osiguranje was also in partnership with approximately 20 insurance agencies.

With continuous improvements of business processes and aftersales services, and a sales network getting wider every year, we provide our insurants with accessible and quality insurance services. For many years, online insurance has been available to take out, and as the first insurance company in Slovenia, we have also introduced insurance available to take out via mobile devices. The range of products available on mobile devices is getting broader. Since the beginning of the wiz.si internet platform, the share of direct sales is growing constantly.

## Information on business units as at 31 December 2015

**Celje Business Unit, Director Srečko Dobelšek**

Lava 7, 3000 Celje

Telephone: +386 3 425 35 15

**Nova Gorica Business Unit, Director Rok Filipič**

Erjavčeva 19, 5000 Nova Gorica

Telephone: +386 5 330 95 12

**Koper Business Unit, Director Borut Širca**

Ljubljanska cesta 3a, 6503 Koper

Telephone: +386 5 664 30 10, fax: +386 5 664 30 99

**Novo mesto Business Unit, Director Jasminka Kovačič**

Novi trg 1, 8000 Novo mesto

Telephone: +386 7 373 06 20, fax: +386 7 332 27 62

**Kranj Business Unit, Director Biljana Cvjetičanin**

Kidričeva cesta 2, 4000 Kranj

Telephone: +386 4 281 70 11, fax: +386 4 281 70 10

**Murska Sobota Business Unit, Director Milena Grah (until 31 Dec 2015)\***

Arhitekta Novaka 13, 9000 Murska Sobota

Telephone: +386 2 539 10 11, fax: +386 2 539 10 40

**\*Director Geza Šanca (since 1 Jan 2016)****Ljubljana Business Unit, Director Borut Završan**

Celovška 206, 1000 Ljubljana

Telephone: +386 1 582 48 01

**Postojna Business Unit, Director Anton Marušič (until 31 Dec 2015)\***

Novi trg 6, 6230 Postojna

Telephone: +386 5 700 30 10

**\*Director Damjana Blažek Suša (since 1 Jan 2016)****Maribor Business Unit, Director David Perko**

Ulica Eve Lovše 15, 2000 Maribor

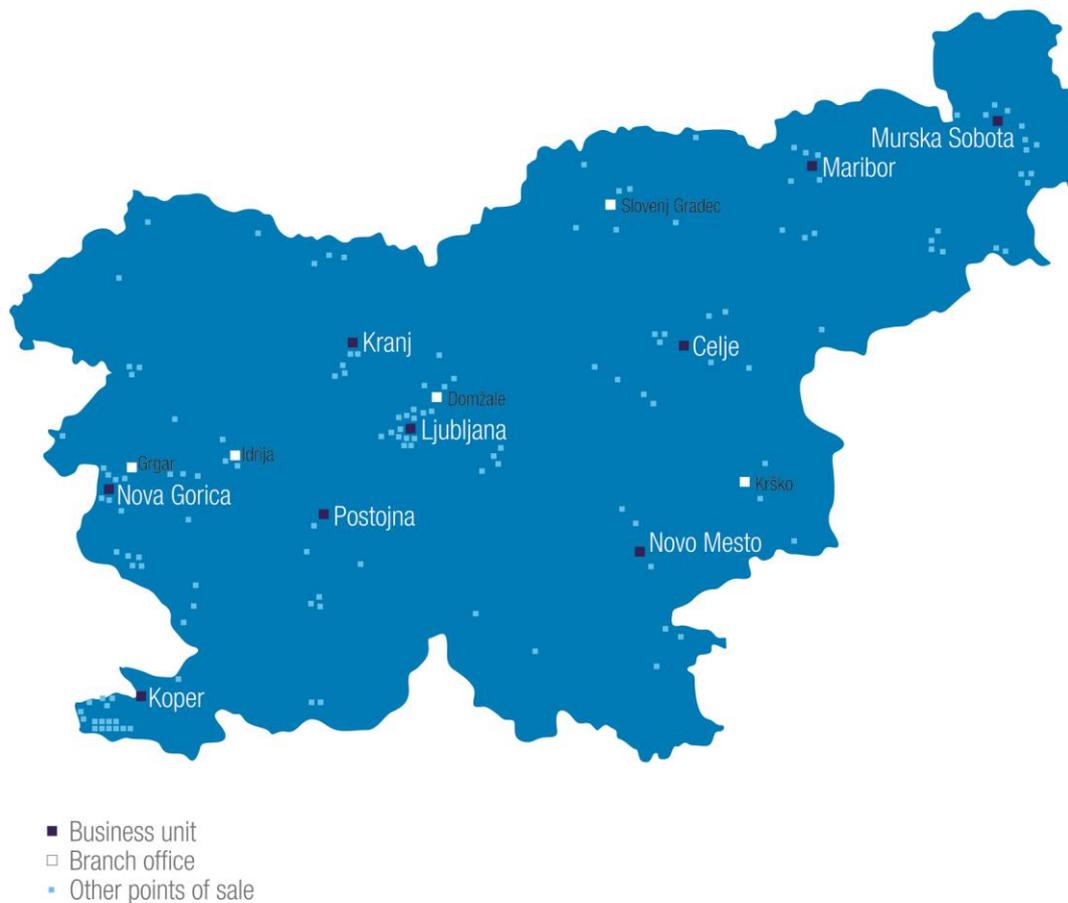
Telephone: +386 2 320 81 12

**Podružnica Zagreb, Director Neven Tišma**

Draškovičeva 10, 10000 Zagreb, Croatia

Telephone: +385 1 6285 101, fax: +385 1 6197 456

## Sales network map of the parent company



Website: [www.as.si](http://www.as.si), [www.as-skupina.si](http://www.as-skupina.si)

Toll-free phone: 080 11 10

### 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 2015, the insurance company provided insurance services in three business units: Beograd, Čačak and Niš, and in three point-of-sale (Bor, Vranje, Leskovac). In 2015, the company was cooperating with 7 insurance agencies and 13 intermediaries. The sales network of the company was in 2015 adapting to the changed business strategy, which reflected in the insurance company no longer being present on technical inspection points, since in the Republic of Serbia, only MTPL insurance can be sold.

## Sales network map of the subsidiary AS neživotno osiguranje

**Sales network of subsidiary KD životno osiguranje (Podružnica Zagreb since 1 April 2015)  
Branch Zagreb**

The sales network of KD životno osiguranje consisted of three channels: own agent network, Permanens agency that was under its ownership (until 31 March 2015), and independent agencies. Altogether, between 60 and 80 agents were selling insurance there. Branch offices were situated in Zagreb, where the company had its headquarters, Osijek, Varaždin and Split. The whole network was focused on sales of Fondpolica since it was the only network for Fondpolica sales in Croatia. Furthermore, KD životno osiguranje cooperated 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 branch Zagreb



## 6.7 RISK MANAGEMENT

In 2015, the segment of risk management was mainly focused on finishing the project of adaptation to the new requirements of the European directive Solvency II and the new Insurance Act (ZZavar-1). New policies related to the management system of Adriatic Slovenica d.d. (18 policies) were prepared and approved; these are the umbrella policies of the internal normative structure of the company and contain the principles, based on which, individual segments of the insurance company's business operations are organised in line with Solvency II arrangement. The company also named the persons in charge of key functions, namely for the actuarial area, risk management, compliance and internal audit.

In 2015, the company successfully completed its first annual and quarterly Quantitative reporting templates (QRTs) and prepared its first qualitative report as required by Solvency II. The implementation of information systems support for reporting, aligned with the Directive, continued. Along with reporting, this will make calculations of capital requirements from the first pillar of Solvency II simpler and quicker.

Further effort in the area of risk management will be in 2016 mainly dedicated to measurements for further strengthening of the company's capital adequacy as per Solvency II, as well as to analysing the needs and possibilities for development and submission of own parameters or partial internal model. In 2016, there will be a strong emphasis on quality and thorough execution of ORSA process, on the preparation of report on execution and findings, and possible measures carried out. The core features of the risk management system / process are summarised below.

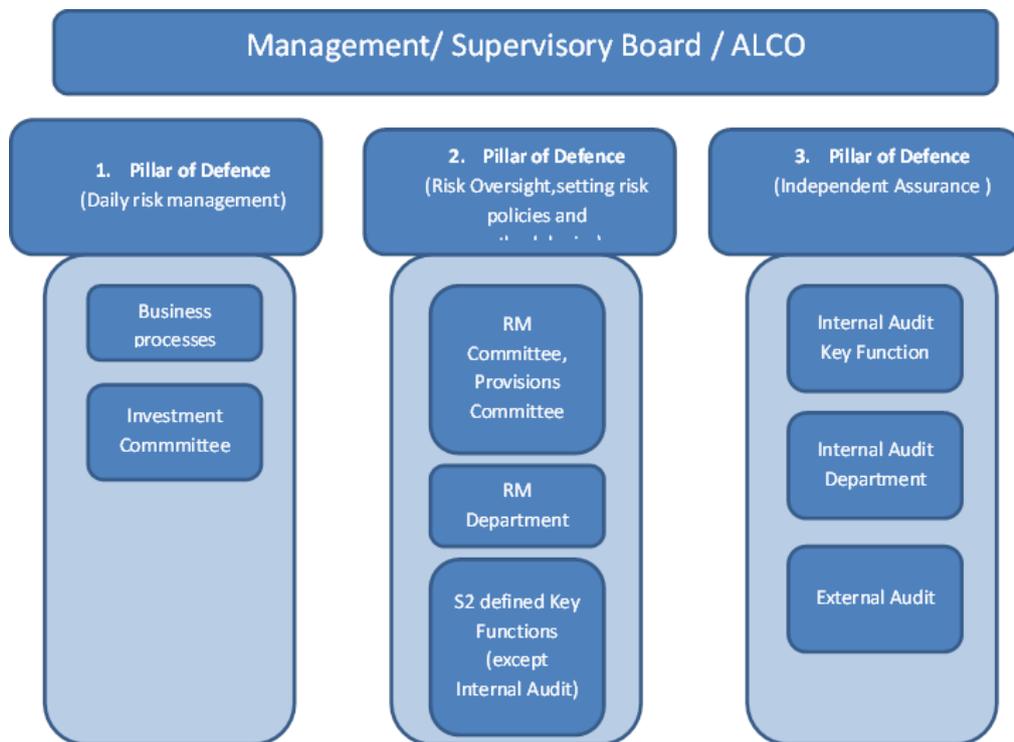
### **Risk management system**

The company's risk management system is a comprehensive process, managed and supervised by the company's Management Board. It has been designed with the aim of identifying possible events that could have a negative effect on the organisation and managing the risks within the company in line with its risk appetite in such a manner that gives reasonable assurance regarding the fulfilment of the company's business goals. It is a structured and disciplined approach that combines strategies, processes, people, technology and knowledge in order to evaluate and control the company's risks. From this point of view, the company defines risk management as an array of activities, performed in order to reduce the exposure to potential losses. The risk management system is proportional to the nature, extent and complexity of the company's business.

Risk control is understood by the management as the company's first line of defence and a way of preventing that circumstances would arise that could endanger the existence of the insurance company. The company's capital complements risk control in the way that it ensures the fulfilment of the company's obligations in case of unfavourable unpredictable events. Risk control is one of the core constituents of strategic management of the company.

Risk management operations are a responsibility of the permanent Risk management team. The head of the team is at the same time the person in charge of the key risk management function. However, in general, the risk management process is performed on the level of the whole company in line with the three-pillar basis of the risk defence system. The first pillar, which consists of all the company's business processes, the persons in charge of them and the investment committee, is responsible for continuous operating management of risks that arise from processes. Persons responsible for risks (usually heads of teams in charge of individual processes) are therefore the acceptors of risks and are responsible for continuous detection, assessment, measurement and reporting (to the Risk management team) and initial risk control within their processes. The risk management committee, Risk management team and the key function of risk management, together with the key actuarial function and compliance function, form the second pillar of defence. It is responsible for oversight and coordination of the first pillar of defence, defining policies, strategies, tolerances and risk limits, and preparation and escalation of reports to the ALCO committee, the Management Board and Supervisory Board of the company. The third pillar consists of internal and external audit and other functions in charge of providing assurance, and is responsible for independent assessment of process effectiveness, risk control practices and giving timely and impartial recommendations and assurance related to risk management.

Chart 1: Three-pillar system of risk defence



### Risk management process

Risk management means identifying, measurement and assessment, control and monitoring of risks on all levels, including reporting about risks, to which the company is exposed or could potentially be exposed in its operations.

Within the policies related to risk management system, the company has established risk management action plans, which include: internal processes of risk management, risk management measures and internal procedures for the execution of these measures; internal processes for monitoring of execution of measures relates to risk management.

Risk management measures and procedures for their execution and monitoring are designed for every type of risk the company is exposed to with its different business operations, and for the risks to which it is exposed in all its transactions.

Regardless of the specific properties of individual risk types, the risk management process includes at least the following key steps:

- identification – identification of risks, which includes comprehensive and timely detection of risks, to which the company is exposed or could be exposed, and the root cause analysis of these risks;
- measurement and assessment of the risks, which consists of preparation of quantitative and / or qualitative assessments of risks that are measurable or not and were identified in the process of risk identification;
- risk control, consisting of the process of selection and implementation of risk reduction measures;
- risk monitoring, comprising rules related to responsibilities, frequency and manner in which the risks are monitored;
- risk reporting, which includes regular and extraordinary reporting and the frequency of reporting.

The process of risk identification is performed on a large scale because it is important that it includes all the identified risks. Identification is a continuous process, performed at least quarterly in relation to the framework of the review and supplementing the company's risk catalogue. All the employees of the company participate in this phase, since its purpose is for all employees to be aware of the risks that can endanger the goals of their

processes and business and strategic goals of the company, and for them to be able to recognise these risks and report on them or control them appropriately.

Within the scope of measurement and assessment of risks, the second step is to thoroughly analyse and assess the extent of loss, as well as the probability of a particular risk to occur again, and to sort them according to their importance. To measure the risks, we can utilise: key risk indicators, self-assessment process (risk catalogue) or stress tests and scenarios.

Risk control is a process of selection and implementation of measures to reduce the risk to an acceptable level. The risk control process ensures successful and efficient operating of the company, effective internal controls and alignment of business operations with regulations. It includes controls and reduction of risks, risk avoidance, risk transfer, financing of accepted risks and other mechanisms for risk control. Strategic measures for control of different groups of risks are described in detail in separate risk management policies, adopted by the company at the end of 2015.

The risk monitoring system ensures that there are adequate internal controls in the company and that the employees correctly understand and practise all the procedures. Once all the key risks are identified, assessed and controlled, independent assurance is obtained that these activities are carried out in line with expectations, and that the results of controls are correct. Such assurance is provided by Internal audit team and external auditors.

All the teams involved in the first pillar of the risk defence system have to report quarterly to the Risk management team about the risks which arise or are a direct consequence of processes under their responsibility. Reporting may be carried out in the form of amendments to the risk catalogue (quarterly self-assessment) and reporting on the results of calculations of certain key risk indicators. Moreover, these teams have to report quarterly to the Compliance team about the effectiveness and results of internal controls, applied to processes. The owner of the key risk management function has to report about the findings related to risk management process to the management and supervisory authorities of the company, and to the owners of other key functions within the company.

The risk management process also includes subsidiaries – it is performed on the level of the whole group. In case of smaller subsidiaries, the process is centralised, while in case of subsidiary AS neživotno osiguranje a.d.o., Beograd, all the steps are performed independently and findings are reported to the parent company. The same process was in place in the Croatian subsidiary. However, since it became Podružnica Zagreb, one part of the process (internal controls, risk catalogue) will still be performed locally and reported to the parent company, while other risks will be managed centrally.

## Definition of risk categories

The risk management system covers at least the following, most important risk areas:

- taking out insurance and forming technical provisions;
- assets and liabilities management;
- investments, especially derivatives and similar commitments;
- liquidity;
- management of insurance, market, credit, operational, liquidity, concentration risks and other risks the company is exposed to;
- reinsurance and other techniques for reducing risk.

**Insurance risk** is the risk of loss or adverse changes in the value of insurance liabilities due to inadequate premiums and assumptions, used for calculations of technical provisions.

**Market risk** is the risk of loss or adverse changes in the financial position of the company, arising from movements and volatility of market prices of assets, liabilities and financial instruments.

**Credit risk** is the risk of loss or adverse changes in the financial position of the company due to volatility of credit position of the issuers of securities, counterparties or possible debtors the companies are exposed to in the form of risk of default of counterparty, risk of change in credit adjustment and risk of market risk concentration.

**Operational risk** is the risk of loss due to inadequate or unsuccessful execution of internal processes, employees' actions or functioning of systems, or due to external factors.

**Liquidity risk** is the risk that the company would not be able to realise its investments and other assets for the repayment of its financial liabilities upon their maturity.

**Concentration risk** is the exposure to risk with a possibility of loss high enough to endanger the company's solvency or financial position.

Apart from the above listed risks, the risk management system also covers management of other risks the company is exposed to. All the risks are categorised within a detailed risk categorisation scheme, which is a constituent part of the company's risk catalogue.

Individual risks are listed and defined in chapter 8 of the company's Financial report.

### The interaction between the risk management system and the business strategy of the company

Risk management begins with the company's strategy – the same as all other activities, related to its business operations. After the strategy is designed, supervision mechanisms are established, which enable the strategy to be realised in the way that all teams in the company can perform the key value factors in an optimal manner and effectively manage the risks arising from these factors.

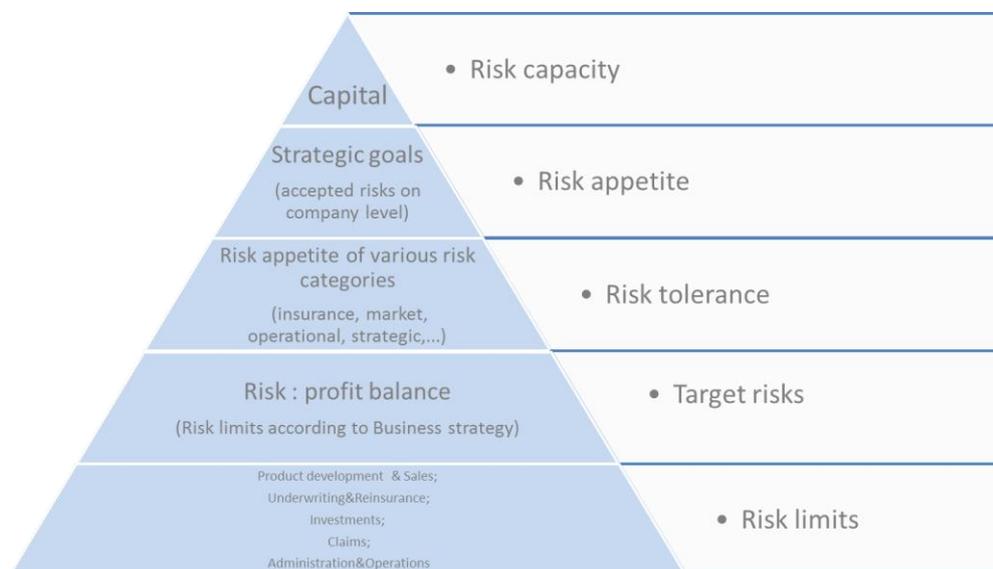
Chart 2: The interaction between the business strategy of the company and the risk management system



The basic concepts of risk management strategy, therefore, are to determine the appropriate risk appetite, including limits and risk tolerances, based on the business strategy and capital management strategy (risk capacity). The company's risk appetite on the level of the whole company presents the total amount of risk the company is ready to accept while realising its mission, vision, business and strategic goals. Risk appetite is limited by risk capacity the company is willing to accept considering its available economic capital. Moreover, it is clearly defined and appropriately presented on all levels of the organisation and included in the process of business planning for the future. It is demonstrated in the form of statements and in metrics form.

Risk tolerance is the highest risk the company is willing to accept considering each of the categories for the achievement of business and strategic goals in such a manner that the company, in cumulative terms, operates within the defined risk appetite. Operating limits relate to every-day business decisions.

Chart 3: The relationship - risk appetite, risk capacity, risk tolerance and operating limits



Risk appetites, risk tolerance and operating limits are determined in line with the effective Risk management strategy, which is part of the general business strategy and the related annual and mid-term business plans. The Risk management strategy, apart from the matters mentioned above, predicts the risk control measures arising from the mid-term business plan, as well as development activities within the risk management system.

Within the future business planning process, apart from the business goals, the company also considers the established risk appetite. Before its implementation, the business plan is also tested from the perspective of fulfilling capital adequacy requirements.

## 6.8 INTERNAL AUDIT REPORT

The Internal Audit Team (hereinafter: IAT) is organised as an independent team, directly accountable to the Management Board of the company and in terms of organisation separated from other parts of the insurance company. The team is led by the head of IAT who reports directly to the Management Board about its work and operations. Such an organisation ensures organisational and functional independence of the IAT. The core task entrusted to the IAT 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 IAT operations were carried out two times in the past, namely in 2008 and 2013. KPMG expressed an opinion that in all material aspects, the IAT 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 IAT operations in the reviewed period significantly contributed to the added value of the insurance company.

The IAT carried out auditing activities on the basis of the annual audit plan for 2015 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 17 audits, monitoring of recommendation implementation in the parent company and the subsidiary, continuous auditing, ongoing supervision, adjustment of IAT's practices to the requirements of Solvency II and the Insurance Act (ZZavar-1), advisory to the Management Board and development tasks.

Within the scope of internal audit activities, special attention was devoted to:

- an internal audit approach focused on reviews of potential high risk areas, consequently resulting in potentially greater damage (loss) or more significant opportunities missed;
- review of risk management and internal control system assessment;
- monitoring of alignment of the insurance company with the requirements of Solvency II;
- an approach focused on generating added value;
- determining whether the business operations are efficient and aligned with internal rules and external regulations;
- transfer of best business practices.

After the audits were completed, the IAT 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 IAT regularly issued special reports on the elimination of identified irregularities and submitted them to the Management Board for consideration. Since the IAT 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 2015.

All reports were also submitted to the Audit Committee after they were examined by the Management Board. The IAT also prepared an internal interim and internal annual audit report, submitted and presented to the management and supervisory bodies of the insurance company.

IATs were also established in AS neživotno osiguranje Beograd and KD životno osiguranje Zagreb. They operate in compliance with the local legislation, international internal audit standards IIA and the methodology of the parent company's IAT.

## 7. REPORT ON SUSTAINABLE DEVELOPMENT

### 7.1 EMPLOYEES OF THE PARENT COMPANY AND THE SUBSIDIARIES

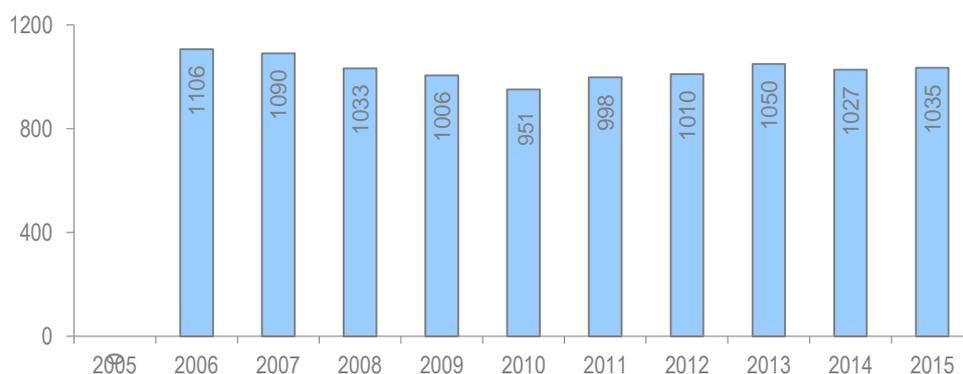
#### 7.1.1 Employees of the parent company

In the human resources area, in 2015, we strived to improve the efficiency of business processes while performing optimisation of costs and human resources. The HR structure has changed in favour of expert staff. We have employed experts with new knowledge and competences, sought for in the company now and in the future. With a systematic approach to employee selection and planning of training and education, we have ensured HR potential which possesses the key competences of business innovation, realisation ability and teamwork. In the development area, the new HR information systems support called ES enabled us to update the process of annual performance reviews, implement assessment of competencies and introduce goal-oriented leadership. We wish for our employees to achieve a good work-life balance, therefore, we have started to implement measures in the scope of the "Družini prijazno podjetje" (Family Friendly Enterprise) certificate. Also in 2015, the success of the HR management systems has been monitored by means of measuring the organisational climate, the systems of leadership and employee satisfaction, as well as by means of monitoring the key HR indicators. At the end of the year, we have signed a new enterprise collective agreement. In December 2015, the parent company acquired Podružnica Zagreb with 57 employees of the former subsidiary KD životno osiguranje.

#### 7.1.2 Headcount and educational structure of employees – parent company

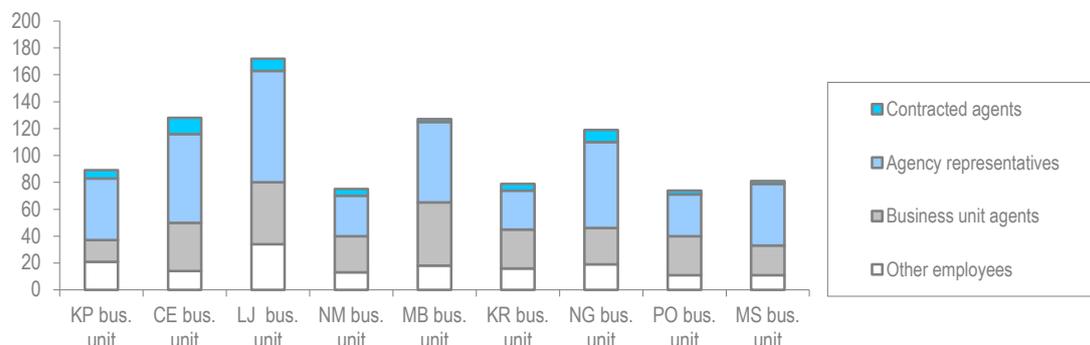
At the end of 2015, Adriatic Slovenica had 1035 employees. Compared to 2014 year-end, the number of employees increased slightly, mostly due to a higher number of insurance agents, while the number of internal employees decreased. We have optimised the number of employees on administrative and operational positions, mainly due to computerisation and rationalisation of business processes, and employed new expert staff with IT, mathematical and analytical competences. 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 2015 was 43.5 years. At the end of 2015, fixed-term employees accounted for 6 % of all employees.

Number of employees 2005 - 2015



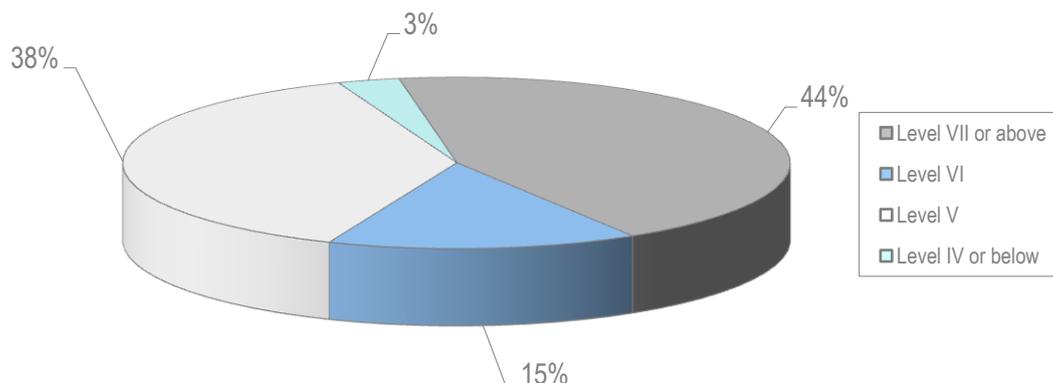
The insurance company boasts a well-branched distribution network in all Slovene regions. As at 31 December 2015, the workforce was composed of 279 insurance agents employed with Adriatic Slovenica, 455 agents selling its insurance products through authorised agencies and 53 contracted agents.

## Number of agents in the distribution network in 2015



The biggest share (as much as 44 %) 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 38 %, since the statutory requirement for insurance agents is completed secondary education.

## Educational structure of employees in 2015



### 7.1.3 Education and development of employees and educational structure of the parent company

If our goal is to successfully deal with the changes in the insurance market and excel at new, modern approaches, investing in the employees' knowledge is the key to success. The development of technology and information technology require constant improvements in procedures and new ways of completing tasks at work. It is therefore necessary to enable the employees to access different resources where they can get acquainted with novelties from their professional area, on all levels. In AS, we understand that development of our employees is a distinctive value of our company. It is an important competitive advantage and, without a doubt, our most profitable investment. Therefore, every day, we are creating an environment where knowledge is continuously developing. Last year, we have updated our education process and established new frameworks which reflect the direct connection between the educational and business strategy of the company. The employee development system is systematic and carefully planned. In this way, we want to provide the best possibilities for our employees to develop their competences and values, and continuous personal growth, creativity and team spirit, the ability to adapt to changes in the market and making the business decisions easier.

We create common good and our actions are guided by common values. They are reflected in our relationships, but also externally, in our relations with the clients and other stakeholders in our environment.

We build on solid foundation and on a long-term basis, therefore, using proven methods of knowledge sharing, we develop new tools and approaches. Our internal education system called “**Akademija AS**” (AS Academy) turned out to be a very successful approach.

The annual curriculum of Akademija AS, which consists of internal and external trainings, is based on educational needs and aligned with the goals of the company, as well as goals of the employees. We are designing it in collaboration with managers, employees and internal trainers.

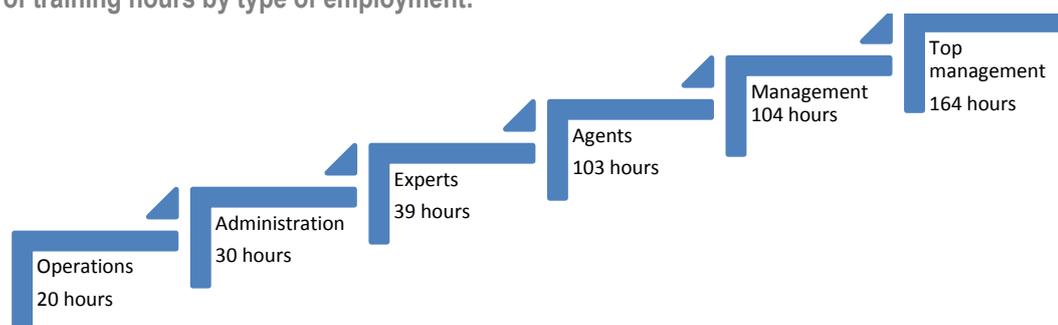
When preparing the Akademija AS trainings, we always take knowledge from where it is created and add the experience of different teams. We are extremely proud of our internal trainers who share their knowledge with enthusiasm and a large amount of motivation. The internal trainer who during the year prepares the highest number of workshops and seminars receives a special award.

Due to the growing extent of computerisation when web-based educational content with multimedia and interactive add-ons are on the rise, we have extended **e-Akademija AS** with numerous new training materials on the topic of insurance products and soft skills. E-Akademija AS definitively shortened the physical distance among us. It provides us with bigger business opportunities and adapting quickly, since the materials are easily accessible at all times, anywhere and to everybody.

We are very proud that new knowledge is available to everybody, therefore, we are rewarding the results that arise from the newly acquired knowledge. By co-financing college tuition costs for our employees, we encourage their personal growth, which brings success at work and possibilities for promotion. This year, 4 employees finished their studies.

In 2015, we have organised over 500 educational seminars and workshops, 54 % of which were led by internal trainers. How did we educate ourselves? Almost 100 % of all employees participated in various trainings, and on average, each employee had **64 hours** of training.

#### Number of training hours by type of employment:



#### Important characteristics of employee education

For a long time, the aim of our trainings has no longer been only to share knowledge. We want to teach our employees how to solve challenges and combine old experience with new knowledge. This is a challenge of its own also for the HR team because it requires good knowledge of knowledge creation processes, the acquisition and use of knowledge. The way in which people use their knowledge is therefore the key since knowledge per se does not necessarily bring success. In order for an individual to achieve success at work and fulfil their tasks, good support of the management, colleagues and processes is of vital importance.

In order for the employees to be able to efficiently perform their tasks, it is also important to identify their educational needs and analyse their existing and required skills. It is therefore crucial to develop training programmes and activities that are connected to the field of work of individual groups of employees as much as possible. The recent guidelines show that the individual needs and requirements of employees have to be at the base of the educational system and training programmes.

In the insurance company, we devote our attention to all target groups, which is reflected in the educational programmes of Akademija AS. They are designed to provide expert and insurance knowledge, acquiring soft skills, sharing of good practices, using insurance services in practice ... In short, they ensure a systematic way of obtaining new knowledge, continuous testing and expanding the new knowledge, and allow for free choice of attendance in educational seminars, taking into consideration the individual's needs.

### Overview of important events

Due to computerisation and the high frequency of change, knowledge is getting obsolete at an increasing speed. Therefore, we must also learn how to dump outdated knowledge. In cooperation with a strategic partner, we have initiated a project for education of sales personnel on how to achieve sales excellence. It is an ambitious goal that also requires considerable financial input. However, since we realise that good selling skills are vital for successful sales activities, we have designed a concept of project sales training within Akademija AS. By doing so, we have established new standards of sales excellence and integrated them into all sales segments of the company. The project of achieving sales excellence is carried out in a structured manner on all levels and will be continued also in 2016.

We have consistently carried out professional trainings and those required by the law, mostly on the topic of safety at work, and continued intensive trainings aimed at raising security awareness and educating about security policy.

To achieve our set goals, it is crucial to work in a harmonised manner as a team, and by doing so, we can overcome the most interesting challenges. Therefore, we strongly encourage teamwork. For it to be efficient, we are organising traditional annual gatherings with the aim of connecting, socialising, sharing experience and good practices within the team. This is especially important for the management since harmonised operations, good connections, trust and open communication of the management are key for the company's success. Consequently, we have in 2015 organised the traditional Sales conference, lawyers' meeting, meeting of Customer care team, OIZ team, meeting of sales managers, meeting of Collection team, and team building events for individual teams within the company.

A special place in the Akademija AS programme has been devoted to topics from the **Health promotion** segment, therefore, we decided to get involved in the "**Aktivni ukrepi promocije zdravja v finančnih institucijah**" (Active measures for the promotion of health care in financial institutions) project, co-funded by the Health Insurance Institute of Slovenia and organised by the Institute of Occupational Safety d.d. in three financial institutions. There are numerous experts involved in the project: a doctor, an occupational medicine specialist, a kinesiologist, a physiotherapist, a nutritionist, a psychologist and coaches. The project was initiated in October and by the end of 2015, the first phase, physical activity, was successfully finished. The project will be continued in 2016, when we will carry out two more phases and professional workshops for healthy life. We will also regularly inform employees about the importance of health and healthy lifestyle.

### Plans

In 2015, we have introduced changes to the educational process and outlined a new direction – **small steps to a big goal**. In 2016, we will continue the development of applying for trainings via web for all trainings announced in the annual curriculum of Akademija AS. The existing web-based learning materials will be supplemented with multimedia items, while eAkademija AS will be upgraded with video content. We will respond to all requests and needs for education and support broadening of knowledge in different fields of expertise, in line with the needs, in Slovene as well as foreign educational institutions.

#### 7.1.4 Care for employees of the parent company

In the beginning of 2015, we have acquired the basic "Family Friendly Enterprise" certificate and implemented the first two measures: paid absence from work on the first day of school for employees whose children go to primary school for the first time, and the possibility of flexible working hours with short-time working for parents whose children are starting to attend kindergarten. By means of the "Family Friendly Enterprise" measures, we strive to enable a better work-life balance for our employees, which is definitely evident from their satisfaction, loyalty, motivation and productivity.

Also in 2015, we were committed to ensuring a safe and healthy work environment, good interpersonal relations and a positive atmosphere to our employees. This endeavour is supported by the activities of the sports and culture club named "Pravi ASi" (True aces), 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 Pravi ASi was established in 2010 with the main goal to promote employee involvement in sports and cultural activities, thus encouraging them to spend active time together also outside work. One of the most important aims of the club is to build a positive atmosphere among employees.

Any employee of AS or other companies within KD Group, exclusive agencies or retired ex-employees can join the club. At the moment, Pravi ASi club has 410 members. In 2015, also the members of another KD Group's sports club "Kaj dogaja" (What's up) joined Pravi ASi.

In 2015, recreational activities (gym, basketball, volleyball, table tennis, nine-pins, badminton, bowling, fitness, swimming, spa) were offered to club members at all branches. In addition, the club organised theatre visits (provided season tickets), 5 cycling trips, 3 mountain hikes and a Nordic walking course. Club members and AS employees also participated in winter and summer sports games for the employees of financial institutions (ŠIFO), assisted in the organisation of the social gathering of all KD Group employees in Simonov zaliv, Izola, participated in the 2<sup>nd</sup> Istria marathon in Izola and organised a trip to Bratislava.

In its holiday accommodation facilities in Slovenia and Croatia, Adriatic Slovenica provides quality and affordable vacation for its employees, their families, retired ex-employees and Slovene independence war veterans. In 2015, 125 employees and their families took this opportunity.

As before, also in 2015, the company organised social events for its employees in order to foster good relationships and positive climate. This year, we gathered at a spring picnic in Simonov zaliv, Izola, and at the New Year gathering, where we also celebrated the 25<sup>th</sup> anniversary of Adriatic Slovenica. Moreover, the company maintained the tradition of giving out Christmas presents to the children of employees.

In our care for good health of employees, we have referred 27 % (281) 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 2015 covered 86 % of all employees. The average monthly premium under this pension scheme, co-funded by the employer, amounted to 38 euros per employee. The employees of Adriatic Slovenica can take out accident insurance policies under more generous terms 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 948 employees and 388 members of their families.

In accordance with the legislation on health and safety at work, the company is contributing to its employees' health and wellbeing. Approximately one third of employees are annually referred to preliminary, periodic and targeted medical check-ups.

In December 2015, the Management Board of the company adopted a Plan for the promotion of health in the workplace, which consists of systematic targeted activities and measures for maintaining and strengthening physical and mental health and wellbeing of employees. It is a fact that healthy and satisfied employees, working in a safe and stimulating environment, are more productive and creative, and therefore to a lesser extent absent from work due to illness or injuries.

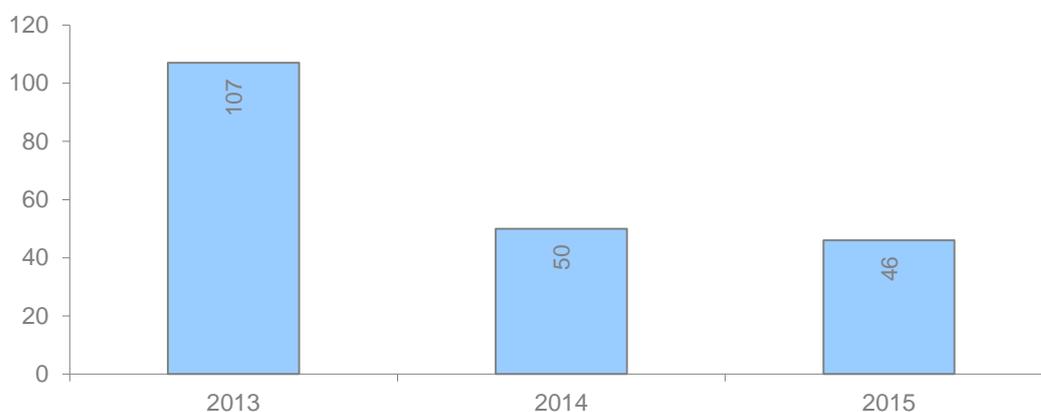
## Employees of subsidiaries

### 7.1.5 Headcount and educational structure

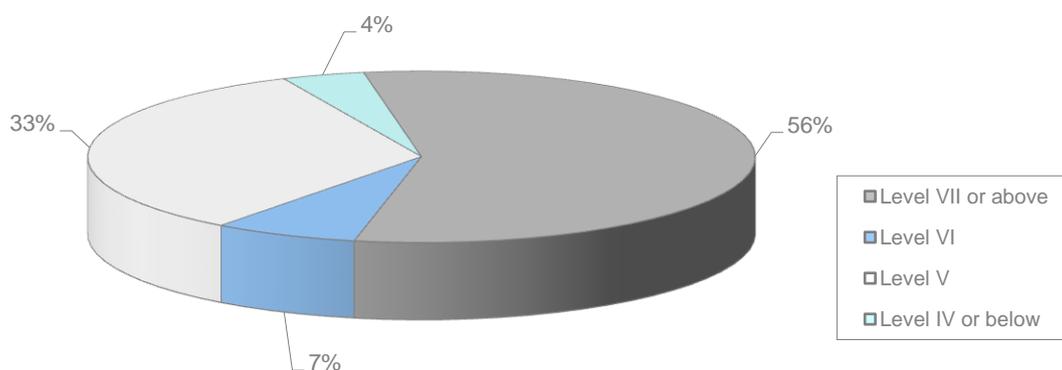
#### AS neživotno osiguranje

The company has 46 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 - 2015

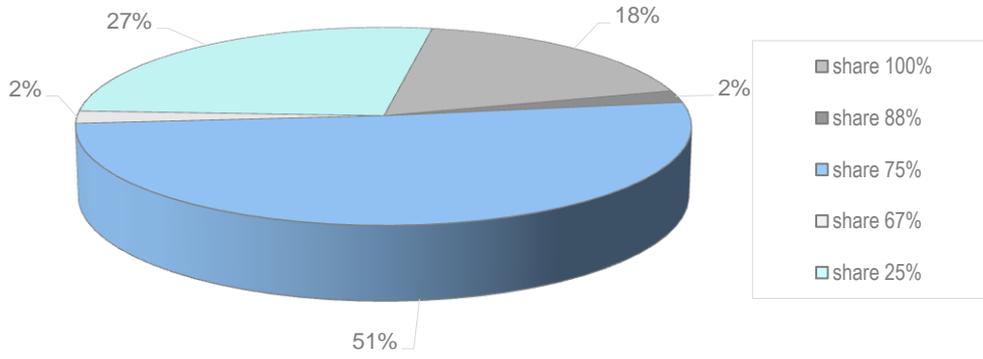


#### Educational structure of employees in 2015

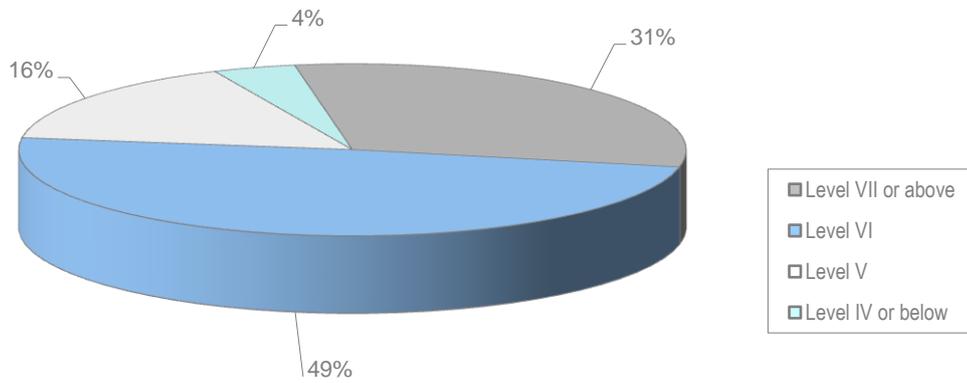


## Prospera

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



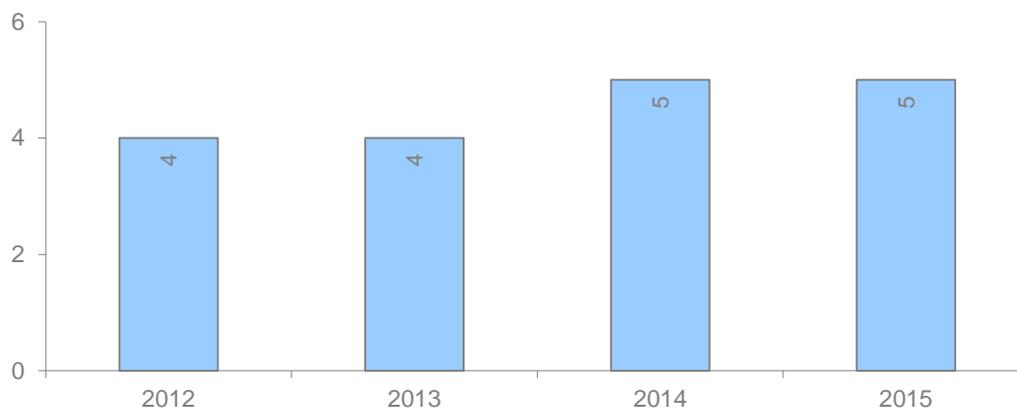
## Educational structure of employees in 2015



## Viz

The number of employees remained unchanged in 2015.

### Number of employees 2012 - 2015

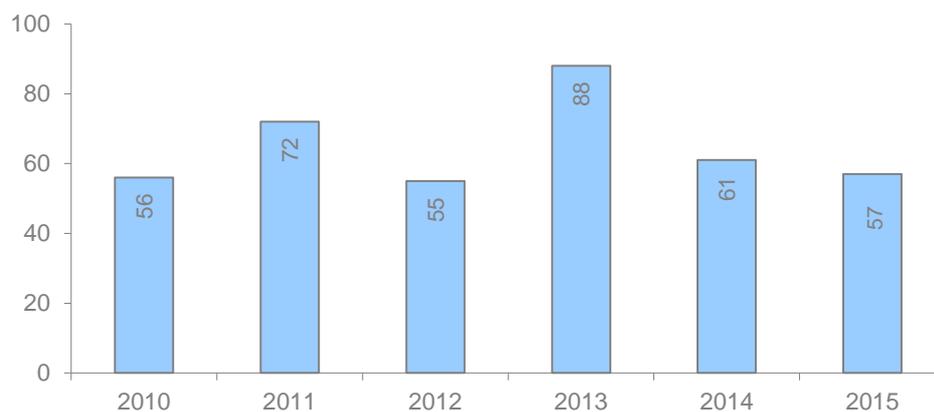


All five employees of Viz d.o.o. have completed VII level of education.

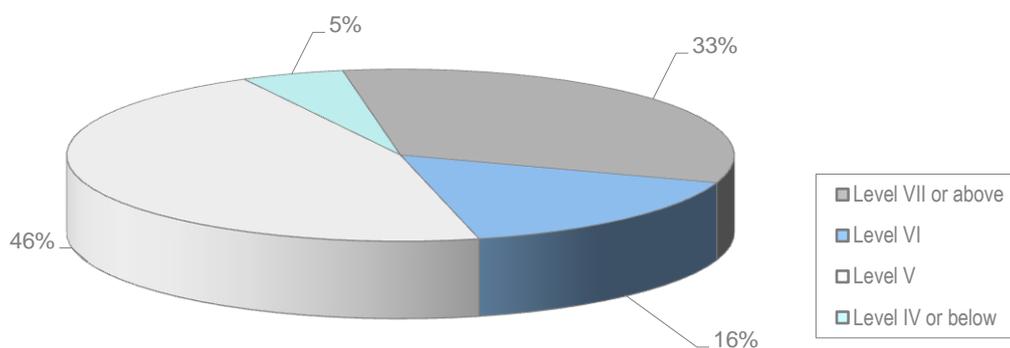
## KD životno osiguranje /Branch Zagreb

At the end of 2015, there were 57 employees in this branch.

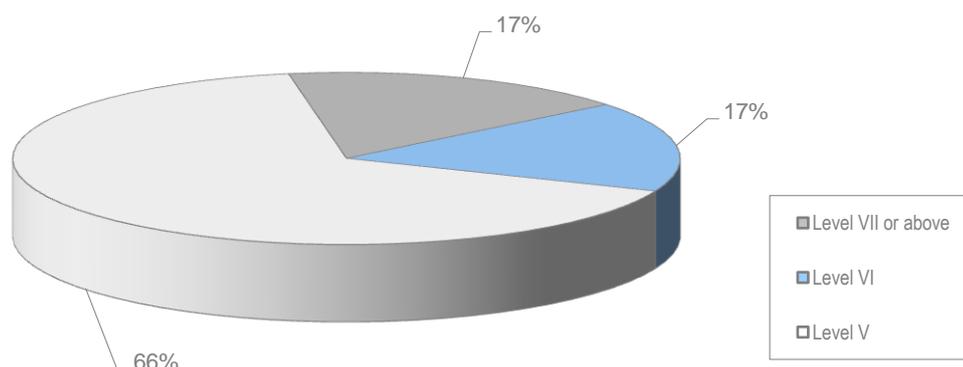
### Number of employees 2010 - 2015



### Educational structure of employees in 2015



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



#### 7.1.6 Education and development of employees in subsidiaries

Employees of subsidiaries are involved in trainings in line with the requirements of the business process. Employees of Viz subsidiary attend the educational programmes of the parent company. Prospera employees are part of education and training focused at development of skills required for efficient work and leadership, which is usually organised by the parent company via Akademija AS and eAkademija AS. In KD životno osiguranje Branch, internal trainings were organised mainly to motivate sales personnel. Special attention was devoted to training of new employees in sales. Trainings are focused on improving sales skills of employees who are in direct contact with the existing and potential clients.

#### 7.1.7 Care for employees in subsidiaries

Employees of Prospera and Viz subsidiaries get the same bonuses as the employees of the parent company. KD životno osiguranje subsidiary worked on maintaining a positive atmosphere among the employees since this is the key to successful collaboration. This is achieved by informal socialising of employees. In addition to this, they also maintain the tradition of giving Christmas presents to the children of employees at the end of the year.

## 7.2 IMPROVEMENTS, INFORMATION SECURITY AND QUALITY

### 7.2.1 Improvements

The 2015 work programme of the **IT team** of the parent company followed the business needs of the company, the IT 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.

Within the scope of establishment of the new **Croatian branch**, we have provided the information systems support, so that they could start selling car insurance. We have implemented the back-office information system INIS for the support of key business processes of the branch, the insurance application AS-direct for car insurance support, and information systems solutions to assist employees working in call centre.

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**. Among others, via e-sklepalnik, we have enabled "**Paket Športnik**" (Athlete package), which includes accident and above-standard health insurance, and unified and updated **school accident insurance** in a new platform. We have implemented two new portals for our insureds: the general **MojAS** portal, as well as a **pension insurance** portal.

As part of the existing Qlikview applications, we have enabled **monitoring of the whole AS portfolio**, including the portfolio, transferred from KDŽ. A system for KPI monitoring was put into use. Using the IBM SPSS tool, tested already in 2014 in the area of health insurance fraud detection, we have prepared a solution for the so-called **Mlinček** for sales promotion. It was implemented in two phases: in the first phase, sales promotion of the circle of safety was carried out based on certain priorities, and in the second phase, experience of other insurers was used for identification of priorities.

We have prepared an **upgraded process solution for insurance policy processing** by combining the existing solutions for policy portfolio within Amarta and INIS. The upgraded solution is based on the new version of processing server Ultimus 8, which supports the most recent versions of browsers and is connected to the BC (BusinessConnect) system.

Among other things, we have optimised the ways of working with electronic claim files in **BC**, upgraded the module for travel orders, organised the central contracts register and supported the process of handling legal mail.

We continued the implementation of Moody's Analytics – Risk Foundation Platform for the support of **Solvency II** requirements.

We have been active also in the area of mobile applications. With ASfalt application, we have brought free traffic assistance to all drivers. They can also follow traffic information and conditions on saved routes across Slovenia, search for their parked car also abroad, or call Car assistance with one click if they get in trouble on the road in Slovenia or abroad. We have collected first experience with the use of mobile applications within the insurance company's processes after implementing the prototype **mobile application** for valuation of damage on property in the field. At the end of the year, we have adapted the information systems to the legal requirements for the implementation of **certified cash registers** and performed testing of switch to the secondary location.

Throughout the year, we have been involved in implementations of information systems solutions, educated the users and provided support in the use of information systems solutions.

### 7.2.2 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. We have performed numerous security tests on complex changes that present a security risk for the company or clients. With regard to the Personal Data Protection Act, we have upgraded information systems to enable monitoring of access to personal data.

The company has numerous technical mechanisms implemented to ensure a high level of information security (firewalls, antivirus programs, SIEM ...), but we are aware that a high level of security and raising awareness begins with each individual. Therefore, we have in 2015 carried out activities to raise awareness in the area of information security and intend to do so also in the future.

In 2015, the Internal audit team in cooperation with a certified partner carried out an information systems audit in the form of an intrusion test. During the time of the testing, The IT team identified a large number of intrusion attempts. The report of the information systems audit proves that the information system is immune to attempts of unauthorised access using solely technical tools. It is also encouraging that the person performing the intrusion testing had to put an above-average amount of effort into social engineering, which means that the awareness-raising activities have already produced results.

As already demonstrated by the intrusion testing, one of the weakest links was the human factor, which is especially significant in case of malicious e-mail. It showed in practice in November when many computers got infected by ransomware virus TeslaCrypt 2.0, which encrypts files and gives the user instructions for payment of ransom in Bitcoin currency. One of our agencies got attacked in this way after a moment of inattention resulted in a computer being infected, whereas AS information system and awareness of users proved to be resistant to this virus.

### 7.2.3 Quality management system

Adriatic Slovenica is aware that quality in all senses of the word is an important competitive advantage, therefore, already in 2004, we have implemented a Quality management system and obtained an ISO 9001 international standard certification.

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 many years.

Our activities in the **parent company** are focused on constant improvements of processes. The processes are aligned with the strategic goals, which arise from the requirements and expectations of the insureds. In our operations, we respect our values and put the client to the centre of our activities.

In October 2015, the updated ISO 9001:2015 international standard, on which our Quality management system is built, came into effect. In 2016, we will adjust our system to the new standard.

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 2015, it received a total of 353 (343 in 2014) proposals, 50 of which were assessed as exceptionally useful (until 2015) and their authors have been rewarded. In 2016, we plan to update the system.

## Quality management activities in subsidiaries

Being aware of the importance of achieving and maintaining business quality, in KD životno osiguranje subsidiary, they strived to constantly improve business processes. Among other measures, this is achieved by conducting internal and external audits. The company was performing most of the supervisory activities, recommended by good practices, and followed the prescribed formal procedures, which were also documented.

Most of the activities in 2015 were focused on the establishment of Podružnica Zagreb, therefore, much of the attention was devoted to unification of work processes, adopting and implementation of high information security standards and quality assurance. Upon the establishment of the branch, most of the processes were closed, they will only partially extend into 2016.

### 7.2.4 Investments in equipment and office space

The parent company is regularly upgrading its office space and equipment. The biggest investment, the renovation of business premises and new equipment in Celje business unit in the amount of 380,000 euros, was initiated at the end of 2015 and it was finished in January 2016.

We have refurbished the newly rented business premises in Ribnica na Dolenjskem. We have spent more than 13,000 euros on interior fittings. Employees of Ljubljana and Novo mesto business units got their old chairs replaced with new, ergonomic ones, worth more than 10,000 euros.

We have invested 29,000 euros into upgrading the technical systems for the security of property and employees, and approximately 33,000 euros for appropriate branding signs on the company's premises. We are also continuously upgrading technical equipment (multifunction devices, telecommunications equipment ...); in 2015, we have invested 66,000 euros. We are also keeping our vehicle fleet up to date by purchasing new vehicles with eco-friendly engines and low CO2 emissions. In 2015, investments into the vehicle fleet amounted to almost 150,000 euros.

### 7.3 RESPONSIBILITY TO THE LOCAL COMMUNITY AND THE ENVIRONMENT

Every year, Adriatic Slovenica supports and is involved with donations and sponsorships 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 and preserving natural and cultural heritage. In 2015, we have supported over 350 different projects. For the past 25 years, we have been promoting projects from the fields of healthcare, sports, culture and preserving natural and cultural heritage, education and preventive activities, especially traffic safety.

In the area of health insurance, we collaborate with around 1,800 health care services providers and support education and initiatives that contribute to the development and reputation of medical profession. As the main sponsor, for the 14<sup>th</sup> time in a row, we have supported the “Moj zdravnik” (My Doctor) campaign singling out the best and most reputable Slovene doctors.

Also in 2015, the insurance company was continuously supporting sports while developing its insurance products and services for athletes of all categories. Top-level athletes 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, Union of Sports Associations (OKS - ZŠZ), 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 December 2015, we have organised an event called Olympic circle of safety together with the OKS, at which they presented Slovene Olympic candidates to the 5,712 registered visitors and others.

Adriatic Slovenica has been collaborating with the Football Association of Slovenia for the last 15 years. On 17 November 2014, they signed a new sponsorship contract for the period until the European Championship in France in 2016. 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.

The insurance company furthermore joined the ranks (as Gold Sponsor) of staunch supporters of the Soške Elektrarne Kayak Club. We have also been supporting the Sailing Federation of Slovenia and the successful Slovenian sailor Vasilij Žbogar for the last four Olympic cycles. Since 2015, we have also been a sponsor of freestyle skier Filip Flisar. The company also supports its internal sports and culture club Pravi ASi, getting more and more involved in sports and cultural activities throughout the year. For their members, they also organise the biggest annual event for employees – Sports games. 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, Rog Cycling Club and Slovene Table Tennis Association.

In the area of culture and preservation of natural and cultural heritage, the insurance company has been supporting Portorož Auditorium and Koper Theatre since 2002, and the RTV Slovenija Symphony Orchestra since 2005. In 2015, we have also supported the activities of the Sergej Mašera Maritime Museum in Piran. In a close partnership with Arboretum Volčji Potok and Lipica, we have been contributing to preservation of natural and cultural heritage for many years. 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 knowledge-based enterprises in the Primorska region and contribute to the development of entrepreneurship in the region and transfer of knowledge from the university to the real sector.

We have also supported the Postojna Hospital, contributing funds for the purchase of a new ultrasound machine, and helped the Dr Janez Oražem Community Health Centre to purchase new physiotherapy devices as part of the civil society initiative called “Fizioterapija: Primakni – premakni” (Physiotherapy: Contribute - move). We would also like to mention our support of the Koper Diabetics Society and Koper Community Health Centre which has become a tradition. Charity funds have also been donated to Sonček association to help them renovate the recreational centre Vrtiče pri Zgornji Kungoti, and to Foundation for athletes from unfavourable social

environments. The largest portion of AS Foundation funds has been dedicated to education of talented young musicians.

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. Also in 2015, the foundation continued to support its successful protégés.

In May 2015, AS Foundation published a call for applications for funding of undergraduate or postgraduate studies for talented music and arts students studying abroad. Of all the candidates who applied, two new protégés were chosen, namely Luka Benčič, jazz double-bassist who got accepted to Amsterdam music academy Amsterdamse Hogeschool voor de Kunste, and Max Čelar, second year student of one of the most prestigious architecture colleges, London Architectural Association. Ajda Stina Turek, supported by AS Foundation since 2014, successfully continued her second year studies of jazz vocal at the Berklee College of Music in Boston, USA. Since 2010, AS Foundation has been supporting Eva Nina Kozmus, a young Slovene virtuoso on flute who in 2015 successfully finished her master's studies at the French music conservatory Conservatoire national supérieur de musique et de danse de Lyon. Her cooperation with AS Foundation, which lasted for five years, is therefore over, but in the study year 2015/2016, she will continue her studies of flute independently on the highest, doctoral level. Rok Zalokar, a protégé of AS Foundation since 2013, is a jazz piano student who successfully finished his second year, and is in 2015/2016 attending the third 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 third-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 has successfully continued his studies as a third-year student at the Faculty of Computer and Information Science, University of Ljubljana, and Matija started to study economy at Aarhus University in Denmark in 2015/2016.

In September 2015, AS Foundation collaborated with RTV Slovenija Symphonic Orchestra in the preparation of an interesting educational initiative for students, called "Za njimi stojimo" (We are standing behind them). Its purpose was primarily to attract instrumentalists, sought for by the RTV Slovenija Symphonic Orchestra. In 2016, a selection of five individuals will be made, each to have a solo performance at the Za njimi stojimo concert in Cankarjev dom. Moreover, they will receive a donation in the amount of 1,000 euros as a contribution to their musical education or to purchase musical instruments.

In 2015, AS Foundation remained a loyal supporter of the Malči Belič Youth Care Centre. On 15 December 2015, we surprised 60 children and teenagers from 6 to 14 years of age with useful gifts, new clothes and four laptops, and in this way brightened up their Christmas holidays.

In 2012, the Company acquired a rich art collection, which it started to exhibit in 2013 in the **AS Galerija** gallery, established in 2014 in KDG headquarters, Dunajska 63, 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. In 2015, five acclaimed exhibitions of art, owned by the company or other artists, were organised.

**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, for example by investing in renovations of offices with the purpose of energy saving and purchasing eco-friendly cars. Also important is electricity and paper saving due to digitalised business operations in BC system and collecting waste paper in separate containers. Another important activity we have been practising for a long time is separation of hazardous waste, toners and ink cartridges. Additionally, in 2014, 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.

**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 2015, KD životno osiguranje and other subsidiaries made no significant donations or engaged in sponsorships.

## 7.4 COMMUNICATION WITH BUSINESS PARTNERS, SOCIAL ENVIRONMENT AND THE MEDIA

### 7.4.1 Communication with clients in the parent company

#### Client service

The **Client Service Centre Team** is a network of five teams that strive for insurers' maximum satisfaction. They are available to clients via e-mail and telephone and build genuine and proactive consultancy activities, devoting special attention to personal contact, which remains the basis for successful business. With their professional attitude, understanding the clients' needs and expectations, they provide comprehensive answers to clients' questions and seek for the best possible solutions. Our colleagues even take advantage of otherwise rare customer complaints for building the relationship with them. We respond quickly to the wishes and needs of clients, which is essential for maintaining good relationships and their long-term loyalty in as many insurance segments as possible. For the clients, the Clients Service Centre is the reflection of the whole company: it displays the ability, responsibility and reliability of the company, and indicates what the client as a potential buyer can expect and get from the company. Satisfaction of clients leads to a higher level of loyalty and belonging to the company, and moreover, it strengthens the team members' satisfaction, which contributes to the success of the company.

The **Client Support Team - contracts and marketing campaigns**, communicating with the clients via different communication channels, had 259,760 telephone calls with clients in 2015, which is 6 % more than the year before. We are aware that each contact with the client builds our relationship and trust, and consequently open new possibilities for business arrangements. 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](mailto:info@as.si), to which, we have received e-mails from 39,311 insurers. The questions, posed by the clients, are very diverse and their complexity grows every year since the clients are becoming increasingly aware of their rights and obligations to their insurance investments. In 2015, written communication with clients (by means of which they receive feedback and notifications about the requested changes in their policies) increased by 15 %. 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 homes.

#### Call centre

The **Call Centre Team**, as a special department within the company, is a direct link between the company and its clients. Operators' work is tightly connected to informing clients about products, giving advice, managing orders, and finally, with the company's revenue; therefore, the centre is the "moment of truth" in the relationship between the company and the clients. Oftentimes, the client establishes their first contact with the company via the call centre, and based on one telephone call, they can form their opinion about the company. For them, the call centre is the first reflection of the whole company: it displays the ability, responsibility and reliability of the company, and indicates what the client as a potential buyer can expect and get from the company.

The call centre 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. In order for the operators to be able to strengthen the relationships with the clients, present the consultant's visit in a convincing manner and introduce them in the most credible way, they display a high level of personal and professional skills, and at the same time possess complex technical knowledge. The Call Centre is also engaged in conducting surveys, the main aim of which is monitoring client satisfaction. In 2015, the Call Centre made 821,705 phone calls, concluded 10,690 insurance contracts and arranged 7,764 appointments. We have also successfully responded to clients' complaints and designed new standards of efficient phone conversation by providing continuous training for operators and team leaders. On the one side, this reduces the number of complaints, and on the other, it increases the satisfaction of our insurers. Satisfied insurers are the highest priority of the Call

centre and our satisfied team of competent, motivated operators and their coordinators brings them the best user experience.

### 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 2015, we have answered 8,286 calls, which is 11 % more than in 2014, and replied to 2,991 e-mails, 30 % more than last year. We are nice, we can listen, we are quick, accurate and always available to assist all employees of the company. We realise our responsibility by constantly expanding the knowledge of all colleagues in the Centre, mostly by experience and knowledge sharing and analysing successful call centres in Slovenia and abroad.

### Client Support – Life insurance

In 2015, 19,639 insurants asked for the help of Client Support for Life insurance team. By treating every insurant individually - via telephone or in person in our office – our life insurance account managers do their best to find a suitable solution. In order to achieve this, they must possess expert knowledge of insurance and capital markets. They have to establish a fair relationship with the client, show respect, understanding and maintain mutual trust, therefore, a life insurance account manager must display a high level of assertiveness. All of the mentioned factors are the basis for successful, fair and especially long-lasting cooperation of the client and the insurance company. Our successful collaboration with clients can in 2015 be supported with numbers; we managed to retain 7,676 policies in our portfolio, in the total amount of over 30 million euros.

### Client Assistance – Insurance contracts

In the **Health assistance team**, we make sure that insurants, who are for whatever reason concerned about their health, get access to specialist check-up as quickly as possible, make the necessary diagnostic tests and begin adequate treatment. Insurants are very satisfied with our insurance and services, which was also confirmed in our regular surveys.

Last year, the team assisted in 1793 cases when our insurants needed medical appointments arranged quickly, diagnostic tests, physiotherapy or other types of treatment. Moreover, we have provided for above-standard accommodation in a hospital or health resort for 43 insurants. On a daily basis, we also guide our insurants and provide them with useful information related to navigation in the health system.

## 7.4.2 Client communication in 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](mailto:info@as-osiguranje.rs).

### Viz

The first point of contact for WIZ insurance is the [www.wiz.si](http://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 complementary 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](http://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.

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

Meetings 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 18 March, as the sponsor of "500 podjetnic" event in Ljubljana, we were promoting our special offer for entrepreneurs. On the same day, we hosted the premiere screening of the documentary called "Več kot številke" (More than numbers), which speaks about the development of KD Group and Slovene financial industry.
- On 2 April, Cankarjev dom witnessed the closing ceremony of the all-Slovene initiative Moj zdravnik, (My Doctor) supported by AS for the last 14 years. Via Viva magazine, thousands of patients thanked 2,700 doctors more than 19,000 times. In the name of these patients, they rewarded the doctors who received the highest number of votes.
- On 3 April, we joined the Wings for Life global charity run, following its mission to collect funds for the support of spinal cord failure research.
- On 17 May, Arboretum Volčji potok was the venue of "Koncert v cvetju" (Flowery concert), hosted by Adriatic Slovenica in association with RTV Slovenia Big Band. The event was attended by insurants and business partners.
- We have organised four events called "Zajtrk prihodnosti" (Breakfast of the future) in different Slovene regions and provided answers to questions about the pension scheme reform and dealing with an increasingly problematic topic of pensions getting lower and lower.
- On 11 September, we have organised the traditional 6<sup>th</sup> charity golf tournament for our business partners who enjoy playing golf. They contributed funds for AS Foundation, supporting education of young talents.

- On 17 October, as a supporter of the OKS for many years, we co-organised the Olympic Festival. In Ljubljana's Kongresni square, we have prepared 15 sports challenges and visitors had the opportunity to compete with Slovene Olympic athletes. We also made it possible for them to consult free of charge with sports medicine specialist and measure their cholesterol level, blood sugar and blood pressure.
- On 30 December, in collaboration with Bled Tourism and OKS – ZŠZ, we have prepared the “Olimpijski krog varnosti” (Olympic circle of safety) event. 5712 registered visitors lighted their torches and closed a full circle of safety around the lake, which counts as a successful attempt of a Guinness world record.

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 all-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, we 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 8.1.

**Communication with the press and the media** is in compliance with our strategy in a centralised form and coordinated with other companies of KD Group. Communication 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 2015, regular press conferences were held for the journalists. On 2 December, at the traditional annual press conference for journalists of Primorska region and correspondents of the national media, held at the company's headquarters in Koper, we have presented the business operations of the insurance company in 2015 and our plans for the upcoming year, especially in the segments of health and pension insurance and our presence on the Croatian market.

Media coverage of the insurance company is monitored and analysed and its value and the tone of reporting is assessed. In 2015, the company was mentioned in the media 1,260 times (1,138 times in 2014). The number of commentaries favourable to Adriatic Slovenica prevailed with 80.3 % (76.7 % in 2014), almost all other commentaries, 18.4 % (22.7 % in 2014), were neutral, while only 1.3 % (0.6 % in 2014) 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. The value of unpaid media coverage in 2015 reached 2,479,395 euros (Picture 1).

**Picture 1: Analysis of unpaid PR coverage by value, publicity, classification and tone**

COMPARATIVE CRITERIA	2014	2015
<b>ANALYSED COMMENTARIES</b>	<b>1138</b>	<b>1260</b>
Value of unpaid commentaries	471.322 €	495.879 €
Adjusted value (PR value)	2.356.610 €	2.479.395 €
<b>PUBLICITY OF COMMENTARIES</b>		
Planned	60,4 %	52,9 %
Unplanned	39,6 %	47,1 %
<b>CLASSIFICATION OF COMMENTARIES</b>		
Primary	28,3 %	26,3 %
Secondary	71,7 %	73,7 %
<b>VALUE OF COMMENTARIES</b>		
Positive	76,7 %	80,3 %
Neutral	22,7 %	18,4 %
Negative	0,6 %	1,3 %

(Source: Press Clipping analysis 2015).

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

##### AS neživotno osiguranje

The management of the company and the employees in sales department and business units took 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.

##### 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 (Podružnica Zagreb since 30 December 2015)

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.

#### 7.4.5 Communication with employees in the parent company

The insurance company maintains good two-way internal communication with employees and contractual agencies, therefore, in 2015, it has been upgraded in line with the company's values. ASnet, the internal communication system in use since 2004, has been supplemented by a new, more contemporary and more interactive portal named KompAS with many new functionalities. On 15 January 2016, it almost entirely took over all of the key tasks of the previous intranet system.

In the next phase of the design of KompAS, the electronic internal newspaper "AS novice" (AS News) will as well be upgraded. The employees and contractual agencies will from then on receive the news in a modern form, by providing them with links to the new intranet portal. In 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 2015 survey results, in which AS novice got the average score of 4.01 (3.73 in 2013 and 3.86 in 2014), shows that AS novice is gaining in popularity among the employees. Of all the information channels in the company, AS novice, intranet 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 0.15 % in 2015.

**AS novice** is being published in its electronic form for the last 11 years, 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 2015, there were 38 issues of AS novice and we have expanded the circle of recipients with those employees of subsidiaries who subscribed, and KD Group. We are informing the employees about important news within the insurance sector, business goals, operating results, important 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 2015, the new portal has been 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. The **KompAS intranet portal** has at the end of 2015, after 11 years of successful operation, replaced **ASnet** portal. On 1 October 2014, we began to gradually substitute it with a modern communication platform. In KompAS, for now, there are still all the existing functionalities and contents of the old intranet, however, 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. The new platform has absorbed most of the functions of the old system on 14 January 2016. 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. ASnet and the new KompAS are also available in Viz and Prospera subsidiaries.

**Corporate events for employees** significantly enhance working relationships and contribute to motivational environment while strengthening corporate identity, which is especially important in organisations such as Adriatic Slovenica, with a large number of employees who are geographically dispersed. Every 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, and in 2015, we have organised Sports games for all companies within KD Group. During the year, there are several other events, 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 and agencies, gathered on 4 December 2015 in Cvetličarna club in Ljubljana to celebrate the 25<sup>th</sup> anniversary of Adriatic Slovenica.

#### 7.4.6 Communication with employees in 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. Moreover, an intranet portal called **Pronet** is available to Prospera employees. The management of AS neživotno osiguranje and KD životno osiguranje (Podružnica Zagreb) is in charge of regularly and personally informing the employees about important aspects of the company's operations since they realise that efficient communication is the basis for the development of organisational culture and existence in the changeable environment.

## 8. SELECTED ACCOUNTING AND 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 on the annual report 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 2015 index	Gross written premium in current year	Gross written premium in previous year	Year 2014 index
	in euros	in euros	4=2/3*100	in euros	in euros	7=5/6*100
1	2	3		5	6	
<b>Results by class of insurance:</b>						
1 Accident insurance	16,728,573	15,877,417	105	15,877,417	16,650,947	95
2 Health insurance	100,643,709	108,193,279	93	108,193,279	112,602,959	96
3 Land motor vehicles insurance	34,161,119	34,523,565	99	34,523,565	35,342,445	98
4 Railway rolling stock insurance	-	-	-	-	11	0
5 Aircraft insurance	6,054	13,024	46	13,024	18,329	71
6 Marine loss insurance	527,960	609,587	87	609,587	635,629	96
7 Goods in transportation insurance	1,499,391	1,453,635	103	1,453,635	1,410,663	103
8 Fire and natural forces insurance	15,779,881	15,807,261	100	15,807,261	15,290,285	103
9 Other damage to property insurance	11,982,866	12,156,406	99	12,156,406	11,605,632	105
10 Motor vehicle liability insurance	40,069,385	40,577,052	99	40,577,052	41,820,425	97
11 Aircraft liability insurance	11,796	14,041	84	14,041	20,912	67
12 Liability for ship/boat insurance	560,344	586,267	96	586,267	587,623	100
13 General liability insurance	7,347,148	7,397,202	99	7,397,202	6,572,791	113
14 Credit insurance	(144)	20,890	-	20,890	61,838	34
15 Suretyship insurance	206,304	188,392	110	188,392	164,167	115
16 Miscellaneous financial loss insurance	695,616	790,976	88	790,976	724,835	109
17 Legal expenses insurance	134,044	134,200	100	134,200	137,385	98
18 Assistance insurance	5,742,416	5,380,554	107	5,380,554	5,677,910	95
19 Life insurance	20,161,409	18,713,529	108	18,713,529	19,171,334	98
21 Unit-linked life insurance products	35,440,281	34,169,493	104	34,169,493	37,012,119	92
23 Insurance with capitalised payments	4,612,407	870,294	530	870,294	652,933	133
<b>Non-life insurance contracts, excluding health insurance</b>	<b>135,452,753</b>	<b>135,530,469</b>	<b>100</b>	<b>135,530,469</b>	<b>136,721,827</b>	<b>99</b>
<b>Life insurance contracts</b>	<b>60,214,098</b>	<b>53,753,316</b>	<b>112</b>	<b>53,753,316</b>	<b>56,836,385</b>	<b>95</b>
<b>Health insurance contracts</b>	<b>100,643,709</b>	<b>108,193,279</b>	<b>93</b>	<b>108,193,279</b>	<b>112,602,959</b>	<b>96</b>
<b>Total</b>	<b>296,310,560</b>	<b>297,477,063</b>	<b>100</b>	<b>297,477,063</b>	<b>306,161,171</b>	<b>97</b>

Net written premiums as % of gross written premiums	Net written premiums	Gross written premiums	Year 2015	Net written premiums	Gross written premiums	Year 2014
	in euros	in euros	in %	in euros	in euros	in %
1	2	3	4=2/3*100	5	6	7=5/6*100
<b>Results by class of insurance:</b>						
1 Accident insurance	16,547,407	16,728,573	99	12,653,423	15,877,417	80
2 Health insurance	100,643,709	100,643,709	100	108,193,279	108,193,279	100
3 Land motor vehicles insurance	32,555,872	34,161,119	95	16,706,700	34,523,565	48
5 Aircraft insurance	6,054	6,054	100	12,166	13,024	93
6 Marine loss insurance	465,633	527,960	88	445,726	609,587	73
7 Goods in transportation insurance	1,276,921	1,499,391	85	1,096,996	1,453,635	75
8 Fire and natural forces insurance	12,363,429	15,779,881	78	12,195,881	15,807,261	77
9 Other damage to property insurance	10,635,059	11,982,866	89	10,744,685	12,156,406	88
10 Motor vehicle liability insurance	39,323,359	40,069,385	98	22,626,283	40,577,052	56
11 Aircraft liability insurance	2,498	11,796	21	2,069	14,041	15
12 Liability for ship/boat insurance	500,397	560,344	89	524,845	586,267	90
13 General liability insurance	6,699,539	7,347,148	91	6,769,207	7,397,202	92
14 Credit insurance	(144)	(144)	-	20,890	20,890	100
15 Suretyship insurance	69,226	206,304	34	152,546	188,392	81
16 Miscellaneous financial loss insurance	613,363	695,616	88	708,257	790,976	90
17 Legal expenses insurance	134,159	134,044	100	67,987	134,200	51
18 Assistance insurance	5,742,416	5,742,416	100	4,219,765	5,380,554	78
19 Life insurance	18,577,411	20,161,409	92	17,470,130	18,713,529	93
21 Unit-linked life insurance products	35,437,788	35,440,281	100	34,141,691	34,169,493	100
23 Insurance with capitalised payments	4,612,407	4,612,407	100	870,294	870,294	100
<b>Non-life insurance contracts, excluding health insurance</b>	<b>126,935,190</b>	<b>135,452,753</b>	<b>94</b>	<b>88,947,427</b>	<b>135,530,469</b>	<b>66</b>
<b>Life insurance contracts</b>	<b>58,627,606</b>	<b>60,214,098</b>	<b>97</b>	<b>52,482,116</b>	<b>53,753,316</b>	<b>98</b>
<b>Health insurance contracts</b>	<b>100,643,709</b>	<b>100,643,709</b>	<b>100</b>	<b>108,193,279</b>	<b>108,193,279</b>	<b>100</b>
<b>Total</b>	<b>286,206,505</b>	<b>296,310,560</b>	<b>97</b>	<b>249,622,821</b>	<b>297,477,063</b>	<b>84</b>

Movement in gross claims and benefits paid	Gross claims and benefits paid in current year	Gross claims and benefits paid in previous year	Year 2015	Gross claims and benefits paid in current year	Gross claims and benefits paid in previous year	Year 2014
	in euros	in euros	in %	in euros	in euros	in %
1	2	3	4=2/3*100	5	6	7=5/6*100
<b>Results by class of insurance:</b>						
1 Accident insurance	7,536,194	6,897,156	109	6,897,156	6,781,589	102
2 Health insurance	84,470,174	86,989,783	97	86,989,783	90,466,507	96
3 Land motor vehicles insurance	26,030,750	25,263,899	103	25,263,899	28,722,892	88
5 Aircraft insurance	-	39,701	-	39,701	15,751	252
6 Marine loss insurance	647,384	1,208,985	54	1,208,985	497,182	243
7 Goods in transportation insurance	464,092	1,509,269	31	1,509,269	215,271	701
8 Fire and natural forces insurance	5,923,499	5,812,345	102	5,812,345	7,846,035	74
9 Other damage to property insurance	7,611,731	8,637,402	88	8,637,402	8,464,761	102
10 Motor vehicle liability insurance	27,547,083	25,546,184	108	25,546,184	26,870,585	95
11 Aircraft liability insurance	15,840	-	-	-	-	-
12 Liability for ship/boat insurance	44,971	29,376	153	29,376	53,398	55
13 General liability insurance	2,736,807	3,002,664	91	3,002,664	3,477,292	86
14 Credit insurance	405,882	690,693	59	690,693	1,042,025	66
15 Suretyship insurance	12,884	12,806	101	12,806	72,324	18
16 Miscellaneous financial loss insurance	335,455	404,232	83	404,232	353,178	114
17 Legal expenses insurance	861	-	-	-	-	-
18 Assistance insurance	2,384,923	1,988,579	120	1,988,579	1,898,814	105
19 Life insurance	14,951,226	12,849,957	116	12,849,957	11,712,565	110
21 Unit-linked life insurance products	23,520,448	21,116,359	111	21,116,359	20,810,053	101
23 Insurance with capitalised payments	850,060	343,964	247	343,964	693,008	50
<b>Non-life insurance contracts, excluding health insurance</b>	<b>81,698,357</b>	<b>81,043,291</b>	<b>101</b>	<b>81,043,291</b>	<b>86,311,098</b>	<b>94</b>
<b>Life insurance contracts</b>	<b>39,321,734</b>	<b>34,310,280</b>	<b>115</b>	<b>34,310,280</b>	<b>33,215,626</b>	<b>103</b>
<b>Health insurance contracts</b>	<b>84,470,174</b>	<b>86,989,783</b>	<b>97</b>	<b>86,989,783</b>	<b>90,466,507</b>	<b>96</b>
<b>Total</b>	<b>205,490,265</b>	<b>202,343,354</b>	<b>102</b>	<b>202,343,354</b>	<b>209,993,231</b>	<b>96</b>

Average claim/benefit paid	Gross claims and benefits paid	Number of claims/losses events	Year 2015	Gross claims and benefits paid	Number of claims/losses events	Year 2014
	in euros			in euros		
1	2	3	4=2/3	5	6	7=5/6
<b>Results by class of insurance:</b>						
1 Accident insurance	7,536,194	11,429	659	6,897,156	11,207	615
2 Health insurance	84,470,174	48,537	1,740	86,989,783	54,377	1,600
3 Land motor vehicles insurance	26,030,750	36,896	706	25,263,899	36,655	689
5 Aircraft insurance	-	-	-	39,701	1	39,701
6 Marine loss insurance	647,384	202	3,205	1,208,985	185	6,535
7 Goods in transportation insurance	464,082	1,958	237	1,509,269	1,670	904
8 Fire and natural forces insurance	5,923,499	6,373	929	5,812,345	7,234	803
9 Other damage to property insurance	7,611,731	16,721	455	8,637,402	19,101	452
10 Motor vehicle liability insurance	27,547,083	10,126	2,720	25,546,184	9,457	2,701
11 Aircraft liability insurance	15,840	1	15,840	-	-	-
12 Liability for ship/boat insurance	44,971	15	2,998	29,376	12	2,448
13 General liability insurance	2,736,807	1,399	1,956	3,002,664	1,432	2,097
14 Credit insurance	405,882	100	4,059	690,693	158	4,371
15 Suretyship insurance	12,884	4	3,221	12,806	2	6,403
16 Miscellaneous financial loss insurance	335,455	646	519	404,232	728	555
17 Legal expenses insurance	861	29	30	-	10	-
18 Assistance insurance	2,384,923	11,719	204	1,988,579	10,106	197
19 Life insurance	14,951,226	9,511	1,572	12,849,957	8,321	1,544
21 Unit-linked life insurance products	23,520,448	7,497	3,137	21,116,359	8,154	2,590
23 Insurance with capitalised payments	850,060	224	3,795	343,964	125	2,752
<b>Non-life insurance contracts, excluding health insurance</b>	<b>81,698,357</b>	<b>97,618</b>	<b>837</b>	<b>81,043,291</b>	<b>97,958</b>	<b>827</b>
<b>Life insurance contracts</b>	<b>39,321,734</b>	<b>17,232</b>	<b>2,282</b>	<b>34,310,280</b>	<b>16,600</b>	<b>2,067</b>
<b>Health insurance contracts</b>	<b>84,470,174</b>	<b>48,537</b>	<b>1,740</b>	<b>86,989,783</b>	<b>54,377</b>	<b>1,600</b>
<b>Total</b>	<b>205,490,265</b>	<b>163,387</b>	<b>1,258</b>	<b>202,343,354</b>	<b>168,935</b>	<b>1,198</b>

Claims ratio	Gross claims and benefits paid	Gross written premiums	Year 2015	Gross claims and benefits paid	Gross written premiums	Year 2014
	in euros	in euros	coefficient	in euros	in euros	coefficient
1	2	3	4=2/3	5	6	7=5/6
<b>Results by class of insurance:</b>						
1 Accident insurance	7,536,194	16,728,573	0.45	6,897,156	15,877,417	0.43
2 Health insurance	84,470,174	100,643,709	0.84	86,989,783	108,193,279	0.80
3 Land motor vehicles insurance	26,030,750	34,161,119	0.76	25,263,899	34,523,565	0.73
5 Aircraft insurance	-	6,054	0.00	39,701	13,024	3.05
6 Marine loss insurance	647,384	527,960	1.23	1,208,985	609,587	1.98
7 Goods in transportation insurance	464,092	1,499,391	0.31	1,509,269	1,453,635	1.04
8 Fire and natural forces insurance	5,923,499	15,779,881	0.38	5,812,345	15,807,261	0.37
9 Other damage to property insurance	7,611,731	11,982,866	0.64	8,637,402	12,156,406	0.71
10 Motor vehicle liability insurance	27,547,083	40,069,385	0.69	25,546,184	40,577,052	0.63
11 Aircraft liability insurance	15,840	11,796	1.34	-	14,041	0.00
12 Liability for ship/boat insurance	44,971	560,344	0.08	29,376	586,267	0.05
13 General liability insurance	2,736,807	7,347,148	0.37	3,002,664	7,397,202	0.41
14 Credit insurance	405,882	(144)	-	690,693	20,890	33.06
15 Suretyship insurance	12,884	206,304	0.06	12,806	188,392	0.07
16 Miscellaneous financial loss insurance	335,455	695,616	0.48	404,232	790,976	0.51
17 Legal expenses insurance	861	134,044	0.01	-	134,200	0.00
18 Assistance insurance	2,384,923	5,742,416	0.42	1,988,579	5,380,554	0.37
19 Life insurance	14,951,226	20,161,409	0.74	12,849,957	18,713,529	0.69
21 Unit-linked life insurance products	23,520,448	35,440,281	0.66	21,116,359	34,169,493	0.62
23 Insurance with capitalised payments	850,060	4,612,407	0.18	343,964	870,294	0.40
<b>Non-life insurance contracts, excluding health insurance</b>	<b>81,698,357</b>	<b>135,452,753</b>	<b>0.60</b>	<b>81,043,291</b>	<b>135,530,469</b>	<b>0.60</b>
<b>Life insurance contracts</b>	<b>39,321,734</b>	<b>60,214,098</b>	<b>0.65</b>	<b>34,310,280</b>	<b>53,753,316</b>	<b>0.64</b>
<b>Health insurance contracts</b>	<b>84,470,174</b>	<b>100,643,709</b>	<b>0.84</b>	<b>86,989,783</b>	<b>108,193,279</b>	<b>0.80</b>
<b>Total</b>	<b>205,490,265</b>	<b>296,310,560</b>	<b>0.69</b>	<b>202,343,354</b>	<b>297,477,063</b>	<b>0.68</b>

Operating expenses as % of gross written premiums	Operating expenses	Gross written premiums	Year 2015	Operating expenses	Gross written premiums	Year 2014
	in euros	in euros	in %	in euros	in euros	in %
1	2	3	4=2/3*100	5	6	7=5/6*100
<b>Results by class of insurance:</b>						
1 Accident insurance	4,798,251	16,728,573	29	4,209,036	15,877,417	27
2 Health insurance	14,547,087	100,643,709	14	15,061,851	108,193,279	14
3 Land motor vehicles insurance	8,596,837	34,161,119	25	9,111,232	34,523,565	26
5 Aircraft insurance	10,759	6,054	178	3,638	13,024	28
6 Marine loss insurance	230,263	527,960	44	185,017	609,587	30
7 Goods in transportation insurance	332,423	1,499,391	22	324,127	1,453,635	22
8 Fire and natural forces insurance	6,973,232	15,779,881	44	6,077,775	15,807,261	38
9 Other damage to property insurance	4,921,882	11,982,866	41	4,413,548	12,156,406	36
10 Motor vehicle liability insurance	9,224,950	40,069,385	23	10,329,974	40,577,052	25
11 Aircraft liability insurance	7,873	11,796	67	4,658	14,041	33
12 Liability for ship/boat insurance	226,230	560,344	40	182,184	586,267	31
13 General liability insurance	2,313,630	7,347,148	31	1,959,024	7,397,202	26
14 Credit insurance	40,454	(144)	-	47,626	20,890	228
15 Suretyship insurance	71,919	206,304	35	27,411	188,392	15
16 Miscellaneous financial loss insurance	219,420	695,616	32	163,871	790,976	21
17 Legal expenses insurance	60,855	134,044	45	40,047	134,200	30
18 Assistance insurance	1,615,714	5,742,416	28	1,647,470	5,380,554	31
19 Life insurance	9,775,954	20,161,409	48	7,648,514	18,713,529	41
21 Unit-linked life insurance products	8,888,631	35,440,281	25	9,477,219	34,169,493	28
23 Insurance with capitalised payments	414,335	4,612,407	9	180,387	870,294	21
<b>Non-life insurance contracts, excluding health insurance</b>	<b>39,644,693</b>	<b>135,452,753</b>	<b>29</b>	<b>38,726,637</b>	<b>135,530,469</b>	<b>29</b>
<b>Life insurance contracts</b>	<b>19,078,919</b>	<b>60,214,098</b>	<b>32</b>	<b>17,306,120</b>	<b>53,753,316</b>	<b>32</b>
<b>Health insurance contracts</b>	<b>14,547,087</b>	<b>100,643,709</b>	<b>14</b>	<b>15,061,851</b>	<b>108,193,279</b>	<b>14</b>
<b>Total</b>	<b>73,270,699</b>	<b>296,310,560</b>	<b>25</b>	<b>71,094,608</b>	<b>297,477,063</b>	<b>24</b>

Acquisition costs as % of gross written premiums	Insurance acquisition costs	Gross written premiums	Year 2015	Insurance acquisition costs	Gross written premiums	Year 2014
	in euros	in euros	in %	in euros	in euros	in %
1	2	3	4=2/3*100	5	6	7=5/6*100
<b>Results by class of insurance:</b>						
1 Accident insurance	1,507,031	16,728,573	9	1,459,946	15,877,417	9
2 Health insurance	2,612,050	100,643,709	3	2,032,932	108,193,279	2
3 Land motor vehicles insurance	3,171,826	34,161,119	9	3,042,719	34,523,565	9
5 Aircraft insurance	(22)	6,054	0	916	13,024	7
6 Marine loss insurance	81,519	527,960	15	82,929	609,587	14
7 Goods in transportation insurance	105,223	1,499,391	7	86,940	1,453,635	6
8 Fire and natural forces insurance	3,817,005	15,779,881	24	3,593,543	15,807,261	23
9 Other damage to property insurance	2,522,289	11,982,866	21	2,521,763	12,156,406	21
10 Motor vehicle liability insurance	3,328,786	40,069,385	8	3,207,247	40,577,052	8
11 Aircraft liability insurance	1,058	11,796	9	1,239	14,041	9
12 Liability for ship/boat insurance	85,417	560,344	15	87,383	586,267	15
13 General liability insurance	1,036,312	7,347,148	14	923,249	7,397,202	12
14 Credit insurance	2,300	(144)	-	5,726	20,890	27
15 Suretyship insurance	2,368	206,304	1	1,921	188,392	1
16 Miscellaneous financial loss insurance	76,645	695,616	11	54,928	790,976	7
17 Legal expenses insurance	14,946	134,044	11	14,486	134,200	11
18 Assistance insurance	563,786	5,742,416	10	561,514	5,380,554	10
19 Life insurance	5,304,426	20,161,409	26	4,537,658	18,713,529	24
21 Unit-linked life insurance products	3,070,050	35,440,281	9	2,472,577	34,169,493	7
23 Insurance with capitalised payments	75,771	4,612,407	2	1,963	870,294	0
<b>Non-life insurance contracts, excluding health insurance</b>	<b>16,316,489</b>	<b>135,452,753</b>	<b>12</b>	<b>15,646,450</b>	<b>135,530,469</b>	<b>12</b>
<b>Life insurance contracts</b>	<b>8,450,248</b>	<b>60,214,098</b>	<b>14</b>	<b>7,012,197</b>	<b>53,753,316</b>	<b>13</b>
<b>Health insurance contracts</b>	<b>2,612,050</b>	<b>100,643,709</b>	<b>3</b>	<b>2,032,932</b>	<b>108,193,279</b>	<b>2</b>
<b>Total</b>	<b>27,378,787</b>	<b>296,310,560</b>	<b>9</b>	<b>24,691,579</b>	<b>297,477,063</b>	<b>8</b>

Investment return as % of average investments	Return on investments	(Balance of investments at beginning of year + balance of investments at year-end)/2	Year 2015	Return on investments	(Balance of investments at beginning of year + balance of investments at year-end)/2	Year 2014 (adjusted)
	in euros	in euros	in %	in euros	in euros	in %
1	2	3	4=2/3*100	5	6	7=5/6*100
Investments of fund covering mathematical provisions for life insurance	7,470,246	100,130,837	7.5	7,843,505	101,442,668	7.7
Investments of fund covering mathematical provisions for life insurance where policyholder bears investment risk	255,331	28,865,386	0.9	4,250,607	27,800,728	15.3
Investments of fund covering mathematical provisions for life insurance where policyholder bears investment risk - Fond Polica	(1,225,838)	189,433,257	-0.6	29,543,733	168,016,612	17.6
Investments of fund covering mathematical provisions for life insurance where policyholder bears investment risk - FP Dirigent	450,803	13,200,104	3.4	1,727,505	11,977,607	14.4
Investments of fund covering mathematical provisions for life insurance where policyholder bears investment risk - FP Aktivni paket	492,621	19,332,705	2.5	1,908,218	15,405,584	12.4
Investments of fund covering mathematical provisions for life insurance where policyholder bears investment risk - KD Vrhunski	352,031	13,351,343	2.6	1,581,285	12,521,892	12.6
Investments of fund covering mathematical provisions for pension insurance during saving period	326,932	8,887,655	3.7	294,276	6,350,645	4.6
Investments of fund covering pension insurance provisions during pay out	21,681	574,393	3.8	38,211	481,531	7.9
Investments of fund covering mathematical provisions without the fund	2,639,174	123,940,544	2.1	4,064,666	133,857,475	3.0
Investments of fund covering provisions for supplementary health insurance products	363,125	7,842,154	4.6	10,365	9,116,963	0.1
Investments of fund covering other health insurance products	69,585	976,596	7.1	78,586	510,696	15.4
Accidents long-term business fund	-	100,422	0.0	-	226,845	0.0
Investments of own sources of funding	3,424,965	73,011,136	4.7	2,497,933	66,219,220	3.8
<b>Total</b>	<b>14,640,655</b>	<b>579,646,530</b>	<b>2.5</b>	<b>53,838,890</b>	<b>553,928,467</b>	<b>9.7</b>

Net provisions for claims outstanding as % of net income from insurance premiums	Net provisions for claims outstanding	Net earned premiums	Year 2015	Net provisions for claims outstanding	Net earned premiums	Year 2014
	in euros	in euros	in %	in euros	in euros	in %
1	2	3	4=2/3*100	5	6	7=5/6*100
<b>Results by class of insurance:</b>						
1 Accident insurance	10,460,886	16,471,505	64	9,973,654	12,703,917	79
2 Health insurance	5,789,024	101,384,319	6	5,564,511	109,401,173	5
3 Land motor vehicles insurance	7,352,140	32,604,353	23	4,287,099	16,229,278	26
5 Aircraft insurance	5,513	8,901	62	5,465	13,161	42
6 Marine loss insurance	285,149	507,054	56	518,026	459,985	113
7 Goods in transportation insurance	385,045	1,280,073	30	483,298	1,097,240	44
8 Fire and natural forces insurance	3,120,529	12,239,729	25	4,077,079	12,056,998	34
9 Other damage to property insurance	4,257,185	10,576,935	40	4,641,677	10,461,590	44
10 Motor vehicle liability insurance	44,026,346	39,479,378	112	42,620,926	22,419,768	190
11 Aircraft liability insurance	-	2,417	0	-	3,560	0
12 Liability for ship/boat insurance	373,589	511,837	73	428,071	524,338	82
13 General liability insurance	16,783,900	6,916,556	243	16,777,392	6,434,771	261
14 Credit insurance	46,078	284,940	16	75,318	548,995	14
15 Suretyship insurance	58,002	72,088	80	70,438	118,073	60
16 Miscellaneous financial loss insurance	134,477	620,258	22	115,672	663,169	17
17 Legal expenses insurance	4,968	134,953	4	26,335	66,575	40
18 Assistance insurance	517,395	5,569,786	9	250,879	4,195,298	6
19 Life insurance	4,722,792	18,619,988	25	5,451,245	17,514,665	31
21 Unit-linked life insurance products	428,850	35,437,788	1	326,627	34,141,691	1
23 Insurance with capitalised payments	-	4,612,407	0	-	870,294	0
<b>Non-life insurance contracts, excluding health insurance</b>	<b>87,811,200</b>	<b>127,280,761</b>	<b>69</b>	<b>84,351,330</b>	<b>87,996,717</b>	<b>96</b>
<b>Life insurance contracts</b>	<b>5,151,641</b>	<b>58,670,183</b>	<b>9</b>	<b>5,777,872</b>	<b>52,526,650</b>	<b>11</b>
<b>Health insurance contracts</b>	<b>5,789,024</b>	<b>101,384,319</b>	<b>6</b>	<b>5,564,511</b>	<b>109,401,173</b>	<b>5</b>
<b>Total</b>	<b>98,751,866</b>	<b>287,335,264</b>	<b>34</b>	<b>95,693,713</b>	<b>249,924,541</b>	<b>38</b>

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 2015 in %	Gross profit, i.e. loss, of the current year in euros	Net written premiums in euros	Year 2014 (adjusted) in %
1	2	3	4=2/3*100	2	3	4=2/3*100
Non-life insurance contracts, excluding health insurance	12,979,938	126,935,190	10	15,610,348	88,947,427	18
Life insurance contracts	4,929,556	58,627,606	8	5,624,210	52,482,116	11
Health insurance contracts	(1,094,152)	100,643,709	-	1,809,767	108,193,279	2
<b>Total</b>	<b>16,815,342</b>	<b>286,206,505</b>	<b>6</b>	<b>23,044,325</b>	<b>249,622,821</b>	<b>9</b>

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 2015 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 2014 (adjusted) in %
1	2	3	4=2/3*100	2	3	4=2/3*100
Non-life insurance contracts	11,885,787	82,532,983	14	17,420,115	82,952,220	21
Life insurance contracts	4,929,556	21,365,719	23	5,624,210	17,075,427	33
<b>Total</b>	<b>16,815,342</b>	<b>103,898,702</b>	<b>16</b>	<b>23,044,325</b>	<b>100,027,647</b>	<b>23</b>

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 2015 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 2014 (adjusted) in %
1	2	3	4=2/3*100	2	3	4=2/3*100
Non-life insurance contracts	11,885,787	289,601,799	4	17,420,115	335,684,453	5
Life insurance contracts	4,929,556	401,556,873	1	5,624,210	371,602,944	2
<b>Total</b>	<b>16,815,342</b>	<b>675,934,380</b>	<b>2</b>	<b>23,044,325</b>	<b>692,293,267</b>	<b>3</b>

Gross profit, i.e. loss, of the current year per share	Gross profit in euros	Number of shares	Year 2015	Gross profit in euros	Number of shares	Year 2014 (adjusted)
1	2	3	4=2/3	2	3	4=2/3
Non-life insurance contracts	11,885,787	10,304,407	1.2	17,420,115	10,304,407	1.7
Life insurance contracts	4,929,556	10,304,407	0.5	5,624,210	10,304,407	0.5
<b>Total</b>	<b>16,815,342</b>	<b>10,304,407</b>	<b>1.6</b>	<b>23,044,325</b>	<b>10,304,407</b>	<b>2.2</b>

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 2015 in %	Net profit in euros	(Capital at beginning of year + capital at year-end)/2 in euros	Year 2014 (adjusted) in %
1	2	3	4=2/3*100	2	3	4=2/3*100
<b>Aggregate insurance business - total</b>	<b>14,264,229</b>	<b>103,898,702</b>	<b>14</b>	<b>19,276,873</b>	<b>100,027,647</b>	<b>19</b>

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 2015 in %	The insurer's eligible capital in euros	Net earned premiums in euros	Year 2014 (adjusted) in %
1	2	3	4=2/3*100	2	3	4=2/3*100
Non-life insurance contracts	55,494,521	227,578,899	24	52,517,603	197,140,705	27
Life insurance contracts	13,296,136	58,627,606	23	11,414,321	52,482,116	22
<b>Total</b>	<b>68,790,657</b>	<b>286,206,505</b>	<b>24</b>	<b>63,931,924</b>	<b>249,622,821</b>	<b>26</b>

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 2015 in %	The insurer's eligible capital in euros	The insurer's minimum capital in euros	Year 2014 (adjusted) in %
1	2	3	4=2/3*100	2	3	4=2/3*100
Non-life insurance contracts	55,494,521	28,206,348	197	52,517,603	25,993,169	202
Life insurance contracts	13,296,136	11,799,739	113	11,414,321	11,035,049	103
<b>Total</b>	<b>68,790,657</b>	<b>40,006,087</b>	<b>172</b>	<b>63,931,924</b>	<b>37,028,218</b>	<b>173</b>

The insurer's eligible capital as % of the insurer's technical provisions	The insurer's eligible capital in euros	Technical provisions in euros	Year 2015 in %	The insurer's eligible capital in euros	Technical provisions in euros	Year 2014 (adjusted) in %
1	2	3	4=2/3*100	2	3	4=2/3*100
Non-life insurance contracts	55,494,521	160,386,868	35	52,517,603	169,634,380	31
Life insurance contracts	13,296,136	368,355,456	4	11,414,321	358,208,197	3
<b>Total</b>	<b>68,790,657</b>	<b>528,742,324</b>	<b>13</b>	<b>63,931,924</b>	<b>527,842,576</b>	<b>12</b>

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 2015 in %	The insurer's eligible capital in euros	Receivables from reinsurance and technical provisions attributable to reinsurers in euros	Year 2014 (adjusted) in %
1	2	3	4=2/3*100	2	3	4=2/3*100
Non-life insurance contracts	55,494,521	18,225,977	304	52,517,603	35,015,882	150
Life insurance contracts	13,296,136	431,488	3081	11,414,321	234,180	4874
<b>Total</b>	<b>68,790,657</b>	<b>18,657,465</b>	<b>369</b>	<b>63,931,924</b>	<b>35,250,061</b>	<b>181</b>

Incurred loss ratio	Net expenses for claims and benefits paid in euros	Net earned premiums in euros	Year 2015	Net expenses for claims and benefits paid in euros	Net earned premiums in euros	Year 2014
1	2	3	4=2/3	2	3	4=2/3
Non-life insurance contracts, excluding health insurance	79,323,335	127,280,761	0.62	49,397,756	87,996,717	0.56
Life insurance contracts	38,631,342	58,670,183	0.66	34,471,471	52,526,650	0.66
Health insurance contracts	88,694,286	101,384,319	0.87	92,185,688	109,401,173	0.84
<b>Total</b>	<b>206,648,963</b>	<b>287,335,264</b>	<b>0.72</b>	<b>176,054,916</b>	<b>249,924,541</b>	<b>0.70</b>

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 2015 in %	Net written premiums in euros	Average capital + average balance of technical provisions in euros	Year 2014 (adjusted) in %
1	2	3	4=2/3*100	2	3	4=2/3*100
Non-life insurance contracts	227,578,899	247,543,607	92	197,140,705	256,260,255	77
Life insurance contracts	58,627,606	384,647,545	15	52,482,116	353,377,686	15
<b>Total</b>	<b>286,206,505</b>	<b>632,191,152</b>	<b>45</b>	<b>249,622,821</b>	<b>609,637,941</b>	<b>41</b>

Net written premiums as % of average capital	Net written premiums in euros	Average capital in euros	Year 2015 in %	Net written premiums in euros	Average capital in euros	Year 2014 (adjusted) in %
1	2	3	4=2/3*100	2	3	4=2/3*100
<b>Non-life insurance contracts</b>	227,578,899	82,532,983	<b>276</b>	197,140,705	82,952,220	<b>238</b>
<b>Life insurance contracts</b>	58,627,606	21,365,719	<b>274</b>	52,482,116	17,075,427	<b>307</b>
<b>Total</b>	<b>286,206,505</b>	<b>103,898,702</b>	<b>275</b>	<b>249,622,821</b>	<b>100,027,647</b>	<b>250</b>

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 2015 in %	Average balance of net technical provisions in euros	Net revenues from insurance premiums in euros	Year 2014 (adjusted) in %
1	2	3	4=2/3*100	2	3	4=2/3*100
<b>Non-life insurance contracts</b>	142,112,106	228,665,080	<b>62</b>	145,857,078	197,397,890	<b>74</b>
<b>Life insurance contracts</b>	363,031,948	58,670,183	<b>619</b>	336,086,333	52,526,650	<b>640</b>
<b>Total</b>	<b>505,144,053</b>	<b>287,335,264</b>	<b>176</b>	<b>481,943,411</b>	<b>249,924,540</b>	<b>193</b>

Capital as % of net unearned premiums	Capital in euros	Net unearned premiums in euros	Year 2015 in %	Capital in euros	Net unearned premiums in euros	Year 2014 (adjusted) in %
1	2	3	4=2/3*100	2	3	4=2/3*100
<b>Non-life insurance contracts</b>	79,305,842	48,732,259	<b>163</b>	85,760,124	49,818,438	<b>172</b>
<b>Life insurance contracts</b>	21,624,315	369,812	<b>5,847</b>	21,107,124	408,161	<b>5,171</b>
<b>Total</b>	<b>100,930,157</b>	<b>49,102,071</b>	<b>206</b>	<b>106,867,248</b>	<b>50,226,598</b>	<b>213</b>

Capital as % of liabilities to sources of funding	Capital in euros	Liabilities to sources of funding in euros	Year 2015 in %	Capital in euros	Liabilities to sources of funding in euros	Year 2014 (adjusted) in %
1	2	3	4=2/3*100	2	3	4=2/3*100
<b>Non-life insurance contracts</b>	79,305,842	274,939,702	<b>29</b>	85,760,124	304,263,896	<b>28</b>
<b>Life insurance contracts</b>	21,624,315	410,985,350	<b>5</b>	21,107,124	392,128,395	<b>5</b>
<b>Total</b>	<b>100,930,157</b>	<b>665,354,600</b>	<b>15</b>	<b>106,867,248</b>	<b>686,514,160</b>	<b>16</b>

Net technical provisions as % of liabilities to sources of funding	Net technical provisions in euros	Liabilities to sources of funding in euros	Year 2015 in %	Net technical provisions in euros	Liabilities to sources of funding in euros	Year 2014 (adjusted) in %
1	2	3	4=2/3*100	2	3	4=2/3*100
<b>Non-life insurance contracts</b>	143,449,245	274,939,702	<b>52</b>	145,857,078	304,263,896	<b>48</b>
<b>Life insurance contracts</b>	368,077,729	410,985,350	<b>90</b>	336,086,333	392,128,395	<b>86</b>
<b>Total</b>	<b>511,526,974</b>	<b>665,354,600</b>	<b>77</b>	<b>481,943,411</b>	<b>686,514,160</b>	<b>70</b>

Net provisions (mathematical reserves) as % of net technical provisions	Net provisions (mathematical reserves)	Net technical provisions	Year 2015	Net provisions (mathematical reserves)	Net technical provisions	Year 2014 (adjusted)
	in euros	in euros	in %	in euros	in euros	in %
1	2	3	4=2/3*100	2	3	4=2/3*100
<b>Aggregate insurance business - total</b>	362,462,853	511,526,974	<b>71</b>	351,482,441	481,943,411	<b>73</b>

Underwritten gross insurance premium as % of number of full-time employees	Gross written premiums	Number of full-time employees	Year 2015	Gross written premiums	Number of full-time employees	Year 2014
	in euros			in euros		
1	2	3	4=2/3	2	3	4=2/3
<b>Aggregate insurance business - total</b>	296,310,560	1,092	<b>271,347</b>	297,477,063	1,027	<b>289,656</b>

## 9. ACCOUNTING AND FINANCIAL INDICATORS OF THE GROUP

Growth of gross written premium (GROWTH INDEX (ratio between gross written insurance premiums for the current and the previous year))	Adriatic Slovenica		Group	
	2015	2014	2015	2014
Total insurance contracts	100	97	99	98
Non-life insurance contracts, excluding health insurance	100	99	99	99
Life insurance contracts	112	95	108	99
Health insurance contracts	93	96	93	96

Loss ratio (net claims incurred as a % of net premium income)	Adriatic Slovenica		Group	
	2015	2014	2015	2014
Total insurance contracts	72 %	70 %	72 %	70 %
Non-life insurance contracts, excluding health insurance	62 %	56 %	63 %	56 %
Life insurance contracts	66 %	66 %	65 %	64 %
Health insurance contracts	87 %	84 %	87 %	84 %

Operating costs as a % of gross written insurance premium	Adriatic Slovenica		Group	
	2015	2014	2015	2014
Total insurance contracts	25 %	24 %	25 %	25 %
Non-life insurance contracts, excluding health insurance	29 %	29 %	31 %	30 %
Life insurance contracts	32 %	32 %	32 %	34 %
Health insurance contracts	14 %	14 %	14 %	14 %

Gross profit/loss for the year as a % of net premium income	Adriatic Slovenica		Group	
	2015	2014 (adjusted)	2015	2014 (adjusted)
Total insurance contracts	6 %	9 %	5 %	9 %
Non-life insurance contracts, excluding health insurance	10 %	18 %	9 %	18 %
Life insurance contracts	8 %	11 %	9 %	9 %
Health insurance contracts	-	2 %	-	2 %

Gross profit/loss for the year as a % of average total assets	Adriatic Slovenica		Group	
	2015	2014 (adjusted)	2015	2014 (adjusted)
Total insurance contracts	2 %	3 %	2 %	3 %
Non-life insurance contracts	4 %	5 %	4 %	5 %
Life insurance contracts	1 %	2 %	1 %	1 %

Return on equity (net profit/loss for the year as a % of average total equity)	Adriatic Slovenica		Group	
	2015	2014 (adjusted)	2015	2014 (adjusted)
Total insurance contracts	14 %	19 %	12 %	18 %

**AUDITED**

**FINANCIAL STATEMENTS FOR 2015**

**Adriatic Slovenica d.d.**





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## 1. 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 2015. 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 2015.

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, 9 March 2016

### Management Board of the Company:

Gabrijel Škof,  
President of the Management Board



Varja Dolenc, MSc  
Member of the Management Board



Matija Šenk,  
Member of the Management Board



## 2. INDEPENDENT AUDITOR'S REPORT



KPMG Slovenija, podjetje za revidiranje, d.o.o.  
Železna cesta 8a  
SI-1000 Ljubljana  
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Internet: <http://www.kpmg.si>

### Independent Auditor's Report

To the Shareholders of Adriatic Slovenica d.d.

#### *Report on the Financial Statements*

We have audited the accompanying separate financial statements of the company Adriatic Slovenica d.d., which comprise the separate statement of financial position as at 31 December 2015, the separate income statement, the statement of other comprehensive income, the separate statement of changes in equity, the separate 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.

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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.*

KPMG Slovenija, podjetje za revidiranje, d.o.o., slovenska družba  
z omejeno odgovornostjo in članica KPMG mreže neodvisnih družb  
članic, ki so povezane s švicarskim združenjem KPMG International  
Cooperative ("KPMG International").

TRR: SI 56 2900 0000 1851 102  
vpis v sodni register: Okrožno sodišče v Ljubljani  
št. reg. vl.: 061/12062100  
osnovni kapital: 54.892,00 EUR  
ID za DDV: SI20437145  
matična št.: 5648556



**Opinion**

In our opinion, the separate financial statements present fairly, in all material respects, the financial position of Adriatic Slovenica d.d. as at 31 December 2015, 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 separate financial statements.

On behalf of the audit company

**KPMG SLOVENIJA,**  
podjetje za revidiranje, d.o.o.

Damjan Ahčin, ACCA  
*Certified Auditor*

Katarina Sitar Šuštar, MBA  
*Partner*

*KPMG Slovenija, d.o.o.*  
1

Ljubljana, 14 March 2016

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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.*

### 3. FINANCIAL STATEMENTS

#### 3.1 BALANCE SHEET

##### Balance sheet as at 31 December 2015

in EUR	Note	31 Dec 2015	31 Dec 2014 adjusted	1 Jan 2014 adjusted
<b>Assets</b>		<b>665,354,600</b>	<b>686,514,160</b>	<b>697,733,465</b>
Intangible assets	10.1	6,065,163	5,398,043	5,952,542
Property, plant and equipment	10.2	27,823,294	27,316,753	27,152,680
Non-current assets held for sale	10.5	2,029,983	-	-
Deferred tax assets	10.26	2,832,029	3,622,498	3,816,023
Investment properties	10.3	30,835,438	29,375,722	28,356,692
Financial investments in subsidiaries and associates	10.4	20,189,796	27,418,592	21,973,193
Financial investments	10.6	245,974,277	251,419,145	256,840,998
<i>In loans and deposits</i>		39,617,921	52,005,422	57,846,472
In held-to-maturity financial assets		39,471,526	33,163,813	38,096,356
In available-for-sale financial assets		151,564,256	135,405,268	124,524,767
In financial assets measured at fair value		15,320,574	30,844,643	36,373,403
Unit-linked investments of policyholders	10.7	263,760,339	257,518,981	213,925,868
Amounts of technical provisions ceded to reinsurers	10.8	17,215,350	29,081,444	26,252,320
Receivables	10.9	29,786,767	39,181,499	97,073,456
Receivables from direct insurance business		18,446,651	21,410,211	23,243,104
Receivables from reinsurance and coinsurance		1,567,876	6,304,768	41,423,147
Income tax receivables		3,483,865	3,531,447	2,259,833
Other receivables		6,288,375	7,935,073	30,147,372
Other assets	10.10	5,940,403	5,469,459	6,291,066
Cash and cash equivalents	10.11	12,901,762	10,712,024	10,098,627
<b>Equity and liabilities</b>		<b>665,354,600</b>	<b>686,514,160</b>	<b>697,733,465</b>
Equity	10.12	100,930,157	106,867,248	92,849,137
Share capital		42,999,530	42,999,530	42,999,530
Capital reserves		4,211,782	4,211,782	4,211,782
Reserve from profit		15,543,287	15,771,095	15,333,563
Revaluation surplus		3,540,100	5,797,421	(2,343,818)
Retained net earnings		19,916,770	19,157,598	22,576,176
Net profit or loss for the financial year		14,718,688	18,929,822	10,071,904
Technical provisions	10.13	269,044,614	273,612,701	279,545,399
Unearned premiums		49,762,262	51,105,883	51,316,179
Mathematical provisions		102,765,143	97,252,566	94,975,222
Outstanding claims provisions		115,307,024	123,895,871	130,337,291
Other technical provisions		1,210,185	1,358,381	2,916,708
Insurance technical provisions for unit-linked insurance polic	10.14	259,697,710	254,229,875	211,832,611
Other provisions	10.15	4,576,757	3,126,745	2,766,811
Deferred tax liabilities	10.26	732,097	1,194,632	27,011
Other financial liabilities	10.16	984,291	755,781	1,092,790
Operating liabilities	10.17	6,893,232	21,990,287	92,887,490
Liabilities from direct insurance contracts		3,868,003	4,543,005	6,037,334
Liabilities from reinsurance and coinsurance contracts		1,484,491	11,491,980	84,425,515
Income tax liabilities		1,540,738	5,955,302	2,424,641
Other liabilities	10.18	22,495,744	24,736,890	16,732,215

The accounting policies and notes set out on pages from 138 to 262 are an integral part of the financial statements.

## 3.2 INCOME STATEMENT

## Income statement for the period from 1 January 2015 to 31 December 2015

in EUR	Note	2015	2014 adjusted
<b>NET PREMIUM INCOME</b>	<b>10.19</b>	<b>287,335,263</b>	<b>249,924,540</b>
Gross written premiums		296,648,952	297,879,905
Premiums ceded to reinsurers and coinsurers		(10,442,444)	(48,257,084)
Change in unearned premiums		1,128,755	301,719
<b>REVENUES FROM INVESTMENTS IN ASSOCIATES, of which</b>	<b>10.19</b>	<b>34,953</b>	<b>-</b>
<b>INCOME FROM INVESTMENTS</b>	<b>10.19</b>	<b>22,841,819</b>	<b>59,260,803</b>
<b>OTHER INCOME FROM INSURANCE OPERATIONS, of which</b>	<b>10.19</b>	<b>4,164,825</b>	<b>13,183,642</b>
- fee and commission income		4,164,825	13,183,642
<b>OTHER INCOME</b>	<b>10.19</b>	<b>7,118,090</b>	<b>6,577,652</b>
<b>NET EXPENSES FOR CLAIMS AND BENEFITS PAID</b>	<b>10.20</b>	<b>(206,648,963)</b>	<b>(176,054,916)</b>
Gross amounts of claims and benefits paid		(213,400,456)	(208,836,049)
Reinsurers'/coinsurers' shares		9,693,470	23,602,014
Change in claims provisions		(2,941,977)	9,179,119
<b>CHANGE IN OTHER TECHNICAL PROVISIONS</b>	<b>10.13</b>	<b>(4,519,135)</b>	<b>(472,590)</b>
<b>CHANGE IN TECHNICAL PROVISIONS FOR THE BENEFIT OF UNIT-LINKED INSURANCE POLICYHOLDERS</b>	<b>10.14</b>	<b>(1,826,453)</b>	<b>(42,397,264)</b>
<b>EXPENSES FOR BONUSES AND DISCOUNTS</b>		<b>(286,786)</b>	<b>2,088</b>
<b>OPERATING EXPENSES, of which</b>	<b>10.21</b>	<b>(72,195,291)</b>	<b>(70,005,906)</b>
- acquisition costs		(27,099,309)	(24,214,427)
<b>EXPENSES FROM INVESTMENTS IN ASSOCIATES, of which</b>	<b>10.19</b>	<b>(389,169)</b>	<b>(984,741)</b>
- impairment losses of financial assets not measured at fair value through profit or loss		(389,169)	(984,741)
<b>EXPENSES INVESTMENTS, of which</b>	<b>10.19</b>	<b>(6,622,244)</b>	<b>(4,424,185)</b>
- impairment losses of financial assets not measured at fair value through profit or loss		(380,153)	(3,092,069)
<b>OTHER INSURANCE EXPENSES</b>	<b>10.22</b>	<b>(4,642,130)</b>	<b>(6,495,725)</b>
<b>OTHER EXPENSES</b>	<b>10.23</b>	<b>(7,549,436)</b>	<b>(5,069,073)</b>
- of which expenses from financial liabilities		(926,197)	(540,217)
<b>PROFIT/(LOSS) BEFORE TAX</b>		<b>16,815,342</b>	<b>23,044,325</b>
<b>CORPORATE INCOME TAX</b>	<b>10.25</b>	<b>(2,551,113)</b>	<b>(3,767,452)</b>
<b>NET PROFIT FOR THE REPORTING PERIOD</b>		<b>14,264,229</b>	<b>19,276,873</b>

in EUR		2015	2014 Adjusted
Basic net earnings/loss per share	10.27	1.38	1.87
Diluted net earnings/loss per share		1.38	1.87

The initial and adjusted net earnings per share went from 1.83 euro per share to 1.87 euro per share after the adjustment in 2014.

The accounting policies and notes set out on pages from 138 to 262 are an integral part of the financial statements.

## 3.3 STATEMENT OF COMPREHENSIVE INCOME

## Statement of comprehensive income for the period from 1 January 2015 to 31 December 2015

in EUR	Note	2015	2014 adjusted
<b>NET PROFIT OR LOSS FOR THE FINANCIAL YEAR AFTER TAXATION</b>		<b>14,264,229</b>	<b>19,276,873</b>
<b>OTHER COMPREHENSIVE INCOME AFTER TAXATION</b>	<b>10.12</b>	<b>(2,326,028)</b>	<b>8,141,238</b>
Items not to be allocated to profit or loss in subsequent periods		(34,396)	-
Actuarial net gain/loss for pension programmes		(34,396)	-
<b>Items that may be allocated to profit or loss in subsequent periods</b>	<b>10.12</b>	<b>(2,291,633)</b>	<b>8,141,238</b>
Net gain/loss from re-measurement of available-for-sale financial assets		(2,761,003)	9,808,802
Gain/loss, recognised in revaluation surplus		<b>2,509,741</b>	<b>14,723,379</b>
Transfer of gain/loss from revaluation surplus to income statement		(5,270,744)	(4,914,578)
Tax on items that may be allocated to profit or loss in subsequent periods		469,370	(1,667,563)
<b>TOTAL COMPREHENSIVE INCOME FOR THE YEAR, AFTER TAXATION</b>		<b>11,938,201</b>	<b>27,418,111</b>

The accounting policies and notes set out on pages from 138 to 262 are an integral part of the financial statements.

## 3.4 STATEMENT OF CHANGES IN EQUITY

## Statement of changes in equity for the period from 1 January 2015 to 31 December 2015

in EUR	Note	I. Share capital	II. Capital reserve	Legal abd statutory	III. Reserves from profit			IV. Revaluation surplus	V. Retained earnings	VI. Net profit/loss	TOTAL EQUITY
					Credit risk	Catastrophic loss reserves	Other reserves				
<b>OPENING BALANCE IN THE FINANCIAL PERIOD</b>		42,999,530	4,211,782	1,519,600	1,014,505	3,798,823	9,438,167	5,797,421	19,157,598	18,929,822	106,867,248
<b>Increase at acquisition of subsidiary</b>		-	-	-	-	-	-	68,708	-	-	68,708
<b>Comprehensive income net of tax</b>		-	-	-	-	-	-	(2,326,029)	-	14,264,229	11,938,200
a. Net profit/loss for the year	10.12	-	-	-	-	-	-	-	-	14,264,229	14,264,229
b Other comprehensive income		-	-	-	-	-	-	(2,326,029)	-	-	(2,326,029)
Allocation of net profit/loss for the preceeding year to retained profit/loss		-	-	-	-	-	-	-	18,929,822	(18,929,822)	-
Payment (accounting) of dividends		-	-	-	-	-	-	-	(17,944,000)	-	(17,944,000)
Settlement of loss incurred in preceding years	10.12	-	-	-	-	-	(676,855)	-	(226,651)	903,506	-
Setting up and using reserves for credit risk and for catastrophic losses	10.12	-	-	-	-	449,047	-	-	-	(449,047)	-
<b>CLOSING BALANCE AS AT 31 DECEMBER</b>		42,999,530	4,211,782	1,519,600	1,014,505	4,247,869	8,761,311	3,540,100	19,916,770	14,718,688	100,930,156

The accounting policies and notes set out on page 227 are an integral part of the statement of changes in equity.

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

in EUR	Note	III. Reserves from profit									TOTAL EQUITY
		I. Share capital	II. Capital reserve	Legal abd statutory	Credit risk	Catastrophic loss reserves	Other reserves	IV. Revaluation surplus	V. Retained earnings	VI. Net profit/loss	
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
Adjustments for previous financial year		-	-	-	-	-	-	-	-	(338,910)	(338,910)
<b>OPENING BALANCE IN THE FINANCIAL PERIOD</b>		42,999,530	4,211,782	1,519,600	1,011,998	3,363,797	9,438,167	(2,343,817)	22,576,175	10,071,904	92,849,137
<b>Comprehensive income net of tax</b>	<b>10.12</b>	-	-	-	-	-	-	<b>8,141,238</b>	-	<b>19,276,873</b>	<b>27,418,111</b>
a. Net profit/loss for the year		-	-	-	-	-	-	-	-	19,276,873	19,276,873
b Other comprehensive income	<b>10.12</b>	-	-	-	-	-	-	8,141,238	-	-	8,141,238
Allocation of net profit/loss for the preceeding year to retained profit/loss		-	-	-	-	-	-	-	10,071,904	(10,071,904)	-
Payment (accounting) of dividends	<b>10.28</b>	-	-	-	-	-	-	-	(13,400,000)	-	(13,400,000)
Settlement of loss incurred in preceding years	<b>10.12</b>	-	-	-	-	-	-	-	(90,481)	90,481	-
Setting up and using reserves for credit risk and for catastrophic losses		-	-	-	2,507	435,025	-	-	-	(437,532)	-
<b>CLOSING BALANCE AS AT 31 DECEMBER</b>		42,999,530	4,211,782	1,519,600	1,014,505	3,798,823	9,438,167	5,797,421	19,157,598	18,929,822	106,867,248

The accounting policies and notes set out on page 227 are an integral part of the statement of changes in equity.

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

## 3.5 STATEMENT OF CASH FLOWS

## Statement of cash flows for the period from 1 January 2015 to 31 December 2015

in EUR	Note	2015	2014
<b>Cash flows from operating activities</b>		<b>12,231,034</b>	<b>16,211,632</b>
<i>Items from the income statement</i>		<b>21,660,255</b>	<b>25,952,559</b>
Net premiums written in the reporting period		286,206,507	249,622,821
Income from investments (other than financial income), financed from:		18,169,460	23,845,016
- <i>insurance technical provisions</i>		17,049,267	20,022,086
- <i>other investments</i>		1,120,194	3,822,930
Other income from ordinary activities (other than income arising from revaluation and decrease in provisions) and		8,996,852	18,067,001
Net claims and benefits paid in the reporting period		(197,687,522)	(185,234,035)
Net operating costs, other than depreciation costs and change in deferred acquisition costs		(77,878,531)	(66,607,332)
Investment charges (excluding depreciation and financial expenses), financed from:		(7,328,514)	(4,462,835)
- <i>insurance technical provisions</i>		(6,358,856)	(4,183,688)
- <i>other investments</i>		(969,658)	(279,147)
Other operating costs excluding depreciation (other than for revaluation and without increase in provisions)		(7,050,117)	(5,229,707)
Corporate income tax and other taxes not included in operating costs		(1,767,882)	(4,048,370)
<b>Changes in net current assets (receivables for insurance, other receivables, other assets)</b>		<b>(9,429,221)</b>	<b>(9,740,927)</b>
Opening less closing balance of operating receivables from direct insurance business		2,479,203	250,699
Opening less closing balance of receivables from reinsurance		4,820,992	35,026,137
Opening less closing balance of other receivables from (re)insurance contracts		(274,439)	20,958,818
Opening less closing balance of other receivables and assets		116,005	2,471,527
Opening less closing balance of deferred tax assets		783,231	193,526
Opening less closing balance of inventories		11,809	(12,539)
Closing less opening balance of debts/liabilities from direct insurance business		(779,578)	(1,492,085)
Closing less opening balance of debts/liabilities from reinsurance		(10,013,914)	(72,933,534)
Closing less opening balance of other operating debts/liabilities		250,722	3,947,114
Closing less opening liabilities (other than unearned premiums)		(6,367,954)	619,347
Closing less opening deferred tax liabilities		(455,298)	1,230,064
<b>Net cash from operating activities</b>		<b>12,231,034</b>	<b>16,211,632</b>
<b>Cash flows from investing activities</b>		<b>7,795,677</b>	<b>(2,197,373)</b>
<i>Cash receipts from investing activities</i>		<b>126,114,040</b>	<b>166,371,762</b>
Cash receipts from interest received from investing activities and from:		7,762,956	7,515,148
- <i>investments financed from insurance technical provisions</i>		5,611,736	6,332,696
- <i>other investments</i>		2,151,220	1,182,452
Cash receipts from dividends and participations in profit of others relating to		1,302,421	1,284,927
- <i>investments financed from insurance technical provisions</i>		708,239	569,657
- <i>other investments</i>		594,182	715,269
Cash receipts from disposal of long-term financial investments, financed from:		78,087,659	86,260,674
- <i>insurance technical provisions</i>		45,757,859	57,956,595
- <i>other investments</i>		32,329,800	28,304,079
Cash receipts from disposal of short-term financial investments, financed from:		38,961,004	71,311,014
- <i>insurance technical provisions</i>		28,802,477	61,022,107
- <i>other investments</i>		10,158,527	10,288,906
<b>Cash disbursements from investing activities</b>		<b>(118,318,363)</b>	<b>(168,569,136)</b>
Cash disbursements to acquire intangible assets		(1,373,764)	(2,078,873)
Cash disbursements to acquire property, plant and equipment, financed from:		(1,350,596)	(768,825)
- <i>other investments</i>		(1,185,587)	(768,825)
Cash disbursements to acquire long-term financial investments, financed from:		(88,613,387)	(126,792,716)
- <i>insurance technical provisions</i>		(64,647,495)	(92,089,032)
- <i>other investments</i>		(23,965,892)	(34,703,684)
Cash disbursements to acquire short-term financial investments, financed from:		(26,980,616)	(38,928,722)
- <i>insurance technical provisions</i>		(3,603,562)	(22,130,579)
- <i>other investments</i>		(23,377,054)	(16,798,144)
<b>Net cash from investing activities</b>		<b>7,795,677</b>	<b>(2,197,373)</b>
<b>Cash receipts from financing activities</b>		<b>(17,944,000)</b>	<b>(13,400,862)</b>
<i>Cash disbursements from financing activities</i>		<b>(17,944,000)</b>	<b>(13,400,862)</b>
Cash disbursements for interest paid		-	(862)
Cash disbursements to pay out dividends and other participations in profit		(17,944,000)	(13,400,000)
<b>Net cash from financing activities</b>		<b>(17,944,000)</b>	<b>(13,400,862)</b>
<b>Closing balance of cash and cash equivalents</b>	<b>10.11</b>	<b>12,901,762</b>	<b>10,712,024</b>
<i>Cash flow for the reporting period</i>		<b>2,082,711</b>	<b>613,397</b>
<i>Opening balance of cash and cash equivalents</i>	<b>10.11</b>	<b>10,819,051</b>	<b>10,098,627</b>
Increases due to acquisition of companies		107,027	-
<b>Closing balance of cash and cash equivalents in the previous year</b>		<b>10,712,024</b>	<b>-</b>

The accounting policies and notes set out on pages from 138 to 262 are an integral part of the financial statements.

## 3.6 STATEMENT OF DISTRIBUTABLE PROFIT

## Statement of distributable profit for 2015

in EUR	Note	Total 2015	Total 2014
<b>Net profit/(loss) for the financial year</b>		<b>14,264,229</b>	<b>19,276,873</b>
<b>Net profit carried forward (+) / net loss carried forward (-)</b>	<b>10.12</b>	<b>20,143,420</b>	<b>19,248,080</b>
- result for the current year under effective standards		20,143,420	19,248,080
<b>Decrease in reserves</b>	<b>10.12</b>	<b>676,855</b>	<b>-</b>
<b>Increase in other reserves under the decision of the Management Board and of the Supervisory Board</b>		<b>449,047</b>	<b>437,532</b>
<b>Balance-sheet profit allocated by the Annual General Meeting as follows:</b>		<b>34,635,458</b>	<b>38,087,420</b>
- to the shareholder		-	17,944,000

The accounting policies and notes set out on pages from 138 to 262 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.

## 4. 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.

In 2015, the insurance company Adriatic Slovenica d.d. established a subsidiary in the Republic of Croatia, headquartered in Zagreb, Draškovićevea 10- The subsidiary is entered into the Trade Register in Zagreb under the ID No. 0598646308 and registered company name »ADRIATIC SLOVENICA D.D., PODRUŽNICA ZAGREB ZA OSIGURANJE« (hereinafter as podružnica).

As the parent company, Adriatic Slovenica's commercial activity via its subsidiary is aligned with Croatian regulations.

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 Permanens d.o.o. subsidiary 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 2015. Since 31 March 2015, KD životno osiguranje d.d. has no longer been a member of the Group – it became a subsidiary of the parent company. Consequently, Permanens d.o.o. became a direct subsidiary of the Adriatic Slovenica Group.

AS neživotno osiguranje d.o.o., headquartered in Belgrade, discontinued its insurance operations on 31 December 2015, therefore, in this report, it is in this report only treated within the current assets held for sale.

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 insurance company is part of Skupina KD, finančna družba d.d. and is included in the consolidated financial statements of the controlling company KD Group, finančna družba, d.d. (short name: KD Group d.d.), Dunajska cesta 63, 1000 Ljubljana, Slovenija, 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 supervisory bodies

#### Management Board of the insurance company in 2015:

Gabrijel Škof, President of the Management Board  
Willem Jacob Westerlaken, Member of the Management Board (until 31 December 2015)  
Varja Dolenc, MSc, Member of the Management Board  
Matija Šenk, Member of the Management Board

#### Supervisory Board of the insurance company in 2015:

Matjaž Gantar, MSc, Chairman  
Aljoša Tomaž, Member  
Tomaž Butina, Member  
Aleksander Sekavčnik, Member  
Viljem Kopše, Member – employee representative (until 27 September 2015)  
Matjaž Pavlin, Member – employee representative



Borut Šuštaršič, employee representative (since 28 September 2015)

#### The Audit Committee in 2015:

Matjaž Gantar, MSc, Chairman  
Milena Georgievski, Member (independent expert)  
Mojca Kek, Member (independent expert)  
Matjaž Pavlin, Member  
Jure Kvaternik, Member

#### The shareholders of the Company as at 31 December 2015

Shareholder structure	Number of shares	Share
KD Group d.d.	10,304,407	100.00%
<b>Total</b>	<b>10,304,407</b>	<b>100.00%</b>

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 insurance, 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 2015

### Information on the number of employees by level of professional qualification in 2015

Number of employees as at	Qualification level					Total
	I.- IV.	V.	VI.	VII.	VIII.-IX.	
1 January 2015	31	394	165	409	27	1026
31 December 2015	34	392	157	426	26	1035
1.4.2015 Zagreb branch	3	30	8	18	0	59
31.12.2015 Zagreb branch	3	26	9	19	0	57
Average for 2015	37.8	428.5	171	435.7	26.3	1099.3

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.

**Legend:** under »AS« is the number of employees in Adriatic Slovenica d.d.

under »Zagreb branch« is the number of employees in Adriatic Slovenica d.d., Podružnica Zagreb za osiguranje.

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 2015, the number of employees of Adriatic Slovenica, taking into consideration these proportion, is 1051,70 and is different from the number of employees per person, which was 1092 employees at the end of 2015.

## 5. NOTES TO THE FINANCIAL STATEMENTS

### 5.1 BASIS OF PREPARATION OF FINANCIAL STATEMENTS

The annual report and accounts (management overview and financial review) prepared by Adriatic Slovenica zavarovalna družba d.d. for the financial year 2015 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. 47/2009, 57/2009, 99/2010, 47/2011, 62/2013 and 89/2014). 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.

#### 5.1.1 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 2015 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.

#### **Standards, interpretations and changes of the published standards, which have been adopted by the EU, but are not yet effective**

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 2015:

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:

· **IFRS 11 Joint Arrangements (Amended): Accounting for share purchase in a joint venture:** In compliance with the amendment, purchases of shares in a joint business, forming the company, must be accounted for and treated as business combinations. Accounting treatment in the sense of business combinations is also used in the case of purchase of additional business share within joint operations, where the joint owner keeps the joint controlling share. Additionally purchased business shares are measured at fair value. Previously owned business shares within the joint venture do not have to be re-evaluated.

The amendment is effective for annual periods beginning on 1 January 2016, is retroactive and early adoption is permitted.

The effect of the amendment can be evaluated in the first year of its use because it depends on the purchases of joint ventures, carried out during the reported period. The insurance company will not apply the amendment before the date, therefore, it is not possible to assess the effect of the adopted amendment on its financial statements.

**IAS 1 Presentation of financial statements (Amended):** The amendment to the IAS 1 covers five detailed improvements related to disclosure of requirements of the standard.

**Instructions related to importance within IAS 1 have been amended and provide explanation:**

- irrelevant data can be removed from useful information,
- importance is considered for the whole financial statements,
- importance is considered for each individual IFRS disclosure.

**Instructions related to the order of notes to the financial statements (including the accounting policies) have been changed:**

- the part of the text, interpreted as the rules for the order of notes to the financial statements, is removed from the IAS,
- the companies can decide on their own about the allocation of disclosures related to accounting policies within the financial statements.

The amendment is effective for annual periods beginning on 1 January 2016, is retroactive and early adoption is permitted.

The insurance company assumes that the amendment will not significantly affect its financial statements on the first day of adoption.

**IAS 16 Property, Plant and Equipment and IAS 38 Intangible Assets (Amended):** Interpretation on acceptable amortisation / depreciation methods

**Depreciation of property, plant and equipment based on revenue is not permitted**

The amendment explicitly states that the revenue-based methods must not be used for depreciation of property, plant and equipment.

**A new restrictive test for intangible assets**

The amendment introduces a rebuttable presumption that the use of revenue-based amortisation method is inappropriate for intangible assets. The presumption can only be abrogated when the revenues and the utilisation of economic benefits from intangible assets are "tightly correlated" or when an intangible asset is disclosed for revenue measurement.

The amendment is effective for annual periods beginning on 1 January 2016, is retroactive and early adoption is permitted.

The insurance company assumes that the amendment will not affect its financial statements on the first day of adoption since the insurance company does not apply revenue-based amortisation / depreciation methods.

**IAS 16 Property, Plant and Equipment and IAS 41 Agriculture (Amended):** The amendment deals with native plants within the IAS 16 Property, Plant and Equipment, and not within IAS 41 Agriculture, and in this way implies that activities related to native plants are similar to manufacturing activities.

The amendment is effective for annual periods beginning on 1 January 2016, is retroactive and early adoption is permitted.

The insurance company assumes that the amendment will not affect its financial statements on the first day of adoption since the insurance company does not possess any native plants.

**IAS 19 Employee Benefits – Employee Contributions (Amended):** The amendments are only important for programmes with defined benefit plans and fulfilment of requirements related to benefits of employees or third parties. These are benefits, which:

- are defined by formal provisions of the programme;
- are linked to a provided service; and
- do not depend on number of years of employment.

When the listed conditions are met, the company can (but is not obliged to) recognise the benefits as decrease in cost of service in the period when the service was provided.

The amendment is effective for annual periods beginning on 1 February 2016, 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 benefit plans related to benefits of employees or third parties.

**IAS 27 Equity method in separate financial statements (Amended):** In compliance with the amendment of the IAS 27, companies can in their separate financial statements use the equity method for calculation of investments in subsidiaries, associates and joint ventures.

The amendment is effective for annual periods beginning on 1 January 2016, is retroactive and early adoption is permitted.

The insurance company assumes that the amendment will not significantly affect its financial statements.

### Annual improvements

In December 2013, the International Accounting Standards Board (IASB) published a set of annual IFRS improvements for the period 2010-2012, among which were six amendments to six standards, and other applicable amendments to standards and interpretations, reflecting in changes of presentation, recognition and measurement. Annual improvements to IFRSs for amendments, adopted in the period 2010-2012, are effective for annual periods after 1 February 2015, and adoption before this date is permitted. Annual improvements of IFRSs for the period 2012-2014 were issued by the IASB in September 2014 and introduce four amendments to four standards, four new standards and applicable amendments to other standards and interpretations reflecting in changes of presentation, recognition and measurement. The annual improvements to IFRSs for amendments, adopted in the period 2012-2014, are effective for annual periods starting on 1 January 2016 or later, and adoption before this date is permitted.

### Annual improvements of IFRSs

The improvements introduce ten amendments to ten standards, and consequently cause amendments to be applied to other standards and interpretations. The amendments are applicable to annual periods starting on 1 February 2015, 1 January 2016 or later, and adoption before this date is permitted.

The insurance company does not assume that these changes would have a significant effect on its financial statements; therefore, in the following text, there are only those improvements, for which it is assumed that they will bear significant effects on the financial statements.

**IAS 19 Employee Benefits:** The amendment to IAS 19 explains that the discount rate, used for the calculation of employee benefits, must be based on high quality corporate bonds or state bonds, in the same amount as the amount of benefits to be paid.

The insurance company assumes that the amendment will significantly affect its financial statements on the first day of adoption, but it is difficult to assess the effect of the improvement on its financial statements.

**IFRS 3 Business Combinations** The amendment to IFRS 3 Business Combinations (which, in consequence, includes changes in other standards) explains that the allocation of contingent considerations among liabilities or equity, when it serves as a financial instrument, is determined by IAS 32 and not by other standards. The amendment also clarifies that in case the contingent considerations are allocated as assets or liabilities, they must be measured at fair value as at the reporting date.

The insurance company will adopt the IFRS 3 improvement in case of accepting contingent considerations upon potential acquisitions of companies, but for now cannot assess the effect of the improvement on its financial statements, since at the end of 2015, it did not disclose any contingent considerations arising from acquired companies.

## Standards, interpretations and changes of the published standards, which have not yet been adopted by the EU and are not yet effective

The new standards and interpretations shown below are not yet effective and have not yet been adopted by the EU, therefore, they were not implemented in the preparation of annual financial statements as at 31 December 2015:

The insurance company would like to point out that it is assumed the IFRS 9 standard will have a significant effect on its financial statements, while other changes of standards are only briefly mentioned.

**IFRS 9 Financial Instruments – Classification and measurement:** In July 2014, the IASB published the final version of the IFRS 9 Financial Instruments standard, which contains the requirements of all individual phases of the project of IFRS 9 renewal and entirely replaces the IAS 39 Financial Instruments: Recognition and Measurement standard, and all the previous versions of the IFRS 9 standard. The renewed standard introduces new requirements about classification and measurement of financial assets and liabilities, timely recognition of their impairment and accounting protection from risk.

IFRS 9 introduces new criteria for the classification of financial instruments in individual groups, where the basis for the measurement of financial assets will be amortised cost, fair value through other comprehensive income and fair value through income statement. The allocation criteria will be significantly different than with IAS 39.

The new classification of financial assets in groups will be based on the following criteria:

**Group of financial instruments at amortised cost:** When allocating assets in the group of financial instruments at amortised cost, the primary goal of the insurance company must be to collect the contractual cash flows based on the financial instrument, and they must solely consist of principal value and interest. In other words – most often, the most frequent types of assets in this group will be trade receivables, state or corporate bonds, not intended for trading, and “ordinary” loans, where repayment of principal and interest is expected upon maturity.

**Group of debt financial instruments:** The group of debt financial instruments measured at fair value through other comprehensive income will contain debt instruments, the main goal of which is to collect contractual cash flows upon maturity, or sale beforehand. In this case, as well, the cash flows must solely consist of principal value and interest. Most frequently, bonds that are sold before maturity in order to ensure liquidity, or for some other reason, will be allocated to this group.

**Group of equity financial instruments:** IFRS 9 introduces also the group of equity financial instruments, measured at fair value through other comprehensive income. This group can contain equity instruments (shares of companies, either listed or not, on a regular market), where the effect of change in fair value will be recognised entirely in the statement of other comprehensive income.

**Instruments with changed fair value in the income statement:** The last group will contain financial instruments that do not fulfil the conditions for allocation in any of the groups listed above or when the main goal of the company will be to generate profit with trading. In this case, the effects of change in fair value are recognised in the income statement, as before.

**Impairment model:** The next important novelty, introduced by the standard, is the model of value impairment of financial instruments, which will require that when forming value adjustments, not only past losses, but also the expected future losses will have to be taken into account.

IFRS 9 also includes a new **model of risk protection accounting** with clearer rules, which will enable a broader use of risk protection accounting. The standard also provides new rules on discontinuation of use of risk protection accounting. When using risk protection, extensive additional disclosures will be required regarding controlling and insurance for activity risk.

The renewed standard will be effective for periods starting 1 January 2018 (delay by 2020 is suggested for insurance companies) or later. Early adoption of the standard is permitted. The changes of the standard will have to be applied retroactively. However, in case it is impossible to obtain adequate data, the presentation of comparable data is not mandatory.

The use of the new standard is effective for annual periods beginning on 1 January 2018 or later.

The adoption of the new IFRS 9 standard will have an effect on classification and measurement of financial assets, but it will not affect the classification and measurement of financial liabilities.

#### Other changes and amendments to standards:

- **IFRS 14 Regulatory Deferral Accounts:** IFRS 14 is an optional standard that enables companies to continue to a higher extent with accrual accounting, derived from regulatory services in line with predefined generally accepted accounting principles, upon their first adoption of IFRS.

The use of the new standard is effective for annual periods beginning on 1 January 2016 or later.

The insurance company is already preparing its financial statements according to the IFRS, therefore, it will not be affected by the new standard.

- **IFRS 15 Revenue from Contracts with Customers:** The new IFRS 15 standard introduces the new five-level model of recognition of revenue, generated by the Company based on contracts with customers (with certain exceptions), regardless of the type of transaction, from which the revenues arise, or industry. The requirements of the standard are also applicable to recognition and measurement of profit and loss on disposal of certain non-financial assets that are not generated by the Company within its regular operations (for example disposal of property, plant and equipment or non-current intangible assets). The standard requires detailed disclosures, including breakdown of total revenues, information on compliance with commitments, changes in balances on assets and liabilities accounts through different periods and key decisions and estimations of the management.

The use of the new standard is effective for annual periods beginning on 1 January 2018 or later.

The insurance company also provides the effects of the new standard on its financial statements.

- **Amendment to IFRS 10 Consolidated Financial Statements, IFRS 12 Disclosure of Interests in Other Entities and IAS 28 Investments in Associates and Joint Ventures** effective for annual periods beginning on 1 January 2016 or later.

## 5.2 TRANSLATION FROM FOREIGN CURRENCIES

### 5.2.1 Functional and presentation currency

The 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 (+ (-) 1 euro).

### 5.2.2 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.

### 5.3 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.

A part of insurance contracts held by the Company as of 31 December 2015 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.

#### 5.3.1 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<sup>7</sup>**

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 insureds. 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.

### 5.3.2 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.

## 5.4 CHANGES TO ACCOUNTING POLICIES AND ADJUSTMENTS FOR THE PAST YEARS

### Change in accounting policies related to calculation of provisions for unexpired risks

In 2015, the insurance company changed its methodology of calculation of provisions for unexpired risks in the part where it is determined how the result of an insurance segment is measured and forecasted. By doing so, the insurance company also realised the past expert recommendations that instead of the accounting claim ratio, ultimate claim ratio should be used only for claims within the current year. Moreover, the cost ratio for the calculation of these provisions now only includes those operating costs that sensibly relate to the unexpired part of contracts, namely operating costs without acceptance commission.

Taking this into account, the insurance company changed its accounting policy – methodology for the calculation of the above mentioned provisions, since the amended methodology is more suitable and relevant for predicting expected claims and expenses for the remaining unexpired part of contracts.

The effect of the change of methodology in 2015:

The amended methodology of provision calculation for unexpired risks using annual method resulted in lower amounts of these provisions. In case the insurance company adopted the new accounting policy / methodology already in 2014, the provisions for unexpired risks would be 766,776 euros lower as at 31 December 2014.

The change of the accounting policy is therefore reflected in a change of profit / loss for the current year. Due to the adjustment made for the past reporting period, the net profit for 2014 went up by 766,776 euros, based on the adjustment of other technical provisions.

### Reconciliation of the value of financial investment in KD IT d.o.o. – correction of mistake from past years

Within its annual procedures for the assessment of fair value of financial investments, the insurance company checked whether the noted carrying value of the financial investment in KD IT d.o.o. actually reflects its fair value.

As part of these procedures, the insurance company also revised the initial division – initiation of this investment upon the transfer of KD Živiljenje d.d. life insurance activities to the receiving company, in this case Adriatic Slovenica d.d. in 2013. As it turned out, there was a mistake made during the transfer and the reported value of investment in KD IT d.o.o. was too high.

The mistake was corrected in the way that upon the division of investment in KD IT d.o.o., the KD IT investment share was determined based on the corresponding share of total active insurance contracts and the share of adjusted unallocated net assets when the insurance company purchased the investment.

The effect of the correction is shown in the balance sheet as an increase in long-term accruals in the amount of 1,016,730 euros within intangible assets and lowering non-market financial investments available for sale by (1,694,550) euros. As at 1 January 2014, due to the adjustment made for 2013, the profit / loss carried forward decreased by 338,910 euros; consequently, as at 31 December 2014, the net profit / loss was 338,910 euros lower.

The adjustment is also reflected in a change of profit / loss. Due to the adjustments made for the previous reporting period, other revaluation expenses from impairment of intangible assets went up in 2014 by 338,910 euros, and therefore, the net result deteriorated by the same amount. The adjustment, recognised in 2014 in the profit / loss carried forward, again in the amount of 338,910 euros, is from 2013 and did not affect the adjustment of profit / loss for 2014.

### The effect of changes on the balance sheet items due to the correction of the mistake and change of accounting policy

in EUR	31 Dec 2014	Reclassificati on of items	31 Dec 2014 adjusted	1 Jan 2014 adjusted
<b>Assets</b>	<b>687,191,980</b>	<b>(677,820)</b>	<b>686,514,160</b>	<b>697,733,465</b>
<b>Intangible assets</b>	<b>4,381,313</b>	<b>1,016,730</b>	<b>5,398,043</b>	<b>5,952,542</b>
Property, plant and equipment	27,316,753	-	27,316,753	27,152,680
Deferred tax assets	3,622,498	-	3,622,498	3,816,023
Investment properties	29,375,722	-	29,375,722	28,356,692
Financial investments in subsidiaries and associates	27,418,592	-	27,418,592	21,973,193
<b>Financial investments</b>	<b>253,113,696</b>	<b>(1,694,550)</b>	<b>251,419,145</b>	<b>256,840,998</b>
<i>In loans and deposits</i>	52,005,422	-	52,005,422	57,846,472
<i>In held-to-maturity financial assets</i>	33,163,813	-	33,163,813	38,096,356
<i>In available-for-sale financial assets</i>	137,099,819	(1,694,550)	135,405,268	124,524,767
<i>In financial assets measured at fair value</i>	30,844,643	-	30,844,643	36,373,403
<b>Unit-linked investments of policyholders</b>	<b>257,518,981</b>	<b>-</b>	<b>257,518,981</b>	<b>213,925,868</b>
<b>Amounts of technical provisions ceded to reinsurers</b>	<b>29,081,444</b>	<b>-</b>	<b>29,081,444</b>	<b>26,252,320</b>
<b>Receivables</b>	<b>39,181,499</b>	<b>-</b>	<b>39,181,499</b>	<b>97,073,456</b>
Receivables from direct insurance business	21,410,211	-	21,410,211	23,243,104
Receivables from reinsurance and coinsurance	6,304,768	-	6,304,768	41,423,147
Income tax receivables	3,531,447	-	3,531,447	2,259,833
Other receivables	7,935,073	-	7,935,073	30,147,372
<b>Other assets</b>	<b>5,469,459</b>	<b>-</b>	<b>5,469,459</b>	<b>6,291,066</b>
<b>Cash and cash equivalents</b>	<b>10,712,024</b>	<b>-</b>	<b>10,712,024</b>	<b>10,098,627</b>
<b>Equity and liabilities</b>	<b>687,191,980</b>	<b>(677,820)</b>	<b>686,514,160</b>	<b>697,733,465</b>
<b>Equity</b>	<b>106,778,292</b>	<b>88,956</b>	<b>106,867,248</b>	<b>92,849,137</b>
<i>Share capital</i>	42,999,530	-	42,999,530	42,999,530
<i>Capital reserves</i>	4,211,782	-	4,211,782	4,211,782
<i>Reserve from profit</i>	15,771,095	-	15,771,095	15,333,563
<i>Revaluation surplus</i>	5,797,421	-	5,797,421	(2,343,818)
<i>Retained net earnings</i>	19,496,509	(338,910)	19,157,598	22,576,176
<i>Net profit or loss for the financial year</i>	18,501,956	427,866	18,929,822	10,071,904
<b>Technical provisions</b>	<b>274,379,478</b>	<b>(766,776)</b>	<b>273,612,701</b>	<b>279,545,399</b>
Unearned premiums	51,105,883	-	51,105,883	51,316,179
Mathematical provisions	97,252,566	-	97,252,566	94,975,222
Outstanding claims provisions	123,895,871	-	123,895,871	130,337,291
<i>Other technical provisions</i>	2,125,157	(766,776)	1,358,381	2,916,708
<b>Insurance technical provisions for unit-linked insurance policyholders</b>	<b>254,229,875</b>	<b>-</b>	<b>254,229,875</b>	<b>211,832,611</b>
<b>Other provisions</b>	<b>3,126,745</b>	<b>-</b>	<b>3,126,745</b>	<b>2,766,811</b>
<b>Deferred tax liabilities</b>	<b>1,194,632</b>	<b>-</b>	<b>1,194,632</b>	<b>27,011</b>
<b>Other financial liabilities</b>	<b>755,781</b>	<b>-</b>	<b>755,781</b>	<b>1,092,790</b>
<b>Operating liabilities</b>	<b>21,990,287</b>	<b>-</b>	<b>21,990,287</b>	<b>92,887,490</b>
<b>Other liabilities</b>	<b>24,736,890</b>	<b>-</b>	<b>24,736,890</b>	<b>16,732,215</b>

Due to the changes in equity when the 2014 balance sheet was adjusted, the share book value went from 10.36 euros to 10.37 euros.

The effect of changes on the income statement items due to the correction of the mistake and change of accounting policy

in EUR	2014	Reclassification of items	2014 adjusted
<b>NET PREMIUM INCOME</b>	<b>249,924,540</b>	-	<b>249,924,540</b>
Gross written premiums	297,879,905	-	297,879,905
Premiums ceded to reinsurers and coinsurers	(48,257,084)	-	(48,257,084)
Change in unearned premiums	301,719	-	301,719
<b>INCOME FROM INVESTMENTS</b>	<b>59,260,803</b>	-	<b>59,260,803</b>
<b>OTHER INCOME FROM INSURANCE OPERATIONS, of which</b>	<b>13,183,642</b>	-	<b>13,183,642</b>
- fee and commission income	13,183,642	-	13,183,642
<b>OTHER INCOME</b>	<b>6,577,652</b>	-	<b>6,577,652</b>
<b>NET EXPENSES FOR CLAIMS AND BENEFITS PAID</b>	<b>(176,054,916)</b>	-	<b>(176,054,916)</b>
Gross amounts of claims and benefits paid	(208,836,049)	-	(208,836,049)
Reinsurers'/coinsurers' shares	23,602,014	-	23,602,014
Change in claims provisions	9,179,119	-	9,179,119
<b>CHANGE IN OTHER TECHNICAL PROVISIONS</b>	<b>(1,239,366)</b>	<b>766,776</b>	<b>(472,590)</b>
<b>CHANGE IN TECHNICAL PROVISIONS FOR THE BENEFIT OF UNIT-LINKED INSURANCE POLICYHOLDERS</b>	<b>(42,397,264)</b>	-	<b>(42,397,264)</b>
<b>EXPENSES FOR BONUSES AND DISCOUNTS</b>	<b>2,088</b>	-	<b>2,088</b>
<b>OPERATING EXPENSES, of which</b>	<b>(70,005,906)</b>	-	<b>(70,005,906)</b>
- acquisition costs	(24,214,427)	-	(24,214,427)
<b>EXPENSES FROM INVESTMENTS IN ASSOCIATES, of which</b>	<b>(984,741)</b>	-	<b>(984,741)</b>
- impairment losses of financial assets not measured at fair value through profit or loss	(984,741)	-	(984,741)
<b>EXPENSES INVESTMENTS, of which</b>	<b>(4,424,185)</b>	-	<b>(4,424,185)</b>
- impairment losses of financial assets not measured at fair value through profit or loss	(3,092,069)	-	(3,092,069)
<b>OTHER INSURANCE EXPENSES</b>	<b>(6,495,725)</b>	-	<b>(6,495,725)</b>
<b>OTHER EXPENSES</b>	<b>(4,730,163)</b>	<b>(338,910)</b>	<b>(5,069,073)</b>
- of which expenses from financial liabilities	(540,217)	-	(540,217)
<b>PROFIT/(LOSS) BEFORE TAX</b>	<b>22,616,458</b>	<b>427,866</b>	<b>23,044,325</b>
<b>CORPORATE INCOME TAX</b>	<b>(3,767,452)</b>	-	<b>(3,767,452)</b>
<b>NET PROFIT FOR THE REPORTING PERIOD</b>	<b>18,849,006</b>	<b>427,866</b>	<b>19,276,873</b>
Basic net earnings/loss per share	1.83	-	1.87
Diluted net earnings/loss per share	1.83	-	1.87

After the adjustment in 2014, due to the result being 427,866 euros higher, the initial and adjusted net earnings per share went from 1.83 euros to 1.87 euros per share.

## 5.5 CHANGES IN THE STRUCTURE OF BUSINESS OPERATIONS OF ADRIATIC SLOVENICA d.d.

The most significant events in 2015 were the establishment of a subsidiary in the Republic of Croatia and the cross-border merger of KD životno osiguranje d.d. Zagreb subsidiary with Adriatic Slovenica as the acquiring company.

In 2015, Adriatic Slovenica first established a subsidiary to conduct life and non-life insurance activities in the Republic of Croatia, in accordance with its strategic guidelines and with the aim of maintaining its presence on foreign markets. The subsidiary was entered into the trade register in Zagreb, Croatia on 20 March 2015. On the same day, the subsidiary was also entered into the companies register in the court register of the Koper District Court, register no. 5063361000.

### Name and address of the subsidiary in the Republic of Croatia;

**Name:** Adriatic Slovenica d.d., podružnica Zagreb za osiguranje.

**Address:** Draškovićeve 10, Zagreb.

Adriatic Slovenica as the parent company performs its business activities through its Croatian subsidiary in compliance with Croatian regulations.

After the establishment of the subsidiary and entries into the registers, Adriatic Slovenica already in 2015 commenced the procedures for the cross-border merger of the KD životno osiguranje d.d., Zagreb subsidiary with a subsidiary of Adriatic Slovenica as the acquiring parent company.

The following activities had to be done to achieve this:

- The acquired and the acquiring company signed a Cross-border merger plan on 21 April 2015.
- A common report on the cross-border merger was prepared by both companies' management on 28 April 2015.
- The Cross-border merger plan was revised and a report about it was prepared by the Supervisory Board of Adriatic Slovenica on 20 May 2015.

General meetings of the acquiring and acquired company, where the decision about the cross-border merger would be made, were not carried out because the only shareholder of the acquiring company and the only shareholder of the acquired company, in line with the Companies Act, filed a notarial record, in which they waived the right to apply the provisions regarding preparation and execution of the general meeting, monetary compensation offer and audit of the merger.

On 22 May 2015, the Cross-border merger plan with all attachments was submitted to the court register. The intended merger was also published on the official AJPES (Agency of the Republic of Slovenia for Public Legal Records and Related Services) website on 25 May 2015 and, in line with the provisions of Article 622 e of the Companies Act, also in the Official Gazette of the Republic of Slovenia on 29 May 2015.

Further in the process of the cross-border merger, Adriatic Slovenica as the acquiring company on 19 November 2015 obtained a permission of the Insurance Supervision Agency for the merger with KD Životno osiguranje d.d. Zagreb in the process of the cross-border merger. Moreover, KD Životno osiguranje d.d. as the acquired company obtained the permission of the supervisory agency, the Croatian agency for the supervision of financial services.

On 18 December 2015, Zagreb Trade Court issued a decision on the entry of the cross-border merger into the register, with the note that the cross-border merger will be effective when entered into the register of the Koper District Court, which issued the decision on the entry of the cross-border merger into its register on 30 December 2015. When the decision was final, all the operations of the acquired company, including employees, in line with the Cross-border merger plan, were transferred to Adriatic Slovenica d.d., Podružnica Zagreb za osiguranje, with the same official address as the acquired company.

The merger of KD životno osiguranje d.d. subsidiary, headquartered in the Republic of Croatia, on the address Draškovićeve 10, Zagreb, with the subsidiary of the parent insurance company, was carried out by means of a status-legal procedure of merger (using the acquisition method), by which, the acquiring company (Adriatic Slovenica) took over 100 % share of the acquired company (KD životno osiguranje d.d. Zagreb). On 1 April 2015, Adriatic Slovenica as the acquiring company recognised the acquired assets and liabilities of the acquired insurance company in its books of account.

## Acquired assets and accepted liabilities as at 1 April 2015, the day of the acquisition

v EUR	AS Total	Acquired assets and liabilities of KD životno osiguraje d.d. 01-Apr-15			Subsidiary	AS Total	
	31 Dec 2014 adjusted	KDŽO at acquisition	eliminations by AS	effect of acquisition on AS	31-Dec-15	31-Dec-15	
<b>Assets</b>	<b>686,514,160</b>	<b>8,683,078</b>	<b>1,540,544</b>	<b>10,223,622</b>	<b>9,363,937</b>	<b>10,296,864</b>	<b>665,354,600</b>
<b>Intangible assets</b>	<b>5,398,043</b>	<b>23,477</b>	<b>1,102,917</b>	<b>1,126,394</b>	<b>16,853</b>	<b>18,062</b>	<b>6,065,163</b>
Property, plant and equipment	27,316,753	37,775	-	37,775	43,275	48,959	27,823,294
Non-current assets held for sale	-	-	-	-	-	-	2,029,983
Deferred tax assets	3,622,498	-	-	-	6,021	6,021	2,832,029
Investment properties	29,375,722	-	-	-	-	-	30,835,438
Financial investments in subsidiaries and associates	27,418,592	39,701	(5,758,265)	(5,718,564)	-	-	20,189,796
<b>Financial investments</b>	<b>251,419,145</b>	<b>4,721,869</b>	<b>422,946</b>	<b>5,144,815</b>	<b>3,873,659</b>	<b>4,506,103</b>	<b>245,974,277</b>
In loans and deposits	52,005,422	54,850	422,946	477,796	43,680	43,680	39,617,921
In held-to-maturity financial assets	33,163,813	498,812	-	498,812	487,278	487,278	39,471,526
In available-for-sale financial assets	135,405,268	1,689,176	-	1,689,176	1,651,889	2,284,333	151,564,256
In financial assets measured at fair value	30,844,643	2,479,031	-	2,479,031	1,690,813	1,690,813	15,320,574
Unit-linked investments of policyholders	257,518,981	3,695,936	-	3,695,936	4,007,261	4,007,261	263,760,339
Amounts of technical provisions ceded to reinsurers	29,081,444	489	-	489	715	715	17,215,350
<b>Receivables</b>	<b>39,181,499</b>	<b>21,735</b>	<b>5,772,947</b>	<b>5,794,682</b>	<b>1,061,706</b>	<b>1,098,463</b>	<b>29,786,767</b>
Receivables from direct insurance business	21,410,211	0	14,681	14,682	98,851	98,851	18,446,651
Receivables from reinsurance and coinsurance	6,304,768	-	-	-	-	-	1,567,876
Income tax receivables	3,531,447	-	-	-	243,800	250,048	3,483,865
Other receivables	7,935,073	21,735	5,758,265	5,780,001	719,055	749,563	6,288,375
<b>Other assets</b>	<b>5,469,459</b>	<b>35,068</b>	<b>-</b>	<b>35,068</b>	<b>41,825</b>	<b>275,625</b>	<b>5,940,403</b>
<b>Cash and cash equivalents</b>	<b>10,712,024</b>	<b>107,027</b>	<b>0</b>	<b>107,027</b>	<b>312,621</b>	<b>335,655</b>	<b>12,901,762</b>
<b>Equity and liabilities</b>	<b>686,514,160</b>	<b>8,683,078</b>	<b>1,540,544</b>	<b>10,223,622</b>	<b>9,363,937</b>	<b>10,296,864</b>	<b>665,354,600</b>
<b>Equity</b>	<b>106,867,248</b>	<b>4,315,184</b>	<b>(4,246,476)</b>	<b>68,708</b>	<b>(459,851)</b>	<b>(450,332)</b>	<b>100,930,157</b>
Share capital	42,999,530	6,579,893	(6,579,893)	-	-	-	42,999,530
Capital reserves	4,211,782	-	-	-	-	-	4,211,782
Reserve from profit	15,771,095	0	-	0	(0)	(0)	15,543,287
Revaluation surplus (Revalorizacijske rezerve)	5,797,421	82,781	(14,073)	68,708	31,044	40,563	3,540,100
Retained net earnings	19,157,598	(2,301,452)	2,301,452	-	-	-	19,916,770
Net profit or loss for the financial year	18,929,822	(46,038)	46,038	-	(490,895)	(490,895)	14,718,688
<b>Technical provisions</b>	<b>273,612,701</b>	<b>505,381</b>	<b>14,681</b>	<b>520,062</b>	<b>502,252</b>	<b>503,594</b>	<b>269,044,614</b>
Unearned premiums	51,105,883	2,778	1,441	4,219	4,987	6,322	49,762,262
Mathematical provisions	97,252,566	396,934	2,644	399,578	422,309	422,309	102,765,143
Outstanding claims provisions	123,895,871	105,669	10,596	116,265	74,956	74,956	115,307,024
Other technical provisions	1,358,381	-	-	-	-	7	1,210,185
<b>Insurance technical provisions for unit-linked insurance policyholders</b>	<b>254,229,875</b>	<b>3,634,539</b>	<b>-</b>	<b>3,634,539</b>	<b>3,952,978</b>	<b>3,952,978</b>	<b>259,697,710</b>
<b>Other provisions</b>	<b>3,126,745</b>	<b>5,378</b>	<b>-</b>	<b>5,378</b>	<b>3,403</b>	<b>3,403</b>	<b>4,576,757</b>
<b>Deferred tax liabilities</b>	<b>1,194,632</b>	<b>-</b>	<b>14,073</b>	<b>14,073</b>	<b>6,064</b>	<b>8,013</b>	<b>732,097</b>
<b>Other financial liabilities</b>	<b>755,781</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>984,291</b>
<b>Operating liabilities</b>	<b>21,990,287</b>	<b>111,000</b>	<b>-</b>	<b>111,000</b>	<b>334,046</b>	<b>334,049</b>	<b>6,893,232</b>
Liabilities from direct insurance contracts	4,543,005	104,576	-	104,576	182,513	182,513	3,868,003
Liabilities from reinsurance and coinsurance contracts	11,491,980	6,424	-	6,424	5,117	5,120	1,484,491
Income tax liabilities	5,955,302	-	-	-	146,416	146,416	1,540,738
<b>Other liabilities</b>	<b>24,736,890</b>	<b>111,596</b>	<b>5,758,265</b>	<b>5,869,861</b>	<b>5,025,045</b>	<b>5,945,159</b>	<b>22,485,744</b>

The difference between the net value of the acquired assets and accepted liabilities of the acquired insurance company, and the investment recognised in the books of account of the insurance company on the day of the acquisition, was recognised by the insurance company as long-term accruals in the amount of 1,102,917 euros within its intangible assets in the balance sheet (refer to Section 10.1), less the impairment of the financial investment in KD životno osiguranje d.d. to the fair value of 389,169 euros.

The effective date of the demerger of KD životno osiguranje d.d. and Adriatic Slovenica Group was 31 March 2015 and on this day, an appraisal of the insurance company was made, using the traditional actuarial method for the evaluation of the internal value of the insurance company with its life insurance portfolio. The Appraisal Value of the insurance company was calculated in the amount of 5,369,096 euros, which is the sum of the Embedded Value (internal value of the insurance

company) and goodwill of the insurance company. Net value of assets from the insurance company's internal value appraisal is 4,266,179 euros.

Book value of the investment in KD životno osiguranje d.d.	5,758,265
<b>Fair value of the financial investment in KD životno osiguranje d.d. as at 31 March 2015</b>	<b>5,369,096</b>
Difference – impairment of investment in KD životno osiguranje d.d. as at 31 March 2015 (see Section 10.4)	(389,169)
<b>Estimated net asset value based on the actuarial appraisal of the internal value of the insurance company</b>	<b>4,266,179</b>
<b>DIFFERENCE between the fair value of the investment and the net value of acquired assets</b>	<b>1,102,917</b>

Upon the acquisition of KD životno osiguranje d.d., the following changes also occurred:

- Change in receivables and liabilities (technical provisions) in the amount of 14,681 euros due to alignment of policies and transition to recognition of receivables and liabilities from insurants based on invoiced premium. Before the acquisition, the insurance company recognised receivables and liabilities from insurants based on premium paid.
- Investment in Permanens d.o.o., Zagreb subsidiary in the amount of 82,960 euros was eliminated.
- Immediate losses upon acquisition were recognised in the amount of 33,776 euros.

Before the start of the process of acquisition, KD životno osiguranje d.d. insurance company was under 100 % ownership of the parent company Adriatic Slovenica. The principal activity of the insurance company was life insurance and other services related to insurance business. Therefore, the acquiring company recognised all the acquired assets under life insurance section.

When the subsidiary of Adriatic Slovenica insurance company was merged with KD životno osiguranje d.d., Zagreb, the parent company Adriatic Slovenica became the direct owner of Permanens d.o.o., Zagreb subsidiary, previously under 100 % ownership of KD životno osiguranje d.d.

**The effect of the merger on business operations of Adriatic Slovenica in 2015**

in EUR	KDŽO	AS Total
	1. 4. - 31. 12. 2015	Year 2015
Gross written premiums	1,705,937	296,648,952
Written premium ceded to reinsurers/coinsurers	(3,857)	(10,442,444)
Change in provision for unearned premiums	(759)	1,128,755
<b>Net earned premiums</b>	<b>1,701,321</b>	<b>287,335,263</b>
Gross claims and benefits paid	(448,316)	(213,400,456)
Reinsurers'/coinsurers' share	-	9,693,470
Change in outstanding claims provisions	41,934	(2,941,977)
<b>Net claims and benefits paid</b>	<b>(406,382)</b>	<b>(206,648,963)</b>
Change in other technical provisions	(22,578)	(4,805,921)
Change in other technical provisions for the benefit of life policyholders who bear investment risk	(311,596)	(1,826,453)
Acquisition costs	(534,977)	(27,099,309)
Other operating costs	(565,370)	(45,095,982)
Net financial profit/(loss) from investing activities	(423,131)	15,865,358
Other revenues / expenses	(31,588)	(908,652)
<b>Profit/(loss) before taxes</b>	<b>(594,300)</b>	<b>16,815,342</b>
Taxes	103,405	(2,551,113)
<b>Net profit/(loss) for the reporting period</b>	<b>(490,895)</b>	<b>14,264,229</b>

After the acquisition of the property of KD životno osiguranje d.d., Zagreb, Adriatic Slovenica successfully closed its operations in 2015 and achieved a net result of 14,264,229 euros and 16,815,342 euros of profit before taxation. Due to the merger, the 2015 year-end profit before taxation was 594,300 euros lower, while the net result for the period was 490,895 euros lower.

## 6. 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 2015.

### 6.1 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 2015	Useful life in 2015 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.

### 6.2 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 2015	Useful life in 2015 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.

### 6.3 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 2015	Useful life in 2015 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.

## 6.4 FINANCIAL INVESTMENTS IN SUBSIDIARIES AND ASSOCIATES

### 6.4.1 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 or year-on-year if there are any indications of impairment. Fair value assessments are performed by independent appraisers based on external valuations of company value, internal models 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.

### 6.4.2 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 assessment of potential impairment is performed by external appraisers based on external valuations of company value, or by using internal models.

## 6.5 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 are 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.

### 6.5.1 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.

### 6.5.2 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.

### 6.5.3 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.

### 6.5.4 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.

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.

### 6.5.5 Fair value

Financial assets measured at fair value through profit or loss 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 method of future cash flow value discounting using effective interest rates, reduced by impairments.

Fair value is reported if it is reliably measurable. It depends on available market data which enables the Company to evaluate fair value. For listed financial asset instruments (equity and debt securities) which have a price on an active

securities market, fair value is determined as the product of the units of financial assets and the quoted market price or the final rate as at the date of the balance sheet. The insurance company selects the appropriate rate depending on the type of financial investment and depending on the organised securities market, on which the financial investment is quoted.

In its fair value assessment, the insurance company continuously considers the market activity criterion, while the final rate of the last day of trading with the security must not be older than 30 days. For debt securities, also the volume of concluded transactions with an individual debt security is taken as an assessment criterion. On the last day of trading with a security, the transactions must reach 500,000 euros or more in total.

In case the published rates in an active market do not apply to the activity criterion, internal models are used for the calculation of market value, separately considering the fair value of equity and debt securities.

The methods of evaluation and important parameters for individual types of financial assets are presented in the table below, where the application of different methods is also classified with regard to the fair value hierarchy.

### Allocation in the fair value hierarchy

In order to improve compliance and comparability of fair value measurement and related disclosures, financial assets are allocated into three levels of fair value hierarchy. The allocation to a particular level is based on inputs to valuation methods used for fair value measurement. In the fair value hierarchy, the types with highest priority are unadjusted, quoted prices in active markets for identical assets or liabilities (Level 1 inputs), and the ones with the lowest priority are unobservable inputs (Level 3 inputs).

The insurance company follows the following inputs in value estimation techniques:

- Level 1: determined by inputs that present the quoted prices (unadjusted) in an active market for identical assets or liabilities, to which the Company has access on the date of the measurement. They ensure the most reliable proof of fair value and must be used without adjustments for fair value measurement.
- Level 2: determined by inputs that are not quoted prices from Level 1, but could be indirectly or directly observed for an asset or liability. If an asset or liability has a determined (contractual) maturity, the input must be observable during the whole validity period of the asset or liability. Level 2 inputs include: quoted prices for identical or similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in inactive markets, inputs that are not quoted prices observable for an asset or liability, and inputs, approved on the market.
- Level 3: determined by unobservable inputs that include an insignificant market component, if it at all exists, for the asset or liability on the day of measurement. The goal of fair value measurement remains the same, namely the output price on the day of measurement from the viewpoint of a participant in the market who owns an asset or has a liability. Therefore, unobservable inputs must reflect the assumptions that would be used by the participants in the market for the estimation of the value of an asset or liability, including the risk assumptions.

Financial assets, for which there is no active market and the fair value of which cannot be measured reliably, are by the insurance company valued at cost and the need for impairment is determined individually. These financial assets are allocated by the insurance company into Level 3 in the fair value hierarchy.

## Techniques of value estimation and inputs for allocation to Level 2 and Level 3 of the fair value hierarchy

Type of financial investment	Method of estimation	Important parameters	Fair value hierarchy
<b>EXTERNAL APPRAISERS (market organiser)</b>			
<b>Debt securities - compound</b>	stochastic model, network model HW1f and HW2f	curve of EUR SWAP interest rates, credit adjustments of the issuer, credit adjustments of comparable issuers, volatility of interest rates, correlation matrix, share index volatility	Level 2
<b>Equity securities - compound</b>	stochastic model	curve of EUR SWAP interest rates, credit adjustments of the issuer, credit adjustments of comparable issuers, share index volatility	Level 2

Type of financial investment	Method of estimation	Important parameters	Fair value hierarchy
<b>BLOOMBERG BVAL</b>			
<b>Debt securities</b>			
Debt securities - state	Cash flow discounting as per the amortisation plan	curve of EUR SWAP interest rates, credit adjustments of the issuer, credit adjustments of comparable issuers, indicative quotations	Level 2
Debt securities – companies and financial institutions	Cash flow discounting as per the amortisation plan	curve of EUR SWAP interest rates, credit adjustments of the issuer, credit adjustments of comparable issuers, indicative quotations	Level 2
<b>INTERNAL / EXTERNAL APPRAISERS</b>			
<b>Debt securities</b>			
<b>Internal model</b>			
Debt securities - state	Calculation of required profitability	Weighted average of profitability of two liquid state securities of the same country, with shorter and longer maturity	Level 2
		Weight 1: number of days between maturity date of observed security	Level 2
		Weight 2: maturity date of security, the fair value of which is being determined	Level 2
Debt securities – companies and financial institutions	Calculation of sum of required profitability for	State bonds of comparable maturity Credit risk for risky industries (CDS), considering the comparable maturity and investment class rate illiquidity.	Level 2
<b>Equity securities</b>			
<b>Internal model</b>			
	Method of comparable companies on stock exchange	Market indexes: P/E, P/B, P/S, P/EBITDA, F/FCF, based on stock quotations and / or prices of comparable companies and selected financial categories of the company under assessment.	Level 3
<b>Investment properties</b>	<b>Authorised external appraisers</b>		

	Cost method	Reproduction of same new building or replacement cost	Level 3
	Market method	Analysis of actual real estate market transactions	Level 3
	Revenue method (direct capitalisation method)	Present value of future expected gains	Level 3
		Capitalisation rate (gains and repayment)	
		Discount rate	
		Allowance for lack of marketability (illiquidity)	
<b>Capital investments in associates</b>	<b>Authorised external appraisers</b>		
	Net asset value method	Change in prices of real estate	Level 3
	Discounting of cash flows	g (growth rate in period of constant growth)	
		net margin (constant growth period)	
		rediscount rate	
		discount for lack of marketability	

### 6.5.6 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. An impairment of debt securities is made in case of financial difficulties of the issuer, in case of contract breach and failure to fulfil payment obligation, debt reprogramming or possibility of bankruptcy.

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.

## 6.6 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.

## 6.7 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.

## 6.8 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.

## 6.9 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.

## 6.10 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 only of cash, 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.

## 6.11 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.

Receivables and payables arising from internal relationships (between individual long-term business funds or general ledgers) are presented separately in the 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.

## 6.12 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).

### 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.

### 6.13 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 several 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.

## 6.14 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.

### 6.14.1 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.

Termination benefits upon retirement and jubilee benefits are recognised as operating costs (labour costs) in the income statement when they are paid. The same goes for the recognition of changes in these provisions due to repayments or new formations. Revaluation of provisions for benefits upon retirement, arising from an increase or decrease of the present value of liabilities due to changes in actuarial assumptions and adjustments arising from experience are recognised as actuarial gains or losses within other comprehensive income.

## 6.15 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.

## 6.16 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.

## 6.17 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, health 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, except for financial assets measured at fair value through profit or loss, in which case, they are calculated using the nominal interest method. In the balance sheet, the interest on all debt securities is posted together with the Company's financial investments.

**Profit (loss) arising on disposal of investments** is recognised in the income statement through realised 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 differences** 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.

## 6.18 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 8.5 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 of the Republic of Slovenia by applying the tax rates effective at the balance sheet date. For the financial year 2015, the corporate tax rate was 17 %. The insurance company has established a subsidiary in the Republic of Croatia, generating an operating result abroad. There is an international bilateral agreement on avoiding double taxation between Slovenia and Croatia, based on which, the taxation of profit is made in the country where the head office of the company is situated. The taxable profits, generated abroad by the insurance company, are first subject to taxation in the country of the subsidiary, that is the Republic of Croatia, using the effective tax rate (20 % in 2015), and then reported in the tax report of the parent insurance company in Slovenia, where the previously paid tax abroad is deducted, but only up to the level of tax rate effective in Slovenia (17 % in 2015).

## 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.

## 7. 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.

### 7.1 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.

On the basis of an expert opinion, the insurance company in 2015 permanently impaired unquoted investments in shares of Elektro Celje d.d. (for details, see chapter 10.6). 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.

### 7.2 FAIR VALUE MEASUREMENT OF DEBT SECURITIES

At the beginning of 2015, the insurance company changed its method of determining the fair value of debt securities (marketable bonds) that was previously 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. This is the reason why the insurance company chose a new source, BVAL (Bloomberg Valuation Service) for determining the fair value of debt securities. Unlike BGN, BVAL methodology has been published and is an upgrade or next generation of prices to assist in determining the fair value of investments available in Bloomberg. Moreover, BVAL rates are equipped with quality estimation on a scale from 1 to 10, where 10 means the highest possible quality of data.

Based on the change in capturing the rates for the valuation of debt securities from BGN to BVAL, on 1 January 2015, the insurance company reallocated its debt securities from level 3 to level 2. As at 31 December 2015, the insurance company recalculated the effects of the change from BGN to BVAL, which offers a different methodology. The fair value of investments that were affected by the transition to the new methodology is higher by 146,109 euros, which is 0.1169 % of the insurance company's portfolio of such investments.

The insurance company also introduced the criterion of market activity assessment for the determination of fair value of debt securities, for which, there is a price on an active securities market. In case the published rates on the active market do not fulfil the activity criterion, the insurance company's internal model is used to calculate its market value.

As at 31 December 2015, the fair value of investments, calculated based on the internal model, is by 2,229,850 euros (6.3 %) higher than the fair value, calculated using the prices from the active market. If the insurance company used its internal model for determining the fair value of investments as at 31 December 2014, it would be 789,741 (4.4 %) euros higher than the fair value, calculated based on prices from the active market.



### 7.3 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 2015, 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 6.8). In its revision of loans, the insurance company did not identify any indicators that would suggest impairments to be made.

### 7.4 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 1.75 % 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 2015	Provision for incurred but not reported claims (IBNR) 31 December 2014
Accident insurance	8,429,385	8,978,185
Health insurance	4,786,204	4,695,940
Land motor vehicles insurance	1,638,407	1,566,233
Marine loss insurance	73,150	108,656
Goods in transport insurance	91,203	223,082
Fire and natural forces insurance	738,387	766,048
Other damage to property insurance	1,198,778	1,430,025
Motor vehicle liability insurance	29,632,288	34,570,275
Liability for ship/boat insurance	12,722	18,721
General liability insurance	11,745,326	11,909,692
Credit insurance	14,320	10,691
Suretyship insurance	203,076	194,306
Miscellaneous financial loss insurance	37,429	46,836
Legal expenses insurance	1,808	4,368
Travel assistance insurance	273,804	240,450
Life insurance	3,390,381	3,924,377
<b>Total</b>	<b>62,266,667</b>	<b>68,687,886</b>

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**

Cumulative claim payment	Accident/loss year									
	before 2007	2007	2008	2009	2010	2011	2012	2013	2014	2015
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	87,557,888
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	85,239,212	-
2 years after loss year	-	105,968,274	117,455,256	109,454,915	96,330,471	90,568,304	96,570,014	85,740,792	-	-
3 years after loss year	-	105,349,656	117,524,811	107,637,944	95,301,074	89,085,735	94,028,156	-	-	-
4 years after loss year	-	105,958,430	115,587,514	105,953,158	93,622,460	86,234,853	-	-	-	-
5 years after loss year	-	104,800,746	114,800,364	104,876,792	93,138,216	-	-	-	-	-
6 years after loss year	-	103,746,421	113,669,023	104,466,465	-	-	-	-	-	-
7 years after loss year	-	103,449,456	113,329,522	-	-	-	-	-	-	-
8 years after loss year	-	103,455,029	-	-	-	-	-	-	-	-
Cumulative loss estimate	-	103,455,029	113,329,522	104,466,465	93,138,216	86,234,853	94,028,156	85,740,792	85,239,212	87,557,888
Total losses paid until 31 Dec. 2015	-	100,854,130	110,304,762	100,906,410	89,178,813	81,898,655	89,115,853	76,419,117	71,837,753	49,953,032
Provisions for outstanding claims - balance										
31 Dec. 2015	15,992,707	2,600,899	3,024,760	3,560,055	3,959,403	4,336,198	4,912,304	9,321,675	13,401,458	37,604,857

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 2014	107,636,972	4,768,541	112,405,513
Provisions as at 31 December 2015	98,714,315	5,443,965	104,158,280

**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 1.5 % 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 8.2.1).
- In the financial year 2015, the Company did not modify the assumptions used for the calculation of liabilities arising from life insurance contracts.

**7.5 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.

## 7.6 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 more.

## 8. 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.

### 8.1 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.

For the past several years, Adriatic Slovenica has been calculating informative capital requirements as per the requirements of Solvency II. In the past years, the methodology of the QIS5 quantitative study was applied, however, since the beginning of 2015, after the publication of the Delegated Regulation of the European Commission, the methodology defined by the Regulation has been applied. In line with the new methodology, also the capital adequacy for 2014 was calculated and reported to the ISA. As at 31 December 2014, Adriatic Slovenica reported 119,263,325 euros SCR capital requirement. With 147,115,616 euros of own fixed assets, the capital adequacy of the insurance company was 123.4 %, which is in line with the accepted risk appetite. Before adoption of important business decisions, the insurance company monitors the effects on capital adequacy as per Solvency II and performs various simulations intended to identify permitted opportunities for optimisation of capital requirements.

Further effort in this field will be focused on measures for further strengthening of the insurance company's capital adequacy as per Solvency II, as well as seeking possibilities for development and reporting of own parameters or partial

internal model. An important emphasis in 2016 will be on quality and thorough execution of ORSA process and preparation of report on execution and findings.

In the text below, findings on capital adequacy of the insurance company for 2015 are provided, as calculated in line with Solvency I.

As at 31 December 2015, 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 27,288,172 euros and in the area of life insurance in the amount of 1,496,397 euros.

### Capital adequacy of the insurance company

v EUR	As at 31 December 2015		As at 31 December 2014 adjusted	
	Life insurance	Non-life insurance	Life insurance	Non-life insurance
Share capital (tier 1)	13,296,136	57,524,504	11,414,321	59,909,359
Regulatory capital	3,933,246	9,402,116	3,700,000	8,664,390
Total core (tier 1) and supplementary (tier 2) capital	13,296,136	57,524,504	11,414,321	59,909,359
Eligible capital of the insurance company	13,296,136	55,494,521	11,414,321	52,517,603
Regulatory minimum capital	11,799,739	28,206,348	11,035,049	25,993,169
<b>Surplus/deficit in eligible capital</b>	<b>1,496,397</b>	<b>27,288,172</b>	<b>379,273</b>	<b>26,524,434</b>

## 8.2 TYPES OF RISKS

### 8.2.1 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 2015

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	55,161	0.28%	149,413	0.75%
Unit-linked insurance	449,239	1.32%	1,640,103	4.82%
Health insurance	317,704	0.32%	530,366	0.53%
Non-life insurance	11,268,664	8.32%	22,343,406	16.50%
<b>Total</b>	<b>12,090,768</b>	<b>4.10%</b>	<b>24,663,287</b>	<b>8.37%</b>

### 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%
<b>Total</b>	<b>11,294,712</b>	<b>3.80%</b>	<b>23,854,956</b>	<b>8.02%</b>

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 2015

Sum insured in EUR	Up to 300,000 euros		Over 300,000 up to 1,000,000 euros		Over 1.000.000 euros	
	Net of reinsurance	With reinsurance	Net of reinsurance	With reinsurance	Net of reinsurance	With reinsurance
Construction risks	4,126,727	3,722,986	17,970,316	5,520,000	100,197,826	1,680,000
Manufacturing risks	281,154,241	272,651,523	388,540,381	276,217,292	3,367,505,577	271,560,000
Commercial risks	4,309,252,575	4,302,597,377	1,654,271,189	1,582,422,720	5,929,163,994	624,960,000
Household risks	5,402,969,243	5,401,038,043	414,800,903	396,055,680	293,255,977	32,760,000
<b>Total</b>	<b>9,997,502,786</b>	<b>9,980,009,929</b>	<b>2,475,582,790</b>	<b>2,260,215,692</b>	<b>9,690,123,374</b>	<b>930,960,000</b>

**Concentration of liabilities from non-life insurance by industry as at 31 December 2014**

Sum insured in EUR	Up to 300,000 euros		Over 300,000 up to 1,000,000 euros		Over 1.000.000 euros	
	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
<b>Total</b>	<b>10,939,533,519</b>	<b>10,920,150,304</b>	<b>2,612,402,614</b>	<b>2,390,110,892</b>	<b>10,047,887,934</b>	<b>985,800,000</b>

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 2015 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 2015	With reinsurance 2015	Net of reinsurance 2014	With reinsurance 2014
0–9,999 euros	343,552,104	318,779,365	285,695,663	252,727,514
10,000–29,999 euros	935,815,219	796,241,162	821,669,305	722,270,494
30,000–59,999 euros	867,284,675	605,357,395	706,344,618	507,191,885
60,000–99,999 euros	485,691,455	230,057,052	357,003,681	182,217,347
Over 100,000 euros	235,028,662	72,659,611	213,107,528	105,972,783
<b>Total</b>	<b>2,867,372,114</b>	<b>2,023,094,584</b>	<b>2,383,820,794</b>	<b>1,770,380,022</b>

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 2015		TOTAL ANNUAL ANNUITY PAYMENTS IN 2014	
	amount	%	amount	%
Annual annuity payments to the insured person as at 31 December				
0–9,999 euros	656,089	16.02%	661,540	14.28%
10,000–29,999 euros	1,242,353	30.34%	1,655,813	35.74%
30,000–59,999 euros	725,821	17.72%	957,963	20.68%
60,000–99,999 euros	507,687	12.40%	552,560	11.93%
Over 100,000 euros	963,019	23.52%	804,450	17.37%
<b>Total</b>	<b>4,094,968</b>	<b>100%</b>	<b>4,632,326</b>	<b>100%</b>

Concentrations of insurance risk with respect to the Company's annuity business remains at the same level as in 2014 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 2016.

#### 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 2015

The liability adequacy test (LAT) results of 31 December 2015, 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.

In its forecasting of expected claims, the insurance company in 2015 applied the claims ratio of final claims occurred in 2015, and in the forecasting of expenses, the cost ratio of administrative expenses was applied.

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 2015

As at 31 December 2015, the Company formed provisions for unexpired risks for health insurance, aircraft insurance, vessel insurance and credit insurance in the total amount of 379,780 euros. In this way, the insurance company ensured an adequate amount of provisions.

## 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 sensitivity factor applied
Interest rate and investment return (insurance and investment contracts)	impact of a change in market interest rates by a 1% increase or decrease The impact of an increase/reduction in maintenance expenses other than acquisition expenses by 5%
Costs/expenses	The impact of an increase in mortality/morbidity rates by 5%
Assurance mortality/morbidity	The impact of a reduction in mortality rates by 5%
Annuitant mortality	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 2015	31 December 2014
<b>Factor</b>		
Costs/expenses +5 %	(3,528,340)	(2,735,782)
Costs/expenses -5 %	3,528,340	2,735,782
Interest rates +1 %	18,053,723	14,681,946
Interest rates -1 %	(17,927,561)	(15,699,310)
Assurance mortality +5 %	177,454	(93,070)
Annuitant mortality -5 %	(199,261)	(353,835)
Loss ratio +5 %	(14,366,763)	(12,496,227)
Loss ratio -5 %	14,366,763	12,496,227

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.

## 8.2.2 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 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 2015, there were no major events, therefore, we did not enforce any reinsurance protection.

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 2014 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 2015

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		-	0.00%	2,966,445	7,589,399	-	(10,721,376)	(165,531)
Quota share reinsurance of earthquake risk		(1,703,321)	16.42%	479,541	3,889	(21,101)	(257)	(1,241,249)
Non-life Gross Risk XL reinsurance		(1,230,421)	11.86%	-	144,651	-	(306,472)	(1,392,242)
Engineering Risk XL reinsurance		(139,228)	1.34%	-	-	-	(25,000)	(164,228)
Non-life Cat XL reinsurance		(1,689,863)	16.29%	32,868	921	-	(5,200)	(1,661,274)
Non-life, i.e. annual aggregate Cat XL losses		(776,652)	7.49%	17,471	-	(194,262)	-	(953,443)
XL reinsurance motor vehicle liability insurance and green cards		(632,182)	6.09%	-	998,186	-	(204,163)	161,841
XL reinsurance of comprehensive automobile insurance (casco)		(37,577)	0.36%	-	-	-	19,860	(17,717)
Other non-life insurance		(2,581,087)	24.88%	261,492	560,999	2,373	(455,851)	(2,212,075)
Life insurance		(1,586,492)	15.26%	432,683	429,788	(4,408)	59,855	(665,183)
<b>Total reinsurance in the financial year</b>		<b>(10,376,822)</b>	<b>100%</b>	<b>4,190,499</b>	<b>9,727,835</b>	<b>(217,398)</b>	<b>(11,638,605)</b>	<b>(8,311,101)</b>
Co-insurance provided		(65,622)	0.00%	12,464	567	(1,696)	(8,644)	(62,931)
Co-insurance received		338,392	0.00%	(52,250)	(34,932)	(19,550)	64,894	296,554
<b>Total Re(co)insurance</b>		<b>(10,104,053)</b>	<b>0.00%</b>	<b>4,150,714</b>	<b>9,693,470</b>	<b>(238,644)</b>	<b>(11,582,355)</b>	<b>(8,077,479)</b>

## 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)
Life insurance		(1,271,200)	2.64%	328,592	334,092	(7,310)	19,521	(596,306)
<b>Total reinsurance in the financial year</b>		<b>(48,151,620)</b>	<b>100%</b>	<b>13,234,846</b>	<b>23,613,339</b>	<b>97,570</b>	<b>2,740,312</b>	<b>(8,465,554)</b>
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
<b>Total Re(co)insurance</b>		<b>(47,854,242)</b>	<b>0.00%</b>	<b>13,183,642</b>	<b>23,602,014</b>	<b>61,010</b>	<b>2,714,985</b>	<b>(8,292,593)</b>

The above table shows the reinsurance concentration for all contracts.

Reinsurance premium accounted for 3.50 % of gross written premium of all insurance segments in 2015, and amounted to 10,376,822 euros. The proportion of reinsurance premium in gross written premium decreased significantly compared to 2014 due to the termination of the quota share reinsurance contract for car insurance. In 2014, the reinsurance premium presented 16.2 % of gross written premium of all segments and totalled 48,151,620 euros (of which, quota share reinsurance premium of car insurance accounted for 78 %).

In 2015, Adriatic Slovenica recorded only a few individual loss events, for which the reinsurance protection was pursued. From reinsurers' shares in claims, there was a total of 9,727,834 euros (2014: 23,613,339 euros), out of which, as much as 7,589,399 euros (2014: 21,371,636 euros) from car insurance quota, and in other insurance classes, there were 2,138,434 euros (2014: 2,241,703 euros) of claims.

### 8.2.3 Financial risks

The Company is exposed to financial risks through its asset and liability management, reinsurance assets and liabilities arising from its insurance contracts. The key financial risks that the Company faces is that the future changes in market and other financial conditions will reflect on the value of the Company's financial assets, meaning that the receivables from insurance contracts will not be covered by counterparties, which could potentially 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 equity securities,
- interest risk,
- currency risk.

When designing individual investment policies, the insurance company takes into consideration the characteristics of obligations and the Company's risk appetite. The insurance company 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 long-term returns high enough to 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, are not included since the financial risks are entirely assumed by the policyholders. In 2015, these assets totalled 266,863,192 euros (2014: 261,958,391 euros), out of which, 263,760,340 euros (2014: 257,518,981 euros) of assets from the balance sheet are related to the category of assets of policyholders who bear investment risk, and 3,102,853 euros (2014: 4,439,410 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 financial 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 2015 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 "loans, 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 2015

in EUR	Non-life insurance contracts, excluding health insurance	Health insurance contracts	Life insurance contracts	Total
<b>ASSETS</b>				
<b>Financial assets at fair value through profit or loss</b>	<b>9,210,369</b>	<b>1,059,643</b>	<b>3,410,520</b>	<b>13,680,532</b>
- listed	5,570,058	1,056,309	3,252,273	9,878,640
Government bonds	3,640,310	3,334	158,247	3,801,891
<b>Held-to-maturity financial assets</b>	<b>12,021,702</b>	<b>617,172</b>	<b>26,832,652</b>	<b>39,471,526</b>
- listed	12,021,702	617,172	14,408,378	27,047,252
Government bonds	-	(0)	12,424,274	12,424,274
<b>Available-for-sale financial assets</b>	<b>33,928,906</b>	<b>4,182,992</b>	<b>79,868,018</b>	<b>117,979,917</b>
- listed	7,247,980	514,749	11,393,084	19,155,813
Government bonds	26,680,926	3,668,244	68,474,935	98,824,105
<b>Total debt financial instruments</b>	<b>55,160,977</b>	<b>5,859,808</b>	<b>110,111,190</b>	<b>171,131,975</b>
Financial assets at fair value through profit or loss	(0)	-	1,640,042	1,640,042
- listed	(0)	-	1,640,042	1,640,042
Available-for-sale financial assets	24,866,186	4,740,454	3,977,699	33,584,339
- listed	20,848,358	2,845,521	2,733,959	26,427,838
- non-listed	4,017,828	1,894,933	1,243,741	7,156,501
<b>Total equity financial instruments</b>	<b>24,866,185</b>	<b>4,740,454</b>	<b>5,617,742</b>	<b>35,224,381</b>
Loans, deposits and financial receivables	32,785,739	3,749,803	2,300,418	38,835,960
Investments in subsidiaries and associates	16,493,562	-	3,696,234	20,189,796
<b>Total financial investments</b>	<b>129,306,464</b>	<b>14,350,064</b>	<b>121,725,583</b>	<b>265,382,111</b>
Amount (technical provisions) transferred to reinsurers	16,937,623	-	277,726	17,215,350
Receivables from insurance business and other operating receivables	34,444,117	9,122,741	8,319,742	31,497,833
Cash and cash equivalents	5,735,713	1,990,690	4,068,141	11,794,544
Other assets	60,785,788	2,266,502	9,790,212	72,660,817
<b>Total assets</b>	<b>247,209,704</b>	<b>27,729,998</b>	<b>144,181,404</b>	<b>398,550,655</b>
<b>LIABILITIES</b>				
<b>Liabilities from insurance contracts</b>	<b>147,012,711</b>	<b>13,374,157</b>	<b>-</b>	<b>160,386,869</b>
- non-current liabilities	57,278,266	215,912	-	57,494,178
- current liabilities	89,734,445	13,158,245	-	102,892,690
<b>Liabilities from insurance contracts with DPF</b>	<b>-</b>	<b>-</b>	<b>108,228,896</b>	<b>108,228,896</b>
- non-current liabilities	-	-	98,138,136	98,138,136
- current liabilities	-	-	10,090,760	10,090,760
<b>Equity capital</b>	<b>72,824,777</b>	<b>6,481,065</b>	<b>22,026,399</b>	<b>101,332,241</b>
<b>Other liabilities</b>	<b>27,372,217</b>	<b>7,874,775</b>	<b>13,926,109</b>	<b>28,602,649</b>
- non-current liabilities	7,588,644	980,954	10,122,975	8,998,866
- current liabilities	19,783,573	6,893,821	3,803,134	19,603,783
<b>Total liabilities</b>	<b>247,209,705</b>	<b>27,729,998</b>	<b>144,181,404</b>	<b>398,550,655</b>

This table should be read together with the note in Section 8.2.3., paragraph 4.

## Analysis of assets and liabilities for financial risk management as at 31 December 2014 – Adjusted

in EUR	Non-life insurance contracts, excluding health insurance	Health insurance contracts	Life insurance contracts	Total
<b>ASSETS</b>				
<b>Financial assets at fair value through profit or loss</b>	<b>22,222,522</b>	<b>998,949</b>	<b>4,391,715</b>	<b>27,613,186</b>
- listed	14,040,623	938,948	4,224,799	19,204,369
Government bonds	8,181,899	60,001	166,916	8,408,817
<b>Held-to-maturity financial assets</b>	<b>8,248,183</b>	<b>601,248</b>	<b>24,314,382</b>	<b>33,163,813</b>
- listed	8,248,183	601,248	12,462,841	21,312,271
Government bonds	-	(0)	11,851,542	11,851,542
<b>Available-for-sale financial assets</b>	<b>26,092,424</b>	<b>3,688,367</b>	<b>60,922,297</b>	<b>90,703,088</b>
- 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
<b>Total debt financial instruments</b>	<b>56,563,129</b>	<b>5,288,563</b>	<b>89,628,394</b>	<b>151,480,086</b>
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	11,545,798	44,702,181
- listed	25,894,206	2,914,772	11,188,759	39,997,737
- non-listed	4,159,012	188,392	357,039	4,704,443
<b>Total equity financial instruments</b>	<b>32,202,577</b>	<b>3,103,165</b>	<b>12,627,896</b>	<b>47,933,638</b>
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
<b>Total financial investments</b>	<b>139,479,316</b>	<b>20,952,736</b>	<b>117,704,395</b>	<b>278,136,447</b>
Amount (technical provisions) transferred to reinsurers	28,859,413	-	222,031	29,081,444
Receivables from insurance business and other operating receivables	38,697,010	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	2,967,195	66,242,529
<b>Total assets</b>	<b>274,235,792</b>	<b>31,722,654</b>	<b>128,444,205</b>	<b>424,524,521</b>
<b>LIABILITIES</b>				
<b>Liabilities from insurance contracts</b>	<b>155,581,295</b>	<b>14,053,085</b>	<b>-</b>	<b>169,634,380</b>
- non-current liabilities	63,809,178	328,697	-	64,137,874
- current liabilities	91,772,118	13,724,388	-	105,496,506
<b>Liabilities from insurance contracts with DPF</b>	<b>-</b>	<b>-</b>	<b>103,651,695</b>	<b>103,651,695</b>
- non-current liabilities	-	-	92,692,595	92,692,595
- current liabilities	-	-	10,959,100	10,959,100
<b>Equity capital</b>	<b>78,579,538</b>	<b>7,180,586</b>	<b>21,077,124</b>	<b>106,837,248</b>
<b>Other liabilities</b>	<b>38,380,409</b>	<b>10,488,983</b>	<b>5,409,937</b>	<b>44,401,198</b>
- non-current liabilities	7,784,414	1,122,348	4,556,960	9,561,192
- current liabilities	30,595,995	9,366,636	852,977	34,840,006
<b>Total liabilities</b>	<b>272,541,242</b>	<b>31,722,654</b>	<b>130,138,755</b>	<b>424,524,521</b>

This table should be read together with the note in Section 8.2.3., paragraph 4.

In the tables showing the classification of assets by maturity into non-current and current assets for 2015 and for 2014, 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 2015

In EUR	Non-life insurance contracts, excluding health insurance	Health insurance contracts	Life insurance contracts	Total
<b>Non-current assets</b>				
<b>Debt securities</b>	<b>45,950,609</b>	<b>4,800,165</b>	<b>108,167,447</b>	<b>158,918,220</b>
At fair value through profit or loss	-	-	1,466,777	1,466,777
- listed	-	-	1,466,777	1,466,777
Available for sale	33,928,906	4,182,992	79,868,018	117,979,917
- listed	33,928,907	4,182,992	79,868,018	117,979,917
Held to maturity	12,021,702	617,172	26,832,652	39,471,526
- listed	12,021,702	617,172	26,832,652	39,471,526
<b>Equity securities</b>	<b>24,866,186</b>	<b>4,740,454</b>	<b>4,920,505</b>	<b>34,527,145</b>
At fair value through profit or loss	-	-	942,806	942,806
- listed	-	-	942,806	942,806
Available for sale	24,866,186	4,740,454	3,977,699	33,584,339
- listed	20,848,358	2,845,521	2,733,959	26,427,838
- non-listed	4,017,828	1,894,933	1,243,741	7,156,501
Investments in subsidiary and associates	16,493,562	-	3,696,234	20,189,796
Loans, deposits and financial receivables	1,457,303	2,157,154	1,301,797	4,916,254
<b>Total financial investments</b>	<b>88,767,659</b>	<b>11,697,773</b>	<b>118,085,983</b>	<b>218,551,414</b>
Amount (technical provisions), transferred to reinsurers	9,726,721	-	-	9,726,721
Receivables from insurance business and other operating receivables	2,233,969	457,530	140,530	2,832,029
Other assets	25,955,530	1,673,756	8,410,314	36,039,600
<b>Total assets</b>	<b>126,683,878</b>	<b>13,829,058</b>	<b>126,636,826</b>	<b>267,149,763</b>
<b>Current assets</b>				
<b>Debt securities</b>	<b>9,210,369</b>	<b>1,059,643</b>	<b>1,943,744</b>	<b>12,213,755</b>
At fair value through profit or loss	9,210,369	1,059,643	1,943,744	12,213,755
- listed	9,210,369	1,059,643	1,943,744	12,213,755
Equity securities	(0)	-	697,236	697,236
At fair value through profit or loss	(0)	-	697,236	697,236
- listed	(0)	-	697,236	697,236
Loans, deposits and financial receivables	31,328,437	1,592,648	998,621	33,919,706
<b>Total financial investments</b>	<b>40,538,805</b>	<b>2,652,291</b>	<b>3,639,601</b>	<b>46,830,697</b>
Amount (technical provisions), transferred to reinsurers	7,210,902	-	277,726	7,488,629
Receivables from insurance business and other operating receivables	32,210,148	8,665,211	8,179,212	28,665,804
Cash and cash equivalents	5,735,713	1,990,690	4,068,141	11,794,544
Other assets	34,830,258	592,746	1,379,898	36,621,217
<b>Total assets</b>	<b>120,525,826</b>	<b>13,900,939</b>	<b>17,544,578</b>	<b>131,400,891</b>

This table should be read together with the note in Section 8.2.3., paragraph 4.

As at the end of 2015, the non-current assets prevail with a 67 % share, leaving behind the Company's current assets accounting for 33 % of total assets.

## Classification of assets by maturity into non-current and current assets as at 31 December 2014 – Adjusted

In EUR	Non-life insurance contracts, excluding health insurance	Health insurance contracts	Life insurance contracts	Total
<b>Non-current assets</b>				
<b>Debt securities</b>	<b>34,340,607</b>	<b>4,289,614</b>	<b>85,236,679</b>	<b>123,866,900</b>
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
<b>Equity securities</b>	<b>30,053,218</b>	<b>3,103,165</b>	<b>11,545,798</b>	<b>44,702,181</b>
Available for sale	30,053,218	3,103,165	11,545,798	44,702,181
- listed	25,894,206	2,914,772	11,188,759	39,997,737
- non-listed	4,159,012	188,392	357,039	4,704,443
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
<b>Total financial investments</b>	<b>91,849,560</b>	<b>10,953,070</b>	<b>103,813,692</b>	<b>206,616,322</b>
Amount (technical provisions), transferred to reinsurers	15,432,068	-	-	15,432,068
Receivables from insurance business and other operating receivables	4,535,145	450,755	331,142	3,622,491
Other assets	30,839,013	-	1,875,783	32,714,796
<b>Total assets</b>	<b>142,655,786</b>	<b>11,403,825</b>	<b>106,020,617</b>	<b>258,385,677</b>
<b>Current assets</b>				
<b>Debt securities</b>	<b>22,222,522</b>	<b>998,949</b>	<b>4,391,715</b>	<b>27,613,186</b>
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
<b>Equity securities</b>	<b>2,149,359</b>	<b>-</b>	<b>1,082,098</b>	<b>3,231,457</b>
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
<b>Total financial investments</b>	<b>47,629,756</b>	<b>9,999,666</b>	<b>13,890,703</b>	<b>71,520,125</b>
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
<b>Total assets</b>	<b>131,580,007</b>	<b>20,318,829</b>	<b>22,423,588</b>	<b>166,138,843</b>

This table should be read together with the note in Section 8.2.3., paragraph 4.

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 in 2013.

## Liquidity risk

Liquidity risk is the risk of liquidity-related difficulty and inability of the insurance company to fulfil current obligations from active insurance contracts and other current operating liabilities of the Company, due to lack of alignment between obtained assets and liabilities. Liquidity risk also includes the risk of the insurance company suffering losses of liquid assets due to settlement of unexpected or unexpectedly high liabilities.

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 exposure to liquidity risk is also measured by means of balance between assets and liabilities through time. The following tables present the types of the Company's assets and liabilities through undiscounted cash flows according to their maturity.

In addition, liabilities arising from unit-linked insurance contracts are also disclosed. In the annual periods where the cash flows of assets and liabilities are not balanced, liquidity balance is ensured by means of available short-term investments without maturity.

### Overview of maturity of liabilities in 2015 – undiscounted cash flows

In EUR	Carrying amount	No maturity date	Up to 1 year	1-5 years	5-10 years	10-15 years	over 15 years	Total at 31.12.2015
<b>Debt financial instruments</b>	<b>171,131,975</b>	-	<b>36,607,872</b>	<b>73,008,695</b>	<b>110,011,380</b>	<b>36,109,255</b>	<b>81,511,960</b>	<b>337,249,162</b>
Financial assets at fair value through income statement	13,680,532	-	7,081,747	5,296,726	3,545,128	-	441,000	16,364,602
Financial assets held to maturity	39,471,526	-	5,244,578	28,032,049	31,347,791	8,832,402	7,184,817	80,641,638
Financial assets available for sale	117,979,917	-	24,281,547	39,679,920	75,118,460	27,276,852	73,886,143	240,242,922
<b>Equity financial instruments</b>	<b>35,224,381</b>	<b>35,224,381</b>	-	-	-	-	-	<b>35,224,381</b>
Financial assets at fair value through income statement	1,640,042	1,640,042	-	-	-	-	-	1,640,042
Financial assets available for sale	33,584,339	33,584,339	-	-	-	-	-	33,584,339
<b>Loans, deposits and financial receivables</b>	<b>39,617,921</b>	<b>3,996,382</b>	<b>31,146,927</b>	<b>4,829,095</b>	<b>478,455</b>	<b>131,281</b>	<b>726,262</b>	<b>41,308,401</b>
<b>Investments in subsidiaries and associates</b>	<b>20,189,796</b>	<b>20,189,796</b>	-	-	-	-	-	<b>20,189,796</b>
<b>Assets of policyholders who bear investment risk</b>	<b>263,760,339</b>	<b>207,627,225</b>	<b>5,818,000</b>	<b>4,322,500</b>	<b>609,000</b>	-	-	<b>218,376,725</b>
<b>Investment properties</b>	<b>30,835,438</b>	<b>30,835,438</b>	-	-	-	-	-	<b>30,835,438</b>
<b>Total financial investments</b>	<b>560,759,850</b>	<b>297,873,222</b>	<b>73,572,799</b>	<b>82,160,290</b>	<b>111,098,835</b>	<b>36,240,535</b>	<b>82,238,222</b>	<b>683,183,903</b>
Amount (technical provisions), transferred to reinsurers	17,215,350	-	17,644,199	6,714,065	2,298,696	713,628	333	27,370,920
Operating and other receivables	32,618,796	-	32,618,796	-	-	-	-	32,618,796
Cash and cash equivalents	12,901,762	-	12,901,762	-	-	-	-	12,901,762
Other assets	41,858,843	-	41,858,843	-	-	-	-	41,858,843
<b>Total assets</b>	<b>665,354,600</b>	<b>297,873,222</b>	<b>178,596,398</b>	<b>88,874,355</b>	<b>113,397,531</b>	<b>36,954,163</b>	<b>82,238,555</b>	<b>797,934,223</b>
Non-life and health insurance	160,386,869	-	102,936,553	39,420,798	13,489,561	4,317,538	222,419	160,386,869
Unit-linked life insurance	260,126,560	-	13,810,992	47,157,764	54,732,918	36,004,294	108,420,592	260,126,560
Life insurance	108,228,896	-	6,390,695	13,591,293	26,802,640	28,205,268	67,400,633	142,390,529
Other liabilities	35,682,120	-	35,682,120	-	-	-	-	35,682,120
<b>Total Liabilities</b>	<b>564,424,445</b>	-	<b>158,820,360</b>	<b>100,169,855</b>	<b>95,025,119</b>	<b>68,527,100</b>	<b>176,043,645</b>	<b>598,586,077</b>

### Overview of maturity of liabilities in 2014 – undiscounted cash flows

In EUR	Carrying amount	No maturity date	Up to 1 year	1-5 years	5-10 years	10-15 years	over 15 years	Total at 31.12.2014 adjusted
<b>Debt financial instruments</b>	<b>151,480,086</b>	-	<b>27,432,889</b>	<b>62,012,671</b>	<b>36,486,394</b>	<b>6,477,370</b>	<b>18,818,478</b>	<b>151,227,802</b>
Financial assets at fair value through income statement	27,613,186	-	6,121,421	12,706,494	5,515,754	1,012,200	220,500	25,576,369
Financial assets held to maturity	33,163,813	-	12,001,834	16,570,179	9,698,023	1,026,631	3,547,978	42,844,644
Financial assets available for sale	90,703,088	-	9,309,634	32,735,999	21,272,618	4,438,539	15,050,000	82,806,789
<b>Equity financial instruments</b>	<b>47,933,638</b>	<b>47,933,638</b>	-	-	-	-	-	<b>95,867,275</b>
Financial assets at fair value through income statement	3,231,457	3,231,457	-	-	-	-	-	3,231,457
Financial assets available for sale	44,702,181	44,702,181	-	-	-	-	-	44,702,181
<b>Loans, deposits and financial receivables</b>	<b>52,005,442</b>	<b>2,334,353</b>	<b>34,624,543</b>	<b>10,981,467</b>	<b>296,779</b>	<b>122,688</b>	<b>702,436</b>	<b>49,062,266</b>
<b>Investments in subsidiaries and associates</b>	<b>27,418,592</b>	<b>27,418,592</b>	-	-	-	-	-	<b>27,418,592</b>
<b>Assets of policyholders who bear investment risk</b>	<b>257,518,981</b>	<b>255,335,611</b>	-	<b>1,218,000</b>	<b>1,522,500</b>	<b>609,000</b>	-	<b>258,685,111</b>
<b>Investment properties</b>	<b>29,375,722</b>	<b>29,375,722</b>	-	-	-	-	-	<b>29,375,722</b>
<b>Total financial investments</b>	<b>565,732,460</b>	<b>362,397,915</b>	<b>62,057,432</b>	<b>74,212,139</b>	<b>38,305,673</b>	<b>7,209,058</b>	<b>19,520,913</b>	<b>611,636,768</b>
Amount (technical provisions), transferred to reinsurers	29,081,444	-	13,649,375	9,568,823	4,128,805	1,520,090	214,350	29,081,443
Operating and other receivables	42,803,996	-	42,803,996	-	-	-	-	42,803,996
Cash and cash equivalents	10,712,024	-	10,712,024	-	-	-	-	10,712,024
Other assets	38,184,255	-	38,184,255	-	-	-	-	38,184,255
<b>Total assets</b>	<b>686,514,180</b>	<b>362,397,915</b>	<b>166,390,352</b>	<b>83,780,962</b>	<b>42,434,478</b>	<b>8,729,148</b>	<b>19,735,263</b>	<b>683,468,119</b>
Non-life and health insurance	169,634,380	-	105,498,161	39,627,764	16,756,072	6,944,050	808,333	169,634,380
Unit-linked life insurance	254,556,502	-	6,331,294	48,957,483	50,740,756	39,092,739	109,434,231	254,556,502
Life insurance	103,651,695	-	8,346,625	14,599,482	24,683,905	28,193,769	72,917,562	148,741,342
Other liabilities	51,804,354	-	51,804,354	-	-	-	-	51,804,354
<b>Total Liabilities</b>	<b>579,646,932</b>	-	<b>171,980,435</b>	<b>103,184,728</b>	<b>92,180,732</b>	<b>74,230,558</b>	<b>183,160,126</b>	<b>624,736,579</b>

## 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 2015<sup>1</sup>

In EUR	AAA-A	BBB-B	CCC-C	Not rated	Total on 31 December 2015
Financial assets at fair value through profit or loss	3,561,467	6,582,283	833	3,535,948	<b>13,680,532</b>
Debt securities	3,561,467	6,582,283	833	3,535,948	<b>13,680,532</b>
Held-to-maturity financial assets	2,496,862	30,072,816	104,438	6,797,410	<b>39,471,526</b>
Debt securities	2,496,862	30,072,816	104,438	6,797,410	<b>39,471,526</b>
Available- for-sale financial assets	3,532,543	103,802,358	-	10,645,016	<b>117,979,917</b>
Debt securities	3,532,543	103,802,358	-	10,645,016	<b>117,979,917</b>
Loans, deposits and financial receivables	-	9,035,035	418,537	29,382,387	<b>38,835,960</b>
<b>Total financial investments</b>	<b>9,590,872</b>	<b>149,492,493</b>	<b>523,809</b>	<b>50,360,761</b>	<b>209,967,935</b>
Receivables arising from insurance contracts and other operating receivables	1,443,699	45,650	78,579	29,929,905	<b>31,497,833</b>
Reinsurers' share of technical provisions	13,302,095	3,557,065	356,189	-	<b>17,215,350</b>
Cash and cash equivalents	-	8,583,826	815,460	2,395,259	<b>11,794,544</b>
<b>Total assets exposed to credit risk</b>	<b>24,336,666</b>	<b>161,679,034</b>	<b>1,774,037</b>	<b>82,685,924</b>	<b>270,475,661</b>

Bond investments portfolio without rating in 2015 relates to debt securities of important Slovene companies and banks, partially or completely owned by the state. Given loans account for 32,992,286 euros (85 % share) within the item Loans, deposits and financial receivables. The share of loans, the issuer of which is not rated, is 75 % of all given loans. 38 % of loans without rating are collateralised by pledge on real estate or securities, 76 % of loans without rating are collateralised by bills of exchange and the remaining 6 % are secured by other types of collateral. The largest amount of total given loans to an individual issuer have been given to KD Kapital d.o.o. (35 % of all given loans).

<sup>1</sup> This table should be read together with the note in Section 8.2.3., paragraph 4. In the tables containing Maximum exposure to credit risk by category of financial assets in the observed periods, 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.

## Maximum exposure to credit risk by category of financial assets as at 31 December 2014

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
<b>Total financial investments</b>	<b>7,808,965</b>	<b>119,417,218</b>	<b>3,161,104</b>	<b>72,396,931</b>	<b>202,784,218</b>
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
<b>Total assets exposed to credit risk</b>	<b>39,179,456</b>	<b>130,378,392</b>	<b>3,331,564</b>	<b>110,040,351</b>	<b>282,929,763</b>

Bond investments portfolio without rating in 2014 relates to debt securities of important Slovene companies and banks, partially or completely owned by the state. Given loans account for 31,804,696 euros (62 % share) within the item Loans, deposits and financial receivables. The share of loans, the issuer of which is not rated, is 75 % of all given loans. 38 % of loans without rating are collateralised by pledge on real estate or securities, 56 % of loans without rating are collateralised by bills of exchange and the remaining 6 % are secured by other types of collateral. The largest amount of total given loans to an individual issuer have been given to KD Kapital d.o.o. (27 % of all given loans).

## Exposure of investments

Exposure of investments to Slovenia (in %)	2015	2014
<b>EXPOSURE TO THE REPUBLIC OF SLOVENIA</b>	<b>11.23%</b>	<b>18.81%</b>
investments in bonds issued by the RS	7.76%	8.36%
investments in Slovene bonds of banks	1.52%	2.67%
investments in shares of Slovene banks	0.35%	0.34%
deposits with Slovene banks	1.60%	7.43%

According to macroeconomic data, Slovenia in 2015 maintained the trend of economic growth, which was, together with the recovery of EMU area, mainly driven by growth of exports, assisted by the devaluation of the Euro toward foreign currencies (toward the American Dollar by 11.4 % in the last year).

Therefore, Slovenia was in the past year treated more favourably in terms of credit ratings, especially due to improved macroeconomic indicators and political stabilisation. The credit adjustment on the profitability of Slovene state bond was in 2015 lower again, and in this way more than neutralised the growth of interest adjustment / profitability of the German state bond, which grew by 10 basis points in the past year. The 10-year profitability of the Slovene state bond therefore fell from 2.07 % to 1.66 %, which contributed more than 7 % to the nominal growth of the bond. The Slovene stock index SBITOP disappointed in the past year due to unfulfilled expectations of investors about privatisation and withdrawal of state ownership in companies, especially Telekom Slovenije. During the year, the Group lowered the share of investments exposed toward the state, primarily due to maturity of deposits in state-owned banks; to a smaller extent, also the exposure toward Slovene state bonds and bonds of state-owned banks decreased.

## Credit risk: Past-due and not past-due financial instruments as at 31 December 2015

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)	171,131,975	-	-	-	-	-	-	-	-	-	-	171,131,975
Loans and financial receivables	34,412,931	1,247	3,550	-	1,640,384	1,645,181	13,581	(13,581)	-	-	-	36,058,113
Amount (technical provisions) ceded to reinsurers	17,215,350	-	-	-	-	-	-	-	-	-	-	17,215,350
Receivables from Insurance contracts and other receivables	22,956,141	2	-	-	-	2	19,259,235	(6,072,098)	(4,645,447)	8,541,690	8,541,690	31,497,833
Insurance receivables	15,097,796	2	-	-	-	2	15,274,850	(4,230,108)	(3,445,779)	7,598,964	7,598,964	22,696,762
Recourse receivables	42	0	-	-	-	0	3,029,099	(1,366,207)	(801,409)	861,483	861,483	861,526
Other receivables	7,858,302	0	-	-	-	0	955,286	(475,784)	(398,259)	81,243	81,243	7,939,546
<b>Total</b>	<b>245,716,397</b>	<b>1,250</b>	<b>3,550</b>	<b>-</b>	<b>1,640,384</b>	<b>1,645,184</b>	<b>19,272,816</b>	<b>(6,085,679)</b>	<b>(4,645,447)</b>	<b>8,541,690</b>	<b>8,541,690</b>	<b>255,903,270</b>

This table should be read together with the note in Section 8.2.3., paragraph 4.

## Credit risk: Past-due and not past-due financial instruments as at 31 December 2014

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)	151,480,086	-	-	-	-	-	-	-	-	-	-	151,480,086
Loans and financial receivables	32,243,294	21,216	11,753	72,366	67,011	172,346	2,097,694	(1,075,595)	-	1,022,099	1,022,099	33,437,739
Amount (technical provisions) ceded to reinsurers	29,081,444	-	-	-	-	-	-	-	-	-	-	29,081,444
Receivables	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
<b>Total</b>	<b>244,554,899</b>	<b>21,216</b>	<b>11,753</b>	<b>72,366</b>	<b>67,011</b>	<b>172,346</b>	<b>23,660,914</b>	<b>(5,356,108)</b>	<b>(5,897,938)</b>	<b>10,255,678</b>	<b>10,255,678</b>	<b>254,982,923</b>

This table should be read together with the note in Section 8.2.3., paragraph 4.

## Risk of changes in prices of equity securities

This risk is defined as the risk of fluctuation 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.

The insurance company measures the risk of changes in prices of equity securities by means of analysis of sensitivity to changes in share prices. This risk affects equity securities, share mutual funds and mixed mutual funds (corresponding part). The results are presented within the market risks sensitivity analysis.

## Interest rate risk

Interest rate risk is the risk that a change in interest rates on the market will affect the value of assets and liabilities that are sensitive to interest rate fluctuations.

It is reflected in the following: a change in market value of debt securities, 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. The change in interest rates can also affect the fair value of liabilities that are prone to this risk.

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.

Interest rate risk is measured by means of sensitivity analysis, namely by changes in value of investments in debt financial instruments and value of provisions when interest rates change. The effect of changes in interest rates is presented within the market risks sensitivity analysis.

## Classification of financial assets on the basis of fixed and variable interest rates<sup>2</sup>

in EUR	Fixed interest rate		Variable interest rate		Total	
	2015	2014	2015	2014	2015	2014
<b>ASSETS</b>						
Debt securities	134,610,670	151,415,872	36,521,305	64,214	171,131,975	151,480,086
Loans and deposits	32,985,414	48,696,584	2,784,719	974,505	35,770,133	49,671,089
Cash and cash equivalents	11,794,544	10,080,447	-	-	11,794,544	10,080,447
<b>Total</b>	<b>179,390,628</b>	<b>210,192,902</b>	<b>39,306,024</b>	<b>1,038,719</b>	<b>218,696,652</b>	<b>211,231,621</b>

This table should be read together with the note in Section 8.2.3., 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.

In 2015, the insurance company controlled the risk of unfulfilment of guaranteed return in the environment of record-low interest rates, mainly by means of continuous adapting of the portfolio of debt financial instruments among different issuer states and extending the maturity of investments.

<sup>2</sup> Including receivables from long-term insurance fund of investment risk.

The past year was extremely volatile for bond markets, due to a high dynamic of changes in both interest rate risk and credit risk on European bond markets. Therefore, the insurance company was managing its debt investments portfolios with prudence and actively, to achieve good profitability in relation to interest rate risk and credit risk of individual states. With regard to liquidity, profitability and required capital, the insurance company increased the share of state bonds in life insurance from 60 % to 74 %, mostly due to the increased exposure to Spanish state bonds, the share of which grew in the last year from 6 % to 21 % within the debt portfolio. Also in the segment of pension insurance, where 60 % of the average profitability of state bonds is guaranteed, the insurance company spread its new assets among state bonds. The exposure toward Slovene state bonds was reduced mainly due to relatively low profitability and liquidity considering other countries on the European periphery, but the exposure to Italian and Spanish bonds grew. Due to the profitability of bonds being relatively low in general in relation to guaranteed return of both funds, the insurance company was prolonging the weighted average duration of investments with fixed return by 2 to 3 years continuously through the year. Consequently, in both funds, the negative gap between maturity of liabilities and investments with fixed return was reduced.

On both funds with guaranteed return, the insurance company in 2015 ensured returns that exceeded the guaranteed return with the structure of investments among individual investment classes and active asset management considering the nature of liabilities and conditions on capital markets. Efficient asset and liabilities management will remain to be one of the key goals of the insurance company.

#### Actual exposure to risk associated with the pension scheme/plan

Pension insurance scheme/plan	2015	2014
Average return on investments for the period	4.48%	7.46%
Regulatory (guaranteed) return	2.30%	2.30%
Difference in interest rates	2.18%	5.16%

In 2015, the insurance company reached and even exceeded the guaranteed return in the voluntary supplementary pension insurance guarantee fund.

#### 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	HRK	Other	Total 31 Dec 2015
<b>ASSETS</b>				
Financial assets measured at fair value through profit or loss	13,937,784	1,191,416	191,375	15,320,574
Equity securities	257,252	1,191,416	191,375	1,640,042
Debt securities	13,680,532	-	-	13,680,532
Held-to-maturity financial assets	39,339,896	131,631	-	39,471,526
Debt securities	39,339,896	131,631	-	39,471,526
Available-for-sale financial assets	150,790,136	-	774,120	151,564,256
Equity securities	33,584,323	-	16	33,584,339
Debt securities	117,205,813	-	774,104	117,979,917
Loans, deposits and financial receivables	38,833,149	-	2,810	38,835,959
Investments into subsidiaries or associates	20,106,836	82,960	-	20,189,796
<b>Total financial investment</b>	<b>263,007,800</b>	<b>1,406,006</b>	<b>968,305</b>	<b>265,382,111</b>
Receivables from insurance operations and other operating receivables	38,476,889	859,483	-	39,336,372
Amount (technical provisions) transferred to reinsurers	18,017,591	715	-	18,018,307
Cash and cash equivalents	14,142,356	51,723	-	14,194,080
Other assets	70,351,483	309,181	-	70,660,664
<b>Total assets exposed to currency risk</b>	<b>403,996,119</b>	<b>2,627,109</b>	<b>968,305</b>	<b>407,591,533</b>
<b>LIABILITIES</b>				
Liabilities arising from insurance contracts	268,112,887	502,878	-	268,615,765
<b>Total liabilities exposed to currency risk</b>	<b>268,112,887</b>	<b>502,878</b>	<b>-</b>	<b>268,615,765</b>

This table should be read together with the note in Section 8.2.3., paragraph 4.

## Currency risk

in EUR	EUR adjusted	HRK	Other	Total 31 Dec 2014 adjusted
<b>ASSETS</b>				
Financial assets measured at fair value through profit or loss	35,107,791	-	1,265,612	36,373,403
Equity securities	2,188,567	-	1,265,612	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	123,424,713	693,001	407,052	124,524,767
Equity securities	38,352,264	693,001	407,052	39,452,317
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
<b>Total financial investment</b>	<b>275,538,607</b>	<b>693,001</b>	<b>3,345,328</b>	<b>279,576,935</b>
Cash and cash equivalents	9,404,593	-	-	9,404,593
<b>Total assets exposed to currency risk</b>	<b>284,943,200</b>	<b>693,001</b>	<b>3,345,328</b>	<b>288,981,529</b>

This table should be read together with the note in Section 8.2.3., paragraph 4. In 2014, liabilities of the insurance company were expressed in euros.

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 2015 and 2014. The Company's liabilities are expressed in euros and are not separately exposed to the currency risk.

## 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 $\pm 50$ 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)
Foreign currency rates	Effect of the $\pm 5\%$ change in foreign currency rates as at 31 December 2015
Changes in prices of equity securities	The effect on changes of market prices of equity securities is reflected in the $\pm 15\%$ changes of share prices, prices of ID-shares, prices of structured securities and prices of mutual funds as at 31 December 2015.

### Sensitivity analyses

#### Analysis of sensitivity to change in the interest rate

in EUR	Effect on profit	Effect on equity
<b>31 December 2014 adjusted</b>		
Interest rate change of +50 bp	(559,361)	(3,360,445)
Interest rate change of -50 bp	391,293	9,249,767
<b>31 December 2015</b>		
Interest rate change of +50 bp	(113,601)	(5,319,346)
Interest rate change of -50 bp	126,261	5,050,748

#### 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
<b>31 December 2014 adjusted</b>		
Change in prices of equities +15%	484,719	9,169,081
Change in prices of equities -15%	(484,719)	(9,169,081)
<b>31 December 2015</b>		
Change in prices of equities +15%	246,006	5,037,651
Change in prices of equities -15%	(246,006)	(5,037,651)

Under the sensitivity analysis, the changes in prices of shares refer to prices, obtained with the closing interest rate on the reporting date for the current and the past 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.

## 8.2.4 Fair value 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 6.5.5.

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<sup>3</sup>

In EUR	Carrying amount		Fair value	
	2015	2014 adjusted	2015	2014 adjusted
<b>FINANCIAL ASSETS</b>				
Deposits, loans and financial receivables	39,617,921	52,005,422	39,617,921	52,005,422
Financial assets at fair value through profit or loss	15,320,574	30,844,643	15,433,321	30,844,643
Held-to-maturity financial assets	39,471,526	33,163,813	45,743,396	37,710,682
Available-for-sale financial assets	171,754,051	162,823,860	171,877,808	162,823,860
Unit-linked investments of policyholders	263,760,339	257,518,981	263,760,339	257,518,981
Investment property	30,835,438	29,375,722	31,268,505	29,861,357
<b>Total financial assets</b>	<b>560,759,850</b>	<b>565,732,440</b>	<b>567,701,290</b>	<b>570,764,945</b>
<b>FINANCIAL LIABILITIES</b>				
Loans	15,355	43,971	15,355	43,971
<b>Total financial liabilities</b>	<b>15,355</b>	<b>43,971</b>	<b>15,355</b>	<b>43,971</b>

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 has been confirmed 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 insurance company can estimate fair value. The insurance company's fair value estimation of financial investments divides the investments into three levels (refer to 6.5.5.).

<sup>3</sup> Including the receivables from guarantee fund of investment risk.

## Financial assets categorised in the fair value hierarchy in 2015

in EUR	Level 1	Level 2	Level 3	Aggregate fair value
<b>Financial assets measured at fair value through profit or loss, held for sale</b>	<b>697,236</b>	<b>6,976,493</b>	-	<b>7,673,729</b>
Debt securities	-	6,976,493	-	6,976,493
Investment coupons of mutual funds	697,236	-	-	697,236
<b>Financial assets measured at fair value through profit or loss, at initial recognition</b>	<b>942,806</b>	<b>6,816,786</b>	-	<b>7,759,592</b>
Equity securities	-	-	-	-
Debt securities	-	6,816,786	-	6,816,786
Investment coupons of mutual funds	942,806	-	-	942,806
<b>Available-for-sale financial assets</b>	<b>28,681,844</b>	<b>115,875,635</b>	<b>27,320,329</b>	<b>171,877,808</b>
Equity securities	8,789,672	-	27,320,329	36,110,001
Debt securities	2,228,038	115,875,635	-	118,103,674
Investment coupons of mutual funds	17,664,133	-	-	17,664,133
<b>Held-to-maturity financial assets</b>	<b>537,278</b>	<b>45,206,118</b>	-	<b>45,743,396</b>
Debt financial instruments	537,278	45,206,118	-	45,743,396
<b>Unit-linked investments of policyholders</b>	<b>207,627,225</b>	<b>40,013,656</b>	<b>16,119,458</b>	<b>263,760,339</b>
<b>Deposits and loans</b>	-	-	<b>35,770,133</b>	<b>35,770,133</b>
<b>Investment property</b>	-	-	<b>31,268,505</b>	<b>31,268,505</b>
<b>Total assets</b>	<b>238,486,389</b>	<b>214,888,688</b>	<b>110,478,425</b>	<b>563,853,502</b>
Loans	-	-	15,000	15,000
<b>Total financial liabilities</b>	-	-	<b>15,000</b>	<b>15,000</b>

Note: The available-for-sale financial assets include investments in subsidiaries and associates.

## Financial assets categorised in the fair value hierarchy in 2014 – Adjusted

in EUR	Level 1	Level 2	Level 3	Aggregate fair value
<b>Financial assets measured at fair value through profit or loss, held for sale</b>	<b>7,179,434</b>	<b>311,910</b>	<b>15,267,162</b>	<b>22,758,506</b>
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
<b>Financial assets measured at fair value through profit or loss, at initial recognition</b>	<b>5,486,887</b>	<b>2,599,250</b>	-	<b>8,086,137</b>
Debt securities	5,486,887	2,599,250	-	8,086,137
<b>Available-for-sale financial assets</b>	<b>52,583,341</b>	<b>7,308,020</b>	<b>102,932,498</b>	<b>162,823,860</b>
Equity securities	9,947,673	-	34,797,537	44,745,210
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
<b>Held-to-maturity financial assets</b>	<b>16,943,940</b>	-	<b>20,766,742</b>	<b>37,710,682</b>
Debt financial instruments	16,943,940	-	20,766,742	37,710,682
<b>Unit-linked investments of policyholders</b>	<b>235,203,869</b>	<b>10,121,975</b>	<b>12,193,136</b>	<b>257,518,980</b>
<b>Deposits and loans</b>	<b>17,866,393</b>	-	<b>31,804,696</b>	<b>49,671,089</b>
<b>Investment property</b>	-	-	<b>29,861,357</b>	<b>29,861,357</b>
<b>Total assets</b>	<b>335,263,864</b>	<b>20,341,155</b>	<b>212,825,591</b>	<b>568,430,610</b>
Loans	-	-	43,971	43,971
<b>Total financial liabilities</b>	-	-	<b>43,971</b>	<b>43,971</b>

Note: The available-for-sale financial assets include investments in subsidiaries and associates.

**Level 3 assets and liabilities****Financial assets and liabilities categorised in the fair value hierarchy – Level 3 movement in 2015**

in EUR	1 January 2015	Total profit/loss in profit or loss	Total profit/loss in comprehensi ve income	Purchase	Sale	Transfers (to) from Level 3	31/12/2015
<b>Assets measured at fair value</b>							
<b>Financial assets measured at fair value</b>							
<b>through profit or loss, held for sale</b>	<b>15,267,162</b>	-	-	-	-	<b>(15,267,162)</b>	-
Debt securities	15,267,162	-	-	-	-	(15,267,162)	-
<b>Available-for-sale financial assets</b>	<b>68,134,961</b>	<b>89,741</b>	<b>(21)</b>	-	<b>(1,205,755)</b>	<b>(67,018,927)</b>	-
Debt securities	68,134,961	89,741	(21)	-	(1,205,755)	(67,018,927)	-
<b>Total assets</b>	<b>83,402,123</b>	<b>89,741</b>	<b>(21)</b>	-	<b>(1,205,755)</b>	<b>(82,286,089)</b>	-

In accordance with the new method of determining the fair value of debt securities (marketable bonds), the insurance company made the following reallocation:

- Debt securities in the amount of 103,052,831 euros were reallocated from level 3 to level 2; out of these, 82,286,089 euros of debt securities were measured at fair value.
- Debt securities in the amount of 61,294,059 euros were reallocated from level 1 to level 2.

Due to the new methodology of reallocation among levels and transition to the new way of calculating fair value, the fair value of debt securities is 2,419,728 euros higher, which is 1.39 % of the fair value of debt securities investment portfolio.

**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 comprehensi ve income	Purchase	Sale	Transfers (to) from Level 3	31/12/2014
<b>Assets measured at fair value</b>							
<b>Financial assets measured at fair value</b>							
<b>through profit or loss, held for sale</b>	-	-	-	-	-	15,267,162	15,267,162
Debt securities	-	-	-	-	-	15,267,162	15,267,162
<b>Available-for-sale financial assets</b>	-	-	-	-	-	68,134,961	68,134,961
Debt securities	-	-	-	-	-	68,134,961	68,134,961
<b>Total assets</b>	-	-	-	-	-	<b>83,402,123</b>	<b>83,402,123</b>

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, out of which, 83,402,123 euros of investments were measured at fair value. 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.



## 8.2.5 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. Risk control, especially that of operational risk, is primarily a responsibility of process owners of processes where these risks occur or are related to. The internal control system, internal control reviews and calculations of key risk indicators are used as the primary tool for management of operational risk. The identified and potential future risks are documented in the risk catalogue which is updated quarterly. The insurance company has adopted a business continuity strategy, focused on fast recovery of critical business processes. In 2015, also a new policy on operational risk management was adopted and aligned with European guidance requirements.

### 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 have incorporated the risk-based principle into the process of business plan preparation. This means that the operating categories of the business plan are designed in line with the Company's accepted risk appetite. Before the final approval, the business plan is being tested in order to find out if the risk appetite and capital adequacy, as required by the Solvency II principles, are reached.

## 9. 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, 47/2009 and 89/2014).

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 groups, 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.

## 9.1 BALANCE SHEET BY SEGMENT

## Balance sheet as at 31 December 2015 by segment in accordance with the Decision on the Annual Reports of Insurance Undertakings

in EUR			Complementary		Total
	Life insurance	Non-life insurance	health insurance	Other health insurance	
<b>Assets</b>	<b>410,985,350</b>	<b>247,209,704</b>	<b>26,043,591</b>	<b>1,686,407</b>	<b>665,354,600</b>
<b>Intangible assets</b>	<b>2,204,855</b>	<b>3,860,308</b>	-	-	<b>6,065,163</b>
Property, plant and equipment	6,084,299	20,425,436	1,313,559	-	27,823,294
Non-current assets held for sale	-	1,669,786	360,197	-	2,029,983
Deferred tax assets	140,530	2,233,969	443,154	14,376	2,832,029
Investment properties	24,047	30,779,609	-	31,782	30,835,438
Financial investments in subsidiaries and associates	3,696,234	16,493,562	-	-	20,189,796
<b>Financial investments</b>	<b>118,811,311</b>	<b>112,812,902</b>	<b>13,420,096</b>	<b>929,968</b>	<b>245,974,277</b>
In loans and deposits	3,082,379	32,785,739	3,748,950	853	39,617,921
In held-to-maturity financial assets	26,832,652	12,021,702	617,172	-	39,471,526
In available-for-sale financial assets	83,845,718	58,795,092	8,053,444	870,002	151,564,256
In financial assets measured at fair value	5,050,563	9,210,368	1,000,530	59,113	15,320,574
Unit-linked investments of policyholders	263,760,339	-	-	-	263,760,339
Amounts of technical provisions ceded to reinsurers	277,726	16,937,623	-	-	17,215,350
<b>Receivables</b>	<b>9,300,174</b>	<b>32,210,148</b>	<b>7,988,844</b>	<b>676,367</b>	<b>29,786,767</b>
Receivables from direct insurance business	1,364,315	9,336,252	7,085,796	660,288	18,446,651
Receivables from reinsurance and coinsurance	153,762	1,414,114	-	-	1,567,876
Income tax receivables	2,623,703	6,249	837,982	15,931	3,483,865
Other receivables	5,158,395	21,453,533	65,066	148	6,288,375
<b>Other assets</b>	<b>1,510,476</b>	<b>4,050,649</b>	<b>553,730</b>	<b>7,234</b>	<b>5,940,403</b>
<b>Cash and cash equivalents</b>	<b>5,175,359</b>	<b>5,735,713</b>	<b>1,964,011</b>	<b>26,679</b>	<b>12,901,762</b>
<b>Equity and liabilities</b>	<b>410,985,350</b>	<b>247,209,704</b>	<b>26,043,591</b>	<b>1,686,407</b>	<b>665,354,600</b>
<b>Equity</b>	<b>21,624,315</b>	<b>72,824,777</b>	<b>5,873,917</b>	<b>607,148</b>	<b>100,930,157</b>
Share capital	11,973,787	31,025,743	-	-	42,999,530
Capital reserves	1,697,506	2,514,276	-	-	4,211,782
Reserve from profit	(0)	9,610,430	5,839,419	93,438	15,543,287
Revaluation surplus	1,814,939	1,666,786	34,499	23,876	3,540,100
Retained net earnings	1,926,686	17,500,249	-	489,834	19,916,770
Net profit or loss for the financial year	4,211,395	10,507,293	-	-	14,718,688
<b>Technical provisions</b>	<b>108,657,746</b>	<b>147,012,711</b>	<b>12,587,571</b>	<b>786,587</b>	<b>269,044,614</b>
Unearned premiums	439,459	42,051,836	6,923,288	347,678	49,762,262
Mathematical provisions	102,710,827	54,247	-	68	102,765,143
Outstanding claims provisions	5,359,721	104,158,279	5,663,062	125,961	115,307,024
Other technical provisions	147,739	748,348	1,220	312,879	1,210,185
Insurance technical provisions for unit-linked insurance policyholders	259,697,710	-	-	-	259,697,710
Other provisions	3,403	4,573,354	-	-	4,576,757
Deferred tax liabilities	371,440	348,701	7,066	4,890	732,097
Other financial liabilities	151	984,117	-	23	984,291
<b>Operating liabilities</b>	<b>2,938,913</b>	<b>2,478,291</b>	<b>1,432,257</b>	<b>43,770</b>	<b>6,893,232</b>
Liabilities from direct insurance contracts	1,091,666	1,300,309	1,432,257	43,770	3,868,003
Liabilities from reinsurance and coinsurance contracts	468,654	1,015,837	-	-	1,484,491
Income tax liabilities	1,378,592	162,146	-	-	1,540,738
<b>Other liabilities</b>	<b>17,691,673</b>	<b>18,987,754</b>	<b>6,142,780</b>	<b>243,989</b>	<b>22,495,744</b>

The balance of assets and liabilities as per column does not equal the sum of individual insurance segments because on the level of balance sums, final set-offs of assets and liabilities in the total amount of 20,570,452 euros were made in the categories of receivables (in the subcategory of other receivables), other assets and in the category of other liabilities.

**Balance sheet as at 31 December 2014 by segment in accordance with the Decision on the Annual Reports of Insurance Undertakings – Adjusted**

in EUR	Life insurance	Non-life insurance	Complementary health insurance	Other health insurance	Total
<b>Assets</b>	392,128,395	272,541,242	29,471,272	2,251,382	686,514,160
<b>Intangible assets</b>	1,875,783	3,522,260	-	-	5,398,043
<b>Property, plant and equipment</b>	-	27,316,753	-	-	27,316,753
<b>Deferred tax assets</b>	331,149	2,840,594	432,924	17,830	3,622,498
<b>Investment properties</b>	1,081,785	28,261,693	-	32,244	29,375,722
<b>Financial investments in subsidiaries and associates</b>	3,696,234	23,362,162	360,197	-	27,418,592
<b>Financial investments</b>	116,404,002	114,422,604	19,379,330	1,213,209	251,419,145
In loans and deposits	12,453,161	27,351,449	12,199,929	883	52,005,422
In held-to-maturity financial assets	24,314,382	8,248,183	601,248	-	33,163,813
In available-for-sale financial assets	74,162,645	54,451,092	5,867,906	923,626	135,405,268
In financial assets measured at fair value	5,473,813	24,371,881	710,248	288,701	30,844,643
<b>Unit-linked investments of policyholders</b>	257,518,981	-	-	-	257,518,981
<b>Amounts of technical provisions ceded to reinsurers</b>	222,031	28,859,413	-	-	29,081,444
<b>Receivables</b>	4,368,394	35,856,416	7,981,926	704,120	39,181,499
Receivables from direct insurance business	2,220,094	10,724,864	7,763,061	702,192	21,410,211
Receivables from reinsurance and coinsurance	12,149	6,292,619	-	-	6,304,768
Income tax receivables	134,820	3,396,627	-	-	3,531,447
Other receivables	2,001,331	15,442,306	218,866	1,927	7,935,073
<b>Other assets</b>	1,327,076	3,549,321	737,117	4,719	5,469,459
<b>Cash and cash equivalents</b>	5,302,960	4,550,026	579,777	279,260	10,712,024
<b>Equity and liabilities</b>	392,128,395	272,541,242	29,471,272	2,251,382	686,514,160
<b>Equity</b>	21,107,124	78,579,538	6,480,938	699,648	106,867,248
Share capital	11,973,787	31,025,743	-	-	42,999,530
Capital reserves	1,697,506	2,514,276	-	-	4,211,782
Reserve from profit	-	9,161,383	6,516,274	93,438	15,771,095
Revaluation surplus	3,178,218	2,648,328	(35,336)	6,210	5,797,421
Retained net earnings	(311,813)	18,869,412	-	600,000	19,157,598
Net profit or loss for the financial year	4,569,425	14,360,397	-	-	18,929,822
<b>Technical provisions</b>	103,978,322	155,581,295	13,094,406	958,679	273,612,701
Unearned premiums	482,216	42,612,091	7,636,723	374,854	51,105,883
Mathematical provisions	97,250,575	1,991	-	0	97,252,566
Outstanding claims provisions	5,925,848	112,405,512	5,457,087	107,424	123,895,871
Other technical provisions	319,683	561,700	595	476,401	1,358,381
<b>Insurance technical provisions for unit-linked insurance policyholders</b>	254,229,875	-	-	-	254,229,875
<b>Other provisions</b>	-	3,126,745	-	-	3,126,745
<b>Deferred tax liabilities</b>	650,960	542,400	-	1,272	1,194,632
<b>Liabilities from investment contracts</b>	-	-	-	-	-
<b>Other financial liabilities</b>	424	754,753	470	135	755,781
<b>Operating liabilities</b>	3,395,082	15,135,273	3,387,478	72,454	21,990,287
Liabilities from direct insurance contracts	1,246,043	1,252,721	2,013,517	30,724	4,543,005
Liabilities from reinsurance and coinsurance	501,239	10,990,741	-	-	11,491,980
Income tax liabilities	1,647,800	2,891,811	1,373,961	41,730	5,955,302
<b>Other liabilities</b>	8,766,608	18,821,238	6,507,980	519,195	24,736,890

The balance of assets and liabilities as per column does not equal the sum of individual insurance segments because on the level of balance sums, final set-offs of assets and liabilities in the total amount of 9,878,131 euros were made in the categories of receivables (in the subcategory of other receivables), other assets and in the category of other liabilities.

## 9.2 INCOME STATEMENT BY SEGMENT

Income statement for the period from 1 January 2015 to 31 December 2015 by segment, in accordance with the Decision on Annual Reports of Insurance Undertakings

in EUR	Life insurance	Non-life insurance	Complementary health insurance	Other health insurance	Total
<b>NET PREMIUM INCOME</b>	<b>58,670,183</b>	<b>127,280,761</b>	<b>98,788,483</b>	<b>2,595,836</b>	<b>287,335,263</b>
Gross written premiums	60,214,098	135,791,145	98,075,048	2,568,661	296,648,952
Premiums ceded to reinsurers and coinsurers	(1,586,492)	(8,855,953)	-	-	(10,442,444)
Change in unearned premiums	42,577	345,568	713,435	27,175	1,128,755
<b>REVENUES FROM INVESTMENTS IN ASSOCIATES, of which</b>	<b>34,953</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>34,953</b>
<b>INCOME FROM INVESTMENTS</b>	<b>14,098,530</b>	<b>7,610,619</b>	<b>1,055,824</b>	<b>76,846</b>	<b>22,841,819</b>
<b>OTHER INCOME FROM INSURANCE OPERATIONS, of which</b>	<b>446,794</b>	<b>3,718,031</b>	<b>-</b>	<b>-</b>	<b>4,164,825</b>
- fee and commission income	446,794	3,718,031	-	-	4,164,825
<b>OTHER INCOME</b>	<b>1,934,564</b>	<b>4,801,328</b>	<b>439,788</b>	<b>20,375</b>	<b>7,118,090</b>
<b>NET EXPENSES FOR CLAIMS AND BENEFITS PAID</b>	<b>(38,631,342)</b>	<b>(79,323,335)</b>	<b>(86,770,259)</b>	<b>(1,924,027)</b>	<b>(206,648,963)</b>
Gross amounts of claims and benefits paid	(39,803,535)	(85,127,147)	(86,564,284)	(1,905,489)	(213,400,456)
Reinsurers'/coinsurers' shares	429,788	9,263,683	-	-	9,693,470
Change in claims provisions	742,406	(3,459,870)	(205,975)	(18,537)	(2,941,977)
<b>CHANGE IN OTHER TECHNICAL PROVISIONS</b>	<b>(4,729,847)</b>	<b>47,225</b>	<b>-</b>	<b>163,486</b>	<b>(4,519,135)</b>
<b>CHANGE IN TECHNICAL PROVISIONS FOR THE BENEFIT OF UNIT-LINKED INSURANCE POLICYHOLDERS</b>	<b>(1,826,453)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(1,826,453)</b>
<b>EXPENSES FOR BONUSES AND DISCOUNTS</b>	<b>-</b>	<b>(286,129)</b>	<b>(625)</b>	<b>(32)</b>	<b>(286,786)</b>
<b>OPERATING EXPENSES, of which</b>	<b>(18,946,580)</b>	<b>(38,964,126)</b>	<b>(13,174,985)</b>	<b>(1,174,941)</b>	<b>(72,195,291)</b>
- acquisition costs	(8,300,423)	(16,253,032)	(2,497,462)	(48,392)	(27,099,309)
<b>EXPENSES FROM INVESTMENTS IN ASSOCIATES, of which</b>	<b>-</b>	<b>(389,169)</b>	<b>-</b>	<b>-</b>	<b>(389,169)</b>
- impairment losses of financial assets not measured at fair value through profit or loss	-	(389,169)	-	-	(389,169)
<b>EXPENSES INVESTMENTS, of which</b>	<b>(4,003,724)</b>	<b>(2,275,027)</b>	<b>(338,708)</b>	<b>(4,785)</b>	<b>(6,622,244)</b>
- impairment losses of financial assets not measured at fair value through profit or loss	(85,911)	(270,623)	(23,172)	(447)	(380,153)
<b>OTHER INSURANCE EXPENSES</b>	<b>(275,941)</b>	<b>(4,020,226)</b>	<b>(339,756)</b>	<b>(6,207)</b>	<b>(4,642,130)</b>
<b>OTHER EXPENSES</b>	<b>(1,841,582)</b>	<b>(5,220,014)</b>	<b>(483,335)</b>	<b>(17,131)</b>	<b>(7,549,436)</b>
- of which expenses from financial liabilities	(773,932)	(136,057)	(14,494)	(1,714)	(926,197)
<b>PROFIT/(LOSS) BEFORE TAX</b>	<b>4,929,556</b>	<b>12,979,938</b>	<b>(823,572)</b>	<b>(270,579)</b>	<b>16,815,342</b>
<b>CORPORATE INCOME TAX</b>	<b>(718,160)</b>	<b>(2,023,598)</b>	<b>146,717</b>	<b>43,929</b>	<b>(2,551,113)</b>
<b>NET PROFIT FOR THE REPORTING PERIOD</b>	<b>4,211,395</b>	<b>10,956,340</b>	<b>(676,855)</b>	<b>(226,651)</b>	<b>14,264,229</b>

**Income statement for the period from 1 January 2014 to 31 December 2014 by segment, in accordance with the Decision on Annual Reports of Insurance Undertakings – Adjusted**

in EUR	Life insurance	Non-life insurance	Complementary health insurance	Other health insurance	Total
<b>NET PREMIUM INCOME</b>	<b>52,526,650</b>	<b>87,996,717</b>	<b>107,029,999</b>	<b>2,371,175</b>	<b>249,924,540</b>
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
<b>INCOME FROM INVESTMENTS</b>	<b>48,084,369</b>	<b>9,601,251</b>	<b>1,472,071</b>	<b>103,112</b>	<b>59,260,803</b>
<b>OTHER INCOME FROM INSURANCE OPERATIONS, of which</b>	<b>328,592</b>	<b>12,855,050</b>	<b>-</b>	<b>-</b>	<b>13,183,642</b>
- fee and commission income	328,592	12,855,050	-	-	13,183,642
<b>OTHER INCOME</b>	<b>3,014,223</b>	<b>3,315,489</b>	<b>195,038</b>	<b>52,902</b>	<b>6,577,652</b>
<b>NET EXPENSES FOR CLAIMS AND BENEFITS PAID</b>	<b>(34,471,471)</b>	<b>(49,397,756)</b>	<b>(90,713,032)</b>	<b>(1,472,656)</b>	<b>(176,054,916)</b>
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
<b>CHANGE IN OTHER TECHNICAL PROVISIONS</b>	<b>(1,883,894)</b>	<b>1,887,676</b>	<b>-</b>	<b>(476,372)</b>	<b>(472,590)</b>
<b>CHANGE IN TECHNICAL PROVISIONS FOR THE BENEFIT OF UNIT-LINKED INSURANCE POLICYHOLDERS</b>	<b>(42,397,264)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(42,397,264)</b>
<b>EXPENSES FOR BONUSES AND DISCOUNTS</b>	<b>-</b>	<b>1,922</b>	<b>165</b>	<b>1</b>	<b>2,088</b>
<b>OPERATING EXPENSES, of which</b>	<b>(17,162,062)</b>	<b>(38,031,728)</b>	<b>(14,187,353)</b>	<b>(624,764)</b>	<b>(70,005,906)</b>
- acquisition costs	(6,683,488)	(15,490,522)	(1,750,142)	(290,275)	(24,214,427)
<b>EXPENSES FROM INVESTMENTS IN ASSOCIATES, of which</b>	<b>-</b>	<b>(914,824)</b>	<b>(69,917)</b>	<b>-</b>	<b>(984,741)</b>
- impairment losses of financial assets not measured at fair value through profit or loss	-	(914,824)	(69,917)	-	(984,741)
<b>EXPENSES INVESTMENTS, of which</b>	<b>(1,020,704)</b>	<b>(2,611,920)</b>	<b>(758,065)</b>	<b>(33,495)</b>	<b>(4,424,185)</b>
- impairment losses of financial assets not measured at fair value through profit or loss	(631,828)	(1,820,620)	(639,621)	-	(3,092,069)
<b>OTHER INSURANCE EXPENSES</b>	<b>(77,173)</b>	<b>(5,859,267)</b>	<b>(553,553)</b>	<b>(5,733)</b>	<b>(6,495,725)</b>
<b>OTHER EXPENSES</b>	<b>(1,317,055)</b>	<b>(3,232,262)</b>	<b>(508,248)</b>	<b>(11,507)</b>	<b>(5,069,073)</b>
<b>PROFIT/(LOSS) BEFORE TAX</b>	<b>5,624,210</b>	<b>15,610,348</b>	<b>1,907,106</b>	<b>(97,339)</b>	<b>23,044,325</b>
<b>CORPORATE INCOME TAX</b>	<b>(1,045,402)</b>	<b>(2,377,271)</b>	<b>(342,254)</b>	<b>(2,525)</b>	<b>(3,767,452)</b>
<b>NET PROFIT FOR THE REPORTING PERIOD</b>	<b>4,578,808</b>	<b>13,233,077</b>	<b>1,564,852</b>	<b>(99,864)</b>	<b>19,276,873</b>

## Income statement for the period from 1 January 2015 to 31 December 2015 – Adriatic Slovenica d.d., Podružnica Zagreb za osiguranje

in EUR	Branch Zagreb
<b>NET PREMIUM INCOME</b>	<b>1,701,345</b>
Gross written premiums	1,707,298
Premiums ceded to reinsurers and coinsurers	(3,860)
Change in unearned premiums	(2,093)
<b>INCOME FROM INVESTMENTS</b>	<b>143,612</b>
<b>OTHER INCOME FROM INSURANCE OPERATIONS, of which</b>	<b>711,207</b>
- fee and commission income	711,207
<b>OTHER INCOME</b>	<b>22,637</b>
<b>NET EXPENSES FOR CLAIMS AND BENEFITS PAID</b>	<b>(411,327)</b>
Gross amounts of claims and benefits paid	(453,261)
Change in claims provisions	41,934
<b>CHANGE IN OTHER TECHNICAL PROVISIONS</b>	<b>(22,578)</b>
<b>CHANGE IN TECHNICAL PROVISIONS FOR THE BENEFIT OF UNIT-LINKED INSURANCE POLICYHOLDERS</b>	<b>(311,596)</b>
<b>EXPENSES FOR BONUSES AND DISCOUNTS</b>	<b>(7)</b>
<b>OPERATING EXPENSES, of which</b>	<b>(1,120,490)</b>
- acquisition costs	(535,229)
<b>EXPENSES INVESTMENTS, of which</b>	<b>(560,916)</b>
- impairment losses of financial assets not measured at fair value through profit or loss	(674,396)
<b>OTHER INSURANCE EXPENSES</b>	<b>(722,036)</b>
<b>OTHER EXPENSES</b>	<b>(60,909)</b>
- of which expenses from financial liabilities	(5,019)
<b>PROFIT/(LOSS) BEFORE TAX</b>	<b>(631,057)</b>
<b>CORPORATE INCOME TAX</b>	<b>109,653</b>
<b>NET PROFIT FOR THE REPORTING PERIOD</b>	<b>(521,404)</b>

On 20 March 2015, the insurance company has established a subsidiary in Zagreb, Republic of Croatia, and carried out a cross-border merger with KD životno osiguranje insurance company. In the income statement above, there is the operating result, generated by Podružnica Zagreb za osiguranje in 2015.

## 9.3 STATEMENT OF COMPREHENSIVE INCOME BY SEGMENT

## Statement of comprehensive income for the period from 1 January 2015 to 31 December 2015 by insurance segment, in accordance with the Decision on Annual Reports of Insurance Undertakings

in EUR	Life insurance	Non-life insurance	Complementary health insurance	Other health insurance	Total
<b>NET PROFIT OR LOSS FOR THE FINANCIAL YEAR AFTER TAXATION</b>	<b>4,211,395</b>	<b>10,956,340</b>	<b>(676,855)</b>	<b>(226,651)</b>	<b>14,264,229</b>
<b>OTHER COMPREHENSIVE INCOME AFTER TAXATION</b>	<b>(1,431,987)</b>	<b>(981,542)</b>	<b>69,835</b>	<b>17,666</b>	<b>(2,326,028)</b>
<b>Items not to be allocated to profit or loss in subsequent periods</b>	<b>1,439</b>	<b>(35,835)</b>	<b>-</b>	<b>-</b>	<b>(34,396)</b>
Actuarial net gain/loss for pension programmes	1,439	(35,835)	-	-	(34,396)
<b>Items that may be allocated to profit or loss in subsequent periods</b>	<b>(1,433,426)</b>	<b>(945,707)</b>	<b>69,835</b>	<b>17,666</b>	<b>(2,291,633)</b>
Net gain/loss from re-measurement of available-for-sale financial assets	(1,727,019)	(1,139,406)	84,138	21,284	(2,761,003)
Gain/loss, recognised in revaluation surplus	2,361,045	(305,221)	384,282	69,636	2,509,741
Transfer of gain/loss from revaluation surplus to income statement	(4,088,064)	(834,185)	(300,144)	(48,351)	(5,270,744)
Tax on items that may be allocated to profit or loss in subsequent periods	293,593	193,699	(14,304)	(3,618)	469,370
<b>TOTAL COMPREHENSIVE INCOME FOR THE YEAR, AFTER TAXATION</b>	<b>2,779,409</b>	<b>9,974,798</b>	<b>(607,021)</b>	<b>(208,985)</b>	<b>11,938,201</b>

## Statement of comprehensive income for the period from 1 January 2014 to 31 December 2014 by insurance segment, in accordance with the Decision on Annual Reports of Insurance Undertakings – Adjusted

in EUR	Life insurance	Non-life insurance	Complementary health insurance	Other health insurance	Total
<b>NET PROFIT OR LOSS FOR THE FINANCIAL YEAR AFTER TAXATION</b>	<b>4,578,808</b>	<b>13,233,077</b>	<b>1,564,852</b>	<b>(99,864)</b>	<b>19,276,873</b>
<b>OTHER COMPREHENSIVE INCOME AFTER TAXATION</b>	<b>3,823,495</b>	<b>4,247,429</b>	<b>71,486</b>	<b>(1,172)</b>	<b>8,141,238</b>
<b>Items that may be allocated to profit or loss in subsequent periods</b>	<b>3,823,495</b>	<b>4,247,429</b>	<b>71,486</b>	<b>(1,172)</b>	<b>8,141,238</b>
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
Gain/loss, recognised in revaluation surplus	8,620,982	6,201,215	(142,389)	43,572	14,723,379
Transfer of gain/loss from revaluation surplus to income statement	(4,014,361)	(1,083,828)	228,596	(44,984)	(4,914,578)
Tax on items that may be allocated to profit or loss in subsequent periods	(783,126)	(869,957)	(14,721)	240	(1,667,563)
<b>TOTAL COMPREHENSIVE INCOME FOR THE YEAR, AFTER TAXATION</b>	<b>8,402,303</b>	<b>17,480,507</b>	<b>1,636,338</b>	<b>(101,036)</b>	<b>27,418,111</b>

**10. NOTES TO INDIVIDUAL ITEMS OF FINANCIAL STATEMENTS****10.1 INTANGIBLE ASSETS****Movements in intangible assets**

in EUR	Material in rights and licences	Software	ND assets in the process of acquisition	Total
<b>AT COST</b>				
<b>Balance as at 1 January 2014 adjusted</b>	<b>3,126,306</b>	<b>13,940,703</b>	<b>6,834</b>	<b>17,073,842</b>
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
<b>Balance as at 31 December 2014 adjusted</b>	<b>3,126,306</b>	<b>16,019,576</b>	<b>4,768</b>	<b>19,150,650</b>
<b>New balance as at 1 January 2015</b>	<b>3,126,306</b>	<b>16,019,576</b>	<b>4,768</b>	<b>19,150,650</b>
Increases due to acquisition of companies	1,102,917	166,402	-	1,269,319
Direct increases - investments	-	2,084,856	-	2,084,856
Decreases during the year	-	(1,792,078)	-	(1,792,078)
Transfers between intangible assets, investment property, and property, plant and equipment	-	4,768	(4,768)	-
Other changes	-	200	-	200
<b>Balance as at 31 December 2015</b>	<b>4,229,223</b>	<b>16,483,724</b>	<b>-</b>	<b>20,712,947</b>
<b>VALUE ADJUSTMENT</b>				
<b>Balance as at 1 January 2014 adjusted</b>	<b>964,171</b>	<b>10,496,039</b>	<b>-</b>	<b>11,460,211</b>
Depreciation during the year	-	2,006,046	-	2,006,046
Revaluation owing to impairment of assets	286,351	-	-	286,351
<b>Balance as at 31 December 2014 adjusted</b>	<b>1,250,522</b>	<b>12,502,085</b>	<b>-</b>	<b>13,752,607</b>
<b>New balance as at 1 January 2015</b>	<b>1,250,522</b>	<b>12,502,085</b>	<b>-</b>	<b>13,752,607</b>
Increases due to acquisition of companies	165,438	142,925	-	308,363
Depreciation during the year	-	1,753,518	-	1,753,518
Decreases during the year	-	(1,792,078)	-	(1,792,078)
Revaluation owing to impairment of assets	625,261	-	-	625,261
Other changes	-	112	-	112
<b>Balance as at 31 December 2015</b>	<b>2,041,222</b>	<b>12,606,562</b>	<b>-</b>	<b>14,647,784</b>
<b>BOOK VALUE</b>				
<b>Balance as at 31 December 2014</b>	<b>1,875,783</b>	<b>3,517,491</b>	<b>4,768</b>	<b>5,398,043</b>
<b>Balance as at 31 December 2015</b>	<b>2,188,001</b>	<b>3,877,162</b>	<b>-</b>	<b>6,065,163</b>

As at 31 December 2015, the operating liabilities to suppliers of intangible assets amounted to 394,541 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. All the intangible assets are owned by the insurance company and free from encumbrances.

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 2015 it did not change the amortisation rates. Amortisation of intangible assets is posted in the income statement among operating costs.

Compared to the year before, the value of non-current intangible assets grew especially upon the acquisition of the insurance company in Croatia. When KDŽO was acquired, the insurance company formed long-term accruals (in the table above in material rights column) above the carrying value of the investment, in the amount of 1,102,917 euros, from fair value surplus in life insurance portfolio.

Other important changes affecting the movement of non-current intangible assets are investments in a computer infrastructure project in the amount of 1,410,883 euros (of which large investments arise from INIS upgrade – 482,537 euros, AS portal – 189,902 euros, Solvency II implementation – 99,586 euros and other investments of lower value) and investments in software in the amount of 672,278 euros. These assets were in 2015 lower mainly due to disposals of software (in the amount of 1,535,484 euros) and to a lower extent due to disposals of other IT projects in the amount of 227,655 euros.

The Company determined that as at 31 December 2015, apart from economic rights, there was no need for impairment of intangible assets

## 10.2 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
<b>AT COST</b>					
<b>Balance as at 1 January 2014</b>	<b>26,289,455</b>	<b>15,167,213</b>	<b>1,279,036</b>	<b>12,274</b>	<b>42,747,979</b>
Direct increases - investments	-	1,658,193	724,644	-	2,382,837
Direct increases - advance payments	-	-	291,260	-	291,260
Activation of assets in 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)
<b>Balance as at 31 December 2014</b>	<b>26,479,115</b>	<b>15,930,809</b>	<b>781,321</b>	<b>12,274</b>	<b>43,203,519</b>
<b>New balance as at 1 January 2015</b>	<b>26,479,115</b>	<b>15,930,809</b>	<b>781,321</b>	<b>12,274</b>	<b>43,203,519</b>
Increases due to acquisition of companies	-	140,935	-	13,818	154,753
Direct increases - investments	3,180	2,017,275	387,788	3,639	2,411,883
Direct increases – advance payments	-	89,855	-	-	89,855
Decreases during the year	(68,362)	(1,407,865)	-	(12,274)	(1,488,502)
Transfers between intangible assets, investment property, and property, plant and equipment	610	89,855	(643,745)	-	(553,280)
Other changes	-	143	-	13	156
<b>Balance as at 31 December 2015</b>	<b>26,414,543</b>	<b>16,861,007</b>	<b>525,364</b>	<b>17,471</b>	<b>43,818,384</b>
<b>VALUE ADJUSTMENT</b>					
<b>Balance as at 1 January 2014</b>	<b>3,853,711</b>	<b>11,731,302</b>	<b>-</b>	<b>10,286</b>	<b>15,595,299</b>
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)
<b>Balance as at 31 December 2014</b>	<b>4,077,257</b>	<b>11,797,561</b>	<b>-</b>	<b>11,948</b>	<b>15,886,766</b>
<b>New balance as at 1 January 2015</b>	<b>4,077,257</b>	<b>11,797,561</b>	<b>-</b>	<b>11,948</b>	<b>15,886,766</b>
Increases due to acquisition of companies	-	105,683	-	11,296	116,978
Depreciation during the year	274,794	1,036,142	-	920	1,311,855
Decreases during the year	(11,472)	(1,296,855)	-	(12,274)	(1,320,601)
Other changes	-	82	-	12	93
<b>Balance as at 31 December 2015</b>	<b>4,340,579</b>	<b>11,642,611</b>	<b>-</b>	<b>11,901</b>	<b>15,995,091</b>
<b>BOOK VALUE</b>					
<b>Balance as at 31 December 2014</b>	<b>22,401,858</b>	<b>4,133,248</b>	<b>781,321</b>	<b>326</b>	<b>27,316,753</b>
<b>Balance as at 31 December 2015</b>	<b>22,073,964</b>	<b>5,218,396</b>	<b>525,364</b>	<b>5,570</b>	<b>27,823,293</b>

As at 31 December 2015, the operating liabilities to suppliers of property, plant and equipment amounted to 153,070 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 2025. The Company uses the straight-line depreciation method and in 2015 it did not change the depreciation rates. Amortisation of property, plant and equipment is posted in the income statement among operating costs.

The balance of property, plant and equipment as at 31 December 2015, compared to 2014 year-end, grew by 506,540 euros. This was mainly caused by purchases of larger volume, for example office equipment (in the amount of 541,283 euros), purchases of computer equipment (541,283 euros) and purchases of cars (148,931 euros). Lowering of the amount of property, plant and equipment in 2015 was mainly caused by disposals of computer equipment, totalling 1,153,017 euros.

The decrease of property, plant and equipment was also a consequence of a sale of an item of real estate in the amount of 56,890 euros, where the final profit was 21,510 euros. The receivables from the sale of the real estate were fully settled.

Due to potential impairments needed, the insurance company reviews the fair value of all real property, intended for the insurance company's activities, by means of appraisals, performed by authorised external appraisers for valuation of real property every two years.

In determining the replacement value, the insurance company applies the method of direct capitalisation of returns, method of direct comparisons of sales and cost method. The replacement value is calculated by an authorised appraiser of real estate. The last appraisal was performed in 2014. In 2015, only the replacement value of one unit of business premises in Maribor was appraised because it was not included in the 2014 appraisal.

The appraisal of the replacement value was made by an authorised appraiser of real estate in August 2015.

The replacement value was determined using the cost model, where the basis for valuation is:

- Fair value less cost of sales or
- Value in use, depending on which one is higher.

The estimated fair value of the real property (buildings and land) for business operations as at 31 December 2015 amounts to 22,314,015 euros and is higher than its carrying value which amounts to 22,073,964 euros.

The management decided that as at 31 December 2015, there is no need for impairment of property, plant and equipment.

## 10.3 INVESTMENT PROPERTIES

## Movements in investments in land and buildings

in EUR	2015	2014
<b>AT COST VALUE</b>		
Balance as at 1 January	31,671,745	30,292,870
Direct increases - investments	434,445	172,130
Direct increases - advance payments	961,307	-
Decreases during the year	(150,380)	(98,666)
Transfer from/to property, plant and equipment	553,280	1,305,411
As at 31 December	33,470,397	31,671,745
<b>VALUE ADJUSTMENT</b>		
Balance as at 1 January	2,296,022	1,936,177
Depreciation in the financial year	347,584	338,498
Decreases during the year	(8,648)	(28,177)
Transfer from/to property, plant and equipment	(0)	49,524
As at 31 December	2,634,958	2,296,022
<b>BOOK VALUE</b>		
As at 31 December	30,835,439	29,375,723

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.

At the end of 2015, the balance of investment properties was higher mainly due to investment in purchases of land (1,548,448 euros) and to a lesser extent due to investments in reparation works on existing real property (134,463 euros). Purchases of land were carried out under ordinary market conditions.

As at 31 December 2015, the insurance company had outstanding liabilities toward the seller of the investment property in the amount of 799,740 euros, 90,223 euros of which are outstanding for purchases in 2015 and 709,517 euros for a purchase of real property in 2012, as a consequence of a contractual obligation of the seller.

In March 2015, the insurance company sold an item of investment property in Ljubljana in the amount of 155,000 euros, and the cumulative effect was the profit from the sale in the amount of 10,168 euros. The receivables arising from the sale of the property were settled in full.

The Company has 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 2015, the depreciation rates remained unchanged. The depreciation of investment properties is recognised in the income statement under other operating expenses as investment property expenses.

In determining the fair value, the insurance company applies the method of direct capitalisation of returns, method of direct comparisons of sales and cost method. The fair value is calculated by an authorised appraiser of real estate. The last appraisal was performed in 2014. In 2015, only the fair value of one unit of real estate in Piran was appraised because it was not included in the 2014 appraisal.

The appraisal of the replacement value was made by an authorised appraiser of real estate in August 2015.

The replacement value was determined using the cost model, where the basis for valuation is:

- Fair value less cost of sales or
- Value in use, depending on which one is higher.

The fair value of investment properties as at 31 December 2015 amounts to 31,268,505 euros and is higher than the carrying value which amounts to 30,835,439 euros. Based on the performed appraisals, the management at the end of 2015 decided that there is no need for impairments.

## Income and expenses from investment properties

in EUR	31 Dec 2015	31 Dec 2014
<b>Revenues from investment properties</b>	<b>2,417,556</b>	<b>1,547,877</b>
Other revenues arising from rents charged on investment properties	1,582,730	1,547,877
Gains on the disposal of investment properties	67,744	-
Revenues from reversal of impairment of receivables	767,081	-
<b>Expenses for investment properties</b>	<b>(1,344,181)</b>	<b>(1,637,816)</b>
Depreciation	(425,241)	(345,306)
Direct operating expenses for investment properties that generate rental income	(1,523,157)	(298,381)
Direct operating expenses for investment properties that do not generate rental income	(15,176)	-
Expenses from impairment of receivables from investment properties	655,459	-
Expenses from disposal of investment properties	(36,066)	(994,128)

## 10.4 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 2015, controlling of all subsidiaries was based on the majority or 100 % share of voting rights.

### Investments in subsidiaries and associate

Company name	Net value of investments		Balance in the books of account in EUR	
	2015	2014	2015	2014
<b>Subsidiary</b>				
PROSPERA družba za izterjavo d.o.o., Slovenija	100.00	100.00	7,970,934	7,970,934
VIZ zavarovalno zastopništvo d.o.o., Slovenija	100.00	100.00	430,000	350,000
Permanens d.o.o., Croatia**	100.00	-	82,960	-
<b>Total</b>			<b>8,483,894</b>	<b>8,320,934</b>
<b>Associate</b>				
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.

\*\* Permanens d.o.o., Croatia was in 2014 under 100% ownership of KD životno osiguranje d.d. and an indirect subsidiary of Adriatic Slovenica d.d., therefore, its ownership structure and accounting information are not reported.

The carrying value of investments in subsidiaries changed in 2014 due to the acquisition of KD životno osiguranje d.d. and the transfer of AS neživotno osiguranje a.d.o. among "Non-current assets held for sale".

### Movements in subsidiaries, indirect subsidiaries and associates in 2015

#### Movements in investments in subsidiaries and associate

in EUR	2015	2014
<b>Subsidiaries</b>		
<b>As at 1 January</b>	15,712,691	10,713,958
Acquisition or establishment	436,069	4,915,107
Recapitalisation	123,383	1,068,367
Sales and disposals	(5,758,265)	-
Transfer to non-current assets held for sale	(2,029,983)	-
Impairments	-	(984,741)
<b>As at 31 December</b>	<b>8,483,894</b>	<b>15,712,691</b>
<b>Associates</b>		
<b>As at 1 January</b>	11,705,901	11,705,901
<b>As at 31 December</b>	<b>11,705,901</b>	<b>11,705,901</b>

#### AS neživotno osiguranje a.d.o.

At the end of 2015, AS neživotno osiguranje a.d.o., Beograd initiated the procedure of discontinuation of its operations. On 24 December 2015, it stopped its insurance activities and informed the National Bank of Serbia about it.

The subsidiary AS neživotno osiguranje a.d.o. is accounted for by the parent company Adriatic Slovenica among "Non-current assets held for sale" and is separately presented as at 31 December 2015 in Section 10.5.

#### Prospera d. o. o.

In 2015, Adriatic Slovenica received dividends in the amount of 229,451 euros from the Prospera d.o.o. subsidiary. The dividends were paid out in full on 13 July 2015.

**Viz d.o.o.**

On 29 May 2015, Adriatic Slovenica increased its investment in VIZ subsidiary by 80,000 euros by paying additional funds for increasing the share capital

**KD životno osiguranje d.d.**

On 29 January 2015, the insurance company recapitalised KD Životno osiguranje d.d. in the amount of 369,492 euros. After the process of cross-border merger, on 1 April 2015, the company merged with Podružnica Zagreb and left Adriatic Slovenica Group. Upon the merger, based on the Appraisal Value calculated by the insurance company, a capital loss of 389,169 euros was recognised.

**Permanens d.o.o.**

Since 1 April 2015, Permanens d.o.o., Zagreb has no longer been an indirect subsidiary of Adriatic Slovenica Group. With the merger of KD životno osiguranje d.d., Zagreb and the subsidiary of Adriatic Slovenica, Adriatic Slovenica became the direct owner of Permanens d.o.o., Zagreb subsidiary, which was before owned entirely by KD životno osiguranje d.d.

In 2015, Adriatic Slovenica increased its investment in Permanens d.o.o. subsidiary twice by increasing its share capital, namely on 16 June 2015 by 10,560 euros and on 14 October 2015 by 32,823 euros.

**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 cost. 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.

The appraisal of the replacement value is based on the net asset value. Apart from its basic activities, the strategy of the company also allows for lease and selling the real property of Nama. In 2015, the majority owners initiated sales activities. The sales value of the company is to an important extent affected by the value of real property owned by Nama.

In 2015, Adriatic Slovenica received 180,445 euros of dividends from Nama d.d. They were reimbursed in full on 23 December 2015.

**Information on property and financial position of the Group's subsidiaries**

Company name	in EUR	Assets		Capital		Revenues		Profit or loss for the year	
		2015	2014	2015	2014	2015	2014	2015	2014
<b>Subsidiaries</b>									
PROSPERA družba za izterjavo d.o.o.		8,497,990	9,620,530	8,079,549	8,230,386	2,583,232	3,023,087	83,208	239,451
VIZ zavarovalno zaspništvo d.o.o.		32,329	56,613	9,983	36,964	102,105	83,428	(106,980)	(107,254)
Permanens d.o.o.		45,985	15,731	38,331	6,477	69,412	38,293	20,598	(24,605)
<b>Associates</b>									
Nama trgovsko podjetje d.d.		12,264,427	12,475,584	10,153,481	10,462,015	12,693,657	12,920,493	(39,848)	184,584

Note: The information on property and financial position of the subsidiaries are taken from financial statements, prepared by the subsidiaries and are unaudited.

For the reporting purposes, the balance sheet data of Permanens d.o.o. subsidiary are converted into euros at the reference exchange rate of the European Central Bank. The exchange rate as at 31 December 2015 was applied to convert the balance sheet items from Croatian kuna to euros, i.e. 7.638 (31 December 2014: 7.658), and the average annual rate of 7.614 (2014: 7.636) for the conversion of the profit or loss items.

## 10.5 NON-CURRENT ASSETS HELD FOR SALE

In 2015, the insurance company allocated its ownership share in AS neživotno osiguranje a.d.o., Beograd to non-current assets held for sale. Until 31 December 2015, it was booked under financial investments in subsidiaries within the Group.

Due to the current and forecasted future results of the operations on the Serbian market, the Supervisory Board of the Company adopted the decision in September 2015 to commence with procedures to close down AS neživotno osiguranje a. d. o., Beograd subsidiary.

In the past quarter of 2015, the Management Board initiated the procedures that will result in discontinuation of business operations of the insurance company in Serbia in the first half of 2016.

AS neživotno osiguranje a. d. o., Beograd therefore discontinued its insurance operations on 24 December 2015 and informed the National Bank of Serbia about it.

### Presentation

#### 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 2015: 49

Company objects: Non-life insurance.

As at 31 December 2015, the Adriatic Slovenica d.d. equity stake in the subsidiary reached 97.27 %. The equity stake of Adriatic Slovenica remained unchanged in 2015.

#### AS neživotno osiguranje a.d.o.

AS neživotno osiguranje a.d.o., Beograd is valued at cost less impairment and is as at 31 December 2015 booked under non-current assets held for sale. At the end of 2015, Adriatic Slovenica appointed an authorised appraiser to evaluate AS neživotno osiguranje a.d.o., Beograd on the basis of company value appraisal (liquidation value).

The value appraisal of the ownership share in AS neživotno osiguranje a.d.o. was prepared by an authorised appraiser of companies. The assumptions used in the preparation of the appraisal as at 31 October 2015 are:

- the appraisal was made based on the market value standard, using the method of present value of equity calculated using discounted net future cash flows for equity capital.
- the appraisal was based on a scenario, derived from the AS neživotno osiguranje a.d.o. strategy until 2017, supplemented by forecasts of the authorised appraiser until 2025.
- the cost of equity capital (required rate of return) was used by the appraiser for discounting the net future cash flows to current value.
- CAPM approach was used to determine the cost of equity capital because empirical data is available for this approach.
- initially, net cash flows for certain periods were used in the calculation, and it was then discounted with the identified cost of equity capital (required rate of return) less residual (the remaining value, calculated using the Gordon model).
- the required rate of return on equity capital using CAPM model: 23.05 %
- the assumptions applied in the calculation of discount rate: risk-free rate of return as per CAPM model 0.51 %, risk-free rate as per recalculation for German and Serbian inflation 4.28 %, beta indebtedness ratio 1.04, market premium for risk 6 %, small company premium 5.78 % and add-on for political risks 6.75 %.
- the assumed net cash flow growth ratio: 2.0 % and
- estimated discount for lack of marketability: 13.9 %.

## Financial information

Company name	in EUR	Assets		Capital		Revenues		Profit or loss for the year	
		2015	2014	2015	2014	2015	2014	2015	2014
AS neživotno osiguranje a.d.o.		6,964,046	8,289,480	3,675,783	5,070,805	2,119,814	4,014,963	(1,376,275)	(552,133)

Balance sheet data of AS neživotno osiguranje a.d.o. are taken from financial statements, prepared by the subsidiaries and are unaudited. 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 2015 was applied to convert the balance sheet items from Serbian dinars to euros, i.e. 121.23 (31 December 2014: 120.60), and the average annual rate of 120.56 (2014: 116.868) for the conversion of the profit or loss items

The reporting period of the financial statements is equal to the calendar period ended 31 December 2015. 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 2015.

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.

## 10.6 FINANCIAL INVESTMENTS

On global financial markets, 2015 was marked with growth of capital investments, above-average volatility and diversity in movements among investment classes. The reasons for this are mainly in the quick changes of investors' expectations regarding interest and economic indicators. These characteristics also reflected in the domestic capital market where share investments were gradually losing value due to unfulfilled expectations about privatisation, while Slovene state bonds grew considerably compared to historically low required returns due to low inflation expectations.

Changes in economic conditions in 2015 affected the fair values of financial investments, which grew as a consequence of lower required return on European bond markets where the insurance company holds most of its investments. In the first quarter of the year, the fact pace of growth in fair value of financial investments was mainly caused by expectations related to the Quantitative easing performed by the European Central Bank (ECB) which started in March, and the deflation expectations triggered by rapid fall in oil prices at the end of last year. In the second quarter, there was a negative correction and quick normalisation of prices of bonds due to recovery of oil prices, economic recovery and record-low required returns on bonds, which resulted in a drop of value of financial investments. In the third quarter, the negative correction was also present on stock markets, principally because of popping of the Chinese stock balloon, fear of hard landing of Chinese economy and the consequences for the global economy. The negative value adjustments were therefore most evident in investments in shares and share mutual funds. In the fourth quarter, capital markets temporarily lost the negative sentiment from the previous quarter, which contributed to recovery of stock markets in October and November. In December, the ECB disappointed the investors with its decision on the extending of the Quantitative easing (QE programme) without its increase on monthly level, which again increased volatility on bond and stock markets. The ECB's decision echoed negatively on capital markets until the end of the year, although soon afterwards, in the middle of the month, American FED (Central Bank of America) entirely fulfilled the expectations of analysts and for the first time in 7 years lifted the key interest rate from 0.25 to 0.5.

In the following text, we are presenting the position of investments as at 31 December 2015 per groups and compared to 2014 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 2015	31 Dec 2014
<b>Equity securities</b>	<b>942,806</b>	-
Listed securities	942,806	-
<b>Debt securities</b>	<b>6,816,786</b>	<b>8,398,047</b>
Listed securities	6,816,786	8,333,833
Government bonds	(0)	64,214
<b>Total</b>	<b>7,759,592</b>	<b>8,398,047</b>

**Financial assets measured at fair value through profit or loss – held for sale**

in EUR	31 Dec 2015	31 Dec 2014
<b>Equity securities</b>	<b>697,236</b>	<b>3,231,457</b>
Listed securities	697,236	3,231,457
<b>Debt securities</b>	<b>6,863,746</b>	<b>19,215,139</b>
Listed securities	3,061,854	10,870,536
Government bonds	3,801,891	8,344,603
<b>Total</b>	<b>7,560,982</b>	<b>22,446,596</b>

The value of financial assets measured at fair value through profit or loss was in 2015 decreased due to assets falling due, as well as due to sales of equity securities and debt securities.

**Available-for-sale financial assets**

At the end of 2015, 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. Valuation at cost is used for equity securities in total amount of 29,350,312 euros. Based on expert assessment and internal accounting policies, investment into shares of Elektro Celje d.d. has been permanently impaired. The market value of these shares derogated from the estimated fair value and was 30 % lower than the carrying value. The loss due to the permanent impairment in the amount of 380,153 euros was 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 2015	31 Dec 2014 adjusted
<b>Equity securities</b>	<b>37,386,887</b>	<b>51,127,490</b>
Listed securities	27,556,023	41,726,302
Non-listed securities	9,830,863	9,401,188
<b>Debt securities</b>	<b>118,102,257</b>	<b>90,825,427</b>
Listed securities	19,278,152	24,344,374
Non-listed securities	(0)	6,765,387
Government bonds	98,824,105	59,715,666
<b>Impairment of the value of securities</b>	<b>(3,924,888)</b>	<b>(6,547,650)</b>
<b>Total</b>	<b>151,564,256</b>	<b>135,405,268</b>

As at 31 December 2015, the balance of available-for-sale financial assets was higher than the year before, mostly because of increased investments in state bonds, caused both by lower exposure to deposits and equity securities, predominantly investments in shares. Within the increase of investments in state bonds, the largest relative increase was caused by the exposure to Spanish state bonds.

**Effective interest rates (in %) for debt instruments not measured at fair value:**

As at 31 December	2015	2014
Debt securities		
– held-to-maturity	5.74%	8.22%

For the market value of the held-to maturity assets see Section 8.2.4 table Book and fair values.

**Held-to-maturity financial assets****Held-to-maturity financial assets**

in EUR	31 Dec 2015	31 Dec 2014
<b>Debt securities</b>	<b>39,471,526</b>	<b>33,163,813</b>
Listed securities	27,047,252	21,312,271
Non-listed securities	0	0
Government bonds	12,424,274	11,851,542
<b>Total</b>	<b>39,471,526</b>	<b>33,163,813</b>

The balance of debt securities of financial assets held to maturity was in 2015 increased mostly because of the swap and subscription of newly issued bonds.

In 2015, the insurance company made a reversal of impairment of Cimos shares from 2014 in the amount of 958,581 euros since Cimos successfully closed the process of compulsory settlement in June 2015. The abrogation of loss in the amount of 958,581 euros was at first recognised as increase in other revenues (revaluatory operating revenues) and later, the receivable toward Cimos d.d. was set off and recognised in other operating expenses. A part of recognised revenues from the reversal of impairment, which was above the expected impairment from 2014, was recognised in the amount of 543 euros among financial revenues from financial investments held to maturity.

**Loans, deposits and financial receivables****Loans, deposits and financial receivables**

in EUR	31 Dec 2015	31 Dec 2014
<b>Loans</b>	<b>32,992,286</b>	<b>31,804,696</b>
Long-term	3,979,283	5,369,484
Short-term	29,013,003	26,435,211
<b>Deposits placed with banks</b>	<b>2,777,847</b>	<b>17,866,393</b>
Long-term	936,971	5,259,165
Short-term	1,840,876	12,607,228
<b>Financial receivables</b>	<b>3,847,788</b>	<b>2,334,333</b>
<b>Total</b>	<b>39,617,921</b>	<b>52,005,422</b>

Loans are collateralised in different ways, namely by debt securities, bills of exchange, pledge on real estate (mortgages) or contracts for sale and assignment of claims.

In 2015, the insurance company received a repayment of a loan, for which, there was a permanent impairment made in the previous year. After receiving the payment, the impairment was reversed in the amount of 117,014 euros and recognised among other revenues as financial revenues from given loans due to reversal of impairment.

## Effective interest rates on loans and deposits

in %	31 Dec 2015	31 Dec 2014
<b>Long-term loans in</b>		
- local currency	5.10%	3.79%
<b>Short-term loans in</b>		
- foreign currency	0.00%	0.00%
- local currency	4.85%	5.38%
<b>Deposits placed with related parties</b>		
Short-term deposits	1.32%	0.94%
Long-term deposits	2.18%	2.60%

## Financial receivables

in EUR	31 Dec 2015	31 Dec 2014
Financial receivables arising from investment properties	1,549,140	1,289,373
Other financial receivables	2,298,648	1,044,960
<b>Total</b>	<b>3,847,788</b>	<b>2,334,333</b>

## 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
<b>Balance as at 1 January 2014 adjusted</b>	<b>10,167,434</b>	<b>26,205,969</b>	<b>38,096,356</b>	<b>124,524,767</b>	<b>57,846,472</b>	<b>258,535,548</b>
Exchange rate differences	-	106,626	-	43,679	-	150,305
Increase	11,607,645	22,619,975	4,241,964	145,516,960	884,102,867	1,068,089,411
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	1,897,114	8,735,750
Decrease	(13,795,014)	(27,694,480)	(11,494,726)	(143,890,240)	(891,841,031)	(1,090,410,040)
Impairment to lower (fair) value – through profit or loss	-	-	(415,117)	(2,676,952)	-	(3,092,070)
<b>Balance as at 31 December 2014 adjusted</b>	<b>8,398,046</b>	<b>22,446,596</b>	<b>33,163,813</b>	<b>135,405,268</b>	<b>52,005,422</b>	<b>251,419,145</b>
<b>New balance as at 1 January 2015</b>	<b>8,398,046</b>	<b>22,446,596</b>	<b>33,163,813</b>	<b>135,405,268</b>	<b>52,005,422</b>	<b>251,419,145</b>
<b>Increases due to acquisition of companies</b>	<b>1,460,126</b>	<b>1,018,905</b>	<b>498,812</b>	<b>1,689,176</b>	<b>477,796</b>	<b>5,144,815</b>
Exchange rate differences	(258)	112,942	241	72,738	105	185,768
Increase	4,577,912	8,039,508	16,823,552	151,856,825	898,551,597	1,079,849,395
Change of fair value (+/-) through profit or loss (market rates)	(200,550)	(37,953)	(34)	380,153	-	141,617
Change of fair value (+/-) through revaluation surplus (market rates)	-	-	-	(3,273,828)	-	(3,273,828)
Increase due to interest	282,384	350,731	2,328,225	2,552,588	1,739,852	7,253,780
Decrease	(6,758,069)	(24,369,747)	(13,343,083)	(136,738,510)	(913,156,851)	(1,094,366,260)
Impairment to lower (fair) value – through profit or loss	-	-	-	(380,153)	-	(380,153)
<b>Balance as at 31 December 2015</b>	<b>7,759,592</b>	<b>7,560,982</b>	<b>39,471,526</b>	<b>151,564,256</b>	<b>39,617,921</b>	<b>245,974,277</b>

## 10.7 UNIT-LINKED LIFE INSURANCE ASSETS

The profitability of unit-linked insurance investments faced strong fluctuation throughout 2015. These investments are indirectly or directly focused on stock markets. Despite the strong dynamic of events on global stock markets, the outcome at the end of the year was positive. Low interest rates, low inflation rates and continued economic recovery in the USA and Europe in general had a positive effect on forecasts, but the high semi-annual growth of stock rates in the third quarter quickly balanced in the negative direction due to fears of Chinese slowing down, which caused the fall of assets of unit-linked insurance policyholders in the third quarter below the level in the beginning of the year. Due to temporary stabilisation of financial markets in the last quarter, the insurance company generated a positive outcome in the segment of investments of unit-linked insurance policyholders.

### Structure of unit-linked life insurance assets

in EUR	As at 31 Dec 2015	As at 31 Dec 2014
<b>Financial assets measured at fair value through profit or loss - at initial recognition</b>	<b>247,640,881</b>	<b>243,064,894</b>
Equity securities	207,627,225	206,541,431
Listed securities	207,627,225	206,541,431
Debt securities	40,013,656	36,523,463
Listed securities	40,013,656	36,523,463
<b>Loans and deposits with banks</b>	<b>14,325,212</b>	<b>12,193,136</b>
Loans	14,325,212	12,193,136
<b>Monetary assets - deposits redeemable at notice</b>	<b>1,794,246</b>	<b>2,260,951</b>
<b>Total</b>	<b>263,760,340</b>	<b>257,518,981</b>

The investments made for the benefit of unit-linked life insurance policyholders amounted to 263,760,340 euros. These are units of mutual funds, market ETFs funds, cover funds KD Dirigent, Aktivni naložbeni paket, KD Vrhunski and structured securities of issuers DEUTSCHE BANK LONDON and BNP Paribas, in line with the choice of the insurer. Policyholders' assets in products of DEUTSCHE BANK LONDON totalled 9,522,500 euros and assets invested in BNP Paribas products totalled 30,491,169 euros. These are invested in structured securities linked to selected indexes. The guarantee of repayment of 100 % nominal amount of the principal of the investment in products of DEUTSCHE BANK LONDON is given by Deutsche Bank AG London. The guarantee for BNP Paribas investment products is from 75 % to 100 % of the nominal amount of the principal. The guarantor for these products is BNP Paribas Paris.

The balance of financial assets of unit-linked insurance policyholders is compared to the technical provisions for the same products higher by 4,062,630 euros, mainly because the insurance company mostly invests in structured products (BNP) and the provision for these are much lower due to prefinancing of the policyholders by the insurance company.

### Movements in unit-linked life insurance financial assets

in EUR	2015	2014
<b>Balance as at 1 January</b>	<b>257,518,981</b>	<b>213,925,866</b>
Increases due to acquisition of companies	3,695,936	-
Increase	59,025,689	79,364,364
Decrease	(55,125,362)	(75,956,191)
Change of fair value (+/-) through profit or loss (market rates)	(2,854,344)	36,923,891
Deposit placement	62,732,959	66,817,763
Deposit withdrawal	(61,237,358)	(63,853,078)
Accrued interest	3,841	296,365
<b>Balance as at 31 December</b>	<b>263,760,340</b>	<b>257,518,981</b>

## 10.8 AMOUNT OF TECHNICAL PROVISIONS TRANSFERRED TO REINSURERS

### Share of reinsurers/co-insurers in technical provisions

in EUR	2015	2014
- from insurance contracts for incurred and reported claims	6,652,798	8,762,171
- from insurance contracts for incurred, but not reported claims	3,073,923	6,669,898
<b>Total non-current part</b>	<b>9,726,721</b>	<b>15,432,068</b>
- unearned premiums	660,191	879,285
- from insurance contracts for incurred and reported claims	5,213,249	8,818,685
- from insurance contracts for incurred, but not reported claims	1,615,190	3,951,406
<b>Total current part</b>	<b>7,488,629</b>	<b>13,649,376</b>
<b>Total</b>	<b>17,215,350</b>	<b>29,081,444</b>

The share of re(co)insurers in technical provisions went down compared to the previous year due to the terminated quota reinsurance contract for car insurance, the consequence of which is the lowering of claims provisions by 10,721,376 euros. The remaining 1,144,718 euros of lower reinsurers' share was caused by reduced volume of new reinsurance claims events in 2015.

## 10.9 RECEIVABLES

## Balance of receivables

in EUR	As at 31 Dec 2015	As at 31 Dec 2014
<b>Receivables from direct insurance operations</b>	<b>18,446,651</b>	<b>21,410,211</b>
gross value	25,951,127	29,460,016
value adjustment	(7,504,476)	(8,049,805)
<b>Receivables from reinsurance and coinsurance</b>	<b>1,567,876</b>	<b>6,304,768</b>
gross value	1,693,085	6,514,077
value adjustment	(125,209)	(209,310)
<b>Income tax receivables</b>	<b>3,483,865</b>	<b>3,531,447</b>
<b>OTHER RECEIVABLES</b>	<b>6,288,375</b>	<b>7,935,073</b>
<b>Other current receivables from insurance operations</b>	<b>3,539,952</b>	<b>4,305,067</b>
gross value	3,586,153	4,528,727
value adjustment	(46,201)	(223,661)
<b>Recourse receivables</b>	<b>861,526</b>	<b>801,062</b>
gross value	3,029,141	2,818,737
value adjustment	(2,167,616)	(2,017,676)
<b>Operating receivables from the state</b>	<b>192,720</b>	<b>337,514</b>
gross value	192,720	337,514
<b>Operating receivables for advances given</b>	<b>29,316</b>	<b>27,080</b>
gross value	63,878	52,160
value adjustment	(34,562)	(25,081)
<b>Other current operating receivables</b>	<b>1,632,327</b>	<b>2,437,121</b>
gross value	2,471,808	3,479,909
value adjustment	(839,482)	(1,042,788)
<b>Long-term receivables</b>	<b>32,535</b>	<b>27,230</b>
<b>Total receivables</b>	<b>29,786,767</b>	<b>39,181,499</b>

The balance of receivables was as at 2015 year-end lower than the year before by 9,394,731 euros, mostly because the lower amount of receivables from re(co)insurance and receivables from direct insurance operations.

In the structure of receivables as at 31 December 2015, receivables from direct insurance operations prevail with 62 % share. These are receivables from policyholders due to contractual insurance premium. Compared to the previous year, at the end of 2015, the balance of these receivables dropped by 2,963,560 euros, mainly because of lower balance of receivables attributable to insurance premium from additional unit-linked life insurance risks. The reason for a lower balance of these receivables at the end of 2015 is a lower volume of revenues and increased payability.

Compared to the previous year, there was a sharp decrease (by 4,736,892 euros) in receivables from reinsurance and co-insurance, but at the end of 2015, they only account for 5 % in total receivables. The decrease in these receivables was mostly caused by the termination of the quota share reinsurance contract in 2015, which resulted in significantly lower amount of receivables (in the amount of 4,560,736 euros) for the related claims. The effect of termination of this contract is reflected in lower liabilities from reinsurance premiums (refer to Section 10.17. Operating liabilities) and at the same time in the income statement as lower premiums ceded to reinsurers, reinsurance provisions and reinsurers' shares, as also mentioned in Section 10.8.

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 6.8.)

## Movements in receivable allowances

in EUR	Receivables from insurance operations	Subrogations	Other receivables	Total
<b>As at 1 January 2014</b>	<b>8,095,366</b>	<b>2,070,534</b>	<b>1,371,085</b>	<b>11,536,985</b>
Changes during the year	163,749	(52,858)	(79,555)	31,335
<b>As at 31 December 2014</b>	<b>8,259,115</b>	<b>2,017,676</b>	<b>1,291,530</b>	<b>11,568,320</b>
<b>Balance as at 1 January</b>	<b>8,259,115</b>	<b>2,017,676</b>	<b>1,291,530</b>	<b>11,568,320</b>
Changes during the year	(629,429)	149,940	(371,285)	(850,775)
<b>As at 31 December 2015</b>	<b>7,629,685</b>	<b>2,167,616</b>	<b>920,244</b>	<b>10,717,545</b>

## 10.10 OTHER ASSETS

## Other assets – balance total

in EUR	31 Dec 2015	31 Dec 2014
Inventories	10,458	22,267
Deferred acquisition costs	4,928,113	4,621,082
Deferred expenses and accrued revenues	1,001,831	826,110
<b>Total</b>	<b>5,940,403</b>	<b>5,469,459</b>

## 10.10.1 Deferred acquisition costs

## Movements in deferred acquisition costs

in EUR	Long-term deferred acquisition costs	Short-term deferred acquisition costs
<b>Balance as at 1 January 2014</b>	<b>82,014</b>	<b>4,061,916</b>
Utilised in 2014	41,234	3,587,147
Formed in 2014	68,531	4,036,912
<b>Balance as at 31 December 2014</b>	<b>109,311</b>	<b>4,511,771</b>
<b>Balance as at 1 January 2015</b>	<b>109,311</b>	<b>4,511,771</b>
Utilised in 2015	119,899	4,653,861
Formed in 2015	131,748	4,949,043
<b>Balance as at 31 December 2015</b>	<b>121,160</b>	<b>4,806,954</b>

## 10.11 CASH AND CASH EQUIVALENTS

## Cash and cash equivalents

in EUR	31 Dec 2015	31 Dec 2014
Cash on hand and cheques received	-	576
Balances on accounts	2,460,734	2,426,820
Short-term deposits redeemable on demand	26	-
Short-term deposits placed (maturity date up to 3 months)	10,350,933	8,098,122
Other cash	90,069	186,506
<b>Total</b>	<b>12,901,762</b>	<b>10,712,024</b>

The effective interest rate in 2015 paid on call deposits was between 0.00 % and 0.45 % (2014: from 0.25 % to 1.7 %).

## 10.12 EQUITY

### Balance of equity

in EUR	31 Dec 2015	31 Dec 2014
		adjusted
<b>Share capital</b>	<b>42,999,530</b>	<b>42,999,530</b>
<b>Capital reserves</b>	<b>4,211,782</b>	<b>4,211,782</b>
<b>Reserves from profit</b>	<b>15,543,287</b>	<b>15,771,095</b>
Legal reserves	1,519,600	1,519,600
Other reserves from profit	14,023,686	14,251,495
Reserves for equalisation of credit risk	1,014,505	1,014,505
Reserves for equalisation of catastrophic claims	4,247,869	3,798,823
Other reserves from profit	8,761,311	9,438,167
<b>Revaluation surplus</b>	<b>3,540,100</b>	<b>5,797,421</b>
<b>Retained net profit</b>	<b>19,916,770</b>	<b>19,157,598</b>
<b>Net profit for the financial year</b>	<b>14,718,688</b>	<b>18,929,822</b>
<b>TOTAL</b>	<b>100,930,157</b>	<b>106,867,248</b>

### Share capital

As at 31 December 2015, 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 2015, the share capital 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 10 April 2015, the direct owner and only shareholder of Adriatic Slovenica decided on the distribution of balance sheet profit for 2014. A part of the balance sheet profit in the amount of 17,944,000 euros were used for dividend payments. The rest of balance sheet profit in the amount of 20,054,464 euros remained unallocated and was transferred to the balance sheet profit for 2015. Dividends were paid in full by 13 April 2015.

### Ownership structure

As at 31 December 2015, KD Group held 10,304,407 shares, i.e. 100 %. In 2015, its stake remained unchanged.

### Distribution of accumulated profit and loss coverage

Adriatic Slovenica ended 2015 with a profit before tax totalling 16,815,342 euros and a net profit for the year amounting to 14,264,229 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.

On 31 December 2015, the Management Board covered the loss of other health insurance in full with the profit carried forward from past years in the amount of 226,651 euros.

### Other reserves from profit

The loss in the segment of supplementary health insurance in the amount of 676,855 euros was covered entirely from the reserve from half of the result (profit) of supplementary insurance formed for this purpose in line with the Health Care and Health Insurance Act and the Decision on detailed instructions for accounting and presentation of transactions as regards offsets in supplementary health insurance.

### Balance sheet profit

After covering losses from past and current periods using profits from current and past year and covering losses from other profit reserves, the final amount of net profit for the current year is 14,718,688 euros. Together with the unallocated profit brought forward from previous years in the amount of 19,916,770 euros, the balance sheet profit as at 31 December 2015 to be distributed at the General Assembly amounts to 34,635,458 euros.

### Formation of reserves from profit

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 2015 ended, in accordance with the Insurance Act, the Company additionally formed 449,047 euros of profit reserves for catastrophic loss equalisation (120,955 euros for nuclear peril and 328,091 euros for earthquake). Reserves for credit risk equalisation remained unchanged at the end of 2015.

### Capital reserves

As at 31 December 2015, 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 2015, 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 2015 neither the Company nor any third party for the account of the Company held any treasury shares as security.

### Revaluation surplus

Revaluation surplus refers to changes in fair value of financial assets available for sale, disclosed in other comprehensive income. Within equity, the revaluation surplus is decreased by the deferred taxes payable.

As at the 2015 year-end, the revaluation surplus from pension insurance amounting to 158,730 euros was recognised as an increase in mathematical provisions

Also the actuarial gains/losses, related to provisions for employees, are recognised within the revaluation surplus.

### Revaluation surplus

in EUR	31 Dec 2015	31 Dec 2014
Specific revaluation of equity	3,540,100	5,797,421
from reinforcement of property, plant and equipment	141	141
from reinforcement/impairment of available-for-sale financial assets	4,306,451	6,984,674
from net actuarial gains / losses for pension programs	(34,396)	-
from adjustment for deferred taxes	(732,097)	(1,187,394)
<b>Total revaluation surplus</b>	<b>3,540,100</b>	<b>5,797,421</b>

## Movements in revaluation surplus from available-for-sale financial assets with profit

in EUR	31 Dec 2015	31 Dec 2014 adjusted
<b>Balance as at 1 January</b>	<b>5,797,420</b>	<b>(2,343,818)</b>
Increases due to acquisition of companies	68,709	-
<b>Change in revaluation surplus from net actuarial gains / losses for pension programs</b>	<b>(34,396)</b>	<b>-</b>
<b>Profits (losses) recognised in revaluation surplus</b>	<b>2,083,085</b>	<b>12,220,405</b>
Net change due to revaluation	2,509,741	14,723,379
Change in deferred taxes due to revaluation	(426,656)	(2,502,974)
<b>Transfer of profits (losses) from revaluation surplus to profit or loss</b>	<b>(4,374,718)</b>	<b>(4,079,167)</b>
Change in revaluation surplus transferred on disposal to profit or loss	(5,650,898)	(7,591,530)
Change in deferred taxes on realisation of revaluation surplus	960,653	1,290,493
Transfer of negative revaluation surplus to profit or loss on impairment	380,153	2,676,952
The change deferred taxes from impairments through profit or loss	(64,626)	(455,082)
<b>Balance as at 31 December</b>	<b>3,540,100</b>	<b>5,797,420</b>

## 10.13 TECHNICAL PROVISIONS

## Technical provisions (liabilities arising from insurance contracts) – gross and net

in EUR	Gross + received co- insurance as at 31 Dec 2015	Reinsurance + ceded co- insurance as at 31 Dec 2015	Net as at 31 Dec 2015	Gross + received co- insurance as at 31 Dec 2014	Reinsurance + ceded co- insurance as at 31 Dec 2014	Net as at 31 Dec 2014 adjusted
Unearned premiums	42,051,837	590,544	41,461,293	42,612,091	805,230	41,806,861
Claims provisions for	<b>104,158,280</b>	<b>16,347,079</b>	<b>87,811,201</b>	<b>112,405,513</b>	<b>28,054,183</b>	<b>84,351,330</b>
- reported claims	50,068,198	11,658,682	38,409,516	52,337,944	17,432,879	34,905,065
- not reported claims	54,090,082	4,688,397	49,401,685	60,067,569	10,621,303	49,446,265
Provisions for bonuses and discounts	681,386	-	681,386	395,257	-	395,257
Mathematical provisions	54,247	-	54,247	1,991	-	1,991
Other insurance technical provisions	66,962	-	66,962	166,443	-	166,443
<b>Total non-life insurance</b>	<b>147,012,711</b>	<b>16,937,623</b>	<b>130,075,088</b>	<b>155,581,295</b>	<b>28,859,413</b>	<b>126,721,882</b>
Unearned premiums	7,270,967	-	7,270,967	8,011,577	-	8,011,577
Claims provisions for	<b>5,789,024</b>	-	<b>5,789,024</b>	<b>5,564,511</b>	-	<b>5,564,511</b>
- reported claims	1,002,820	-	1,002,820	868,571	-	868,571
- not reported claims	4,786,204	-	4,786,204	4,695,940	-	4,695,940
Provisions for bonuses and discounts	1,281	-	1,281	625	-	625
Other insurance technical provisions	312,817	-	312,817	476,372	-	476,372
<b>Total health insurance</b>	<b>13,374,157</b>	-	<b>13,374,157</b>	<b>14,053,085</b>	-	<b>14,053,085</b>
Unearned premiums	439,459	69,647	369,812	482,216	74,055	408,161
Claims provisions for	<b>4,930,872</b>	<b>208,080</b>	<b>4,722,792</b>	<b>5,599,221</b>	<b>147,976</b>	<b>5,451,245</b>
- reported claims	1,540,491	207,364	1,333,126	1,674,844	147,976	1,526,868
- not reported claims	3,390,381	715	3,389,665	3,924,377	-	3,924,377
Mathematical provisions	102,710,827	-	102,710,827	97,250,575	-	97,250,575
Other insurance technical provisions	147,739	-	147,739	319,683	-	319,683
<b>Total life insurance</b>	<b>108,228,896</b>	<b>277,726</b>	<b>107,951,170</b>	<b>103,651,695</b>	<b>222,031</b>	<b>103,429,664</b>
<b>Total liabilities arising from insurance contracts</b>	<b>268,615,765</b>	<b>17,215,350</b>	<b>251,400,415</b>	<b>273,286,075</b>	<b>29,081,444</b>	<b>244,204,631</b>

## Movements in technical provisions

in EUR	Gross 2015	Reinsurance 2015	Net 2015	Gross 2014	Reinsurance 2014	Net 2014 adjusted
<b>Movements in unearned premium</b>						
<b>Balance as at 1 January</b>	<b>51,105,883</b>	<b>879,285</b>	<b>50,226,598</b>	<b>51,316,179</b>	<b>787,861</b>	<b>50,528,318</b>
Increases due to acquisition of companies	4,219	-	4,219	-	-	-
Increase in liabilities	48,593,194	660,190	47,933,003	49,669,609	879,285	48,790,324
Decrease in liabilities	49,941,035	879,285	49,061,749	49,879,905	787,861	49,092,044
<b>Balance as at 31 December</b>	<b>49,762,262</b>	<b>660,190</b>	<b>49,102,071</b>	<b>51,105,883</b>	<b>879,285</b>	<b>50,226,598</b>
<b>Movements in mathematical provisions</b>						
<b>Balance as at 1 January</b>	<b>97,254,558</b>	<b>-</b>	<b>97,254,558</b>	<b>94,975,223</b>	<b>-</b>	<b>94,975,223</b>
Increases due to acquisition of companies	399,578	-	399,578	-	-	-
Increase in the period	18,570,573	-	18,570,573	12,468,194	-	12,468,194
Decrease in the period	14,636,132	-	14,636,132	11,460,968	-	11,460,968
Change of current-year DPF part	1,176,567	-	1,176,567	1,270,117	-	1,270,117
<b>Balance as at 31 December</b>	<b>102,765,143</b>	<b>-</b>	<b>102,765,143</b>	<b>97,252,566</b>	<b>-</b>	<b>97,252,566</b>
<b>Movements in claims outstanding</b>						
<b>Reported claims</b>	<b>54,881,359</b>	<b>17,580,856</b>	<b>37,300,504</b>	<b>55,760,185</b>	<b>15,723,602</b>	<b>40,036,584</b>
<b>Not reported claims</b>	<b>68,687,886</b>	<b>10,621,303</b>	<b>58,066,582</b>	<b>74,332,286</b>	<b>9,740,857</b>	<b>64,591,428</b>
<b>Balance as at 1 January</b>	<b>123,569,245</b>	<b>28,202,159</b>	<b>95,367,086</b>	<b>130,092,471</b>	<b>25,464,459</b>	<b>104,628,012</b>
Increases due to acquisition of companies	116,265	490	115,776	-	-	-
Decrease in provisions due to payments	38,946,199	9,309,776	29,636,423	38,798,649	9,718,985	29,079,663
Change in provisions from preceding years +/-	(15,055,139)	(2,625,815)	(12,429,325)	(14,616,700)	(568,356)	(14,048,345)
Increase in provisions in the current year	45,194,003	288,101	44,905,902	46,892,122	13,025,040	33,867,082
<b>Reported claims</b>	<b>52,611,509</b>	<b>11,866,047</b>	<b>40,745,462</b>	<b>54,881,359</b>	<b>17,580,856</b>	<b>37,300,504</b>
<b>Not reported claims</b>	<b>62,266,667</b>	<b>4,689,112</b>	<b>57,577,554</b>	<b>68,687,886</b>	<b>10,621,303</b>	<b>58,066,582</b>
<b>Balance as at 31 December</b>	<b>114,878,175</b>	<b>16,555,159</b>	<b>98,323,016</b>	<b>123,569,245</b>	<b>28,202,159</b>	<b>95,367,086</b>
<b>Movements in other insurance technical provisions</b>						
<b>Balance as at 1 January</b>	<b>1,358,380</b>	<b>-</b>	<b>1,358,380</b>	<b>2,916,708</b>	<b>-</b>	<b>2,916,708</b>
Increase in the period	732,383	-	732,383	1,005,121	-	1,005,121
Decrease in the period	880,578	-	880,578	2,563,449	-	2,563,449
<b>Balance as at 31 December</b>	<b>1,210,185</b>	<b>-</b>	<b>1,210,185</b>	<b>1,358,380</b>	<b>-</b>	<b>1,358,380</b>



## Assets and liabilities of business funds and long-term business funds of the insurance company as at 31 December 2015

Fund name	Cover assets	Long-term	Long-term	Long-term	Long-term	Long-term	Long-term	Long-term	Long-term	Long-term	Long-term	Long-term
		business fund of life insurance	business fund of pension insurance	business fund of unit-linked insurance	business fund of health insurance	business fund of other health insurance	business fund of supplementary pension insurance in the time of annuity payout	business fund FOND POLICA	business fund DIRIGENT	business fund AKTIVNI NALOŽBENI PAKET	business fund VRHUNSKI	business fund NEZGODE
Registration number of long-term business fund	-	5063361022	5063361021	5063361024	5063361023	5063361026	5063361027	5063361028	5063361029	5063361031	5063361030	5063361032
<b>Type of assets and liabilities</b>												
Financial investments	160,086,073	104,401,368	10,810,031	28,316,116	10,936,312	960,564	634,203	188,524,706	12,977,539	21,022,399	12,919,579	-
Share of reinsurers	16,937,623	277,726	-	-	-	-	-	-	-	-	-	-
Other assets	70,186,009	1,883,293	154,900	99,666	11,306,396	725,509	-	2,060,051	362,979	88,904	432,006	208,478
<b>TOTAL ASSETS</b>	<b>247,209,704</b>	<b>106,562,387</b>	<b>10,964,931</b>	<b>28,415,783</b>	<b>22,242,708</b>	<b>1,686,073</b>	<b>634,203</b>	<b>190,584,758</b>	<b>13,340,518</b>	<b>21,111,302</b>	<b>13,351,585</b>	<b>208,478</b>
<b>Gross technical provisions</b>	<b>147,012,711</b>	<b>96,848,509</b>	<b>10,937,848</b>	<b>3,298</b>	<b>12,587,571</b>	<b>786,587</b>	<b>442,539</b>	<b>386,304</b>	<b>5,616</b>	<b>32,992</b>	<b>640</b>	<b>92,512</b>
1. Unearned premiums	42,051,836	439,459	-	-	6,923,288	347,678	-	-	-	-	-	10,921
2. Mathematical provisions	54,247	91,478,179	10,937,848	-	-	312,886	442,539	-	-	-	-	54,247
3. Outstanding claims provisions	104,158,279	4,930,872	-	3,298	5,663,062	125,961	-	386,304	5,616	32,992	640	27,285
4. Other technical provisions	748,348	-	-	-	1,220	61	-	-	-	-	-	59
Gross technical provisions at the benefit of persons with unit-linked life insurance (Mathematical provisions)	-	-	-	27,770,212	-	-	-	185,046,045	13,309,860	20,271,117	13,300,476	-
Other liabilities	27,372,217	5,809,382	27,083	543,945	7,612,082	316,537	131,195	5,600,238	21,747	849,116	64,425	26,188
<b>TOTAL LIABILITIES</b>	<b>174,384,927</b>	<b>102,657,891</b>	<b>10,964,931</b>	<b>28,317,454</b>	<b>20,199,653</b>	<b>1,103,123</b>	<b>573,734</b>	<b>191,032,587</b>	<b>13,337,222</b>	<b>21,153,225</b>	<b>13,365,542</b>	<b>118,701</b>
<b>Net technical provisions</b>	<b>130,075,087</b>	<b>96,570,783</b>	<b>10,937,848</b>	<b>27,773,510</b>	<b>12,587,571</b>	<b>786,587</b>	<b>442,539</b>	<b>185,432,349</b>	<b>13,315,475</b>	<b>20,304,109</b>	<b>13,301,117</b>	<b>92,512</b>



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	Long-term	Long-term	Long-term	Long-term	Long-term	Long-term	Long-term	Long-term	Long-term	Long-term
		business fund of life insurance	business fund of pension insurance	business fund of unit-linked insurance	business fund of supplementary health insurance	business fund of other health insurance	business fund of annuity payout	business fund FOND POLICA	business fund DIRIGENT	business fund NALOŽBENI PAKET	business fund VRHUNSKI	business fund NEZGODE
Registration number of long-term business fund	-	5063361022	5063361021	5063361024	5063361023	5063361026	5063361027	5063361028	5063361029	5063361031	5063361030	5063361032
<b>Type of assets and liabilities</b>												
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	-
<b>TOTAL ASSETS</b>	<b>330,337,055</b>	<b>120,350,127</b>	<b>5,880,046</b>	<b>26,412,133</b>	<b>29,131,186</b>	<b>1,542,412</b>	<b>424,750</b>	<b>158,966,241</b>	<b>11,617,008</b>	<b>14,618,096</b>	<b>12,333,892</b>	<b>-</b>
<b>Gross technical provisions</b>	<b>161,670,370</b>	<b>96,077,865</b>	<b>5,843,987</b>	<b>4,206</b>	<b>14,876,498</b>	<b>434,823</b>	<b>397,036</b>	<b>236,819</b>	<b>-</b>	<b>3,237</b>	<b>558</b>	<b>-</b>
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	-	-	-	-	-	-
Gross technical provisions at the benefit of persons with unit-linked life insurance (Mathematical provisions)	-	-	-	29,018,682	-	-	-	149,213,654	11,450,232	13,152,486	12,147,841	-
Other liabilities	100,686,289	17,615,342	36,059	539,740	7,873,481	426,532	30,092	158,738,805	11,617,008	14,614,859	12,333,334	-
<b>TOTAL LIABILITIES</b>	<b>262,356,658</b>	<b>113,693,207</b>	<b>5,880,047</b>	<b>29,562,628</b>	<b>22,749,979</b>	<b>861,355</b>	<b>427,129</b>	<b>158,975,624</b>	<b>11,617,008</b>	<b>14,618,096</b>	<b>12,333,892</b>	<b>-</b>
<b>Net technical provisions</b>	<b>135,627,869</b>	<b>95,868,045</b>	<b>5,843,987</b>	<b>29,022,888</b>	<b>14,876,498</b>	<b>434,823</b>	<b>397,036</b>	<b>149,450,473</b>	<b>11,450,232</b>	<b>13,155,723</b>	<b>12,148,399</b>	<b>-</b>

## 10.14 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 2015	Reinsurance + ceded co- insurance as at 31 Dec 2015	Net as at 31 Dec 2015	Gross + received co- insurance as at 31 Dec 2014	Reinsurance + ceded co- insurance as at 31 Dec 2014	Net as at 31 Dec 2014
Claims provisions	428,850	-	428,850	326,627	-	326,627
- reported claims	428,850	-	428,850	326,627	-	326,627
Provisions for unit-linked life insurance policyholders	259,697,710	-	259,697,710	254,229,875	-	254,229,875
<b>Total unit-linked life insurance</b>	<b>260,126,559</b>	<b>-</b>	<b>260,126,559</b>	<b>254,556,502</b>	<b>-</b>	<b>254,556,502</b>

## Movements in technical provisions for unit-linked life insurance policyholders

in EUR	Gross 2015	Reinsurance 2015	Net 2015	Gross 2014	Reinsurance 2014	Net 2014
<b>Movements in claims outstanding</b>						
Reported claims	326,627	-	326,627	244,820	-	244,820
<b>Balance as at 1 January</b>	<b>326,627</b>	<b>-</b>	<b>326,627</b>	<b>244,820</b>	<b>-</b>	<b>244,820</b>
Decreased provisions due to payments	241,910	-	241,910	180,707	-	180,707
Change in provisions from preceding years +/-	6,880	-	6,880	(53,691)	-	(53,691)
Increase in provisions in the current year	337,252	-	337,252	316,205	-	316,205
Reported claims	428,850	-	428,850	326,627	-	326,627
<b>Balance as at 31 December</b>	<b>428,850</b>	<b>-</b>	<b>428,850</b>	<b>326,627</b>	<b>-</b>	<b>326,627</b>
<b>Movements in claims outstanding for reported and non-reported claims for unit- linked life insurance policyholder</b>						
<b>Balance as at 1 January</b>	<b>254,229,875</b>	<b>-</b>	<b>254,229,875</b>	<b>211,832,611</b>	<b>-</b>	<b>211,832,611</b>
Increases due to acquisition of companies	3,634,539	-	3,634,539	-	-	-
Increase in the period	31,022,617	-	31,022,617	65,009,482	-	65,009,482
Decrease in the period	29,189,321	-	29,189,321	22,612,218	-	22,612,218
<b>Balance as at 31 December</b>	<b>259,697,710</b>	<b>-</b>	<b>259,697,710</b>	<b>254,229,875</b>	<b>-</b>	<b>254,229,875</b>

## 10.15 OTHER PROVISIONS

## 10.15.1 Other provisions

v EUR	31 Dec 2015	31 Dec 2014
Provisions for employee benefits	3,376,135	3,125,960
Other non-current provisions	1,200,623	785
<b>Total</b>	<b>4,576,757</b>	<b>3,126,745</b>

## 10.15.2 Provisions for employee benefits

## Provisions for employee benefits

in EUR	31 Dec 2015	31 Dec 2014
Provisions for termination benefits	1,105,994	1,021,311
Provisions for jubilee benefits	2,270,141	2,104,650
<b>Total</b>	<b>3,376,135</b>	<b>3,125,961</b>

**Movements in provisions for employee benefits**

v EUR	2015	2014
<b>As at 1.1.</b>	<b>3,125,961</b>	<b>2,766,812</b>
Increase at acquisition of subsidiary	5,385	-
Increase in current period	312,098	291,272
Decrease due to paid provisions for termination and jubilee benefits	(286,626)	(307,824)
Actuarial gains and losses	219,317	-
Adjustments arising from past experience	120,133	-
Effect of change of assumptions	99,184	-
Other changes	-	375,701
<b>As at 31 December</b>	<b>3,376,135</b>	<b>3,125,961</b>

Movements in provisions for unused vacation and jubilee benefits are entirely recognised in the income statement under operating costs. The same goes for changes in provisions for retirement benefits, except for actuarial gains or losses recognised in other comprehensive income, including taxation.

The calculation for 2015 used different assumptions about the discount rate and expected increase in salaries than in 2014, but they had no significant impact on the aggregated values.

**The main assumptions applied in the calculation of provisions for termination and jubilee benefits:**

- discount rate 1.337 % (31 Dec 2014: 1.236 %),
- expected increase in salaries in the insurance company, including the expected increase in salaries due to promotions 2.2 % (31 Dec 2014: 1.6 %),
- expected mortality is determined based on Slovene mortality tables from 2007 (the same on 31 Dec 2014),
- 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 2014).

The provision amounts in 2015 include taxes and contributions. The effect of changes in assumptions amounted to 99,184 euros.

**Analysis of sensitivity to changes in parameters**

Parameters	Changes in parameters	2015
Discount rate	discount curve move by +0,25%	(75,071)
	discount curve move by -0,25%	77,930
Salary increase	change in annual salary increase by +0,5%	141,421
	change in annual salary increase by -0,5%	(129,330)
Mortality	permanent increase in mortality by +20%	(29,404)
	permanent increase in mortality by -20%	29,934
Early termination of employment	expense curve move by +20%	(316,922)

**10.15.3 Other long-term provisions****Movements in other long-term provisions**

v EUR	31 Dec 2015	31 Dec 2014
<b>As at 1.1.</b>	<b>785</b>	<b>-</b>
Increase in current period (formation)	1,200,000	785
Decrease (repayment)	(162)	-
<b>As at 31.12.</b>	<b>1,200,623</b>	<b>785</b>

In 2015, the insurance company received a first instance court judgement for the lawsuit filed by Pozavarovalnica Sava in 2012 against Adriatic Slovenica (described in detail in Section 12). Based on the received judgement, the insurance

company adequately formed long-term provisions in the amount of 1,200,000 euros based on its own assessment and taking into account the prudence principle

## 10.16 OTHER FINANCIAL LIABILITIES

### Movements in loans and other current financial liabilities

in EUR	2015	2014
<b>Balance as at 1 January</b>	<b>755,781</b>	<b>1,092,790</b>
Increase	258,765	49,871
Decrease	(30,256)	(386,879)
<b>Balance as at 31 December</b>	<b>984,291</b>	<b>755,781</b>

The balance of loans and other current financial liabilities as at 31 December 2015 amounts to 984,291 euros, of which, there were 15,355 euros of liabilities from received loans (including interest). 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. The received loan was not collateralised.

## 10.17 OPERATING LIABILITIES

Adriatic Slovenica d.d. has no secured liabilities.

### Operating liabilities

in EUR	31 Dec 2015	31 Dec 2014
Liabilities arising from direct insurance contracts	3,868,003	4,543,005
Liabilities arising from reinsurance and co-insurance	1,484,491	11,491,980
Tax liability	1,540,738	5,955,302
<b>Total</b>	<b>6,893,232</b>	<b>21,990,287</b>

Compared to 2014, the operating liabilities as at the 2015 year-end decreased by 46 %, mainly as a result of lower liabilities from reinsurance and co-insurance. Lowering of these liabilities was affected by the termination of the quota share reinsurance contract for car insurance, which resulted in reinsurance decommitment. At the end of 2014, the liabilities from quota reinsurance totalled 9,523,659 euros, accounting for 83 % of all outstanding liabilities from reinsurance.

For 2015, 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 10.25).

## 10.18 OTHER LIABILITIES

### Other liabilities

in EUR	31 Dec 2015	31 Dec 2014
Other operating (trade) liabilities	17,925,460	17,814,918
Accrued costs/expenses and deferred revenues	4,570,283	6,921,971
<b>Total</b>	<b>22,495,744</b>	<b>24,736,890</b>

Adriatic Slovenica does not have any liabilities with a maturity date over 5 years.

### 10.18.1 Other operating liabilities

#### Other operating liabilities

in EUR	31 Dec 2015	31 Dec 2014
<b>Current operating liabilities</b>	<b>17,925,460</b>	<b>17,814,918</b>
Current operating liabilities to suppliers	3,172,236	3,006,939
Current operating liabilities to employees	2,468,496	2,212,900
Other current liabilities from insurance operations	9,603,043	9,903,986
Current operating liabilities to the state (except for income tax)	657,486	397,612
Current liabilities for received advances	3,287	3,287
Other current operating liabilities	2,020,912	2,290,194
<b>Total</b>	<b>17,925,460</b>	<b>17,814,918</b>

At the end of 2015, the balance of other operating liabilities was not much different than the year before. 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 2015, the total of these liabilities is 6,686,719 euros. These liabilities will fall due when all claims will be reported. Moreover, as at 31 December 2015, 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 1,138,667 euros and liability to other insurance companies from supplementary health insurance equalisation schemes in the amount of 888,934 euros.

### 10.18.2 Accrued expenses and deferred income

#### Accrued expenses and deferred income

in EUR	31 Dec 2015	31 Dec 2014
Accrued expenses - operating	763,965	1,787,175
Accrued expenses - for unused annual holidays	1,169,669	1,199,808
Prepaid expenses - acquisition costs and unexpired commissions	705,514	832,770
Prepaid expenses from equalisation scheme for supplementary health insurance	963,644	1,114,856
Other deferred and accrued items	967,493	1,987,362
<b>Total</b>	<b>4,570,283</b>	<b>6,921,971</b>

## 10.19 REVENUES

## 10.19.1 Premium revenues from insurance contracts

## Net premium revenues from insurance contracts in 2015

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	40,069,385	(746,027)	153,821	2,195	39,479,375
Land motor vehicle insurance	34,161,119	(1,605,247)	174,479	(125,998)	32,604,353
Accident insurance	16,728,573	(181,166)	(96,157)	20,255	16,471,505
Fire and natural forces insurance	15,997,825	(3,634,394)	(62,808)	(60,892)	12,239,731
Other damage to property insurance	12,024,662	(1,389,603)	(46,676)	(11,449)	10,576,935
General liability insurance	7,425,674	(726,135)	298,424	(81,408)	6,916,556
Credit insurance	(144)	-	285,084	-	284,940
Other non-life insurance, excluding health insurance	9,384,050	(573,381)	(145,913)	42,611	8,707,366
Insurance contracts for non-life insurance, excluding health insurance	135,791,145	(8,855,953)	560,255	(214,686)	127,280,761
Health insurance contracts	100,643,709	-	740,610	-	101,384,319
Life insurance	20,161,409	(1,583,998)	46,985	(4,408)	18,619,988
Unit-linked insurance contracts	35,440,281	(2,494)	-	-	35,437,788
Additional pension insurance	4,612,407	-	-	-	4,612,407
Life insurance contracts	60,214,098	(1,586,492)	46,985	(4,408)	58,670,183
<b>Total</b>	<b>296,648,952</b>	<b>(10,442,444)</b>	<b>1,347,850</b>	<b>(219,095)</b>	<b>287,335,263</b>

## 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
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
Life insurance	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
Additional pension insurance	870,294	-	-	-	870,294
Life insurance contracts	53,753,316	(1,271,200)	51,844	(7,310)	52,526,650
<b>Total</b>	<b>297,879,905</b>	<b>(48,257,084)</b>	<b>210,295</b>	<b>91,424</b>	<b>249,924,540</b>

## 10.19.2 Financial revenues and expenses from investments and investments in associates

### Financial revenues and expenses from investments in 2015

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	2,328,466	3,785,236	498,274	390,055	2,914,766	9,916,797
Financial revenues arising from interest	2,328,466	2,625,345	463,673	282,126	2,914,766	8,614,376
Financial revenues arising from dividend	-	1,159,891	34,601	107,928	-	1,302,421
Financial revenues arising from unrealised gains	293,683	8,618,559	248,514	3,687,053	-	12,847,808
impairment)	-	-	5,488	-	-	5,488
Financial revenues arising from net positive foreign exchange differences	-	-	-	-	12,335	12,335
Financial revenues - reversal of impairment	543	-	-	-	-	543
Financial revenues - derivatives	-	-	93,801	-	-	93,801
<b>REVENUES FROM INVESTMENTS</b>	<b>2,622,691</b>	<b>12,403,795</b>	<b>846,077</b>	<b>4,077,107</b>	<b>2,927,101</b>	<b>22,876,772</b>
Financial expenses arising from realised capital losses	(47)	(2,967,661)	-	(2,390)	-	(2,970,098)
Financial expenses arising from net unrealised capital losses	-	(380,153)	(42,728)	(3,055,613)	-	(3,478,494)
Financial expenses arising from net negative foreign exchange differences	-	-	-	-	(1,271)	(1,271)
Financial expenses - impairment	-	(389,169)	-	-	-	(389,169)
Financial expenses - derivatives	-	-	(172,381)	-	-	(172,381)
<b>EXPENSES FOR INVESTMENTS</b>	<b>(47)</b>	<b>(3,736,984)</b>	<b>(215,109)</b>	<b>(3,058,003)</b>	<b>(1,271)</b>	<b>(7,011,414)</b>
<b>Net financial result from investments</b>	<b>2,622,644</b>	<b>8,666,811</b>	<b>630,968</b>	<b>1,019,105</b>	<b>2,925,830</b>	<b>15,865,358</b>

Financial revenues and expenses also include net financial revenue/expenses of unit-linked life insurance policyholders. In 2015, the net financial result of these was 903,883 euros. The value of guarantee funds for unit-linked life insurance decreased in 2015 because of the rapid decrease in value of equity securities. In the same period, the technical provisions of these funds decreased, 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 10.13 in 2015 totalled 5,467,835 euros and therefore lowered the final result in this amount.

### 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
<b>REVENUES FROM INVESTMENTS</b>	<b>2,781,630</b>	<b>13,229,932</b>	<b>1,845,021</b>	<b>38,747,933</b>	<b>2,656,288</b>	<b>59,260,803</b>
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)
<b>EXPENSES FOR INVESTMENTS</b>	<b>(415,117)</b>	<b>(4,987,641)</b>	<b>-</b>	<b>(6,167)</b>	<b>-</b>	<b>(5,408,926)</b>
<b>Net financial result from investments</b>	<b>2,366,513</b>	<b>8,242,291</b>	<b>1,845,021</b>	<b>38,741,765</b>	<b>2,656,288</b>	<b>53,851,878</b>

Financial revenues and expenses also include net financial revenue/expenses of unit-linked life insurance policyholders. In 2015, the net financial result of these was 38,034,452 euros.

**Net gains/losses from held-for-trading financial assets**

in EUR	2015	2014
Realised profits	1,380,643	678,495
Unrealised profits	328,989	1,375,929
Realised losses	(1,132,129)	(193,123)
Unrealised losses	(366,229)	(667,233)
<b>Total</b>	<b>211,274</b>	<b>1,194,068</b>

Net gains/losses from financial assets at initial recognition through profit or loss, excluding investment risk

in EUR	2015	2014
Realised profits	175,622	533,386
Unrealised profits	291,28	51,779
Realised losses	(133,493)	(226,586)
Unrealised losses	490,066	(43,563)
<b>Total</b>	<b>156,658</b>	<b>315,016</b>

Net gains/losses from financial assets at initial recognition through profit or loss pertaining to unit-linked life insurance amount to 785,708 euros (2014: 37,573,050 euros).

The effect of revaluation of financial investments, available-for-sale financial assets, are in 2015 recognised in the statement of other comprehensive income and are presented in Section 10.12.

**Impairment of securities of available-for-sale financial assets**

in EUR	2015	2014
Equity securities	380,153	1,010,048
Debt securities	-	1,666,904
<b>Total</b>	<b>380,153</b>	<b>2,676,952</b>

Within the available-for-sale financial assets, permanent impairment of investment in Elektro Celje d.d. shares was made, which totalled 380,153 euros. Losses due to permanent impairment of this investment were recognised in expenses from investments in the income statement within the expenses from impairment of financial assets not measured at fair value through profit or loss.

**Impairment of securities of held-to-maturity financial assets**

in EUR	2015	2014
Debt securities:	-	415,117
<b>Total</b>	<b>-</b>	<b>415,117</b>

Within the held-to-maturity financial assets, there were no permanent impairments of investments made in 2015.

**10.19.3 Other insurance revenues****Other insurance revenues**

in EUR	2015	2014
Revenues from reinsurance fees/commissions and from shares in positive technical result from individual reinsurance contracts	4,150,714	13,183,642
Other fee income for management of insurance contracts	14,111	-
<b>Total</b>	<b>4,164,825</b>	<b>13,183,642</b>

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 2015 by 9,032,928 euros, mostly due to the termination of quota reinsurance of car insurance and

consequently the inflow of reinsurance commissions from car insurance quota. In 2015, there were 2,687,515 euros of reinsurance commission revenues, while in the previous year, these revenues amounted to 12,218,690 euros.

#### 10.19.4 Other revenues

##### Other revenues

in EUR	2015	2014
Other net insurance revenues	2,486,341	2,666,023
Revaluation operating revenues	2,301,507	462,188
Revenues arising from rents charged for investment properties	1,582,730	1,237,178
Revenues arising from disposals of investment properties	67,744	-
Other operating revenues	679,769	2,212,262
<b>Other operating revenues</b>	<b>7,118,090</b>	<b>6,577,652</b>

##### Other net insurance revenues

in EUR	2015	2014
Revenue for management of insurance contracts	539,683	710,298
Revenue from other services provided to KD Funds	850,722	747,940
Revenue from insurance services provided to foreign insurance companies	319,920	326,986
Revenue from rent on parking lot and cars	193,807	191,530
Revenue from Green Card sales	463,550	477,440
Revenue from other services	118,659	211,829
<b>Total</b>	<b>2,486,341</b>	<b>2,666,023</b>

##### Revaluation operating revenues

Revaluation operating revenues mostly originate in the reversal of impairment of premium receivables, recourse receivables, other receivables and financial receivables. In 2015, due to revenues from reversals of impairment of premium receivables, these revenues are substantially higher – they amounted to 767,372 euros in 2015, while there were none in 2014. Moreover, the increase is also a consequence of reversal of impairment of financial receivables in the amount of 767,081 euros (2014: 14,800 euros), reversal of impairment of Cimos d.d. bonds and reversal of impairment of a loan in the amount of 117,014 euros (refer to Section 10.6. for details).

##### Other operating revenues are:

- collected written-off receivables in the amount of 3,023 euros, compared to 18,847 euros in 2014,
- received penalties and compensations in the amount of 60,653 euros, compared to 14,555 euros in 2014,
- other extraordinary revenues in the amount of 410,093 euros, compared to 377,991 euros in 2014,
- other financial revenues in the amount of only 224,042 euros, generated from revaluation of loans given to Fondpolica policyholders, which was performed due to changes in interest rates; compared to 1,800,870 euros in 2014.

## 10.20 NET CLAIMS INCURRED

## Net claims incurred in 2015

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	28,602,686	(842,491)	(5,554,612)	(5,791,849)	7,197,268	-	23,611,002
Land motor vehicles insurance	27,428,609	(520,677)	(2,532,372)	(17,696)	3,082,736	-	27,440,600
Accident insurance	8,366,326	-	(456,029)	(23,986)	511,218	-	8,397,529
Fire and natural disasters Insurance	6,195,456	2,524	(453,494)	(1,563,062)	606,512	-	4,787,937
Other damage to property insurance	8,357,888	(39,518)	(79,530)	(515,879)	131,386	-	7,854,348
General liability insurance	3,164,735	2,861	(6,564)	21,354	(14,845)	-	3,167,539
Credit insurance	411,264	(281,474)	-	(29,240)	-	-	100,550
Other non-life insurance, excluding health insurance operations	4,367,853	(53,963)	(216,013)	(326,876)	192,828	-	3,963,829
<b>Non-life insurance contracts, excluding health insurance contracts</b>	<b>86,894,817</b>	<b>(1,732,739)</b>	<b>(9,298,614)</b>	<b>(8,247,233)</b>	<b>11,707,103</b>	<b>-</b>	<b>79,323,335</b>
<b>Health insurance contracts</b>	<b>84,846,307</b>	<b>(8,435)</b>	<b>-</b>	<b>224,512</b>	<b>-</b>	<b>3,631,901</b>	<b>88,694,286</b>
Life insurance	15,212,626	-	(429,788)	(784,773)	(59,855)	-	13,938,211
Unit-linked insurance contracts	23,739,721	-	-	102,223	-	-	23,841,944
Additional pension insurance	851,188	-	-	-	-	-	851,188
Insurance contracts and investment life insurance contracts	39,803,535	-	(429,788)	(682,551)	(59,855)	-	38,631,342
<b>Total</b>	<b>211,544,660</b>	<b>(1,741,174)</b>	<b>(9,728,402)</b>	<b>(8,705,271)</b>	<b>11,647,248</b>	<b>3,631,901</b>	<b>206,648,963</b>

## 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
<b>Non-life insurance contracts, excluding health insurance contracts</b>	<b>84,326,262</b>	<b>(3,680,903)</b>	<b>(23,280,503)</b>	<b>(5,248,920)</b>	<b>(2,718,179)</b>	<b>-</b>	<b>49,397,756</b>
<b>Health insurance contracts</b>	<b>88,631,491</b>	<b>(203,611)</b>	<b>-</b>	<b>(526,547)</b>	<b>-</b>	<b>4,284,356</b>	<b>92,185,688</b>
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 and financial contracts - life insurance	35,491,036	-	(334,092)	(665,952)	(19,521)	-	34,471,471
<b>Total</b>	<b>208,448,788</b>	<b>(3,884,514)</b>	<b>(23,614,595)</b>	<b>(6,441,420)</b>	<b>(2,737,700)</b>	<b>4,284,356</b>	<b>176,054,915</b>

## Net claims incurred classified into expenses for the current year and expenses for previous years

in EUR	Reinsurance			Gross 2014	Reinsurance 2014	Net 2014
	Gross 2015	2015	Net 2015			
<b>Expenses for claims and benefits paid for current year</b>	<b>218,962,621</b>	<b>706,968</b>	<b>218,255,652</b>	<b>216,652,215</b>	<b>26,920,650</b>	<b>189,731,564</b>
Claims and benefits paid	169,799,623	418,626	169,380,997	165,159,531	13,895,610	151,263,921
Change in outstanding claim provisions	45,531,097	288,343	45,242,754	47,208,328	13,025,040	34,183,287
Expenses from equalisation scheme	3,631,901	-	3,631,901	4,284,356	-	4,284,356
<b>Expenses for claims and benefits paid for previous years</b>	<b>(14,232,504)</b>	<b>(2,625,815)</b>	<b>(11,606,690)</b>	<b>(14,245,004)</b>	<b>(568,356)</b>	<b>(13,676,649)</b>
Claims and benefits paid	40,003,864	9,309,776	30,694,087	39,404,743	9,718,985	29,685,758
Change in outstanding claim provisions	(54,236,527)	(11,935,591)	(42,300,777)	(53,649,747)	(10,287,341)	(43,362,407)
<b>Total</b>	<b>204,730,116</b>	<b>(1,918,846)</b>	<b>206,648,962</b>	<b>202,407,210</b>	<b>26,352,295</b>	<b>176,054,916</b>

## 10.21 COSTS

## 10.21.1 Costs by natural groups

in EUR	2015	2014
Operating costs for material	1,116,762	1,084,094
Acquisition costs	27,099,309	24,214,427
Operating costs for services	19,251,466	19,481,375
Depreciation/amortisation	2,987,999	3,231,006
<b>Labour costs</b>	<b>27,725,407</b>	<b>28,053,665</b>
Payroll – wages and salaries	20,125,755	20,411,922
Social security costs	1,638,582	1,456,858
Pension insurance costs	1,751,158	1,939,141
Other labour cost	3,805,293	3,639,129
Provisions for termination benefits and jubilee benefits	404,619	606,615
<b>Total</b>	<b>78,180,943</b>	<b>76,064,567</b>

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.

## 10.21.2 Costs by functional groups

in EUR	2015	2014
Costs related to acquisition of insurance and investment contracts	26,789,027	24,214,318
Costs related to financial asset management	2,554,973	2,490,942
Costs related to PPE management	671,229	648,675
Other costs for management fees	2,582,181	2,270,241
Costs of sale	21,180,739	22,642,742
Other costs/expenses	18,417,141	17,738,988
<b>Total costs/expenses by functional groups</b>	<b>72,195,291</b>	<b>70,005,906</b>

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. In 2015, these costs totalled 5,985,653 euros in 2015 (2014: 6,058,661 euros). Together with the transfer of a part of other expenses in the amount of 30,857 euros (2014: 34,193 euros), there were 6,016,510 euros transferred to gross expenses for claims paid (2014: 6,092,854 euros).

### 10.21.3 Labour costs for own agents

In EUR	2015	2014
Labour costs	7,394,015	6,851,470
Wages and salaries	5,378,524	4,905,335
Social security costs	388,188	374,257
Pension insurance costs	549,727	559,463
Other labour cost	1,077,576	1,012,415
Costs of services provided by private individuals	348,755	370,415
<b>Total</b>	<b>7,742,771</b>	<b>7,221,885</b>

### 10.21.4 Auditor's remuneration

The audit of annual financial statements of Adriatic Slovenica insurance company for 2015, as well as 2014, was performed by the audit firm KPMG Slovenija d.o.o.

#### Fees paid for auditor's services

v EUR	2015	2014
Statutory audit of the annual report	105,154	96,781
Other audit services	-	-
Tax counselling services	-	-
Other non-audit services	-	-
<b>Total fees for independent auditor's services</b>	<b>105,154</b>	<b>96,781</b>

## 10.22 OTHER INSURANCE EXPENSES

### Other insurance expenses

in EUR	2015	2014
Expenses for preventive activities	830,423	844,032
Contribution for covering losses caused by uninsured and unknown vehicles	-	462,475
Other net insurance expenses	3,811,707	5,189,219
<b>Total</b>	<b>4,642,130</b>	<b>6,495,725</b>

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 2015, 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 2014, the insurance company paid more fee than it should because the actual amount was determined subsequently. Therefore, there were no such expenses in 2015.

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 1,065,875 euros (2014: 1,508,933 euros),
- recourse receivables write-offs in the amount of 203,961 euros (2014: 1,557,114 euros),
- write-offs of other receivables in the amount of 239,006 euros (2014: 127,917 euros),
- insurance expenses for car assistance in the amount of 1,708,327 euros (2014: 1,052,048 euros),
- expenses of supervisory bodies in the amount of 411,413 euros (2014: 331,910 euros),
- other net insurance expenses in the amount of 183,126 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 2015, compared to 2014, 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 non past due receivables.

### 10.23 OTHER EXPENSES

#### Other expenses

in EUR	2015	2014 adjusted
Revaluation operating expenses	1,198,888	2,463,695
Expenses for depreciation of investment properties	425,241	338,498
Other expenses for investment properties	1,538,332	439,057
Expenses for disposal of investment properties	36,066	151,992
Other operating expenses	3,425,982	1,135,614
Finance expenses	924,926	540,217
<b>Total</b>	<b>7,549,436</b>	<b>5,069,073</b>

Revaluation operating expenses were mostly generated by revaluation and impairment of receivables (from premiums, recourses, other receivables and financial receivables). Due to lower expenses from impairment of receivables and deposits measured at amortised cost, revaluation expenses are lower in 2015. These expenses included 239,226 euros of expenses from impairment of premium receivables (2014: 237,322 euros) and 150,167 euros of expenses from impairment of recourse receivables (in 2014, there were no such expenses). Despite the lower total sum, in 2015, there was an increase in expenses from impairment of intangible assets and impairment of long-term accrued expenses, obtained by the insurance company upon acquisition of KDŽO and due to adjustments from previous years (refer to Sections 5.4. and 5.5.).

Expenses from amortisation of investment property are in 2015 slightly higher due to new purchases of investment properties.

Other expenses from investment properties mostly relate to expenses from rented investment property. In 2015, these expenses increased drastically due to the acquisition of a new investment property (on Loška 13, Maribor) – the related expenses totalled 785,334 euros.

Expenses from disposal of investment properties are in 2015 lower than the year before and are entirely attributable to the loss, generated by the sale of investment property in Ljubljana (described in detail in Section 10.3.).

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	2015	2014
Payments for charity and cultural purposes	100,750	117,741
Benefits not depending on operating profit or loss	142,884	151,847
Financial penalties and compensations	1,200,000	4,462
Other operating expenses	831,775	819,113
The rest of other operating expenses	1,150,574	42,451
<b>Total</b>	<b>3,425,982</b>	<b>1,135,614</b>

The growth of other operating expenses was caused by financial penalties and compensations in the amount of 1,200,000 euros recognised in the income statement due to the lawsuit filed by Pozavarovalnica Sava in 2015

against Adriatic Slovenica (described in detail in Section 12). Moreover, there was a large amount of other operating expenses which were higher in 2015 due to offsetting of receivables from reversal of impairment of Cimos d.d. bonds (described in detail in Section 10.6.).

Among other operating expenses, which also present an important portion of expenses, those with the highest amounts are:

- Administrative and court fees 420,682 euros (2014: 419,345 euros),
- Fees for memberships in the Chamber of Commerce and Industry of Slovenia and associations 215,125 euros (2014: 209,109 euros),
- Expenses for bonuses 5,983 euros (2014: 51,274 euros),
- Expenses for motor vehicles (registration, vignettes and parking fees) 28,440 euros (2014: 24,844 euros),
- Scholarships for high school students 7,196 euros (2014: 1,894 euros),
- IAS administrative fees 9,263 euros (2014: 4,061 euros),
- The rest of other expenses 154,658 euros (2014: 120,561 euros).

Finance expenses, which went up compared to the year before, are below presented in more detail.

### Finance expenses

in EUR	2015	2014
Finance expenses for interest -other	483	3,160
Other finance expenses	924,443	537,057
Finance expenses arising from other financial liabilities	84,298	41,635
Finance expenses arising from fees and commissions	437,348	396,541
Finance expenses arising from operating liabilities	402,797	98,881
<b>Total</b>	<b>924,926</b>	<b>540,217</b>

Financial expenses from other financial liabilities are higher by 71 % compared to the previous year, mostly due to higher expenses from operating liabilities (extraordinary financial expenses), expenses for interest and exchange differences. Expenses in all of the categories within these expenses are higher in 2015.

Extraordinary financial expenses are higher due to bonuses paid for the achieved result in unit-linked life insurance management – Vrhunski.

To a smaller extent, expenses from financing were higher also due to financial expenses from commissions, mostly commissions from unit-linked life insurance financing.

Financial expenses from other financial liabilities, composed of expenses for interest and exchange differences from financial liabilities are higher also due to higher exchange differences generated by business transactions of AS subsidiary in Croatia.

## 10.24 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. Moreover, it does not include the reinsurance-related part of changes in technical provisions.

## Reinsurance result for non-life insurance in 2015

Insurance class	in EUR	Reinsurance premiums	Reinsurance claims	Gross reinsurance result	Reinsurance commissions	Net reinsurance result
Accident insurance		181,166	456,029	(274,863)	255,393	(530,255)
Land motor vehicle insurance		1,605,247	2,532,372	(927,125)	1,306,983	(2,234,109)
Marine loss insurance		62,327	121,870	(59,543)	-	(59,543)
Transportation (goods in transit) insurance		222,470	36,525	185,945	11,994	173,950
Fire and natural disaster insurance		3,416,452	450,235	2,966,217	545,752	2,420,465
Other damage to property insurance		1,347,806	67,678	1,280,128	56,881	1,223,247
Motor vehicle liability insurance (MTPL)		746,027	5,554,612	(4,808,585)	1,357,122	(6,165,707)
Aircraft liability insurance		9,298	-	9,298	930	8,368
Ship/boat liability insurance		59,948	-	59,948	-	59,948
General liability insurance		647,608	(13,240)	660,849	43,167	617,681
Suretyship insurance		137,078	2,484	134,594	34,945	99,649
Miscellaneous financial loss insurance		82,252	98	82,154	13,973	68,181
Legal expenses insurance		(115)	415	(530)	5,315	(5,845)
Insurance of assistance		-	54,606	(54,606)	85,575	(140,181)
<b>Total non-life insurance</b>		<b>8,517,563</b>	<b>9,263,683</b>	<b>(746,119)</b>	<b>3,718,031</b>	<b>(4,464,150)</b>

## 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
Aviation 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
<b>Total non-life insurance</b>		<b>46,583,042</b>	<b>23,267,922</b>	<b>23,315,120</b>	<b>12,855,050</b>	<b>10,460,070</b>

## 10.25 CORPORATE INCOME TAX

## Taxes

in EUR	2015	2014
Corporate income tax charge	(1,767,882)	(4,048,370)
Deferred tax income/(expense)	(783,231)	280,918
<b>Total</b>	<b>(2,551,113)</b>	<b>(3,767,452)</b>

## Tax base and rate for the calculation of corporate income tax

in EUR	2015	2014 adjusted
<b>Profit or loss before taxes</b>	<b>16,815,342</b>	<b>23,044,325</b>
Revenue adjustment to level recognised for tax purposes	(9,718,819)	(11,367,600)
Expense adjustment to level recognised for tax purposes	5,349,903	14,450,478
Tax allowance	(2,047,122)	(1,885,396)
Total tax base	10,399,303	24,241,807
Rate used for income tax calculation (%)	17	17
<b>Income tax</b>	<b>(1,767,882)</b>	<b>(4,048,370)</b>
<b>Effective tax rate (in %)</b>	<b>15.17</b>	<b>16.35</b>

## Adjustment between the actual and the calculated tax expense by applying the effective tax rate

in EUR	2015	2014 adjusted
<b>Profit or loss before taxation</b>	<b>16,815,342</b>	<b>23,044,325</b>
Tax calculated by using official tax rate (2015: 17%, 2014: 17%)	<b>(2,858,608)</b>	<b>(3,917,535)</b>
<b>Income excluded from the tax base</b>	<b>1,652,199</b>	<b>1,932,492</b>
Dividend income exempt from tax	196,286	180,357
Adjustment of income to the level recognised for tax purposes (decrease)	1,455,914	1,752,135
<b>Expenses not recognised in the tax base</b>	<b>(909,483)</b>	<b>(2,456,581)</b>
Increase in expenditure (not recognised for tax purposes in previous years)	600,486	554,956
Withdrawal of tax allowances, utilised in previous years	(870)	(3)
Adjustment of income to the level recognised for tax purposes	(1,509,099)	(3,011,535)
<b>Use of tax allowance in the current year</b>	<b>348,011</b>	<b>320,517</b>
<b>Other changes in deferred taxes in the income statement</b>	<b>(783,231)</b>	<b>280,918</b>
<b>Profit or loss after taxation</b>	<b>(2,551,113)</b>	<b>(3,840,189)</b>
<b>Effective tax rate (in %)</b>	<b>15.17</b>	<b>16.66</b>

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 2015, 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 2015 is 15.2 % (2014: the effective tax rate was after the adjustment changed from 16.66 % to 16.35 %).

In Slovenia, the tax liability from the tax base for 2015 was calculated at a 17 % tax rate, which is the same as the previous year.

## 10.26 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 2015	31 Dec 2014
<b>Deferred tax assets</b>	<b>2,832,029</b>	<b>3,622,498</b>
– receivables for deferred tax to be recovered	2,832,029	3,622,498
<b>Deferred tax liabilities</b>	<b>732,097</b>	<b>1,194,632</b>
– liabilities for deferred taxes pending payment	732,097	1,194,632

## Overview of bases for deferred tax receivables

in EUR	Base 2015	Deferred tax liability 2015	Base 2014	Deferred tax liability 2014
Due to impairment/value adjustments of receivables for premiums, for recourse receivables and for other current receivables	11,061,025	1,880,374	11,851,112	2,014,689
Due to impairment/value adjustments of financial investments	3,929,309	667,983	7,868,973	1,337,725
Due to impairment/value adjustments of provisions and depreciation above the statutory rate	1,668,657	283,672	1,588,723	270,083
<b>Total</b>	<b>16,658,991</b>	<b>2,832,029</b>	<b>21,308,809</b>	<b>3,622,498</b>

## Overview of bases for deferred tax liabilities

in EUR	Base 2014	Deferred tax liability 2014	Base 2014	Deferred tax liability 2014
Due to reversal of impairment of financial investments	4,306,452	732,097	7,027,247	1,194,632
<b>Total</b>	<b>4,306,452</b>	<b>732,097</b>	<b>7,027,247</b>	<b>1,194,632</b>

## Deferred taxes taken to equity in a given year

in EUR	31 Dec 2015	31 Dec 2014
<b>Revaluation surplus (deferred taxes)</b>		
Available-for-sale financial assets	455,298	(1,642,065)
<b>Total</b>	<b>455,298</b>	<b>(1,642,065)</b>

## Movements in deferred taxes

in EUR	Total
<b>Net balance of assets and liabilities as at 1 January 2014</b>	<b>3,789,013</b>
Debited/credited to income statement	280,918
Debited/credited to equity	(1,642,065)
<b>Net balance of assets and liabilities as at 31 December 2014</b>	<b>2,427,866</b>
<b>New balance as at 1 January 2015</b>	<b>2,427,866</b>
Debited/credited to income statement	(783,231)
Debited/credited to equity	455,298
<b>Net balance of assets and liabilities as at 31 December 2015</b>	<b>2,099,932</b>

## Movements in deferred tax liabilities (without offsetting)

v EUR	Impairment reversal to fair value	Other	Total
<b>New balance as at 1 January 2014</b>	<b>27,011</b>	-	<b>27,011</b>
Debited/credited to equity	1,167,621	-	1,167,621
<b>Balance as at 31 December 2014</b>	<b>1,194,632</b>	-	<b>1,194,632</b>
<b>New balance as at 1 January 2015</b>	<b>1,194,632</b>	-	<b>1,194,632</b>
Debited/credited to equity	(462,535)	-	(462,535)
<b>Balance as at 31 December 2015</b>	<b>732,097</b>	-	<b>732,097</b>

## 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
<b>New balance as at 1 January 2014</b>	<b>1,364,634</b>	<b>1,464,366</b>	<b>306,478</b>	<b>235,179</b>	<b>93,387</b>	<b>313,397</b>	<b>38,583</b>	<b>3,816,023</b>
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)
<b>Balance as at 31 December 2014</b>	<b>1,269,927</b>	<b>1,337,726</b>	<b>308,734</b>	<b>265,707</b>	<b>52,239</b>	<b>383,789</b>	<b>4,376</b>	<b>3,622,498</b>
<b>New balance as at 1 January 2015</b>	<b>1,269,927</b>	<b>1,337,726</b>	<b>308,734</b>	<b>265,707</b>	<b>52,239</b>	<b>383,789</b>	<b>4,376</b>	<b>3,622,498</b>
Debited/credited to income statement	(86,652)	(662,505)	34,659	17,965	(30,945)	(51,377)	(4,376)	(783,231)
Debited/credited to equity	-	(7,238)	-	-	-	-	-	(7,238)
<b>Balance as at 31 December 2015</b>	<b>1,183,276</b>	<b>667,983</b>	<b>343,393</b>	<b>283,672</b>	<b>21,294</b>	<b>332,412</b>	<b>-</b>	<b>2,832,029</b>

## 10.27 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 2015	31 Dec 2014
Net profit or loss for the financial year	14,264,229	19,276,873
Weighted average number of ordinary shares outstanding	10,304,407	10,304,407
Basic and adjusted net earnings / loss per share (in EUR)	1.38	1.87

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

	2015	2014
As at 1 January	10,304,407	10,304,407
As at 31 December	10,304,407	10,304,407

## 10.28 ISSUES, REDEMPTIONS AND PAYOUTS OF SECURITIES AND DIVIDENDS

In 2015, Adriatic Slovenica did not issue, redeem or pay out any debt or equity securities.

### Dividend per share

	2015	2014
Amount of dividends (in euros)	17,944,000	13,400,000
Dividend per share (in euros)	1.74	1.30

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 10 April 2015, the General Meeting of Shareholders of Adriatic Slovenica adopted a resolution to allocate 17,944,000 euros for the payment of dividends to the shareholders. The dividends were paid in full on 13 April 2015.

## 10.29 ADDITIONAL EXPLANATIONS TO THE CASH FLOW STATEMENT

The indirect method is used in preparation of the cash flow statement. In the reconciliation of cash flows from operations, the indirect method enables adjustments of profit / loss due to effects of transactions of non-monetary nature and items of revenues and expenses related to cash flows from investment activities and financing. Within the cash flows from financing, the expenses for dividend payments equal the dividend payments disclosed in the statement of changes in equity because the dividends were paid in full.



## 11. 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.

The rules on related party transactions are laid down in the insurance company's internal policy on ensuring data, preparation of reports and storage of this data. For mutual services between related parties, transfer prices are used, which are charged at the same rates as for unrelated parties. To determine the prices, the insurance company uses the comparable uncontrolled price method, where the comparable market prices are defined by means of internal or external comparable uncontrolled price method.

In 2015, the insurance company's related party transactions included:

- Insurance contract operations – taking out insurance, claims settlement and payments of commissions for concluded insurance contracts;
- Hiring out of business premises and parking spaces;
- Purchases and sales of investment properties;
- Purchases and sales of securities
- Financial services (loans).

In 2015, 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, Adriatic Slovenica 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.

### 11.1 RELATED PARTIES

The related parties of Adriatic Slovenica as at 31 December 2015 are listed below:

KD Group d. d.- direct owners  
 Subsidiary PROSPERA družba za izterjavo d. o. o.  
 Subsidiary VIZ, zavarovalno zastopništvo d. o. o. (=WIZ)  
 Subsidiary Permanens d.o.o., 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	2015	2014
Shareholder of Adriatic Slovenica d.d	258,930	248,561
Subsidiaries of Adriatic Slovenica d.d.	143,866	125,486
Associate of Adriatic Slovenica d.d.	68	321
Other associated/affiliated companies of Adriatic Slovenica d. d.	1,580,999	1,229,191
<b>Total</b>	<b>1,983,863</b>	<b>1,603,558</b>



The insurance company sold at carrying value the receivables totalling 4,239 euros to Prospera d.o.o. subsidiary (in 2014, 1,268,517 euros of receivables were sold) and from this transaction, the insurance company did not generate revenues or expenses.

#### Purchase of goods and services

in EUR	2015	2014
Shareholder of Adriatic Slovenica d.d	488,482	559,008
Subsidiaries of Adriatic Slovenica d.d.	172,344	74,901
Associate of Adriatic Slovenica d.d.	8	12
Other associated/affiliated companies of Adriatic Slovenica d. d.	4,481,989	3,768,048
<b>Total</b>	<b>5,142,823</b>	<b>4,401,968</b>

#### Receivables of Adriatic Slovenica d.d. from related parties

in EUR	31 Dec 2015	31 Dec 2014
Shareholder of Adriatic Slovenica d.d	3,626	4,114
Subsidiaries of Adriatic Slovenica d.d.	47,289	496,830
Other associated/affiliated companies of Adriatic Slovenica d. d.	158,406	154,564
<b>Total</b>	<b>209,321</b>	<b>655,507</b>

#### Liabilities of Adriatic Slovenica d.d. from related parties

in EUR	31 Dec 2015	31 Dec 2014
Shareholder of Adriatic Slovenica d.d	117,075	136,206
Subsidiaries of Adriatic Slovenica d.d.	63,366	79,000
Associate of Adriatic Slovenica d.d.	8	12
Other associated/affiliated companies of Adriatic Slovenica d. d.	255,671	174,015
<b>Total</b>	<b>436,121</b>	<b>389,233</b>

#### Purchase of investment properties from related parties

In 2014, Adriatic Slovenica did not purchase or sell any investment properties to its related parties

#### Purchase of securities from related parties

in EUR	2015	2014
Subsidiaries of Adriatic Slovenica d.d.	559,452	5,983,474
<b>Total</b>	<b>559,452</b>	<b>5,983,474</b>

In May 2015, the insurance company recapitalised its subsidiary VIZ d.o.o. in the amount of 80,000 euros. Therefore, the share capital of VIZ d.o.o. was increased to 430,000 euros.

#### Sale of securities to related parties

in EUR	2015	2014
Subsidiaries of Adriatic Slovenica d.d.	(5,758,265)	-
<b>Total</b>	<b>(5,758,265)</b>	<b>-</b>

**Bonds issued by the shareholder of Adriatic Slovenica d.d.**

in EUR	2015	2014
<b>At the beginning of year</b>	<b>11,072,392</b>	<b>9,652,626</b>
Spin-off assets	105,327	-
Bonds purchased from the owners	15,131,750	-
Bonds purchased in the Group	1,004,732	-
Bonds sold in the Group	(12,411,512)	-
Interest charged	1,135,193	676,656
Interest received	(561,887)	(573,908)
Valuation/measurement	290,978	1,317,018
<b>At the end of the reporting period</b>	<b>15,766,973</b>	<b>11,072,392</b>

**Bonds issued by other related parties of Adriatic Slovenica d.d.**

in EUR	2015	2014
<b>At the beginning of year</b>	<b>6,212,877</b>	<b>6,050,921</b>
Spin-off assets	775,642	-
Bonds purchased in the Group	-	168,019
Interest charged	466,073	411,145
Interest received	(480,077)	(427,630)
Valuation/measurement	(938)	10,421
<b>At the end of the reporting period</b>	<b>6,973,577</b>	<b>6,212,877</b>

**Shares issued by the shareholder of Adriatic Slovenica d.d.**

in EUR	2015	2014
<b>At the beginning of year</b>	<b>162,840</b>	<b>116,105</b>
Valuation/measurement	(37,290)	46,735
<b>At the end of the reporting period</b>	<b>125,550</b>	<b>162,840</b>

**Shares of the subsidiaries of Adriatic Slovenica d.d.**

in EUR	2015	2014
<b>At the beginning of year</b>	<b>15,712,691</b>	<b>10,267,292</b>
Spin-off assets	39,701	-
Shares purchased from the issuer	439,876	2,289,365
Shares purchased within the group	-	4,140,776
Shares sold in the group	(7,788,249)	-
Dividends paid	229,451	250,043
Dividends received	(229,451)	(250,043)
Valuation/measurement	(125)	-
Permanently impaired	-	(984,741)
<b>At the end of the reporting period</b>	<b>8,403,895</b>	<b>15,712,691</b>

**Shares of the associate of Adriatic Slovenica d.d.**

in EUR	2015	2014
<b>At the beginning of year</b>	<b>11,705,901</b>	<b>11,705,901</b>
Dividends paid	180,446	77,175
Dividends received	(180,446)	(77,175)
<b>At the end of the reporting period</b>	<b>11,705,901</b>	<b>11,705,901</b>

**Shares of other related parties of Adriatic Slovenica d.d.**

in EUR	2015	2014
<b>At the beginning of year</b>	<b>1,279,892</b>	<b>2,812,704</b>
Shares purchased from other related companies	131,819	-
Shares sold to other related companies	-	(1,752,487)
Dividends paid	89,411	289,294
Dividends received	(89,411)	(289,294)
Valuation/measurement	58,409	219,675
<b>At the end of the reporting period</b>	<b>1,470,120</b>	<b>1,279,892</b>

**Loans received and loans given****Loans given to the shareholders of Adriatic Slovenica d.d.**

in EUR	2015	2014
<b>At the beginning of year</b>	<b>8,099,996</b>	<b>10,699,997</b>
Approved loans	9,000,000	17,700,000
Repaid loans	(9,100,000)	(20,300,000)
Interest accrued	401,203	433,966
Interest reduction	(401,411)	(433,966)
<b>At the end of year</b>	<b>7,999,788</b>	<b>8,099,996</b>
Paid interest	425,096	448,306

The newly given loans are of a short-term nature; they were given at market interest rate of 5 % and were collateralised (bills of exchange).

**Loans given to other related parties of Adriatic Slovenica d.d.**

in EUR	2015	2014
<b>At the beginning of year</b>	<b>19,751,835</b>	<b>9,801,611</b>
Approved loans	17,800,000	11,800,000
Repaid loans	(15,987,130)	(1,849,100)
Interest accrued	950,259	508,186
Interest reduction	(951,007)	(508,862)
<b>At the end of year</b>	<b>21,563,957</b>	<b>19,751,835</b>
Paid interest	1,000,855	707,820

The loans given to other related parties were given at market interest rate 5 % and 5 % + 3m EURIBOR. The given loans were mostly of short-term nature, only one of them was a long-term one, with the repayment period of up to 5 years. The loans are collateralised with debt securities and bills of exchange.

**Loans received from subsidiaries of Adriatic Slovenica d. d.**

in EUR	2015	2014
<b>At the beginning of year</b>	<b>43,971</b>	<b>350,840</b>
Approved loans	80,000	472,500
Repaid loans	(108,700)	(766,600)
Interest accrued	483	3,160
Interest reduction	(399)	(15,929)
<b>At the end of year</b>	<b>15,355</b>	<b>43,971</b>
Paid interest	399	15,929

\*Note: The data on movements of loans to related parties includes movements of interest.



In May 2015, the insurance company completely repaid a loan received in 2014 to subsidiary VIZ d.o.o. In 2015, the Company received a new short-term loan from VIZ d.o.o. in the amount of 80,000 euros. The interest loan determined for loans between related parties will be applied. This is a short-term loan with successive repayments and maturity date 23 May 2016 and is not collateralised.

The insurance company did not conduct any business with banks as the related parties in 2015.

## 11.2 SUBSIDIARIES AND ASSOCIATES

### Subsidiaries

#### 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 2015: 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 2015, 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 2015.

The tax rate applied in the calculation of the corporate income tax was 17 %.

In 2015, Adriatic Slovenica d.d. as the controlling company concluded no loan agreements with Prospera d.o.o. subsidiary.

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 2015: 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 2015, 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 2015.

The tax rate applied in the calculation of the corporate income tax was 17 %.

In 2015, Adriatic Slovenica d.d. concluded a loan agreement with VIZ d.o.o. subsidiary for a short-term loan with the possibility of gradual drawdown. The loan was being repaid in line with the contract (see Section 11.1.).

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.



### Permanens d.o.o.

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 2015: 6  
Company objects: Activities of intermediaries and insurance agencies.

The tax rate applied in the calculation of the corporate income tax was 20 %.

As at 31 December 2015, Adriatic Slovenica d.d. had a 100 % equity stake in Permanens d.o.o. The reporting period of the financial statements is equal to the calendar period ended 31 December 2015.

In 2015, Adriatic Slovenica d.d. as the controlling company did not conclude any loan agreements with the subsidiary Permanens d.o.o.

Adriatic Slovenica d.d. as the controlling company will compile a consolidated annual report of the 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 2015: 163

Company objects: The principal activity of Nama is retail trade services of food and non-food products.

As at 31 December 2015, 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 2015.

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 associate Nama in 2015.

In its consolidated financial statements, Adriatic Slovenica d.d. accounts for Nama d.d. Ljubljana using the equity method.

## 11.3 SHAREHOLDERS

With a 100 % equity stake, KD Group d.d. is the sole shareholder of Adriatic Slovenica. Business cooperation with KD Group d.d. is outlined in the subsections below (Section 11).

## 11.4 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 2015 financial year.

**Adriatic Slovenica made the following payments for 2015 to the members of the Management Board**

in EUR		Gross salary	Variable part of remuneration	Regres za letni dopust	Reimburse ments of costs*	Insurance premiums	Commissions, bonuses and other fringe benefits	Remuneration for work in subsidiaries
Gabrijel Škof	President of the Management Board	159,600	26,434	1,061	1,777	2,164	1,576	-
Willem Jacob Westerlaken	Member of the Management Board (until 31 Dec 2015)	122,440	20,321	1,061	5,117	319	31,374	-
Varja Dolenc, MSc	Member of the Management Board	120,000	19,621	1,061	1,189	1,683	4,604	-
Matjaž Šenk	Member of the Management Board	119,340	19,608	1,061	2,661	1,150	1,036	-

\*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 5,465,833 euros for 2015, of which 4,554,177 euros were paid for gross salaries and 911,656 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 2015 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
Tomaž Butina	Member	19,200
Aleksander Sekavčnik	Member	19,200
Borut Šuštaršič	Member, representative of employees (od 28.9.2015)	4,960
Matjaž Pavlin	Member, representative of employees	19,200
Viljem Kopše	Member, representative of employees (until 27.9. 2015)	14,240

**Adriatic Slovenica made in 2015 the following payments to the members of the Audit Committee**

in EUR	Fees for attending board sessions
Matjaž Gantar, MSc.	1,800
Milena Georgievski	2,520
Mojca Kek	2,520
Matjaž Pavlin	2,520
Jure Kvaternik	2,998

As at 2015 year-end, Adriatic Slovenica carries the following current operating receivables and liabilities:

- 934 euros of receivables and 284 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;



- 27,133 euros of receivables and no liabilities from the members of the Supervisory Board. The receivables arise from the insurance business (premiums due) in the amount of 538 euros, and receivables from exercised recourse receivables in the amount of 26,596 euros, being repaid in line with the agreement;
- 7,235 euros of receivables and 3,712 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 6,858 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 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 2016.

In 2015, 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 1,104 euros of receivables and 580 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 131 euros of receivables and no 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 2015, 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 1,114 euros of insurance premiums,
- the immediate family members of members of the Supervisory Board paid the aggregate amount of 6,128 euros of insurance premiums,
- the immediate family members of members of the Audit Committee paid the aggregate amount of 4,566 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 2015, based on the concluded insurance premiums, the insurance company paid 330 euros for claims to the immediate family members of members of the Management Board, 230 euros to the immediate family members of members of the Supervisory Board and 231 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 2015, the senior management of controlling companies of Adriatic Slovenica, apart from reimbursements for claims, based on insurance contracts, received 152 euros of daily allowance for business trips.

The Company's receivables carried in the books of account at the end of 2015 and arising from the senior management of the parent companies up to the highest parent company amounted to 26,943 euros. Outstanding receivables refer to the receivables arising from the insurance business (premiums) in the amount of 348 euros, and receivables from exercised recourse receivables in the amount of 26,596 euros, being repaid in line with the phased payment agreement. As at 31 December 2015, there are no outstanding liabilities from the management board members of controlling entities.

## 12. 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, mortgage on real property and shares in companies, pledged as collateral for given short-term loans in the amount of 12,394,745 euros; receivables from the state in the amount of 3,225,338 euros, receivables for unrealised recourses in the amount of 8,722,652 euros and receivables for pension insurance premiums in the amount of 2,229,594 euros.

Among potential receivables and assets, there was a change in receivables arising from insurance operations like receivables from unrealised recourse receivables, higher by 248,916 euros, and receivables from pension insurance premiums, which increased by 1,114,740 euros. Compared to 2014 year-end, on 31 December 2015, there was also an increase in receivables from the state for accrued interest in the amount of 1,046,885 euros (car insurance – part of former Slovenica). The insurance company's pledged guarantees for given loans grew at the end of the year by 2,049,437 euros due to potential receivables from pledged shares in companies.

Within its potential receivables as at 31 December 2015, the insurance company discloses unresolved liabilities from the received lawsuit filed by Pozavarovalnica Sava d.d. in the amount of 848,393 euros, potential liabilities from labour related disputes totalling 37,697 euros and insurance-legal disputes (for example disputes with pharmacies) in the amount of 32,628 euros.

As at 31 December 2015, the insurance company has three active option contracts (put options), which, if the conditions are met, present for the insurance company a potential obligation of purchasing 21,650 bonds with the label KDH3 (ISIN: SI0032103416) in the amount of 433,000 euros excluding accrued interest. The agreed price of one bond is 100 % of the nominal value (20 euros per bond) plus accrued interest in line with the amortisation plan as at the date of payment of the purchase price by the Company. Sales option contracts are enforceable from 29 September 2016 to 31 December 2016 when they expire.

The insurance company had no liabilities from pension payments of liabilities from subsidiaries within the group, that would not be included in the balance sheet.

### Important litigations in progress

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.

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. 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 issued a first instance judgement in favour of Pozavarovalnica Sava in August 2015. An appeal against this judgement has been lodged. Taking into consideration that in this dispute, it is not possible to make assumptions based on case-law and predict the Court's decision, the insurance company adequately formed long-term provisions in the amount of 1,200,000 euros (60 % of the recognised complaint) based on its own assessment and taking into account the prudence principle. The difference between this amount and the amount under dispute (848,393 euros) is accounted for by the insurance company under off-balance potential liabilities.

### 13. 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 2015.

#### Events after the balance sheet date, important for business operations in 2016

- In January 2016, Adriatic Slovenica established a new subsidiary, named Zdravje AS d.o.o., headquartered at Ljubljanska cesta 3a, Koper, Slovenija. The basis of the new company's vision is to "provide the other health insurance policyholders at Adriatic Slovenica with superior health services when they need them".
- At the end of 2015, insurance company AS neživotno osiguranje a.d.o., Beograd signed a contract with Sava osiguranje, a.d.o., Beograd, based on which, AS neživotno osiguranje will transfer its complete insurance portfolio, including liabilities, to the contractual partner. In February 2016, AS neživotno osiguranje a.d.o., Beograd submitted the required documentation to the National Bank of Serbia in order to acquire approval of the transaction.
- Varja Dolenc, MSc, Member of the Management Board, took over the function of President of the Supervisory Board of the new subsidiary Zdravje AS d.o.o. on 2 February 2016.

**AUDITED**

**CONSOLIDATED FINANCIAL  
STATEMENTS FOR 2015**

**Adriatic Slovenica Group**



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## 1. 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 2015. 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 2015.

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, 9 March 2016

### Management Board of the parent company:

Gabrijel Škof,  
President of the Management Board



Varja Dolenc, MSc  
Member of the Management Board



Matija Šenk,  
Member of the Management Board



## 2. INDEPENDENT AUDITOR'S REPORT



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### 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 2015, 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.

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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.*

KPMG Slovenija, podjetje za revidiranje, d.o.o., slovenska družba  
z omejeno odgovornostjo in članica KPMG mreže neodvisnih družb  
članic, ki so povezane s švicarskim združenjem KPMG International  
Cooperative ("KPMG International").

TRR: SI 56 2900 0000 1851 102  
vpis v sodni register: Okrožno sodišče v Ljubljani  
šl. reg. vl.: 061/12062100  
osnovni kapital: 54.892,00 EUR  
ID za DDV: SI20437145  
matična št.: 5648556



**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 2015, 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.

On behalf of the audit company

**KPMG SLOVENIJA,**  
podjetje za revidiranje, d.o.o.

Damjan Ahčin, ACCA  
*Certified Auditor*

Katarina Sitar Šuštar, MBA  
*Partner*

Ljubljana, 14 March 2016

**KPMG Slovenija, d.o.o.**  
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### 3. CONSOLIDATED FINANCIAL STATEMENTS

#### 3.1 CONSOLIDATED BALANCE SHEET

##### Consolidated balance sheet as at 31 December 2015

in EUR	Note	31 Dec 2015	31 Dec 2014 adjusted	1 Jan 2014 adjusted
<b>Assets</b>		<b>670,546,768</b>	<b>696,813,600</b>	<b>705,169,082</b>
<b>Intangible assets</b>	<b>10.1</b>	<b>6,065,164</b>	<b>6,423,457</b>	<b>6,182,605</b>
<b>Property, plant and equipment</b>	<b>10.2</b>	<b>27,824,257</b>	<b>27,497,391</b>	<b>27,407,702</b>
<b>Non-current assets held for sale</b>		<b>24,559</b>	<b>-</b>	<b>-</b>
<b>Deferred tax assets</b>	<b>10.26</b>	<b>3,302,992</b>	<b>3,957,936</b>	<b>3,954,442</b>
<b>Investment properties</b>	<b>10.3</b>	<b>30,835,439</b>	<b>29,375,722</b>	<b>28,356,692</b>
<b>Financial investments in subsidiaries and associates</b>	<b>10.4</b>	<b>11,997,562</b>	<b>12,151,241</b>	<b>12,155,329</b>
<b>Financial investments</b>	<b>10.5</b>	<b>250,317,800</b>	<b>262,204,396</b>	<b>264,162,520</b>
In loans and deposits		39,724,586	52,187,396	65,167,996
In held-to-maturity financial assets		39,471,526	33,665,744	38,096,356
In available-for-sale financial assets		151,564,255	137,118,199	124,524,766
In financial assets measured at fair value		19,557,432	39,233,058	36,373,403
<b>Unit-linked investments of policyholders</b>	<b>10.6</b>	<b>263,760,339</b>	<b>260,566,270</b>	<b>213,925,868</b>
<b>Amounts of technical provisions ceded to reinsurers</b>	<b>10.7</b>	<b>18,018,307</b>	<b>29,362,326</b>	<b>26,469,742</b>
<b>Receivables</b>	<b>10.8</b>	<b>37,154,342</b>	<b>47,941,514</b>	<b>105,760,342</b>
Receivables from direct insurance business		20,787,328	22,986,037	25,503,287
Receivables from reinsurance and coinsurance		1,633,070	6,313,751	41,568,126
Income tax receivables		3,541,953	3,531,447	2,268,597
Other receivables		11,191,992	15,110,280	36,420,332
<b>Other assets</b>	<b>10.9</b>	<b>5,944,711</b>	<b>5,517,757</b>	<b>6,354,346</b>
<b>Cash and cash equivalents</b>	<b>10.10</b>	<b>15,301,297</b>	<b>11,815,591</b>	<b>10,439,494</b>
<b>Equity and liabilities</b>		<b>670,546,768</b>	<b>696,813,600</b>	<b>705,169,082</b>
<b>Equity</b>	<b>10.11</b>	<b>102,511,589</b>	<b>109,671,082</b>	<b>96,234,380</b>
<b>Majority equity interest</b>		<b>102,411,181</b>	<b>109,532,567</b>	<b>96,074,863</b>
Share capital		42,999,530	42,999,530	42,999,530
Capital reserves		4,211,782	4,211,782	4,211,782
Reserve from profit		15,543,286	15,771,095	15,333,563
Translation differences		(1,860,802)	(1,857,425)	(1,587,414)
Revaluation surplus		3,830,832	6,119,423	(2,078,134)
Retained net earnings		24,117,512	23,702,827	27,812,396
Net profit or loss for the financial year		13,569,040	18,585,335	9,383,140
<b>Minority equity interest</b>		<b>100,408</b>	<b>138,515</b>	<b>159,517</b>
<b>Technical provisions</b>	<b>10.12</b>	<b>271,663,154</b>	<b>276,823,054</b>	<b>283,046,314</b>
Unearned premiums		50,223,069	51,938,582	52,681,998
Mathematical provisions		102,765,143	97,615,016	94,975,222
Outstanding claims provisions		117,334,020	125,782,426	132,212,159
Other technical provisions		1,340,922	1,487,030	3,176,935
<b>Insurance technical provisions for unit-linked insurance</b>	<b>10.13</b>	<b>259,697,710</b>	<b>257,277,164</b>	<b>211,832,611</b>
<b>Other provisions</b>	<b>10.14</b>	<b>5,134,992</b>	<b>3,293,864</b>	<b>2,937,473</b>
<b>Deferred tax liabilities</b>	<b>10.25</b>	<b>732,097</b>	<b>1,194,632</b>	<b>27,011</b>
<b>Other financial liabilities</b>	<b>10.15</b>	<b>968,936</b>	<b>711,811</b>	<b>741,951</b>
<b>Operating liabilities</b>	<b>10.16</b>	<b>6,986,458</b>	<b>22,301,181</b>	<b>93,075,956</b>
Liabilities from direct insurance contracts		3,887,670	4,745,099	6,043,336
Liabilities from reinsurance and coinsurance contracts		1,558,050	11,527,057	84,474,927
Income tax liabilities		1,540,738	6,029,026	2,557,692
<b>Other liabilities</b>	<b>10.17</b>	<b>22,851,833</b>	<b>25,540,811</b>	<b>17,273,387</b>

The accounting policies and notes set out on pages from 284 to 396 are an integral part of the consolidated financial statements.

## 3.2 CONSOLIDATED INCOME STATEMENT

## Consolidated income statement for the period from 1 January 2015 to 31 December 2015

in EUR	Note	2015	2014 adjusted
<b>NET PREMIUM INCOME</b>	<b>10.18</b>	<b>288,913,942</b>	<b>254,375,510</b>
Gross written premiums		298,222,281	302,063,769
Premiums ceded to reinsurers and coinsurers		(10,956,953)	(48,468,143)
Change in unearned premiums		1,648,614	779,884
<b>REVENUES FROM INVESTMENTS IN ASSOCIATES, of which</b>	<b>10.18</b>	<b>354,221</b>	<b>89,541</b>
- profit from capital investments in associates and joint ventures, calculated using the equity method		-	89,541
<b>INCOME FROM INVESTMENTS</b>	<b>10.18</b>	<b>24,065,464</b>	<b>61,057,806</b>
<b>OTHER INCOME FROM INSURANCE OPERATIONS, of which</b>	<b>10.18</b>	<b>4,177,894</b>	<b>13,221,068</b>
- fee and commission income		4,177,894	13,221,068
<b>OTHER INCOME</b>	<b>10.18</b>	<b>8,734,455</b>	<b>8,385,486</b>
<b>NET EXPENSES FOR CLAIMS AND BENEFITS PAID</b>	<b>10.19</b>	<b>(207,810,414)</b>	<b>(177,893,897)</b>
Gross amounts of claims and benefits paid		(214,868,193)	(213,494,634)
Reinsurers'/coinsurers' shares		9,882,872	26,343,422
Change in claims provisions		(2,825,093)	9,257,315
<b>CHANGE IN OTHER TECHNICAL PROVISIONS</b>	<b>10.12</b>	<b>(4,555,784)</b>	<b>(421,192)</b>
<b>CHANGE IN TECHNICAL PROVISIONS FOR THE BENEFIT OF UNIT-LINKED INSURANCE POLICYHOLDERS</b>	<b>10.13</b>	<b>(2,362,762)</b>	<b>(43,166,119)</b>
<b>EXPENSES FOR BONUSES AND DISCOUNTS</b>		<b>(286,786)</b>	<b>2,088</b>
<b>OPERATING EXPENSES, of which</b>	<b>10.20</b>	<b>(75,738,755)</b>	<b>(75,139,958)</b>
- acquisition costs		(27,142,123)	(24,919,373)
<b>EXPENSES FROM INVESTMENTS IN ASSOCIATES, of which</b>	<b>10.18</b>	<b>(19,330)</b>	<b>(0)</b>
loss from capital investments in associates and joint ventures, calculated using the equity method		(19,330)	-
<b>EXPENSES INVESTMENTS, of which</b>	<b>10.18</b>	<b>(6,245,012)</b>	<b>(4,426,367)</b>
- impairment losses of financial assets not measured at fair value through profit or loss		(380,153)	(3,092,069)
<b>OTHER INSURANCE EXPENSES</b>	<b>10.21</b>	<b>(4,685,390)</b>	<b>(6,710,633)</b>
<b>OTHER EXPENSES</b>	<b>10.22</b>	<b>(8,896,947)</b>	<b>(6,639,967)</b>
- of which expenses from financial liabilities		(948,747)	(581,199)
<b>PROFIT/(LOSS) BEFORE TAX</b>		<b>15,644,795</b>	<b>22,733,367</b>
<b>CORPORATE INCOME TAX</b>	<b>10.24</b>	<b>(2,567,808)</b>	<b>(3,816,063)</b>
<b>NET PROFIT FOR THE REPORTING PERIOD</b>		<b>13,076,987</b>	<b>18,917,304</b>
<b>MINORITY INTEREST</b>		<b>(37,594)</b>	<b>(15,082)</b>
<b>INTEREST OF PARENT COMPANY</b>		<b>13,114,581</b>	<b>18,932,386</b>

The accounting policies and notes set out on pages from 284 to 396 are an integral part of the consolidated financial statements.

## 3.3 CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

## Consolidated statement of comprehensive income for the period from 1 January 2015 to 31 December 2015

in EUR	Note	2015	2014 (adjusted)
<b>NET PROFIT OR LOSS FOR THE FINANCIAL YEAR AFTER TAXATION</b>		<b>13,076,987</b>	<b>18,917,304</b>
<b>OTHER COMPREHENSIVE INCOME AFTER TAXATION</b>	<b>10.11</b>	<b>(2,258,975)</b>	<b>7,919,398</b>
<b>Items not to be allocated to profit or loss in subsequent periods</b>		<b>(42,651)</b>	<b>(278,284)</b>
Actuarial net gain/loss for pension programmes		(38,989)	-
Gain/loss from translation of financial statements of foreign operations		(3,662)	(278,284)
<b>Items that may be allocated to profit or loss in subsequent periods</b>	<b>10.11</b>	<b>(2,216,324)</b>	<b>8,197,682</b>
Net gain/loss from re-measurement of available-for-sale financial assets		(2,731,791)	9,881,700
Gain/loss, recognised in revaluation surplus		2,538,953	14,796,277
Transfer of gain/loss from revaluation surplus to income statement		(5,270,744)	(4,914,578)
Associated net gain/loss related to capital investments in associates and joint ventures, calculated using the equity method		46,097	(16,454)
Tax on items that may be allocated to profit or loss in subsequent periods		469,370	(1,667,563)
<b>TOTAL COMPREHENSIVE INCOME FOR THE YEAR, AFTER TAXATION</b>		<b>10,818,011</b>	<b>26,836,702</b>
<b>- ATTRIBUTABLE TO MINORITY INTEREST</b>		<b>(38,107)</b>	<b>(23,230)</b>
<b>- ATTRIBUTABLE TO CONTROLLING COMPANY</b>		<b>10,856,118</b>	<b>26,859,932</b>

The accounting policies and notes set out on pages from 284 to 396 are an integral part of the consolidated financial statements.

## 3.4 CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

## Consolidated statement of changes in equity for the period from 1 January 2015 to 31 December 2015

	Note	III. Reserves from profit						IV.		VIII.		IX. Total equity	X. Minority	TOTAL EQUITY
		I. Share capital	II. Capital reserve	Legal abd statutory	Credit risk	Catastrophic loss reserves	Other reserves	Revaluation surplus	V. Retained earnings	VI. Net profit/loss	Revaluation surplus	attributable to the controlling company	equity interest	
OPENING BALANCE IN THE FINANCIAL PERIOD		42.999.530	4.211.782	1.519.600	1.014.505	3.798.823	9.438.167	6.119.423	23.702.827	18.585.335	(1.857.425)	109.532.567	138.515	109.671.082
<b>Comprehensive income net of tax</b>	<b>10.11</b>	-	-	-	-	-	-	(2.255.085)	-	13.114.581	(3.377)	10.856.118	(38.107)	10.818.011
Net profit/loss for the year		-	-	-	-	-	-	-	-	13.114.581	-	13.114.581	(37.594)	13.076.987
Other comprehensive income	10.11	-	-	-	-	-	-	(2.255.085)	-	-	(3.377)	(2.258.462)	(513)	(2.258.975)
Allocation of net profit/loss for the preceeding year to retained profit/loss		-	-	-	-	-	-	-	18.585.335	(18.585.335)	-	-	-	-
Payment (accounting) of dividends	10.27	-	-	-	-	-	-	-	(17.944.000)	-	-	(17.944.000)	-	(17.944.000)
Settlement of loss incurred in preceding years	10.11	-	-	-	-	-	(676.855)	-	(226.651)	903.506	-	-	-	-
Setting up and using reserves for credit risk and for catastrophic losses	10.11	-	-	-	-	449.047	-	-	-	(449.047)	-	-	-	-
Other		-	-	-	-	-	(0)	(33.505)	-	-	-	(33.505)	-	(33.505)
<b>CLOSING BALANCE AS AT 31 DECEMBER</b>		<b>42.999.530</b>	<b>4.211.782</b>	<b>1.519.600</b>	<b>1.014.505</b>	<b>4.247.869</b>	<b>8.761.311</b>	<b>3.830.832</b>	<b>24.117.512</b>	<b>13.569.040</b>	<b>(1.860.802)</b>	<b>102.411.181</b>	<b>100.408</b>	<b>102.511.589</b>

The accounting policies and notes set out on page 364 are an integral part of the consolidated statement of changes in equity.

### Consolidated statement of changes in equity for the period from 1 January 2014 to 31 December 2014 - Adjusted

	Note	III. Reserves from profit							VI. Net profit/loss for the year	VIII. Translation reserves	IX. Total equity attributable to the controlling company	X. Minority equity interest	TOTAL EQUITY	
		I. Share capital	II. Capital reserve	Legal abd statutory	Credit risk	Catastrophic loss reserves	Other reserves	IV. Revaluation surplus						V. Retained earnings
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
Adjustments for previous financial year		-	-	-	-	-	-	-	-	(338.910)	-	(338.910)	-	(338.910)
<b>OPENING BALANCE IN THE FINANCIAL PERIOD</b>		<b>42.999.530</b>	<b>4.211.782</b>	<b>1.519.600</b>	<b>1.011.998</b>	<b>3.363.797</b>	<b>9.438.167</b>	<b>(2.078.134)</b>	<b>27.812.396</b>	<b>9.383.140</b>	<b>(1.587.414)</b>	<b>96.074.863</b>	<b>159.517</b>	<b>96.234.380</b>
<b>Comprehensive income net of tax</b>	<b>10.11</b>	-	-	-	-	-	-	8.197.557	-	18.932.386	(270.011)	26.859.932	(23.230)	26.836.702
Net profit/loss for the year		-	-	-	-	-	-	-	-	18.932.386	-	18.932.386	(15.082)	18.917.304
Other comprehensive income	10.11	-	-	-	-	-	-	8.197.557	-	-	(270.011)	7.927.546	(8.148)	7.919.398
Subscription (or payment) of new capital	10.11	-	-	-	-	-	-	-	-	-	-	-	-	-
Allocation of net profit/loss for the preceeding year to retained profit/loss		-	-	-	-	-	-	-	9.383.140	(9.383.140)	-	-	-	-
Payment (accounting) of dividends	10.27	-	-	-	-	-	-	-	(13.400.000)	-	-	(13.400.000)	-	(13.400.000)
Allocation of net profit to reserves from profit	10.11	-	-	-	-	-	-	-	-	-	-	-	-	-
Settlement of loss incurred in preceding years	10.11	-	-	-	-	-	-	-	(90.481)	90.481	-	-	-	-
Settling up and using reserves for credit risk and for catastrophic losses	10.11	-	-	-	2.507	435.025	-	-	-	(437.532)	-	-	-	-
Other		-	-	-	-	-	-	-	(2.228)	-	-	(2.228)	2.228	-
<b>CLOSING BALANCE AS AT 31 DECEMBER</b>		<b>42.999.530</b>	<b>4.211.782</b>	<b>1.519.600</b>	<b>1.014.505</b>	<b>3.798.823</b>	<b>9.438.167</b>	<b>6.119.423</b>	<b>23.702.827</b>	<b>18.585.335</b>	<b>(1.857.425)</b>	<b>109.532.567</b>	<b>138.515</b>	<b>109.671.082</b>

The accounting policies and notes set out on page 364 are an integral part of the consolidated statement of changes in equity.

The Group 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 the year under review, 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.

## 3.5 CONSOLIDATED STATEMENT OF CASH FLOWS

## Consolidated statement of cash flows for the period from 1 January 2015 to 31 December 2015

v EUR	Note	2015	2014
<b>Cash flows from operating activities</b>		<b>11,769,876</b>	<b>15,317,082</b>
<i>Items from the income statement</i>		<b>21,670,126</b>	<b>26,048,386</b>
Net premiums written in the reporting period		287,793,548	253,595,591
Income from investments (other than financial income), financed from:		18,552,327	24,231,622
- <i>insurance technical provisions</i>		17,048,184	20,035,186
- <i>other investments</i>		1,504,142	4,196,436
Other income from ordinary activities (other than income arising from revaluation and decrease in provisions) and financial income from operating receivables		12,138,588	21,230,102
Net claims and benefits paid in the reporting period		(199,155,657)	(187,151,181)
Net operating costs, other than depreciation costs and change in deferred acquisition costs		(81,363,744)	(71,656,045)
Investment charges (excluding depreciation and financial expenses), financed from:		(7,331,822)	(4,470,676)
- <i>insurance technical provisions</i>		(6,358,856)	(4,185,870)
- <i>other investments</i>		(972,966)	(284,806)
Other operating costs excluding depreciation (other than for revaluation and without increase in provisions)		(7,178,537)	(5,610,224)
Corporate income tax and other taxes not included in operating costs		(1,784,577)	(4,097,484)
<b>Changes in net current assets (receivables for insurance, other receivables, other assets and liabilities)</b>		<b>(9,900,250)</b>	<b>(10,731,304)</b>
Opening less closing balance of operating receivables from direct insurance business		2,529,701	312,190
Opening less closing balance of receivables from reinsurance		4,761,934	34,946,890
Opening less closing balance of other receivables from (re)insurance contracts		(274,965)	21,093,868
Opening less closing balance of other receivables and assets		(141,979)	(144,170)
Opening less closing balance of deferred tax assets		647,732	6,609
Opening less closing balance of inventories		(12,886)	(11,701)
Closing less opening balance of debts/liabilities from direct insurance business		(868,735)	(1,509,626)
Closing less opening balance of debts/liabilities from reinsurance		(9,968,620)	(72,894,072)
Closing less opening balance of other operating debts/liabilities		(156,137)	4,241,107
Closing less opening liabilities (other than unearned premiums)		(5,960,998)	1,997,539
Closing less opening deferred tax liabilities		(455,298)	1,230,064
<b>Net cash from operating activities</b>		<b>11,769,876</b>	<b>15,317,082</b>
<b>Cash flows from investing activities</b>		<b>9,666,793</b>	<b>(862,382)</b>
<i>Cash receipts from investing activities</i>		<b>128,280,697</b>	<b>173,247,176</b>
Cash receipts from interest received from investing activities and from:		7,795,551	7,638,497
- <i>investments financed from insurance technical provisions</i>		5,619,194	6,380,021
- <i>other investments</i>		2,176,357	1,258,476
Cash receipts from dividends and participations in profit of others relating to:		1,072,970	1,034,884
- <i>investments financed from insurance technical provisions</i>		708,239	569,657
- <i>other investments</i>		364,731	465,226
Cash receipts from disposal of long-term financial investments, financed from:		78,251,179	87,036,722
- <i>insurance technical provisions</i>		45,778,885	58,571,889
- <i>other investments</i>		32,472,293	28,464,834
Cash receipts from disposal of short-term financial investments, financed from:		41,160,997	77,537,073
- <i>insurance technical provisions</i>		28,803,423	61,245,512
- <i>other investments</i>		12,357,575	16,291,561
<b>Cash disbursements from investing activities</b>		<b>(118,613,904)</b>	<b>(174,109,557)</b>
Cash disbursements to acquire intangible assets		(1,373,764)	(2,088,723)
Cash disbursements to acquire property, plant and equipment, financed from:		(1,350,596)	(788,390)
- <i>other investments</i>		(1,185,587)	(788,390)
Cash disbursements to acquire long-term financial investments, financed from:		(88,519,151)	(126,998,793)
- <i>insurance technical provisions</i>		(64,961,358)	(93,719,833)
- <i>other investments</i>		(23,557,793)	(33,278,959)
Cash disbursements to acquire short-term financial investments, financed from:		(27,370,393)	(44,233,652)
- <i>insurance technical provisions</i>		(3,609,647)	(22,214,902)
- <i>other investments</i>		(23,760,746)	(22,018,750)
<b>Net cash from investing activities</b>		<b>9,666,793</b>	<b>(862,382)</b>
<b>Cash receipts from financing activities</b>		<b>(17,943,891)</b>	<b>(13,403,357)</b>
<b>Cash disbursements from financing activities</b>		<b>(17,943,891)</b>	<b>(13,403,931)</b>
Cash disbursements for interest paid		-	(3,931)
Cash disbursements to pay out dividends and other participations in profit		(17,944,000)	(13,400,000)
<b>Net cash from financing activities</b>		<b>(17,714,440)</b>	<b>(13,403,357)</b>
<b>Closing balance of cash and cash equivalents</b>	<b>10.10</b>	<b>15,301,297</b>	<b>11,815,591</b>
<b>Cash flow for the reporting period</b>		<b>3,492,777</b>	<b>1,051,343</b>
<i>Exchange rate differences</i>		(7,072)	(27,736)
<b>Opening balance of cash and cash equivalents</b>	<b>10.10</b>	<b>11,815,591</b>	<b>10,791,983</b>
Changes as at 1 January 2014		-	352,489
<b>Closing balance of cash and cash equivalents as at 31 December 2013</b>		<b>-</b>	<b>10,505,538</b>

The accounting policies and notes set out on pages from 284 to 396 are an integral part of the consolidated financial statements.

## 3.6 CONSOLIDATED STATEMENT OF DISTRIBUTABLE PROFIT

## Consolidated statement of distributable profit for 2015

in euros	Note	Total 2015	Total 2014 adjusted
<b>Net profit/(loss) for the financial year</b>		<b>13,114,581</b>	<b>18,932,386</b>
<b>Net profit carried forward (+) / net loss carried forward (-)</b>	<b>10.11</b>	<b>24,344,162</b>	<b>23,793,308</b>
- result for the current year under effective standards		24,344,162	23,795,536
- decrease for the acquisition of the subsidiary		-	(2,228)
<b>Decrease in reserves</b>	<b>10.11</b>	<b>676,855</b>	<b>-</b>
<b>Increase in other reserves under the decision of the Management Board and of the Supervisory Board</b>		<b>449,047</b>	<b>437,532</b>
<b>Balance-sheet profit allocated by the Annual General Meeting as follows:</b>		<b>37,686,552</b>	<b>42,288,162</b>
- to the shareholder		-	17,944,000

The accounting policies and notes set out on pages from 284 to 396 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.

## 4. 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. and Permanens d.o.o. subsidiary forms the Adriatic Slovenica Group (hereinafter: "the Group" or "Adriatic Slovenica Group").

### Summary of recent events within the Group

In 2015, KD životno osiguranje d.d. subsidiary, headquartered in the Republic of Croatia, Draškovičeva 10, Zagreb, withdrew from Adriatic Slovenica Group. KD životno osiguranje d.d. insurance company was then merged with the subsidiary, established by the parent insurance company Adriatic Slovenica d.d. in March 2015 in the Republic of Croatia. Permanens d.o.o. subsidiary, previously under 100 % ownership of KD životno osiguranje d.d., became a direct subsidiary of Adriatic Slovenica Group.

### 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, finančna družba, d.d. (abbreviated name 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 2015:

Gabrijel Škof, President of the Management Board  
Willem Jacob Westerlaken, Member of the Management Board (until 31 December 2015)  
Varja Dolenc, MSc, Member of the Management Board  
Matija Šenk, Member of the Management Board

#### Management and governance bodies of subsidiary AS neživotno osiguranje a.d.o. in 2015<sup>1</sup>:

Aleksandar Mitrović, President of the Board of Directors  
Bojana Svilar, Member of the Board of Directors  
Jacob Westerlaken, Member of the Board of Directors  
Tomaž Peternelj, Member of the Board of Directors

<sup>1</sup> When the "Zakon o privrednim društvima" applicable for companies in Serbia was amended, Administrative Board got renamed to Board of Directors and Supervisory Board to Audit Committee.

**Management and governance bodies of subsidiary Prospera d.o.o. in 2015:**

Bojana Merše, Director  
Savo Marinšek, Procurator

**Management and governance bodies of subsidiary VIZ d.o.o. in 2015:**

Marko Štokelj, Director  
Bor Glavič, Director

**Management and governance bodies of subsidiary Permanens d.o.o. in 2015:**

Nikolina Vidović Turković, Director

**Supervisory bodies of the Group****Supervisory Board of the insurance company Adriatic Slovenica d.d in 2015:**

mag. Matjaž Gantar, Chairman  
Aljoša Tomaž, Member  
Tomaž Butina, Member  
Aleksander Sekavčnik, Member  
Viljem Kopše, Member, employee representative (until 27 September 2015)  
Matjaž Pavlin, Member, employee representative  
Borut Šuštaršič, employee representative (since 28 September 2015)

**Audit Committee of the insurance company Adriatic Slovenica d.d. in 2015:**

mag. Matjaž Gantar, Chairman  
Milena Georgievski, Member (independent expert)  
Mojca Kek, Member (independent expert)  
Matjaž Pavlin, Member  
Jure Kvaternik, Member

**Audit Committee of subsidiary AS neživotno osiguranje a.d.o. in 2015**

Matjaž Rizman, Chairman  
Matej Cergolj, Member (until 4 May 2015)  
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 2015

##### Data on the number of employees by the level of professional qualification in 2015 - Adriatic Slovenica Group

Number of employees as at	Qualification level					Total
	I.- IV.	V.	VI.	VII.	VIII.-IX.	
01-Jan-15	39	452	190	485	29	1195
31-Dec-15	42	447	180	506	26	1201
Average for 2015	42.8	457.0	186.1	495.7	27.3	1208.9

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 Group until 31 December and some are employed starting on 1 January. The number of employees in the above table is provided with regard to proportion of employment in a particular company in order to avoid duplication of employees on the level of the whole Group.

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 2015, the number of employees of Adriatic Slovenica, taking into consideration these proportion, is 1051.70 and is different from the number of employees per person, which was 1092 employees at the end of 2015. 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 2015.

##### Data on the number of employees by the level of professional qualification in 2015 – parent company

Number of employees as at	Qualification level					Total
	I.- IV.	V.	VI.	VII.	VIII.-IX.	
1 January 2015	31	394	165	409	27	1026
31 December 2015	34	392	157	426	26	1035
1.4.2015 Zagreb branch	3	30	8	18	0	59
31.12.2015 Zagreb branch	3	26	9	19	0	57
Average for 2015	37.8	428.5	171	435.7	26.3	1099.3

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

Number of employees as at	Qualification level					Total
	I.- IV.	V.	VI.	VII.	VIII.-IX.	
1.1.2015	5	28	17	58	2	110
31.12.2015	5	29	14	61	0	109
Average for 2015	5,0	28,5	15,1	60,0	1,0	109,6

## 4.1 CONSOLIDATION

For the year 2015, 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. and Permanens d.o.o. subsidiary.

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 2015, 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

#### AS neživotno osiguranje a.d.o.

Head office: Serbia, Bulevar Milutina Milankovića 7V, 11000 Novi Beograd, Serbia

Company registration number: 20384166

VAT identification number: 105510418

No. of employees as at 31 December 2015: 49

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, Slovenia

Company registration number: 6074618000

VAT identification number: SI34037616

No. of employees as at 31 December 2015: 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, Slovenia

Company registration number: 6161456000

VAT identification number: SI87410206

No. of employees as at 31 December 2015: 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.

**Permanens d.o.o.**

Head office: Republic of Croatia, Draškovićeva 10, 10000 Zagreb

Company registration number: 080666730

VAT identification number: 56019896671

No. of employees as at 31 December 2015: 6

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 2015	31/12/2014	31 Dec 2015	31/12/2014	31 Dec 2015	31/12/2014
AS neživotno osiguranje a.d.o.	97	97	97	97	3,575,375	4,932,291
PROSPERA družba za izterjavo d.o.o.	100	100	100	100	8,079,549	8,230,385
VIZ zavarovalno zastopništvo d.o.o.	100	100	100	100	9,984	36,964
Permanens d.o.o., Croatia	100	100	100	100	38,331	6,477

**Summary of recent events within the subsidiaries in 2015****AS neživotno osiguranje a.d.o.**

At the end of 2015, AS neživotno osiguranje a.d.o., Beograd initiated the procedure of discontinuation of its operations. On 24 December 2015, it stopped its insurance activities and informed the National Bank of Serbia about it.

The subsidiary AS neživotno osiguranje a.d.o. was booked by the parent company Adriatic Slovenica under "Non-current assets held for sale" and as at 31 December 2015, it is separately presented in Section 10. 5.

AS neživotno osiguranje a.d.o., Beograd is valued at cost less impairment. At the end of 2015, parent company Adriatic Slovenica appointed an authorised appraiser to evaluate AS neživotno osiguranje a.d.o., Beograd on the basis of company value appraisal (liquidation value).

As at 31 December 2015, the insurance company made no impairments of ownership stake in AS neživotno osiguranje a.d.o., Beograd, since the process of closing down began at the end of 2015.

The value appraisal of the ownership share in AS neživotno osiguranje a.d.o. was prepared by an authorised appraiser of companies. The methods and assumptions used in the preparation of the appraisal as at 31 October 2015 are:

- the appraisal was made based on the market value standard, using the method of present value of equity calculated using discounted net future cash flows for equity capital.
- the appraisal was based on a scenario, derived from the AS neživotno osiguranje a.d.o. strategy until 2017, supplemented by forecasts of the authorised appraiser until 2025.
- the cost of equity capital (required rate of return) was used by the appraiser for discounting the net future cash flows to current value.
- CAPM approach was used to determine the cost of equity capital because empirical data is available for this approach.
- initially, net cash flows for certain periods were used in the calculation, and it was then discounted with the identified cost of equity capital (required rate of return) less residual (the remaining value, calculated using the Gordon model).
- the required rate of return on equity capital using CAPM model: 23.05 %
- the assumptions applied in the calculation of discount rate: risk-free rate of return as per CAPM model 0.51 %, risk-free rate as per recalculation for German and Serbian inflation 4.28 %, beta indebtedness ratio 1.04, market premium for risk 6 %, small company premium 5.78 % and add-on for political risks 6.75 %.
- the assumed net cash flow growth ratio: 2.0 % and
- estimated discount for lack of marketability: 13.9 %.

### Prospera d. o. o.

The dividends earned by the subsidiaries are recognised in the profit or loss when the right to payment is obtained. In 2015, Adriatic Slovenica received dividends in the amount of 229,451 euros from the Prospera d.o.o. subsidiary. The dividends were paid out in full on 13 July 2015.

### Viz d.o.o.

On 29 May 2015, Adriatic Slovenica increased its investment in VIZ subsidiary by 80,000 euros by paying additional funds for increasing the share capital

### KD životno osiguranje d.d.

On 29 January 2015, the insurance company recapitalised KD Životno osiguranje d.d. in the amount of 369,492 euros. After the process of cross-border merger, on 1 April 2015, the company merged with Podružnica Zagreb and left Adriatic Slovenica Group. Upon the merger, based on the Appraisal Value calculated by the insurance company, a capital loss of 389,169 euros was recognised

The effective date of the demerger of KD životno osiguranje d.d. and Adriatic Slovenica Group was 31 March 2015 and on this day, an appraisal of the insurance company was made, using the traditional actuarial method for the evaluation of the internal value of the insurance company with its life insurance portfolio. The Appraisal Value of the insurance company was calculated in the amount of 5,369,096 euros, which is the sum of the Embedded Value (internal value of the insurance company) and goodwill of the insurance company.

The acquisition made by Adriatic Slovenica d.d. had no effect on Adriatic Slovenica Group since the insurance company was 100 % owned by the parent company Adriatic Slovenica d.d. already before its exit from the Group.

The process of acquisition of KD životno osiguranje d.d. Zagreb subsidiary was carried out in compliance with the Cross-border merger plan. In the process, the acquired assets and liabilities were transferred to Adriatic Slovenica d.d., Podružnica Zagreb za osiguranje, with the same official address as the acquired company.

On 1 April 2015, Adriatic Slovenica (parent company in the Group) as the acquiring company recognised the acquired assets and liabilities of the acquired insurance company in its books of account. The cross-border merger became effective on 30 December 2015 when it was entered into the court register of the Koper District Court. The cross-border merger is presented in detail in the Annual report of the parent company Adriatic Slovenica d.d. (Section 5.4.).

### Permanens d.o.o.

Since 1 April 2015, Permanens d.o.o., Zagreb has no longer been an indirect subsidiary of Adriatic Slovenica Group. With the merger of KD životno osiguranje d.d., Zagreb and the subsidiary of Adriatic Slovenica, Adriatic Slovenica became the direct owner of Permanens d.o.o., Zagreb subsidiary, which was before owned entirely by KD životno osiguranje d.d.

In 2015, Adriatic Slovenica increased its investment in Permanens d.o.o. subsidiary twice by increasing its share capital, namely on 17 June 2015 by 10,560 euros and on 14 October 2015 by 32,823 euros.

## 5. NOTES TO THE FINANCIAL STATEMENTS

### 5.1 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 2015 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. 47/2009, 57/2009, 99/2010, 47/2011, 62/2013 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 Group and all the companies within the Group 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.

#### 5.1.1 Statement on compliance

In the current financial year, the Group 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 2015 as adopted by the European Union (hereinafter: the EU).

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.

#### **Standards, interpretations and changes of the published standards, which have been adopted by the EU, but are not yet effective**

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 2015:

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:

- **IFRS 11 Joint Arrangements (Amended): Accounting for share purchase in a joint venture:** In compliance with the amendment, purchases of shares in a joint business, forming the company, must be accounted for and treated as business combinations. Accounting treatment in the sense of business combinations is also used in the case of purchase of additional business share within joint operations, where the joint owner keeps the joint

controlling share. Additionally purchased business shares are measured at fair value. Previously owned business shares within the joint venture do not have to be re-evaluated.

The amendment is effective for annual periods beginning on 1 January 2016, is retroactive and early adoption is permitted.

The effect of the amendment can be evaluated in the first year of its use because it depends on the purchases of joint ventures, carried out during the reported period. The Group will not apply the amendment before the date, therefore, it is not possible to assess the effect of the adopted amendment on its financial statements.

**IAS 1 Presentation of financial statements (Amended):** The amendment to the IAS 1 covers five detailed improvements related to disclosure of requirements of the standard.

**Instructions related to importance within IAS 1 have been amended and provide explanation:**

- irrelevant data can be removed from useful information,
- importance is considered for the whole financial statements,
- importance is considered for each individual IFRS disclosure.

**Instructions related to the order of notes to the financial statements (including the accounting policies) have been changed:**

- the part of the text, interpreted as the rules for the order of notes to the financial statements, is removed from the IAS,
- the companies can decide on their own about the allocation of disclosures related to accounting policies within the financial statements.

The amendment is effective for annual periods beginning on 1 January 2016, is retroactive and early adoption is permitted.

The Group assumes that the amendment will not significantly affect its financial statements on the first day of adoption.

**IAS 16 Property, Plant and Equipment and IAS 38 Intangible Assets (Amended):** Interpretation on acceptable amortisation / depreciation methods

**Depreciation of property, plant and equipment based on revenue is not permitted**

The amendment explicitly states that the revenue-based methods must not be used for depreciation of property, plant and equipment.

**A new restrictive test for intangible assets**

The amendment introduces a rebuttable presumption that the use of revenue-based amortisation method is inappropriate for intangible assets. The presumption can only be abrogated when the revenues and the utilisation of economic benefits from intangible assets are "tightly correlated" or when an intangible asset is disclosed for revenue measurement.

The amendment is effective for annual periods beginning on 1 January 2016, is retroactive and early adoption is permitted.

The Group assumes that the amendment will not affect its financial statements on the first day of adoption since the Group does not apply revenue-based amortisation / depreciation methods.

**IAS 16 Property, Plant and Equipment and IAS 41 Agriculture (Amended):** The amendment deals with native plants within the IAS 16 Property, Plant and Equipment, and not within IAS 41 Agriculture, and in this way implies that activities related to native plants are similar to manufacturing activities.

The amendment is effective for annual periods beginning on 1 January 2016, is retroactive and early adoption is permitted.

The Group assumes that the amendment will not affect its financial statements on the first day of adoption since the Group does not possess any native plants.

**IAS 19 Employee Benefits – Employee Contributions (Amended):** The amendments are only important for programmes with defined benefit plans and fulfilment of requirements related to benefits of employees or third parties. These are benefits, which:

- are defined by formal provisions of the programme;
- are linked to a provided service; and
- do not depend on number of years of employment.

When the listed conditions are met, the company can (but is not obliged to) recognise the benefits as decrease in cost of service in the period when the service was provided.

The amendment is effective for annual periods beginning on 1 February 2016, 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 benefit plans related to benefits of employees or third parties.

### Annual improvements

In December 2013, the International Accounting Standards Board (IASB) published a set of annual IFRS improvements for the period 2010-2012, among which were six amendments to six standards, and other applicable amendments to standards and interpretations, reflecting in changes of presentation, recognition and measurement. Annual improvements to IFRSs for amendments, adopted in the period 2010-2012, are effective for annual periods after 1 February 2015, and adoption before this date is permitted. Annual improvements of IFRSs for the period 2012-2014 were issued by the IASB in September 2014 and introduce four amendments to four standards, four new standards and applicable amendments to other standards and interpretations reflecting in changes of presentation, recognition and measurement. The annual improvements to IFRSs for amendments, adopted in the period 2012-2014, are effective for annual periods starting on 1 January 2016 or later, and adoption before this date is permitted.

### Annual improvements of IFRSs

The improvements introduce ten amendments to ten standards, and consequently cause amendments to be applied to other standards and interpretations. The amendments are applicable to annual periods starting on 1 February 2015, 1 January 2016 or later, and adoption before this date is permitted.

The Group does not assume that these changes would have a significant effect on its financial statements; therefore, in the following text, there are only those improvements, for which it is assumed that they will bear significant effects on the financial statements.

**IAS 19 Employee Benefits:** The amendment to IAS 19 explains that the discount rate, used for the calculation of employee benefits, must be based on high quality corporate bonds or state bonds, in the same amount as the amount of benefits to be paid.

The Group assumes that the amendment will significantly affect its financial statements on the first day of adoption, but it is difficult to assess the effect of the improvement on its financial statements.

**IFRS 3 Business Combinations** The amendment to IFRS 3 Business Combinations (which, in consequence, includes changes in other standards) explains that the allocation of contingent considerations among liabilities or equity, when it serves as a financial instrument, is determined by IAS 32 and not by other standards. The amendment also clarifies that in case the contingent considerations are allocated as assets or liabilities, they must be measured at fair value as at the reporting date.

The Group will adopt the IFRS 3 improvement in case of accepting contingent considerations upon potential acquisitions of companies, but for now cannot assess the effect of the improvement on its financial statements, since at the end of 2015, it did not disclose any contingent considerations arising from acquired companies.

## Standards, interpretations and changes of the published standards, which have not yet been adopted by the EU and are not yet effective

The new standards and interpretations shown below are not yet effective and have not yet been adopted by the EU, therefore, they were not implemented in the preparation of annual financial statements as at 31 December 2015:

The Group would like to point out that it is assumed the IFRS 9 standard will have a significant effect on its financial statements, while other changes of standards are only briefly mentioned.

**IFRS 9 Financial Instruments – Classification and measurement:** In July 2014, the IASB published the final version of the IFRS 9 Financial Instruments standard, which contains the requirements of all individual phases of the project of IFRS 9 renewal and entirely replaces the IAS 39 Financial Instruments: Recognition and Measurement standard, and all the previous versions of the IFRS 9 standard. The renewed standard introduces new requirements about classification and measurement of financial assets and liabilities, timely recognition of their impairment and accounting protection from risk.

IFRS 9 introduces new criteria for the classification of financial instruments in individual groups, where the basis for the measurement of financial assets will be amortised cost, fair value through other comprehensive income and fair value through income statement. The allocation criteria will be significantly different than with IAS 39.

The new classification of financial assets in groups will be based on the following criteria:

**Group of financial instruments at amortised cost:** When allocating assets in the group of financial instruments at amortised cost, the primary goal of the Group must be to collect the contractual cash flows based on the financial instrument, and they must solely consist of principal value and interest. In other words – most often, the most frequent types of assets in this group will be trade receivables, state or corporate bonds, not intended for trading, and “ordinary” loans, where repayment of principal and interest is expected upon maturity.

**Group of debt financial instruments:** The group of debt financial instruments measured at fair value through other comprehensive income will contain debt instruments, the main goal of which is to collect contractual cash flows upon maturity, or sale beforehand. In this case, as well, the cash flows must solely consist of principal value and interest. Most frequently, bonds that are sold before maturity in order to ensure liquidity, or for some other reason, will be allocated to this group.

**Group of equity financial instruments:** IFRS 9 introduces also the group of equity financial instruments, measured at fair value through other comprehensive income. This group can contain equity instruments (shares of companies, either listed or not, on a regular market), where the effect of change in fair value will be recognised entirely in the statement of other comprehensive income.

**Instruments with changed fair value in the income statement:** The last group will contain financial instruments that do not fulfil the conditions for allocation in any of the groups listed above or when the main goal of the company will be to generate profit with trading. In this case, the effects of change in fair value are recognised in the income statement, as before.

**Impairment model:** The next important novelty, introduced by the standard, is the model of value impairment of financial instruments, which will require that when forming value adjustments, not only past losses, but also the expected future losses will have to be taken into account.

IFRS 9 also includes a new **model of risk protection accounting** with clearer rules, which will enable a broader use of risk protection accounting. The standard also provides new rules on discontinuation of use of risk protection accounting. When using risk protection, extensive additional disclosures will be required regarding controlling and insurance for activity risk.

The renewed standard will be effective for periods starting 1 January 2018 (delay by 2020 is suggested for insurance companies) or later. Early adoption of the standard is permitted. The changes of the standard will have to be applied retroactively. However, in case it is impossible to obtain adequate data, the presentation of comparable data is not mandatory.

The adoption of the new IFRS 9 standard will have an effect on classification and measurement of financial assets, but it will not affect the classification and measurement of financial liabilities.

#### Other changes and amendments to standards:

- **IFRS 14 Regulatory Deferral Accounts:** IFRS 14 is an optional standard that enables companies to continue to a higher extent with accrual accounting, derived from regulatory services in line with predefined generally accepted accounting principles, upon their first adoption of IFRS.

The use of the new standard is effective for annual periods beginning on 1 January 2016 or later.

The Group is already preparing its financial statements according to the IFRS, therefore, it will not be affected by the new standard.

- **IFRS 15 Revenue from Contracts with Customers:** The new IFRS 15 standard introduces the new five-level model of recognition of revenue, generated by the Company based on contracts with customers (with certain exceptions), regardless of the type of transaction, from which the revenues arise, or industry. The requirements of the standard are also applicable to recognition and measurement of profit and loss on disposal of certain non-financial assets that are not generated by the Company within its regular operations (for example disposal of property, plant and equipment or non-current intangible assets). The standard requires detailed disclosures, including breakdown of total revenues, information on compliance with commitments, changes in balances on assets and liabilities accounts through different periods and key decisions and estimations of the management.

The use of the new standard is effective for annual periods beginning on 1 January 2018 or later.

The Group also provides the effects of the new standard on its financial statements.

**Amendment to IFRS 10 Consolidated Financial Statements, IFRS 12 Disclosure of Interests in Other Entities and IAS 28 Investments in Associates and Joint Ventures** effective for annual periods beginning on 1 January 2016 or later.

### 5.1.2 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).

### 5.1.3 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.

## 5.2 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 2015 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.

### 5.2.1 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 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 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 insureds. 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.

## 5.2.2 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.

## 5.3 CHANGES TO ACCOUNTING POLICIES AND ADJUSTMENTS FOR PAST YEARS

### Change in accounting policies related to calculation of provisions for unexpired risks

In 2015, the Group changed its methodology of calculation of provisions for unexpired risks in the part where it is determined how the result of an insurance segment is measured and forecasted. By doing so, the Group also realised the past expert recommendations that instead of the accounting claim ratio, ultimate claim ratio should be used only for claims within the current year. Moreover, the cost ratio for the calculation of these provisions now only includes those operating costs that sensibly relate to the unexpired part of contracts, namely operating costs without acceptance commission.

Taking this into account, the Group changed its accounting policy – methodology for the calculation of the above mentioned provisions, since the amended methodology is more suitable and relevant for predicting expected claims and expenses for the remaining unexpired part of contracts.

The effect of the change of methodology in 2015:

The amended methodology of provision calculation for unexpired risks using annual method resulted in lower amounts of these provisions. In case the Group adopted the new accounting policy / methodology already in 2014, the provisions for unexpired risks would be 766,776 euros lower as at 31 December 2014.

The change of the accounting policy is therefore reflected in a change of profit / loss for the current year. Due to the adjustment made for the past reporting period, the net profit for 2014 went up by 766,776 euros, based on the adjustment of other technical provisions.

### Reconciliation of the value of financial investment in KD IT d.o.o. – correction of mistake from past years

Within its annual procedures for the assessment of fair value of financial investments, the Group checked whether the noted carrying value of the financial investment in KD IT d.o.o. actually reflects its fair value.

As part of these procedures, the Group also revised the initial division – initiation of this investment upon the transfer of KD Življenje d.d. life insurance activities to the receiving company, in this case to the parent company Adriatic Slovenica d.d. in 2013. As it turned out, there was a mistake made during the transfer and the reported value of investment in KD IT d.o.o. was too high.

The mistake was corrected in the way that upon the division of investment in KD IT d.o.o., the KD IT investment share was determined based on the corresponding share of total active insurance contracts and the share of adjusted unallocated net assets when the insurance company purchased the investment.

The effect of the correction is shown in the balance sheet as an increase in long-term accruals in the amount of 1,016,730 euros within intangible assets and lowering non-market financial investments available for sale by (1,694,550) euros. As at 1 January 2014, due to the adjustment made for 2013, the profit / loss carried forward decreased by 338,910 euros; consequently, as at 31 December 2014, the net profit / loss was 338,910 euros lower.

The adjustment is also reflected in a change of profit / loss. Due to the adjustments made for the previous reporting period, other revaluation expenses from impairment of intangible assets went up in 2014 by 338,910 euros, and therefore, the net result deteriorated by the same amount. The adjustment, recognised in 2014 in the profit / loss carried forward, again in the amount of 338,910 euros, is from 2013 and did not affect the adjustment of profit / loss for 2014.

### The effect of changes on the balance sheet items due to the correction of the mistake and change of accounting policy

in EUR	31 Dec 2014	Reclassification of items	31 Dec 2014 adjusted	1 Jan 2014 adjusted
<b>Assets</b>	<b>697,491,420</b>	<b>(677,820)</b>	<b>696,813,600</b>	<b>705,169,082</b>
<b>Intangible assets</b>	<b>5,406,726</b>	<b>1,016,730</b>	<b>6,423,457</b>	<b>6,182,605</b>
Property, plant and equipment	27,497,391	-	27,497,391	27,407,702
Deferred tax assets	3,957,936	-	3,957,936	3,954,442
Investment properties	29,375,722	-	29,375,722	28,356,692
Financial investments in subsidiaries and associates	12,151,241	-	12,151,241	12,155,329
<b>Financial investments</b>	<b>263,898,946</b>	<b>(1,694,550)</b>	<b>262,204,396</b>	<b>264,162,520</b>
<i>In loans and deposits</i>	52,187,396	-	52,187,396	65,167,996
<i>In held-to-maturity financial assets</i>	33,665,744	-	33,665,744	38,096,356
<i>In available-for-sale financial assets</i>	138,812,749	(1,694,550)	137,118,199	124,524,766
<i>In financial assets measured at fair value</i>	39,233,058	-	39,233,058	36,373,403
Unit-linked investments of policyholders	260,566,270	-	260,566,270	213,925,868
Amounts of technical provisions ceded to reinsurers	29,362,326	-	29,362,326	26,469,742
<b>Receivables</b>	<b>47,941,514</b>	<b>-</b>	<b>47,941,514</b>	<b>105,760,342</b>
Receivables from direct insurance business	22,986,037	-	22,986,037	25,503,287
Receivables from reinsurance and coinsurance	6,313,751	-	6,313,751	41,568,126
Income tax receivables	3,531,447	-	3,531,447	2,268,597
Other receivables	15,110,280	-	15,110,280	36,420,332
<b>Other assets</b>	<b>5,517,757</b>	<b>-</b>	<b>5,517,757</b>	<b>6,354,346</b>
Cash and cash equivalents	11,815,591	-	11,815,591	10,439,494
<b>Equity and liabilities</b>	<b>697,491,420</b>	<b>(677,820)</b>	<b>696,813,600</b>	<b>705,169,082</b>
<b>Equity</b>	<b>109,582,126</b>	<b>88,956</b>	<b>109,671,082</b>	<b>96,234,380</b>
<b>Majority equity interest</b>	<b>109,443,611</b>	<b>-</b>	<b>109,532,567</b>	<b>96,074,863</b>
<i>Share capital</i>	42,999,530	-	42,999,530	42,999,530
<i>Capital reserves</i>	4,211,782	-	4,211,782	4,211,782
<i>Reserve from profit</i>	15,771,095	-	15,771,095	15,333,563
<i>Translation differences</i>	(1,857,425)	-	(1,857,425)	(1,587,414)
<i>Revaluation surplus</i>	6,119,423	-	6,119,423	(2,078,134)
<i>Retained net earnings</i>	24,041,737	(338,910)	23,702,827	27,812,396
<i>Net profit or loss for the financial year</i>	18,157,469	427,866	18,585,335	9,383,140
<b>Minority equity interest</b>	<b>138,515</b>	<b>-</b>	<b>138,515</b>	<b>159,517</b>
<b>Technical provisions</b>	<b>277,589,830</b>	<b>(766,776)</b>	<b>276,823,054</b>	<b>283,046,314</b>
Unearned premiums	51,938,582	-	51,938,582	52,681,998
Mathematical provisions	97,615,016	-	97,615,016	94,975,222
Outstanding claims provisions	125,782,426	-	125,782,426	132,212,159
<i>Other technical provisions</i>	2,253,806	(766,776)	1,487,030	3,176,935
Insurance technical provisions for unit-linked insurance	257,277,164	-	257,277,164	211,832,611
<b>Other provisions</b>	<b>3,293,864</b>	<b>-</b>	<b>3,293,864</b>	<b>2,937,473</b>
<b>Deferred tax liabilities</b>	<b>1,194,632</b>	<b>-</b>	<b>1,194,632</b>	<b>27,011</b>
<b>Other financial liabilities</b>	<b>711,811</b>	<b>-</b>	<b>711,811</b>	<b>741,951</b>
<b>Operating liabilities</b>	<b>22,301,181</b>	<b>-</b>	<b>22,301,181</b>	<b>93,075,956</b>
<i>Liabilities from direct insurance contracts</i>	4,745,099	-	4,745,099	6,043,336
<i>Liabilities from reinsurance and coinsurance contracts</i>	11,527,057	-	11,527,057	84,474,927
<i>Income tax liabilities</i>	6,029,026	-	6,029,026	2,557,692
<b>Other liabilities</b>	<b>25,540,811</b>	<b>-</b>	<b>25,540,811</b>	<b>17,273,387</b>

Due to the changes in equity when the 2014 balance sheet was adjusted, the share book value went from 10.63 euros to 10.64 euros.

The effect of changes on the income statement items due to the correction of the mistake and change of accounting policy

in EUR	2014	Reclassification of items	2014 adjusted
<b>NET PREMIUM INCOME</b>	<b>254,375,510</b>	-	<b>254,375,510</b>
Gross written premiums	302,063,769	-	302,063,769
Premiums ceded to reinsurers and coinsurers	(48,468,143)	-	(48,468,143)
Change in unearned premiums	779,884	-	779,884
<b>REVENUES FROM INVESTMENTS IN ASSOCIATES, of which</b>	<b>89,541</b>	-	<b>89,541</b>
- profit from capital investments in associates and joint ventures, calculated using the equity method	89,541	-	89,541
<b>INCOME FROM INVESTMENTS</b>	<b>61,057,806</b>	-	<b>61,057,806</b>
<b>OTHER INCOME FROM INSURANCE OPERATIONS, of which</b>	<b>13,221,068</b>	-	<b>13,221,068</b>
- fee and commission income	13,221,068	-	13,221,068
<b>OTHER INCOME</b>	<b>8,385,486</b>	-	<b>8,385,486</b>
<b>NET EXPENSES FOR CLAIMS AND BENEFITS PAID</b>	<b>(177,893,897)</b>	-	<b>(177,893,897)</b>
Gross amounts of claims and benefits paid	(213,494,634)	-	(213,494,634)
Reinsurers'/coinsurers' shares	26,343,422	-	26,343,422
Change in claims provisions	9,257,315	-	9,257,315
<b>CHANGE IN OTHER TECHNICAL PROVISIONS</b>	<b>(1,187,968)</b>	<b>766,776</b>	<b>(421,192)</b>
<b>CHANGE IN TECHNICAL PROVISIONS FOR THE BENEFIT OF UNIT-LINKED INSURANCE POLICYHOLDERS</b>	<b>(43,166,119)</b>	-	<b>(43,166,119)</b>
<b>EXPENSES FOR BONUSES AND DISCOUNTS</b>	<b>2,088</b>	-	<b>2,088</b>
<b>OPERATING EXPENSES, of which</b>	<b>(75,139,958)</b>	-	<b>(75,139,958)</b>
- acquisition costs	(24,919,373)	-	(24,919,373)
<b>EXPENSES INVESTMENTS, of which</b>	<b>(4,426,367)</b>	-	<b>(4,426,367)</b>
- impairment losses of financial assets not measured at fair value through profit or loss	(3,092,069)	-	(3,092,069)
<b>OTHER INSURANCE EXPENSES</b>	<b>(6,710,633)</b>	-	<b>(6,710,633)</b>
<b>OTHER EXPENSES</b>	<b>(6,301,057)</b>	<b>(338,910)</b>	<b>(6,639,967)</b>
- of which expenses from financial liabilities	(581,199)	-	(581,199)
<b>PROFIT/(LOSS) BEFORE TAX</b>	<b>22,305,501</b>	<b>427,866</b>	<b>22,733,367</b>
<b>CORPORATE INCOME TAX</b>	<b>(3,816,063)</b>	-	<b>(3,816,063)</b>
<b>NET PROFIT FOR THE REPORTING PERIOD</b>	<b>18,489,438</b>	<b>427,866</b>	<b>18,917,304</b>
<b>MINORITY INTEREST</b>	<b>(15,082)</b>	-	<b>(15,082)</b>
<b>INTEREST OF PARENT COMPANY</b>	<b>18,504,520</b>	<b>427,866</b>	<b>18,932,386</b>

After the adjustment in 2014, due to the result being 427,866 euros higher, the initial and adjusted net earnings per share went from 1.80 euros to 1.84 euros per share of the parent company's net result.

## 6. 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 2015.

### 6.1 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 2015	Useful life in 2015 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 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 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.

## 6.2 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 2015	Useful life in 2015 in years
Buildings	1,3 -1,8 %	56-77
Motor vehicles	12,5-15,5 %	06-08
Computer equipment	33,3 %-50%	07-02
Office equipment	10 -25 %	04-10
Other equipment (furniture, fittings & fixtures)	10 -25 %	04-10

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.

## 6.3 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 2015	Useful life in 2015 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.

## 6.4 INVESTMENTS IN ASSOCIATES

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.

## 6.5 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.

#### 6.5.1 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.

### 6.5.2 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.

### 6.5.3 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.

### 6.5.4 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.

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.

### 6.5.5 Fair value

Financial assets measured at fair value through profit or loss 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 method of future cash flow value discounting using effective interest rates, reduced by impairments.

Fair value is reported if it is reliably measurable. It depends on available market data which enables the Company to evaluate fair value. For listed financial asset instruments (equity and debt securities) which have a price on an active securities market, fair value is determined as the product of the units of financial assets and the quoted market price or the final rate as at the date of the balance sheet. The Group selects the appropriate rate depending on the type of financial investment and depending on the organised securities market, on which the financial investment is quoted.

In its fair value assessment, the Group continuously considers the market activity criterion, while the final rate of the last day of trading with the security must not be older than 30 days. For debt securities, also the volume of concluded transactions with an individual debt security is taken as an assessment criterion. On the last day of trading with a security, the transactions must reach 500,000 euros or more in total.

In case the published rates in an active market do not apply to the activity criterion, internal models are used for the calculation of market value, separately considering the fair value of equity and debt securities.

The methods of evaluation and important parameters for individual types of financial assets are presented in the table below, where the application of different methods is also classified with regard to the fair value hierarchy.

#### Allocation in the fair value hierarchy

In order to improve compliance and comparability of fair value measurement and related disclosures, financial assets are allocated into three levels of fair value hierarchy. The allocation to a particular level is based on inputs to valuation methods used for fair value measurement. In the fair value hierarchy, the types with highest priority are unadjusted, quoted prices in active markets for identical assets or liabilities (Level 1 inputs), and the ones with the lowest priority are unobservable inputs (Level 3 inputs).

The Group follows the following inputs in value estimation techniques:

- Level 1: determined by inputs that present the quoted prices (unadjusted) in an active market for identical assets or liabilities, to which the Company has access on the date of the measurement. They ensure the most reliable proof of fair value and must be used without adjustments for fair value measurement.
- Level 2: determined by inputs that are not quoted prices from Level 1, but could be indirectly or directly observed for an asset or liability. If an asset or liability has a determined (contractual) maturity, the input must be observable during the whole validity period of the asset or liability. Level 2 inputs include: quoted prices for identical or similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in inactive markets, inputs that are not quoted prices observable for an asset or liability, and inputs, approved on the market.
- Level 3: determined by unobservable inputs that include an insignificant market component, if it at all exists, for the asset or liability on the day of measurement. The goal of fair value measurement remains the same, namely the output price on the day of measurement from the viewpoint of a participant in the market who owns an asset or has a liability. Therefore, unobservable inputs must reflect the assumptions that would be used by the participants in the market for the estimation of the value of an asset or liability, including the risk assumptions.

Financial assets, for which there is no active market and the fair value of which cannot be measured reliably, are by the Group valued at cost and the need for impairment is determined individually. These financial assets are allocated by the Group into Level 3 in the fair value hierarchy.

## Techniques of value estimation and inputs for allocation to Level 2 and Level 3 of the fair value hierarchy

Type of financial investment	Method of estimation	Important parameters	Fair value hierarchy
<b>EXTERNAL APPRAISERS (market organiser)</b>			
<b>Debt securities - compound</b>	stochastic model, network model HW1f and HW2f	curve of EUR SWAP interest rates, credit adjustments of the issuer, credit adjustments of comparable issuers, volatility of interest rates, correlation matrix, share index volatility	Level 2
<b>Equity securities - compound</b>	stochastic model	curve of EUR SWAP interest rates, credit adjustments of the issuer, credit adjustments of comparable issuers, share index volatility	Level 2

Type of financial investment	Method of estimation	Important parameters	Fair value hierarchy
<b>BLOOMBERG BVAL</b>			
<b>Debt securities</b>			
Debt securities - state	Cash flow discounting as per the amortisation plan	curve of EUR SWAP interest rates, credit adjustments of the issuer, credit adjustments of comparable issuers, indicative quotations	Level 2
Debt securities – companies and financial institutions	Cash flow discounting as per the amortisation plan	curve of EUR SWAP interest rates, credit adjustments of the issuer, credit adjustments of comparable issuers, indicative quotations	Level 2
<b>INTERNAL / EXTERNAL APPRAISERS</b>			
<b>Debt securities</b>			
<b>Internal model</b>			
Debt securities - state	Calculation of required profitability	Weighted average of profitability of two liquid state securities of the same country, with shorter and longer maturity	Level 2
		Weight 1: number of days between maturity date of observed security	Level 2
		Weight 2: maturity date of security, the fair value of which is being determined	Level 2
Debt securities – companies and financial institutions	Calculation of sum of required profitability for	State bonds of comparable maturity Credit risk for risky industries (CDS), considering the comparable maturity and investment class rate illiquidity.	Level 2
<b>Equity securities</b>			
<b>Internal model</b>			
	Method of comparable companies on stock exchange	Market indexes: P/E, P/B, P/S, P/EBITDA, F/FCF, based on stock quotations and / or prices of comparable companies and selected financial categories of the company under assessment.	Level 3
<b>Investment properties</b>	<b>Authorised external appraisers</b>		

	Cost method	Reproduction of same new building or replacement cost	Level 3
	Market method	Analysis of actual real estate market transactions	Level 3
	Revenue method (direct capitalisation method)	Present value of future expected gains	Level 3
		Capitalisation rate (gains and repayment)	
		Discount rate	
		Allowance for lack of marketability (illiquidity)	
<b>Capital investments in associates</b>	<b>Authorised external appraisers</b>		
	Net asset value method	Change in prices of real estate	Level 3
	Discounting of cash flows	g (growth rate in period of constant growth)	
		net margin (constant growth period)	
		rediscount rate	
		discount for lack of marketability	

### 6.5.6 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. An impairment of debt securities is made in case of financial difficulties of the issuer, in case of contract breach and failure to fulfil payment obligation, debt reprogramming or possibility of bankruptcy.

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 expense 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.

## 6.6 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.

## 6.7 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.

## 6.8 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 must not 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.

## 6.9 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.

## 6.10 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 solely of cash, 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.

## 6.11 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.

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.

## 6.12 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 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 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).

## 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.

### 6.13 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 buys funds on behalf of insured because the tranches 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 several 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.

## **6.14 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.

### **6.14.1 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.

Termination benefits upon retirement and jubilee benefits are recognised as operating costs (labour costs) in the income statement when they are paid. The same goes for the recognition of changes in these provisions due to repayments or new formations. Revaluation of provisions for benefits upon retirement, arising from an increase or decrease of the present value of liabilities due to changes in actuarial assumptions and adjustments arising from experience are recognised as actuarial gains or losses within other comprehensive income.

### 6.15 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.

### 6.16 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.

## 6.17 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, health 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, except for financial assets measured at fair value through profit or loss, in which case, they are calculated using the nominal interest method.

In the consolidated balance sheet, the interest on all debt securities is posted together with financial investments.

**Profit (loss) arising from disposal of investments** is recognised in the income statement among realised 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.

### 6.17.1 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.

### 6.18 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 2015 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 2015 was calculated using 15 % tax rate, and in Croatia, it was calculated using 20 % tax rate

The parent insurance company has established a subsidiary in the Republic of Croatia, generating an operating result abroad. There is an international bilateral agreement on avoiding double taxation between Slovenia and Croatia, based on which, the taxation of profit is made in the country where the head office of the company is situated. The taxable profits, generated abroad by the parent insurance company, are first subject to taxation in the country of the subsidiary, that is the Republic of Croatia, using the effective tax rate (20 % in 2015), and then reported in the tax report of the parent insurance company in Slovenia, where the previously paid tax abroad is deducted, but only up to the level of tax rate effective in Slovenia (17 % in 2015).

#### 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.

## 7. 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.

### 7.1 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 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.

On the basis of an expert opinion, the Group in 2015 permanently impaired unquoted investments in shares of Elektro Celje d.d. (for details, see chapter 10.5). The total loss arising from 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.

### 7.2 FAIR VALUE MEASUREMENT OF DEBT SECURITIES

At the beginning of 2015, the Group changed its method of determining the fair value of debt securities (marketable bonds) that was previously 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. This is the reason why the Group chose a new source, BVAL (Bloomberg Valuation Service) for determining the fair value of debt securities. Unlike BGN, BVAL methodology has been published and is an upgrade or next generation of prices to assist in determining the fair value of investments available in Bloomberg. Moreover, BVAL rates are equipped with quality estimation on a scale from 1 to 10, where 10 means the highest possible quality of data.

Based on the change in capturing the rates for the valuation of debt securities from BGN to BVAL, on 1 January 2015, the Group reallocated its debt securities from level 3 to level 2. As at 31 December 2015, the Group recalculated the effects of the change from BGN to BVAL, which offers a different methodology. The fair value of investments that were affected by the transition to the new methodology is higher by 146,109 euros, which is 0.1169 % of the insurance company's portfolio of such investments.

The Group also introduced the criterion of market activity assessment for the determination of fair value of debt securities, for which, there is a price on an active securities market. In case the published rates on the active market do not fulfil the activity criterion, the internal model is used to calculate its market value.

As at 31 December 2015, the fair value of investments, calculated based on the internal model, is by 2,229,850 euros (6.3 %) higher than the fair value, calculated using the prices from the active market. If the Group used its internal model for determining the fair value of investments as at 31 December 2014, it would be 789,741 (4.4 %) euros higher than the fair value, calculated based on prices from the active market.

### 7.3 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 2015, 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, Section 6.8.). In its revision of loans, no indicators were identified that would suggest impairments to be made.

## 7.4 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 1.75 % 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 euros	Provision for incurred but not reported claims (IBNR) 31 Dec 2015	Provision for incurred but not reported claims (IBNR) 31 Dec 2014
Accident insurance	8,449,762	8,994,948
Health insurance	4,795,759	4,700,457
Land motor vehicles insurance	1,707,037	1,631,037
Marine loss insurance	73,150	108,656
Goods in transport insurance	91,203	226,466
Fire and natural forces insurance	768,240	772,820
Other damage to property insurance	1,223,055	1,438,462
Motor vehicle liability insurance	29,908,336	35,168,936
Liability for ship/boat insurance	12,722	18,721
General liability insurance	11,751,355	11,911,984
Credit insurance	14,320	10,691
Suretyship insurance	203,076	194,306
Miscellaneous financial loss insurance	41,354	49,593
Legal expenses insurance	1,808	4,368
Travel assistance insurance	279,640	242,163
Life insurance	3,390,381	4,009,392
<b>Total</b>	<b>62,711,198</b>	<b>69,482,999</b>

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

Cumulative claim payment	Accident/loss before 2007	2007	2008	2009	2010	2011	2012	2013	2014	2015
At the end of loss year	-	108,738,545	120,566,723	118,004,971	107,335,625	105,168,628	110,448,295	92,084,536	95,672,898	88,230,790
1 year after loss year	-	106,372,343	118,497,258	110,144,759	99,796,968	92,642,890	104,484,840	87,772,676	85,460,319	-
2 years after loss year	-	105,968,274	117,455,373	109,591,358	96,567,650	90,691,489	96,647,953	86,095,828	-	-
3 years after loss year	-	105,349,656	117,532,452	107,688,930	95,499,796	89,197,370	94,090,360	-	-	-
4 years after loss year	-	105,958,430	115,587,514	106,002,571	93,724,203	86,283,293	-	-	-	-
5 years after loss year	-	104,800,746	114,800,364	104,898,705	93,174,393	-	-	-	-	-
6 years after loss year	-	103,746,421	113,669,023	104,472,832	-	-	-	-	-	-
7 years after loss year	-	103,449,456	113,329,522	-	-	-	-	-	-	-
8 years after loss year	-	103,455,029	-	-	-	-	-	-	-	-
Cumulative loss estimate	-	103,455,029	113,329,522	104,472,832	93,174,393	86,283,293	94,090,360	86,095,828	85,460,319	88,230,790
Total losses paid until 31 Dec. 2015	-	100,854,130	110,304,762	100,853,386	88,996,581	81,842,171	89,051,625	76,184,636	71,929,902	50,461,779
Provisions for outstanding claims - balance 31 Dec. 2015	15,992,707	2,600,899	3,024,760	3,619,446	4,177,812	4,441,123	5,038,735	9,911,192	13,530,417	37,769,011

## 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 2014	108,665,371	4,768,541	113,433,912
Provisions as at 31 Dec 2015	100,106,102	6,079,173	106,185,275

## 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 1.5 % to 4 % 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 and the findings are described in more detail in the section on the liability adequacy test (Section 8.2.1).
- In the financial year 2015, the Group did not modify the assumptions used for the calculation of liabilities arising from life insurance contracts.

## 7.5 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.

## 7.6 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 more

## 8. 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.

### 8.1 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.

For the past several years, the controlling company Adriatic Slovenica has been calculating informative capital requirements as per the requirements of Solvency II. In the past years, the methodology of the QIS5 quantitative study was applied, however, since the beginning of 2015, after the publication of the Delegated Regulation of the European Commission, the methodology defined by the Regulation has been applied. In line with the new methodology, also the capital adequacy for 2014 was calculated and reported to the ISA in May 2015, as part of the first formal reporting. As at 31 December 2014, Adriatic Slovenica reported 119,263,325 euros SCR capital requirement. With 147,115,616 euros of own fixed assets, the capital adequacy of the insurance company was 123.4 %, which is in line with the accepted risk appetite. Capital adequacy was in line with Solvency II calculated for the insurance company as an individual entity, but not for the Group because the Group is in the process of restructuring – in 2015, the Croatian subsidiary left the Group and the Serbian subsidiary closed its operations, and therefore, the controlling insurance company Adriatic Slovenica will no longer be an insurance group.

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 2015, 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 2015, 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 27,288,172 euros and in the area of life insurance in the amount of 1,496,397 euros.

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. By 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 2015 amounts to 60,691,891 euros. The sum of the required minimum capital of the parent company and proportional share of participation of the subsidiaries' minimum capital totals 43,605,077 euros. The adjusted calculation of capital adequacy of Adriatic Slovenica Group therefore shows a surplus of available capital in the amount of 17,086,814 euros as at 31 December 2015.

## 8.2 TYPES OF RISKS

### 8.2.1 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 2015

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	55,161	0.28%	149,413	0.75%
Unit-linked insurance	449,239	1.32%	1,640,103	4.82%
Health insurance	317,704	0.32%	530,366	0.53%
Non-life insurance	11,668,885	8.55%	23,204,398	17.00%
<b>Total</b>	<b>12,490,989</b>	<b>4.24%</b>	<b>25,524,279</b>	<b>8.66%</b>

### 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%
<b>Total</b>	<b>11,850,811</b>	<b>3.93%</b>	<b>25,165,407</b>	<b>8.34%</b>

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 2015

Sum insured in EUR	Up to 300,000 euros		Over 300,000 up to 1,000,000		Over 1,000,000 euros	
	Net of reinsurance	With reinsurance	Net of reinsurance	With reinsurance	Net of reinsurance	With reinsurance
Construction risks	4,126,727	3,722,986	17,970,316	5,520,000	100,197,826	1,680,000
Manufacturing risks	281,154,241	272,651,523	388,540,381	276,217,292	3,367,505,577	271,560,000
Commercial risks	4,309,252,575	4,302,597,377	1,654,271,189	1,582,422,720	5,929,163,994	624,960,000
Household risks	5,402,969,243	5,401,038,043	414,800,903	396,055,680	293,255,977	32,760,000
<b>Total</b>	<b>9,997,502,786</b>	<b>9,980,009,929</b>	<b>2,475,582,790</b>	<b>2,260,215,692</b>	<b>9,690,123,374</b>	<b>930,960,000</b>

**Concentration of liabilities from non-life insurance by industry as at 31 December 2014**

Sum insured in EUR	Up to 300,000 euros		Over 300,000 up to 1,000,000		Over 1.000.000 euros	
	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
<b>Total</b>	<b>10,939,533,519</b>	<b>10,920,150,304</b>	<b>2,612,402,614</b>	<b>2,390,110,892</b>	<b>10,047,887,934</b>	<b>985,800,000</b>

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 2014 and 2015, 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 2015	With reinsurance 2015	Net of reinsurance 2014	With reinsurance 2014
0–9,999 euros	343,552,104	318,779,365	285,695,852	252,727,729
10,000–29,999 euros	935,815,219	796,241,162	821,669,690	722,270,883
30,000–59,999 euros	867,284,675	605,357,395	706,344,648	507,191,887
60,000–99,999 euros	485,691,455	230,057,052	357,003,683	182,217,347
Over 100,000 euros	235,028,662	72,659,611	213,107,528	105,972,783
<b>Total</b>	<b>2,867,372,114</b>	<b>2,023,094,584</b>	<b>2,383,821,401</b>	<b>1,770,380,628</b>

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 2015		TOTAL ANNUAL ANNUITY PAYMENTS IN 2014	
	amount	%	amount	%
Annual annuity payments to the insured person as at 31 Dec				
0–999 euros	656,089	16.02%	626,944	14.21%
1,000–1,999 euros	1,242,353	30.34%	1,590,857	36.05%
2,000–2,999 euros	725,821	17.72%	897,960	20.35%
3,000–3,999 euros	507,687	12.40%	534,640	12.12%
Over 4,000 euros	963,019	23.52%	762,302	17.28%
<b>Total</b>	<b>4,094,968</b>	<b>100%</b>	<b>4,412,703</b>	<b>100%</b>

Concentrations of insurance risk with respect to the company's annuity business remains at the same level as in 2014 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 2016.

### 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 2015

The liability adequacy test (LAT) results of 31 December 2015, 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.

In its forecasting of expected claims, the Group in 2015 applied the claims ratio of final claims occurred in 2015, and in the forecasting of expenses, the cost ratio of administrative expenses was applied.

Under the classes of insurance where inadequate amount of unearned premium provisions in relation to the expected loss events, has been determined, the insurance 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 2015

As at 31 December 2015, the Group formed provisions for unexpired risks for health insurance, aircraft insurance, vessel insurance and credit insurance in the total amount of 379,780 euros. In this way, the Group ensured an adequate amount of provisions.

### 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 sensitivity factor applied
Interest rate and investment return (insurance and investment contracts)	impact of a change in market interest rates by a 1% increase or decrease
Costs/expenses	The impact of an increase/reduction in maintenance 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%
	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 euros	31 Dec 2015	31 Dec 2014
<b>Factor</b>		
Costs/expenses +5 %	(3,151,454)	(3,151,454)
Costs/expenses -5 %	3,151,454	3,151,454
Interest rates +1 %	18,053,723	14,681,946
Interest rates -1 %	(17,927,561)	(15,699,310)
Assurance mortality +5 %	177,454	(93,070)
Annuitant mortality -5 %	(199,261)	(353,835)
Loss ratio +5 %	(14,445,697)	(12,718,776)
Loss ratio -5 %	14,445,697	12,718,776

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.

## 8.2.2 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 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 insurance 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 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 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 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 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 2015, there were no major events, therefore, we did not enforce any reinsurance protection.

Health insurance presents a very 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 2014 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 2015

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		(334,597)	3.07%	3,026,550	7,686,668	(153,027)	(10,715,985)	(490,390)
Quota share reinsurance of earthquake risk		(1,703,321)	15.65%	479,541	3,889	(21,101)	(257)	(1,241,249)
Non-life Gross Risk XL reinsurance		(1,403,817)	12.90%	37,662	223,354	-	(300,051)	(1,442,851)
Engineering Risk XL reinsurance		(139,228)	1.28%	-	-	-	(25,000)	(164,228)
Non-life Cat XL reinsurance		(1,689,863)	15.52%	32,868	921	-	(5,200)	(1,661,274)
Non-life, i.e. annual aggregate Cat XL losses		(776,652)	7.13%	17,471	-	(194,262)	-	(953,443)
XL reinsurance motor vehicle liability insurance and green cards		(633,429)	5.82%	-	1,011,618	-	157,940	536,129
XL reinsurance of comprehensive automobile insurance (casco)		(37,577)	0.35%	-	-	-	19,860	(17,717)
<b>Other non-life insurance</b>		<b>(2,581,087)</b>	<b>23.71%</b>	<b>261,492</b>	<b>560,999</b>	<b>2,373</b>	<b>(455,851)</b>	<b>(2,212,075)</b>
<b>Health insurance</b>		<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Life insurance</b>		<b>(1,586,492)</b>	<b>14.57%</b>	<b>432,683</b>	<b>429,788</b>	<b>(4,408)</b>	<b>59,855</b>	<b>(668,574)</b>
<b>Total reinsurance in the financial year</b>		<b>(10,886,062)</b>	<b>100%</b>	<b>4,288,267</b>	<b>9,917,237</b>	<b>(370,425)</b>	<b>(11,264,689)</b>	<b>(8,315,672)</b>
Co-insurance provided		(70,891)	0.00%	12,464	567	(1,696)	(8,644)	(68,200)
Co-insurance received		338,392	0.00%	(52,250)	(34,932)	(19,550)	64,894	296,554
<b>Total Re(co)insurance</b>		<b>(10,618,562)</b>	<b>0.00%</b>	<b>4,248,481</b>	<b>9,882,872</b>	<b>(391,671)</b>	<b>(11,208,439)</b>	<b>(8,087,319)</b>

## 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
<b>Other non-life insurance</b>		<b>(2,898,537)</b>	<b>5.99%</b>	<b>227,840</b>	<b>3,971,173</b>	<b>110,485</b>	<b>(649,640)</b>	<b>761,321</b>
<b>Health insurance</b>		<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Life insurance</b>		<b>(1,276,349)</b>	<b>2.64%</b>	<b>328,829</b>	<b>336,349</b>	<b>(7,310)</b>	<b>19,556</b>	<b>(598,925)</b>
<b>Total reinsurance in the financial year</b>		<b>(48,362,679)</b>	<b>100%</b>	<b>13,273,623</b>	<b>26,354,746</b>	<b>97,570</b>	<b>2,740,347</b>	<b>(5,896,393)</b>
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
<b>Total Re(co)insurance</b>		<b>(48,065,301)</b>	<b>0.00%</b>	<b>13,183,642</b>	<b>26,343,422</b>	<b>61,010</b>	<b>2,714,985</b>	<b>(8,292,593)</b>

The above table shows the reinsurance concentration for all contracts.

Reinsurance premium accounted for 3.65 % of gross written premium of all insurance segments in 2015, and amounted to 10,886,062 euros. The proportion of reinsurance premium in gross written premium decreased significantly compared to 2014 due to the termination of the quota share reinsurance contract for car insurance. In 2014, the reinsurance premium presented 16.01 % of gross written premium of all segments and totalled 48,362,679 euros (of which, quota share reinsurance premium of car insurance accounted for 78 %).

In 2015, the Group recorded only a few individual loss events, for which the reinsurance protection was pursued. From reinsurers' shares in claims, there was a total of 9,727,834 euros (2014: 23,613,339 euros), out of which, as much as 7,589,399 euros (2014: 21,371,636 euros) from car insurance quota, and in other insurance classes, there were 2,138,434 euros (2014: 2,241,703 euros) of claims.

### 8.2.3 Financial risks

The Group is exposed to financial risks through its asset and liability management, reinsurance assets and liabilities arising from its insurance contracts. The key financial risks that the Group faces is that the future changes in market and other financial conditions will reflect on the value of the insurance company's financial assets, meaning that the receivables from insurance contracts will not be covered by counterparties, which could potentially 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 equity securities,
- interest risk,
- currency risk.

When designing individual investment policies, the Group takes into consideration the characteristics of obligations and the assumed risk appetite. The Group 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 long-term returns high enough to 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 are not included since the financial risks are entirely assumed by the policyholders. In 2015, these assets totalled 266,863,192 euros (2014: 265,036,928 euros), out of which, 263,760,340 euros (2014: 260,566,270 euros) of assets from the balance sheet are related to the category of assets of policyholders who bear investment risk, and 3,102,853 euros (2014: 4,470,658 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 financial 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 2015 and 2014 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 2015

in EUR	Non-life insurance contracts, excluding health insurance	Health insurance contracts	Life insurance contracts	Total
<b>ASSETS</b>				
<b>Financial assets at fair value through profit or loss</b>	<b>13,447,226</b>	<b>1,059,643</b>	<b>3,410,520</b>	<b>17,917,389</b>
- listed	5,570,058	1,056,309	3,252,273	9,878,640
Government bonds	7,877,168	3,334	158,247	8,038,749
<b>Held-to-maturity financial assets</b>	<b>12,021,702</b>	<b>617,172</b>	<b>26,832,652</b>	<b>39,471,526</b>
- listed	12,021,702	617,172	14,408,378	27,047,252
Government bonds	0	(0)	12,424,274	12,424,274
<b>Available-for-sale financial assets</b>	<b>33,928,907</b>	<b>4,182,992</b>	<b>79,868,018</b>	<b>117,979,917</b>
- listed	7,247,980	514,749	11,393,084	19,155,813
Government bonds	26,680,926	3,668,244	68,474,935	98,824,105
<b>Total debt financial instruments</b>	<b>59,397,835</b>	<b>5,859,808</b>	<b>110,111,190</b>	<b>175,368,833</b>
Financial assets at fair value through profit or loss	0	-	1,640,042	1,640,043
- listed	0	-	1,640,042	1,640,043
Available-for-sale financial assets	24,866,185	4,740,454	3,977,699	33,584,338
- listed	20,848,358	2,845,521	2,733,959	26,427,838
- non-listed	4,017,827	1,894,933	1,243,741	7,156,501
<b>Total equity financial instruments</b>	<b>24,866,185</b>	<b>4,740,454</b>	<b>5,617,742</b>	<b>35,224,381</b>
Loans, deposits and financial receivables	32,892,405	3,749,803	2,300,418	38,942,625
Investments in subsidiaries and associates	8,349,853	-	3,647,708	11,997,562
<b>Total financial investments</b>	<b>125,506,278</b>	<b>14,350,064</b>	<b>121,677,058</b>	<b>261,533,401</b>
Amount (technical provisions) transferred to reinsurers	17,740,580	-	277,726	18,018,307
Receivables from insurance business and other operating receivables	42,355,226	9,122,741	8,330,131	39,336,372
Cash and cash equivalents	8,112,506	1,990,690	4,090,883	14,194,080
Other assets	59,145,833	2,266,502	9,790,212	70,660,664
<b>Total assets</b>	<b>252,860,423</b>	<b>27,729,998</b>	<b>144,166,011</b>	<b>403,742,823</b>
<b>Liabilities from insurance contracts</b>	<b>149,631,250</b>	<b>13,374,157</b>	-	<b>163,005,408</b>
- non-current liabilities	54,686,132	215,912	-	54,902,045
- current liabilities	94,945,118	13,158,245	-	108,103,363
<b>Liabilities from insurance contracts with DPF</b>	-	-	<b>108,228,896</b>	<b>108,228,896</b>
- non-current liabilities	-	-	98,138,136	98,138,136
- current liabilities	-	-	10,090,760	10,090,760
<b>Equity capital</b>	<b>74,859,560</b>	<b>6,481,065</b>	<b>21,933,245</b>	<b>102,913,673</b>
<b>Other liabilities</b>	<b>28,369,612</b>	<b>7,874,775</b>	<b>14,003,870</b>	<b>29,594,846</b>
- non-current liabilities	8,262,344	980,954	10,122,975	9,672,566
- current liabilities	20,107,268	6,893,821	3,880,895	19,922,280
<b>Total liabilities</b>	<b>252,860,422</b>	<b>27,729,998</b>	<b>144,166,011</b>	<b>403,742,823</b>

This table should be read together with the note in Section 8.2.3., paragraph 4.

## Analysis of assets and liabilities for financial risk management as at 31 December 2014 – Adjusted

in EUR	Non-life insurance contracts, excluding health insurance	Health insurance contracts	Life insurance contracts	Total
<b>ASSETS</b>				
<b>Financial assets at fair value through profit or loss</b>	<b>28,597,870</b>	<b>998,949</b>	<b>4,456,268</b>	<b>34,053,087</b>
- listed	14,040,622	938,948	4,289,352	19,268,922
Government bonds	14,557,247	60,001	166,916	14,784,165
<b>Held-to-maturity financial assets</b>	<b>8,248,183</b>	<b>601,248</b>	<b>24,816,313</b>	<b>33,665,744</b>
- listed	8,248,183	601,248	12,462,841	21,312,271
Government bonds	0	(0)	12,353,473	12,353,473
<b>Available-for-sale financial assets</b>	<b>26,092,424</b>	<b>3,688,367</b>	<b>62,635,228</b>	<b>92,416,019</b>
- 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
<b>Total debt financial instruments</b>	<b>62,938,477</b>	<b>5,288,563</b>	<b>91,907,809</b>	<b>160,134,849</b>
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	11,545,798	44,702,180
- listed	25,894,206	2,914,772	11,188,759	39,997,737
- non-listed	4,159,012	188,392	357,039	4,704,443
<b>Total equity financial instruments</b>	<b>32,202,577</b>	<b>3,103,165</b>	<b>14,576,410</b>	<b>49,882,151</b>
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
<b>Total financial investments</b>	<b>131,059,992</b>	<b>20,952,736</b>	<b>122,001,816</b>	<b>273,654,347</b>
Amount (technical provisions) transferred to reinsurers	29,139,797	-	222,529	29,362,326
Receivables from insurance business and other operating	52,997,662	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	3,892,482	67,496,877
<b>Total assets</b>	<b>281,641,995</b>	<b>31,722,654</b>	<b>134,012,124</b>	<b>431,776,672</b>
<b>LIABILITIES</b>				
<b>Liabilities from insurance contracts</b>	<b>158,328,109</b>	<b>14,053,085</b>	<b>-</b>	<b>172,381,194</b>
- non-current liabilities	63,809,178	328,697	-	64,137,874
- current liabilities	94,518,932	13,724,388	-	108,243,320
<b>Liabilities from insurance contracts with DPF</b>	<b>-</b>	<b>-</b>	<b>104,115,233</b>	<b>104,115,233</b>
- non-current liabilities	-	-	93,156,133	93,156,133
- current liabilities	-	-	10,959,100	10,959,100
<b>Equity capital</b>	<b>82,372,314</b>	<b>7,180,586</b>	<b>20,448,379</b>	<b>109,641,082</b>
<b>Other liabilities</b>	<b>39,247,021</b>	<b>10,488,983</b>	<b>11,143,062</b>	<b>45,639,162</b>
- non-current liabilities	8,048,537	1,122,348	4,611,310	9,879,665
- current liabilities	31,198,484	9,366,636	6,531,752	35,759,497
<b>Total liabilities</b>	<b>279,947,444</b>	<b>31,722,654</b>	<b>135,706,674</b>	<b>431,776,672</b>

This table should be read together with the note in Section 8.2.3, paragraph 4.

In the tables showing the classification of assets by maturity into non-current and current assets for 2015 and for 2014, 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 2015

in EUR	Non-life insurance contracts, excluding health insurance	Health insurance contracts	Life insurance contracts	Total
<b>Non-current assets</b>				
<b>Debt securities</b>	<b>45,950,609</b>	<b>4,800,165</b>	<b>108,167,447</b>	<b>158,918,220</b>
At fair value through profit or loss	-	-	1,466,777	1,466,777
- listed	-	-	1,466,777	1,466,777
<b>Available for sale</b>	<b>33,928,907</b>	<b>4,182,992</b>	<b>79,868,018</b>	<b>117,979,917</b>
- listed	33,928,907	4,182,992	79,868,018	117,979,917
Held to maturity	12,021,702	617,172	26,832,652	39,471,526
- listed	12,021,702	617,172	26,832,652	39,471,526
<b>Equity securities</b>	<b>24,866,185</b>	<b>4,740,454</b>	<b>4,920,505</b>	<b>34,527,144</b>
At fair value through profit or loss	-	-	942,806	942,806
- listed	-	-	942,806	942,806
<b>Available for sale</b>	<b>24,866,185</b>	<b>4,740,454</b>	<b>3,977,699</b>	<b>33,584,338</b>
- listed	20,848,358	2,845,521	2,733,959	26,427,838
- non-listed	4,017,827	1,894,933	1,243,741	7,156,501
Investments in subsidiary and associates	8,349,853	-	3,647,708	11,997,562
Loans, deposits and financial receivables	1,563,956	2,157,154	1,301,797	5,022,907
<b>Total financial investments</b>	<b>80,730,604</b>	<b>11,697,773</b>	<b>118,037,457</b>	<b>210,465,834</b>
Amount (technical provisions), transferred to reinsurers	9,726,720	-	-	9,726,720
Receivables from insurance business and other operating receivables	2,694,805	457,530	150,658	3,302,992
Other assets	24,311,266	1,673,756	8,410,314	34,035,139
<b>Total assets</b>	<b>117,463,394</b>	<b>13,829,058</b>	<b>126,598,429</b>	<b>257,530,685</b>
<b>Current assets</b>				
<b>Debt securities</b>	<b>13,447,226</b>	<b>1,059,643</b>	<b>1,943,744</b>	<b>16,450,613</b>
At fair value through profit or loss	13,447,226	1,059,643	1,943,744	16,450,613
- listed	13,447,226	1,059,643	1,943,744	16,450,613
<b>Equity securities</b>	<b>0</b>	<b>-</b>	<b>697,236</b>	<b>697,237</b>
At fair value through profit or loss	0	-	697,236	697,237
- listed	0	-	697,236	697,237
Loans, deposits and financial receivables	31,328,449	1,592,648	998,621	33,919,718
<b>Total financial investments</b>	<b>44,775,675</b>	<b>2,652,291</b>	<b>3,639,601</b>	<b>51,067,567</b>
Amount (technical provisions), transferred to reinsurers	8,013,860	-	277,726	8,291,587
Receivables from insurance business and other operating receivables	39,660,421	8,665,211	8,179,473	36,033,379
Cash and cash equivalents	8,112,506	1,990,690	4,090,883	14,194,080
Other assets	34,834,566	592,746	1,379,898	36,625,525
<b>Total assets</b>	<b>135,397,029</b>	<b>13,900,939</b>	<b>17,567,582</b>	<b>146,212,138</b>

This table should be read together with the note in Section 8.2.3, paragraph 4.

As at the end of 2015, the non-current assets prevail with a 64 % share, leaving behind the Group's current assets accounting for 36 % of total assets.

## Classification of assets by maturity into non-current and current assets as at 31 December 2014 – Adjusted

in EUR	Non-life insurance contracts, excluding health insurance	Health insurance contracts	Life insurance contracts	Total
<b>Non-current assets</b>				
<b>Debt securities</b>	<b>34,340,607</b>	<b>4,289,614</b>	<b>87,516,094</b>	<b>126,146,315</b>
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
<b>Equity securities</b>	<b>30,053,218</b>	<b>3,103,165</b>	<b>13,494,312</b>	<b>46,650,694</b>
Available for sale	30,053,218	3,103,165	13,494,312	46,650,694
- listed	25,894,206	2,914,772	13,137,273	41,946,251
- non-listed	4,159,012	188,392	357,039	4,704,443
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
<b>Total financial investments</b>	<b>77,054,756</b>	<b>10,953,070</b>	<b>108,099,783</b>	<b>195,747,413</b>
Amount (technical provisions), transferred to reinsurers	15,432,067	-	498	15,432,565
Receivables from insurance business and other operating receivables	4,860,481	450,755	341,244	3,957,929
Other assets	31,147,678	-	2,773,169	33,920,847
<b>Total assets</b>	<b>128,494,982</b>	<b>11,403,825</b>	<b>111,214,694</b>	<b>249,058,754</b>
<b>Current assets</b>				
<b>Debt securities</b>	<b>28,597,870</b>	<b>998,949</b>	<b>4,391,715</b>	<b>33,988,534</b>
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
<b>Equity securities</b>	<b>2,149,359</b>	<b>-</b>	<b>1,082,098</b>	<b>3,231,457</b>
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
<b>Total financial investments</b>	<b>54,005,236</b>	<b>9,999,666</b>	<b>13,902,033</b>	<b>77,906,935</b>
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
<b>Total assets</b>	<b>153,147,013</b>	<b>20,318,829</b>	<b>22,797,430</b>	<b>182,717,918</b>

This table should be read together with the note in Section 8.2.3., paragraph 4.

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.

### Liquidity risk

Liquidity risk is the risk of liquidity-related difficulty and inability of the Group to fulfil current obligations from active insurance contracts and other current operating liabilities of the Group, due to lack of alignment between obtained assets and liabilities. Liquidity risk also includes the risk of the Group suffering losses of liquid assets due to settlement of unexpected or unexpectedly high liabilities.

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.

In addition, liabilities arising from unit-linked insurance contracts are also disclosed.

**Overview of maturity of liabilities in 2015 – undiscounted cash flows**

Liabilities in EUR	Carrying amount	No maturity date	Undiscounted cash flows from liabilities					Total
			Up to 1 year	1-5 years	5-10 years	10-15 years	over 15 years	
Non-life and health insurance	163,005,408	-	105,555,092	39,420,798	13,489,561	4,317,538	222,419	163,005,408
Unit-linked life insurance	260,126,560	-	13,810,992	47,157,764	54,732,918	36,004,294	108,420,592	260,126,560
Life insurance	108,228,896	-	6,390,695	13,591,293	26,802,640	28,205,268	67,400,633	142,390,529
Other liabilities	36,674,316	-	36,674,316	-	-	-	-	36,674,316
<b>Total Liabilities</b>	<b>568,035,180</b>	<b>-</b>	<b>162,431,095</b>	<b>100,169,855</b>	<b>95,025,119</b>	<b>68,527,100</b>	<b>176,043,645</b>	<b>602,196,812</b>

**Overview of maturity of liabilities in 2014 – undiscounted cash flows – Adjusted**

Liabilities in EUR	Carrying amount	No maturity date	Undiscounted cash flows from liabilities					Total
			Up to 1 year	1-5 years	5-10 years	10-15 years	over 15 years	
Non-life and health insurance	172,381,194	-	108,244,976	39,627,764	16,756,072	6,944,050	808,333	172,381,195
Unit-linked life insurance	257,603,791	-	6,977,978	49,039,758	50,972,659	39,318,533	111,294,863	257,603,791
Life insurance	104,115,233	-	8,482,075	14,771,220	24,721,025	28,245,183	72,985,378	149,204,881
Other liabilities	53,042,299	-	53,042,299	-	-	-	-	53,042,299
<b>Total Liabilities</b>	<b>587,142,518</b>	<b>-</b>	<b>176,747,327</b>	<b>103,438,742</b>	<b>92,449,756</b>	<b>74,507,767</b>	<b>185,088,574</b>	<b>632,232,166</b>

**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 2015<sup>2</sup>**

In euros	AAA-A	BBB-B	CCC-C	Not rated	Total on 31 Dec 2015
Financial assets at fair value through profit or loss	3,561,467	6,582,283	833	7,772,806	17,917,389
Debt securities	3,561,467	6,582,283	833	7,772,806	17,917,389
Held-to-maturity financial assets	2,496,862	30,072,816	104,438	6,797,410	39,471,526
Debt securities	2,496,862	30,072,816	104,438	6,797,410	39,471,526
Available- for-sale financial assets	3,532,543	103,802,358	-	10,645,016	117,979,917
Debt securities	3,532,543	103,802,358	-	10,645,016	117,979,917
Loans, deposits and financial receivables	-	9,035,035	418,537	29,489,053	38,942,625
<b>Total financial investments</b>	<b>9,590,872</b>	<b>149,492,493</b>	<b>523,809</b>	<b>54,704,284</b>	<b>214,311,457</b>
Receivables arising from insurance contracts and other operating receivables	1,443,699	45,650	78,579	37,768,444	39,336,372
Reinsurers' share of technical provisions	13,302,095	3,557,065	356,189	802,957	18,018,307
Cash and cash equivalents	-	8,583,826	815,460	4,794,794	14,194,080
<b>Total assets exposed to credit risk</b>	<b>24,336,666</b>	<b>161,679,034</b>	<b>1,774,037</b>	<b>82,685,925</b>	<b>270,475,662</b>

**Maximum exposure to credit risk by category of financial assets as at 31 December 2014**

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
<b>Total financial investments</b>	<b>7,860,628</b>	<b>119,417,218</b>	<b>3,161,104</b>	<b>72,396,931</b>	<b>202,835,881</b>
Receivables arising from insurance contracts and other operating receivables	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
<b>Total assets exposed to credit risk</b>	<b>39,234,104</b>	<b>130,378,392</b>	<b>3,331,564</b>	<b>120,517,268</b>	<b>293,461,329</b>

45 % of bond investments portfolio without rating relates to debt securities of important Slovene companies and banks, partially or completely owned by the state. Given loans account for 31,804,696 euros. The share of loans, the issuer of which is not rated, is 75 % of all given loans. 38 % of loans without rating are collateralised by pledge on real estate or securities, 56 % of loans without rating are collateralised by bills of exchange and the remaining 6 % are secured by other types of collateral.

<sup>2</sup> This table should be read together with the note in Section 8.2.3, paragraph 4. In the tables containing Maximum exposure to credit risk by category of financial assets in the observed periods, 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 %)	2015	2014
<b>EXPOSURE TO THE REPUBLIC OF SLOVENIA</b>	<b>11.23%</b>	<b>18.81%</b>
investments in bonds issued by the RS	7.76%	8.36%
investments in Slovene bonds of banks	1.52%	2.67%
investments in shares of Slovene banks	0.35%	0.34%
deposits with Slovene banks	1.60%	7.43%

According to macroeconomic data, Slovenia in 2015 maintained the trend of economic growth, which was, together with the recovery of EMU area, mainly driven by growth of exports, assisted by the devaluation of the Euro toward foreign currencies (toward the American Dollar by 11.4 % in the last year).

Therefore, Slovenia was in the past year treated more favourably in terms of credit ratings, especially due to improved macroeconomic indicators and political stabilisation. The credit adjustment on the profitability of Slovene state bond was in 2015 lower again, and in this way more than neutralised the growth of interest adjustment / profitability of the German state bond, which grew by 10 basis points in the past year. The 10-year profitability of the Slovene state bond therefore fell from 2.07 % to 1.66 %, which contributed more than 7 % to the nominal growth of the bond. The Slovene stock index SBITOP disappointed in the past year due to unfulfilled expectations of investors about privatisation and withdrawal of state ownership in companies, especially Telekom Slovenije. During the year, the Group lowered the share of investments exposed toward the state, primarily due to maturity of deposits in state-owned banks; to a smaller extent, also the exposure toward Slovene state bonds and bonds of state-owned banks decreased.

**Credit risk: Past-due and not past-due financial instruments as at 31 December 2015**

In euros	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)	175,368,832	-	-	-	-	-	-	-	-	-	-	175,368,832
Loans and financial receivables	34,443,631	1,247	3,550	-	1,640,384	1,645,181	13,581	(13,581)	-	-	-	36,073,468
Amount (technical provisions) ceded to reinsurers	18,018,307	-	-	-	-	-	-	-	-	-	-	18,018,307
Receivables from Insurance contracts and other receivables	23,643,225	39,690	23,106	29,278	30,547	122,620	58,030,486	(6,072,098)	(36,387,862)	15,570,527	15,570,527	39,336,372
Insurance receivables	15,329,779	39,690	23,106	29,278	30,547	122,620	29,869,259	(4,230,108)	(15,988,918)	9,650,233	9,650,233	25,102,633
Recourse receivables	42	0	-	-	-	0	27,107,955	(1,366,207)	(19,931,098)	5,810,651	5,810,651	5,810,693
Other receivables	8,313,403	0	-	-	-	0	1,053,272	(475,784)	(467,845)	109,643	109,643	8,423,046
<b>Total</b>	<b>251,473,995</b>	<b>40,937</b>	<b>26,656</b>	<b>29,278</b>	<b>1,670,930</b>	<b>1,767,802</b>	<b>58,044,067</b>	<b>(6,085,679)</b>	<b>(36,387,862)</b>	<b>15,570,527</b>	<b>15,570,527</b>	<b>268,796,979</b>

This table should be read together with the note in Section 8.2.3. paragraph 4.

**Credit risk: Past-due and not past-due financial instruments as at 31 December 2014**

In euros	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)	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	(1,848,623)	-	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
<b>Total</b>	<b>253,879,033</b>	<b>56,135</b>	<b>37,972</b>	<b>141,306</b>	<b>67,011</b>	<b>302,424</b>	<b>66,153,651</b>	<b>(5,356,108)</b>	<b>(39,720,751)</b>	<b>18,902,187</b>	<b>18,902,187</b>	<b>273,083,644</b>

This table should be read together with the note in Section 8.2.3. 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 2015

	EUR	RDS	HRK	Other	Total 31 Dec 2015
<b>ASSETS</b>					
<b>Financial assets measured at fair value through profit or loss</b>	<b>15,625,905</b>	<b>2,548,737</b>	<b>1,191,416</b>	<b>191,375</b>	<b>19,557,432</b>
Equity securities	257,252	-	1,191,416	191,375	1,640,042
Debt securities	15,368,653	2,548,737	-	-	17,917,389
<b>Held-to-maturity financial assets</b>	<b>39,339,896</b>	<b>-</b>	<b>131,631</b>	<b>-</b>	<b>39,471,526</b>
Debt securities	39,339,896	-	131,631	-	39,471,526
<b>Available-for-sale financial assets</b>	<b>150,790,136</b>	<b>-</b>	<b>-</b>	<b>774,120</b>	<b>151,564,256</b>
Equity securities	33,584,323	-	-	16	33,584,339
Debt securities	117,205,813	-	-	774,104	117,979,917
<b>Loans, deposits and financial receivables</b>	<b>38,939,815</b>	<b>-</b>	<b>-</b>	<b>2,810</b>	<b>38,942,625</b>
<b>Investments into subsidiaries or associates</b>	<b>11,914,602</b>	<b>-</b>	<b>82,960</b>	<b>-</b>	<b>11,997,562</b>
<b>Total financial investment</b>	<b>256,610,353</b>	<b>2,548,737</b>	<b>1,406,006</b>	<b>968,305</b>	<b>261,533,400</b>
Amount (technical provisions) transferred to reinsurers	17,214,634	802,957	715	-	18,018,307
Cash and cash equivalents	12,875,988	1,266,369	51,723	-	14,194,081
<b>Total assets exposed to currency risk</b>	<b>282,012,190</b>	<b>1,342,137</b>	<b>5,629,973</b>	<b>689,653</b>	<b>289,911,445</b>
<b>LIABILITIES</b>					
Liabilities arising from insurance contracts	268,112,887	-	502,878	-	268,615,765
<b>Total liabilities exposed to currency risk</b>	<b>268,112,887</b>	<b>-</b>	<b>502,878</b>	<b>-</b>	<b>268,615,765</b>

This table should be read together with the note in Section 8.2.3., paragraph 4.

### Exposure to currency risk in 2014

	EUR adjusted	RDS	HRK	Other	Total 31 Dec 2014 adjusted
<b>ASSETS</b>					
<b>Financial assets measured at fair value through profit or loss</b>	<b>34,550,561</b>	<b>2,798,663</b>	<b>1,378,365</b>	<b>505,468</b>	<b>39,233,057</b>
Equity securities	2,651,220	651,552	1,371,731	505,468	5,179,971
Debt securities	31,899,342	2,147,111	6,634	-	34,053,086
<b>Held-to-maturity financial assets</b>	<b>33,539,895</b>	<b>-</b>	<b>125,848</b>	<b>-</b>	<b>33,665,743</b>
Debt securities	33,539,895	-	125,848	-	33,665,743
<b>Available-for-sale financial assets</b>	<b>137,749,745</b>	<b>690,585</b>	<b>268,200</b>	<b>104,220</b>	<b>138,812,750</b>
Equity securities	44,329,761	-	268,200	104,220	44,702,181
Debt securities	91,725,434	690,585	-	-	92,416,019
<b>Loans, deposits and financial receivables</b>	<b>51,486,106</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>51,486,106</b>
<b>Investments into subsidiaries or associates</b>	<b>12,151,241</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>12,151,241</b>
<b>Total financial investment</b>	<b>267,782,998</b>	<b>3,489,248</b>	<b>1,772,414</b>	<b>609,687</b>	<b>273,654,347</b>
Cash and cash equivalents	10,174,186	236,255	188,139	585,434	11,184,014
<b>Total assets exposed to currency risk</b>	<b>280,317,640</b>	<b>1,342,137</b>	<b>5,629,973</b>	<b>927,144</b>	<b>288,216,894</b>

This table should be read together with the note in Section 8.2.3, 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) 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 fluctuation 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.

The Group measures the risk of changes in prices of equity securities by means of analysis of sensitivity to changes in share prices. This risk affects equity securities, share mutual funds and mixed mutual funds (corresponding part). The results are presented within the market risks sensitivity analysis.

### **Interest rate risk**

Interest rate risk is the risk that a change in interest rates on the market will affect the value of assets and liabilities that are sensitive to interest rate fluctuations.

It is reflected in the following: a change in market value of debt securities, 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. The change in interest rates can also affect the fair value of liabilities that are prone to this risk.

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 immunisation 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.

Interest rate risk is measured by means of sensitivity analysis, namely by changes in value of investments in debt financial instruments and value of provisions when interest rates change. The effect of changes in interest rates is presented within the market risks sensitivity analysis.

**Classification of financial assets and liabilities on the basis of fixed and variable interest rates<sup>3</sup>**

in euros	Fixed interest rate		Variable interest rate		Total	
	2015	2014	2015	2014	2015	2014
<b>ASSETS</b>						
Debt securities	138,847,528	160,041,651	36,521,305	93,197	175,368,833	160,134,849
Loans and deposits	33,092,068	48,878,427	2,784,719	974,505	35,876,787	49,852,933
Cash and cash equivalents	14,194,080	11,184,014	-	-	14,194,080	11,184,015
<b>Total</b>	<b>186,133,676</b>	<b>220,104,092</b>	<b>39,306,024</b>	<b>1,067,702</b>	<b>225,439,700</b>	<b>221,171,795</b>

This table should be read together with the note in Section 8.2.3., paragraph 4

**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.

In 2015, the Group controlled the risk of unfulfilment of guaranteed return in the environment of record-low interest rates, mainly by means of continuous adapting of the portfolio of debt financial instruments among different issuer states and extending the maturity of investments.

The past year was extremely volatile for bond markets, due to a high dynamic of changes in both interest rate risk and credit risk on European bond markets. Therefore, the Group was managing its debt investments portfolios with prudence and actively, to achieve good profitability in relation to interest rate risk and credit risk of individual states. With regard to liquidity, profitability and required capital, the Group increased the share of state bonds in life insurance from 60 % to 74 %, mostly due to the increased exposure to Spanish state bonds, the share of which grew in the last year from 6 % to 21 % within the debt portfolio. Also in the segment of pension insurance, where 60 % of the average profitability of state bonds is guaranteed, the Group spread its new assets among state bonds. The exposure toward Slovene state bonds was reduced mainly due to relatively low profitability and liquidity considering other countries on the European periphery, but the exposure to Italian and Spanish bonds grew. Due to the profitability of bonds being relatively low in general in relation to guaranteed return of both funds, the insurance company was prolonging the weighted average duration of investments with fixed return by 2 to 3 years continuously through the year. Consequently, in both funds, the negative gap between maturity of liabilities and investments with fixed return was reduced.

On both funds with guaranteed return, the insurance company in 2015 ensured returns that exceeded the guaranteed return with the structure of investments among individual investment classes and active asset management considering the nature of liabilities and conditions on capital markets. Efficient asset and liabilities management will remain to be one of the key goals of the Group.

**Actual exposure to risk associated with the pension scheme/plan**

Pension insurance scheme/plan	2015	2014
Average return on investments for the period	4.48%	7.46%
Regulatory (guaranteed) return	2.30%	2.30%
<b>Difference in interest rates</b>	<b>2.18%</b>	<b>5.16%</b>

In 2015, the Group reached and even exceeded the guaranteed return in the voluntary supplementary pension insurance guarantee fund.

<sup>3</sup> Including receivables from long-term insurance fund of investment risk.

## 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 $\pm 50$ 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).
Foreign currency rates	Effect of the $\pm 5\%$ change in foreign currency rates as at 31 December 2015.
Changes in prices of equity securities	The effect on changes of market prices of equity securities is reflected in the $\pm 15\%$ changes of share prices, prices of ID-shares, prices of structured securities and prices of mutual funds as at 31 December 2015.

### Sensitivity analyses

#### Analysis of sensitivity to change in the interest rate

in euros	Effect on profit	Effect on equity
<b>31-Dec-14</b>		
Interest rate change of +50 bp	(587,173)	(3,385,354)
Interest rate change of -50 bp	410,174	3,275,345
<b>31-Dec-15</b>		
Interest rate change of +50 bp	(137,465)	(5,319,346)
Interest rate change of -50 bp	150,125	5,050,748

#### 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 euros	Effect on profit	Effect on equity
<b>31-Dec-14</b>		
Change in prices of equities +15%	484,719	9,423,264
Change in prices of equities -15%	(484,719)	(9,423,264)
<b>31-Dec-15</b>		
Change in prices of equities +15%	246,006	5,037,651
Change in prices of equities -15%	(246,006)	(5,037,651)

Under the sensitivity analysis, the changes in prices of shares refer to prices, obtained with the closing interest rate on the reporting date for the current and the past 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.

## 8.2.4 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.

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<sup>4</sup>

in EUR	Carrying amount		Fair value	
	2015	2014	2015	2014
<b>FINANCIAL ASSETS</b>				
Deposits, loans and financial receivables	39,724,586	51,486,106	39,724,575	51,485,975
Financial assets at fair value through profit or loss	19,557,432	39,233,058	19,670,179	39,233,057
Held-to-maturity financial assets	39,471,526	33,665,743	45,743,396	38,212,612
Available-for-sale financial assets	163,561,818	149,269,440	163,809,331	149,269,440
Investment property	263,760,339	257,518,981	263,760,339	257,518,981
<b>Unit-linked investments of policyholders</b>	30,835,438	29,375,722	31,268,505	29,861,357
<b>Total financial assets</b>	<b>556,911,139</b>	<b>560,549,049</b>	<b>563,976,325</b>	<b>565,581,422</b>

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 has been confirmed 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 Group can estimate fair value. The Group's fair value estimation of financial investments divides the investments into three levels (refer to 6.5.5).

<sup>4</sup> Including the receivables from guarantee fund of investment risk.

## Financial assets categorised in the fair value hierarchy in 2015

in EUR	Level 1	Level 2	Level 3	Aggregate fair value
<b>Financial assets measured at fair value through profit or loss, held for sale</b>	<b>2,211,449</b>	<b>9,699,138</b>	-	<b>11,910,586</b>
Debt securities	1,514,212	9,699,138	-	11,213,350
Investment coupons of mutual funds	697,236	-	-	697,236
<b>Financial assets measured at fair value through profit or loss, at initial recognition</b>	<b>942,806</b>	<b>6,816,786</b>	-	<b>7,759,592</b>
Debt securities	-	6,816,786	-	6,816,786
Investment coupons of mutual funds	942,806	-	-	942,806
<b>Available-for-sale financial assets</b>	<b>28,681,844</b>	<b>115,875,635</b>	<b>19,251,852</b>	<b>163,809,331</b>
Equity securities	8,789,672	-	19,251,852	28,041,524
Debt securities	2,228,038	115,875,635	-	118,103,674
Investment coupons of mutual funds	17,664,133	-	-	17,664,133
<b>Held-to-maturity financial assets</b>	<b>537,278</b>	<b>45,206,118</b>	-	<b>45,743,396</b>
Debt financial instruments	537,278	45,206,118	-	45,743,396
<b>Unit-linked investments of policyholders</b>	<b>207,627,225</b>	<b>40,013,656</b>	<b>16,119,458</b>	<b>263,760,339</b>
<b>Deposits and loans</b>	-	-	<b>35,876,788</b>	<b>35,876,788</b>
<b>Investment property</b>	-	-	<b>31,268,505</b>	<b>31,268,505</b>
<b>Total assets</b>	<b>240,000,601</b>	<b>217,611,333</b>	<b>102,516,602</b>	<b>560,128,537</b>

Note: The available-for-sale financial assets include investments in associates.

## Financial assets categorised in the fair value hierarchy in 2014 – Adjusted

in EUR	Level 1	Level 2	Level 3	Aggregate fair value
<b>Financial assets measured at fair value through profit or loss, held for sale</b>	<b>13,554,781</b>	<b>311,910</b>	<b>15,267,162</b>	<b>29,133,854</b>
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
<b>Financial assets measured at fair value through profit or loss, at initial recognition</b>	<b>7,499,953</b>	<b>2,599,250</b>	-	<b>10,099,203</b>
Equity securities	1,948,514	-	-	1,948,514
Debt securities	5,551,440	2,599,250	-	8,150,690
<b>Available-for-sale financial assets</b>	<b>54,296,273</b>	<b>7,308,020</b>	<b>87,665,147</b>	<b>149,269,440</b>
Equity securities	9,947,673	-	19,530,186	29,477,859
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
<b>Held-to-maturity financial assets</b>	<b>17,445,870</b>	-	<b>20,766,742</b>	<b>38,212,612</b>
Debt financial instruments	17,445,870	-	20,766,742	38,212,612
<b>Unit-linked investments of policyholders</b>	<b>235,203,869</b>	<b>10,121,975</b>	<b>12,193,136</b>	<b>257,518,980</b>
<b>Deposits and loans</b>	<b>17,978,744</b>	<b>69,492</b>	<b>31,804,696</b>	<b>49,852,932</b>
<b>Investment property</b>	-	-	<b>29,861,357</b>	<b>29,861,357</b>
<b>Total assets</b>	<b>345,979,490</b>	<b>20,410,647</b>	<b>197,558,240</b>	<b>563,948,378</b>

Note: The available-for-sale financial assets include investments in associates.

**Level 3 assets and liabilities****Financial assets and liabilities categorised in the fair value hierarchy – Level 3 movement in 2015**

in EUR	1 January 2015	Total profit/loss in profit or loss	Total profit/loss in comprehensive income	Purchase	Sale	Transfers (to) from Level 3	31/12/2015
<b>Assets measured at fair value</b>							
<b>Financial assets measured at fair value</b>							
<b>through profit or loss, held for sale</b>	<b>15,267,162</b>	-	-	-	-	<b>(15,267,162)</b>	-
Debt securities	15,267,162	-	-	-	-	(15,267,162)	-
<b>Available-for-sale financial assets</b>	<b>68,134,961</b>	<b>89,741</b>	<b>(21)</b>	-	<b>(1,205,755)</b>	<b>(67,018,927)</b>	-
Debt securities	68,134,961	89,741	(21)	-	(1,205,755)	(67,018,927)	-
<b>Total assets</b>	<b>83,402,123</b>	<b>89,741</b>	<b>(21)</b>	-	<b>(1,205,755)</b>	<b>(82,286,089)</b>	-

In accordance with the new method of determining the fair value of debt securities (marketable bonds), the Group made the following reallocation:

- Debt securities in the amount of 103,052,831 euros were reallocated from level 3 to level 2; out of these, 82,286,089 euros of debt securities were measured at fair value.
- Debt securities in the amount of 61,294,059 euros were reallocated from level 1 to level 2.

Due to the new methodology of reallocation among levels and transition to the new way of calculating fair value, the fair value of debt securities is 2,419,728 euros higher, which is 1.39 % of the fair value of debt securities investment portfolio.

**Financial assets and liabilities categorised in the fair value hierarchy – Level 3 movement in 2014 – Adjusted**

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
<b>Assets measured at fair value</b>							
<b>Financial assets measured at fair value</b>							
<b>through profit or loss, held for sale</b>	-	-	-	-	-	15,267,162	15,267,162
Debt securities	-	-	-	-	-	15,267,162	15,267,162
<b>Available-for-sale financial assets</b>	-	-	-	-	-	68,134,961	68,134,961
Debt securities	-	-	-	-	-	68,134,961	68,134,961
<b>Total assets</b>	-	-	-	-	-	<b>83,402,123</b>	<b>83,402,123</b>

At the end of 2014, the Group reallocated investments within the fair value hierarchy from level 1 to level 3 in the amount of 104,168,866 euros, out of which, 83,402,123 euros of investments were measured at fair value. 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.

## 8.2.5 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. Risk control, especially that of operational risk, is primarily a responsibility of process owners of processes where these risks occur or are related to. The internal control system, internal control reviews and calculations of key risk indicators are used as the primary tool for management of operational risk. The identified and potential future risks are documented in the risk catalogue. In 2015, also a new policy on operational risk management was adopted by the controlling insurance company and aligned with European guidance requirements.

### Strategic risk

Strategic risks can occur in the early stages of strategy planning, strategy execution, management and strategic decision-making and supervision of individual companies within the Group. The realisation of these risks can crucially affect the ability of the Group 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, in the controlling insurance company, we have incorporated the risk-based principle into the process of business plan preparation. This means that the operating categories of the business plan are designed in line with the Company's accepted risk appetite. Before the final approval, the business plan is being tested in order to find out if the risk appetite and capital adequacy, as required by the Solvency II principles, are reached.

## 9. 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 groups, 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.

## 9.1 CONSOLIDATED BALANCE SHEET BY SEGMENT

## Consolidated balance sheet as at 31 December 2015 by segment in accordance with the Decision on the Annual Reports of Insurance Undertakings

in EUR	Life insurance	Non-life insurance	Complementary health insurance	Other health insurance	Intersegment eliminations on consolidation	Total
<b>Assets</b>	<b>410,969,957</b>	<b>252,860,422</b>	<b>26,043,591</b>	<b>1,686,407</b>	<b>(21,013,608)</b>	<b>670,546,768</b>
Intangible assets	2,204,855	3,860,308	-	-	-	6,065,164
Property, plant and equipment	6,084,299	20,426,399	1,313,559	-	-	27,824,257
Non-current assets held for sale	-	24,559	360,197	-	(360,197)	24,559
Deferred tax assets	150,658	2,694,805	443,154	14,376	-	3,302,992
Investment properties	24,047	30,779,609	-	31,782	-	30,835,439
Financial investments in subsidiaries and associates	3,647,708	8,349,853	-	-	-	11,997,562
<b>Financial investments</b>	<b>118,811,311</b>	<b>117,156,425</b>	<b>13,420,096</b>	<b>929,968</b>	<b>-</b>	<b>250,317,800</b>
In loans and deposits	3,082,379	32,892,405	3,748,950	853	-	39,724,586
In held-to-maturity financial assets	26,832,652	12,021,702	617,172	-	-	39,471,526
In available-for-sale financial assets	83,845,718	58,795,091	8,053,444	870,002	-	151,564,255
In financial assets measured at fair value	5,050,563	13,447,226	1,000,530	59,113	-	19,557,432
Unit-linked investments of policyholders	263,760,339	-	-	-	-	263,760,339
Amounts of technical provisions ceded to reinsurers	277,726	17,740,580	-	-	-	18,018,307
<b>Receivables</b>	<b>9,300,436</b>	<b>39,660,421</b>	<b>7,988,844</b>	<b>676,367</b>	<b>(20,471,726)</b>	<b>37,154,342</b>
Receivables from direct insurance business	1,364,708	11,676,536	7,085,796	660,288	-	20,787,328
Receivables from reinsurance and coinsurance	153,762	1,479,308	-	-	-	1,633,070
Income tax receivables	2,623,703	64,336	837,982	15,931	-	3,541,953
Other receivables	5,158,264	26,440,240	65,066	148	(20,471,726)	11,191,992
<b>Other assets</b>	<b>1,510,476</b>	<b>4,054,957</b>	<b>553,730</b>	<b>7,234</b>	<b>(181,686)</b>	<b>5,944,711</b>
<b>Cash and cash equivalents</b>	<b>5,198,101</b>	<b>8,112,506</b>	<b>1,964,011</b>	<b>26,679</b>	<b>-</b>	<b>15,301,297</b>
<b>Equity and liabilities</b>	<b>410,969,957</b>	<b>252,860,422</b>	<b>26,043,591</b>	<b>1,686,407</b>	<b>(21,013,608)</b>	<b>670,546,768</b>
<b>Equity</b>	<b>21,531,160</b>	<b>74,859,560</b>	<b>5,873,917</b>	<b>607,148</b>	<b>(360,197)</b>	<b>102,511,589</b>
Majority equity interest	21,531,160	74,759,152	5,873,917	607,148	(360,197)	102,411,181
Share capital	11,973,787	34,193,760	-	-	(3,168,017)	42,999,530
Capital reserves	1,697,506	2,514,276	-	-	-	4,211,782
Reserve from profit	(0)	9,610,430	5,839,419	93,438	-	15,543,286
Translation differences	36	(1,860,838)	-	-	-	(1,860,802)
Revaluation surplus	1,829,495	1,942,963	34,498	23,876	-	3,830,832
Retained net earnings	1,239,989	19,579,868	-	489,834	2,807,820	24,117,512
Net profit or loss for the financial year	4,790,347	8,778,693	-	-	-	13,569,040
Minority equity interest	-	100,408	-	-	-	100,408
<b>Technical provisions</b>	<b>108,657,746</b>	<b>149,631,250</b>	<b>12,587,571</b>	<b>786,587</b>	<b>-</b>	<b>271,663,154</b>
Unearned premiums	439,459	42,512,643	6,923,288	347,678	-	50,223,069
Mathematical provisions	102,710,827	54,247	-	68	-	102,765,143
Outstanding claims provisions	5,359,721	106,185,275	5,663,062	125,961	-	117,334,020
Other technical provisions	147,739	879,085	1,220	312,879	-	1,340,922
<b>Insurance technical provisions for unit-linked insurance</b>	<b>259,697,710</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>259,697,710</b>
Other provisions	3,403	5,131,588	-	-	-	5,134,992
Deferred tax liabilities	371,440	348,701	7,066	4,890	-	732,097
Other financial liabilities	151	968,762	(0)	23	-	968,936
<b>Operating liabilities</b>	<b>2,938,912</b>	<b>2,571,519</b>	<b>1,432,257</b>	<b>43,770</b>	<b>-</b>	<b>6,986,458</b>
Liabilities from direct insurance contracts	1,091,665	1,319,977	1,432,257	43,770	-	3,887,670
Liabilities from reinsurance and coinsurance contracts	468,654	1,089,396	-	-	-	1,558,050
Income tax liabilities	1,378,592	162,146	-	-	-	1,540,738
<b>Other liabilities</b>	<b>17,769,434</b>	<b>19,349,042</b>	<b>6,142,780</b>	<b>243,989</b>	<b>(20,653,412)</b>	<b>22,851,833</b>

The balance of assets and liabilities as per column does not equal the sum of individual insurance segments because on the level of balance sums, final set-offs of assets and liabilities in the total amount of 21,013,608.45 euros were made in the categories of receivables (in the subcategory of other receivables), other assets and in the category of other liabilities.

## Consolidated balance sheet as at 31 December 2014 by segment in accordance with the Decision on the Annual Reports of Insurance Undertakings – Adjusted

in EUR	Life insurance	Non-life insurance	Complementary health insurance	Other health insurance	Intersegment eliminations on consolidation	Total
<b>Assets</b>	<b>400,743,603</b>	<b>279,947,444</b>	<b>29,471,272</b>	<b>2,251,382</b>	<b>(13,905,551)</b>	<b>696,813,600</b>
Intangible assets	2,732,504	3,690,952	-	-	-	6,423,457
Property, plant and equipment	40,665	27,456,726	-	-	-	27,497,391
Deferred tax assets	341,251	3,165,930	432,924	17,830	-	3,957,936
Investment properties	1,081,785	28,261,694	-	32,244	-	29,375,722
Financial investments in subsidiaries and associates						
	3,696,234	8,455,007	360,197	-	(360,197)	12,151,241
<b>Financial investments</b>	<b>120,701,423</b>	<b>120,910,433</b>	<b>19,379,330</b>	<b>1,213,209</b>	<b>-</b>	<b>262,204,396</b>
In loans and deposits	12,522,653	27,463,931	12,199,929	883	-	52,187,396
In held-to-maturity financial assets	24,816,313	8,248,183	601,248	(0)	-	33,665,744
In available-for-sale financial assets	75,875,576	54,451,091	5,867,906	923,626	-	137,118,199
In financial assets measured at fair value	7,486,880	30,747,229	710,248	288,701	-	39,233,058
Unit-linked investments of policyholders	260,566,270	-	-	-	-	260,566,270
Amounts of technical provisions ceded to reinsurers	222,529	29,139,797	-	-	-	29,362,326
Assets from investment contracts	-	-	-	-	-	-
<b>Receivables</b>	<b>4,514,866</b>	<b>49,831,732</b>	<b>7,981,926</b>	<b>704,120</b>	<b>(13,396,580)</b>	<b>47,941,514</b>
Receivables from direct insurance business	2,329,252	12,191,532	7,763,061	702,192	-	22,986,037
Receivables from reinsurance and coinsurance	14,636	6,299,115	-	-	-	6,313,751
Income tax receivables	134,820	3,396,627	-	-	-	3,531,447
Other receivables	2,036,158	27,944,458	218,866	1,927	(13,396,580)	15,110,280
<b>Other assets</b>	<b>1,354,977</b>	<b>3,569,718</b>	<b>737,117</b>	<b>4,719</b>	<b>(148,774)</b>	<b>5,517,757</b>
<b>Cash and cash equivalents</b>	<b>5,491,099</b>	<b>5,465,455</b>	<b>579,777</b>	<b>279,260</b>	<b>-</b>	<b>11,815,591</b>
<b>Equity and liabilities</b>	<b>400,743,603</b>	<b>279,947,444</b>	<b>29,471,272</b>	<b>2,251,382</b>	<b>(13,905,551)</b>	<b>696,813,600</b>
<b>Equity</b>	<b>20,478,379</b>	<b>82,372,314</b>	<b>6,480,938</b>	<b>699,648</b>	<b>(360,197)</b>	<b>109,671,082</b>
Majority equity interest	20,478,379	82,233,799	6,480,938	699,648	(360,197)	109,532,567
Share capital	11,973,787	34,193,760	-	-	(3,168,017)	42,999,530
Capital reserves	1,697,506	2,514,276	-	-	-	4,211,782
Reserve from profit	-	9,161,383	6,516,274	93,438	-	15,771,095
Translation differences	(14,820)	(1,842,605)	-	-	-	(1,857,425)
Revaluation surplus	3,250,991	2,897,557	(35,336)	6,210	-	6,119,423
Retained net earnings	(311,813)	20,676,737	(0)	600,000	2,737,903	23,702,827
Net profit or loss for the financial year	3,882,728	14,632,690	0	0	69,917	18,585,335
Minority equity interest	-	138,515	-	-	-	138,515
<b>Technical provisions</b>	<b>104,441,860</b>	<b>158,328,109</b>	<b>13,094,406</b>	<b>958,679</b>	<b>-</b>	<b>276,823,054</b>
Unearned premiums	485,283	43,441,723	7,636,723	374,854	-	51,938,582
Mathematical provisions	97,613,025	1,991	-	0	-	97,615,016
Outstanding claims provisions	6,023,869	114,194,045	5,457,087	107,424	-	125,782,426
Other technical provisions	319,683	690,350	595	476,401	-	1,487,030
Insurance technical provisions for unit-linked insurance	257,277,164	-	-	-	-	257,277,164
Other provisions	5,371	3,288,493	-	-	-	3,293,864
Deferred tax liabilities	650,960	542,400	0	1,272	-	1,194,632
Other financial liabilities	423	710,783	470	135	-	711,811
<b>Operating liabilities</b>	<b>3,598,323</b>	<b>15,242,927</b>	<b>3,387,478</b>	<b>72,454</b>	<b>-</b>	<b>22,301,181</b>
Liabilities from direct insurance contracts	1,444,150	1,256,708	2,013,517	30,724	-	4,745,099
Liabilities from reinsurance and coinsurance contracts	506,373	11,020,684	-	-	-	11,527,057
Income tax liabilities	1,647,800	2,965,534	1,373,961	41,730	-	6,029,026
<b>Other liabilities</b>	<b>14,291,121</b>	<b>19,462,419</b>	<b>6,507,980</b>	<b>519,195</b>	<b>(13,545,354)</b>	<b>25,540,811</b>

The balance of assets and liabilities as per column does not equal the sum of individual insurance segments because on the level of balance sums, final set-offs of assets and liabilities in the total amount of 13,905,551 euros were made in the categories of receivables (in the subcategory of other receivables), other assets and in the category of other liabilities.

## 9.2 CONSOLIDATED INCOME STATEMENT BY SEGMENT

## Consolidated income statement for the period from 1 January 2015 to 31 December 2015 in accordance with the Decision on Annual Reports of Insurance Undertakings

in EUR	Life insurance	Non-life insurance	Complementary health insurance	Other health insurance	Intersegment eliminations on consolidation	Total
<b>NET PREMIUM INCOME</b>	<b>59,178,547</b>	<b>128,351,076</b>	<b>98,788,483</b>	<b>2,595,836</b>	-	<b>288,913,942</b>
Gross written premiums	60,723,448	136,855,124	98,075,048	2,568,661	-	298,222,281
Premiums ceded to reinsurers and coinsurers	(1,587,770)	(9,369,184)	-	-	-	(10,956,953)
Change in unearned premiums	42,869	865,135	713,435	27,175	-	1,648,614
<b>REVENUES FROM INVESTMENTS IN ASSOCIATES, of which</b>	<b>354,221</b>	-	-	-	-	<b>354,221</b>
<b>INCOME FROM INVESTMENTS</b>	<b>14,078,709</b>	<b>8,854,085</b>	<b>1,055,824</b>	<b>76,846</b>	-	<b>24,065,464</b>
<b>OTHER INCOME FROM INSURANCE OPERATIONS, of which</b>	<b>459,863</b>	<b>3,718,031</b>	-	-	-	<b>4,177,894</b>
- fee and commission income	459,863	3,718,031	-	-	-	4,177,894
<b>OTHER INCOME</b>	<b>2,001,893</b>	<b>6,350,364</b>	<b>439,788</b>	<b>20,375</b>	<b>(77,966)</b>	<b>8,734,455</b>
<b>NET EXPENSES FOR CLAIMS AND BENEFITS PAID</b>	<b>(38,695,893)</b>	<b>(80,420,235)</b>	<b>(86,770,259)</b>	<b>(1,924,027)</b>	-	<b>(207,810,414)</b>
Gross amounts of claims and benefits paid	(39,860,188)	(86,538,231)	(86,564,284)	(1,905,489)	-	(214,868,193)
Reinsurers/coinsurers' shares	429,788	9,453,085	-	-	-	9,882,872
Change in claims provisions	734,508	(3,335,088)	(205,975)	(18,537)	-	(2,825,093)
<b>CHANGE IN OTHER TECHNICAL PROVISIONS</b>	<b>(4,763,725)</b>	<b>44,454</b>	-	<b>163,486</b>	-	<b>(4,555,784)</b>
<b>CHANGE IN TECHNICAL PROVISIONS FOR THE BENEFIT OF UNIT-LINKED INSURANCE POLICYHOLDERS</b>	<b>(2,362,762)</b>	-	-	-	-	<b>(2,362,762)</b>
<b>EXPENSES FOR BONUSES AND DISCOUNTS</b>	-	<b>(286,129)</b>	<b>(625)</b>	<b>(32)</b>	-	<b>(286,786)</b>
<b>OPERATING EXPENSES, of which</b>	<b>(19,357,702)</b>	<b>(42,096,469)</b>	<b>(13,174,985)</b>	<b>(1,174,941)</b>	<b>65,342</b>	<b>(75,738,755)</b>
- acquisition costs	(8,394,871)	(16,201,399)	(2,497,462)	(48,392)	-	(27,142,123)
<b>EXPENSES FROM INVESTMENTS IN ASSOCIATES, of which</b>	<b>(6,104)</b>	<b>(13,226)</b>	-	-	-	<b>(19,330)</b>
-loss from capital investments in associates and joint ventures, calculated using the equity method	(6,104)	(13,226)	-	-	-	(19,330)
<b>EXPENSES INVESTMENTS, of which</b>	<b>(3,637,457)</b>	<b>(2,264,062)</b>	<b>(338,708)</b>	<b>(4,785)</b>	-	<b>(6,245,012)</b>
- impairment losses of financial assets not measured at fair value through profit or loss	(85,911)	(270,623)	(23,172)	(447)	-	(380,153)
<b>OTHER INSURANCE EXPENSES</b>	<b>(276,247)</b>	<b>(4,063,180)</b>	<b>(339,756)</b>	<b>(6,207)</b>	-	<b>(4,685,390)</b>
<b>OTHER EXPENSES</b>	<b>(1,854,006)</b>	<b>(6,555,100)</b>	<b>(483,335)</b>	<b>(17,131)</b>	<b>12,624</b>	<b>(8,896,947)</b>
- of which expenses from financial liabilities	(774,339)	(158,201)	(14,494)	(1,714)	-	(948,747)
<b>PROFIT/(LOSS) BEFORE TAX</b>	<b>5,119,338</b>	<b>11,619,609</b>	<b>(823,572)</b>	<b>(270,579)</b>	-	<b>15,644,795</b>
<b>CORPORATE INCOME TAX</b>	<b>(718,160)</b>	<b>(2,040,294)</b>	<b>146,717</b>	<b>43,929</b>	-	<b>(2,567,808)</b>
<b>NET PROFIT FOR THE REPORTING PERIOD</b>	<b>4,401,177</b>	<b>9,579,315</b>	<b>(676,855)</b>	<b>(226,651)</b>	-	<b>13,076,987</b>
<b>MINORITY INTEREST</b>	-	<b>(37,594)</b>	-	-	-	<b>(37,594)</b>
<b>INTEREST OF PARENT COMPANY</b>	<b>4,401,177</b>	<b>9,616,909</b>	<b>(676,855)</b>	<b>(226,651)</b>	-	<b>13,114,581</b>

## 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 - Adjusted

in EUR	Life insurance	Non-life insurance	Complementary health insurance	Other health insurance	Intersegment eliminations on	Total
<b>NET PREMIUM INCOME</b>	<b>54,753,680</b>	<b>90,220,657</b>	<b>107,029,999</b>	<b>2,371,175</b>	-	<b>254,375,510</b>
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
<b>REVENUES FROM INVESTMENTS IN ASSOCIATES, of which</b>	-	<b>89,541</b>	-	-	-	<b>89,541</b>
- profit from capital investments in associates and joint ventures, calculated using the equity method	-	89,541	-	-	-	89,541
<b>INCOME FROM INVESTMENTS</b>	<b>48,163,161</b>	<b>11,319,462</b>	<b>1,472,071</b>	<b>103,112</b>	-	<b>61,057,806</b>
<b>OTHER INCOME FROM INSURANCE OPERATIONS, of which</b>	<b>366,018</b>	<b>12,855,050</b>	-	-	-	<b>13,221,068</b>
- fee and commission income	366,018	12,855,050	-	-	-	13,221,068
<b>OTHER INCOME</b>	<b>3,155,716</b>	<b>4,981,831</b>	<b>195,038</b>	<b>52,902</b>	-	<b>8,385,486</b>
<b>NET EXPENSES FOR CLAIMS AND BENEFITS PAID</b>	<b>(34,893,668)</b>	<b>(50,814,540)</b>	<b>(90,713,032)</b>	<b>(1,472,656)</b>	-	<b>(177,893,897)</b>
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
<b>CHANGE IN OTHER TECHNICAL PROVISIONS</b>	<b>(1,953,893)</b>	<b>2,009,073</b>	-	<b>(476,372)</b>	-	<b>(421,192)</b>
<b>CHANGE IN TECHNICAL PROVISIONS FOR THE BENEFIT OF UNIT-LINKED INSURANCE POLICYHOLDERS</b>	<b>(43,166,119)</b>	-	-	-	-	<b>(43,166,119)</b>
<b>EXPENSES FOR BONUSES AND DISCOUNTS</b>	-	<b>1,922</b>	<b>165</b>	<b>1</b>	-	<b>2,088</b>
<b>OPERATING EXPENSES, of which</b>	<b>(18,913,129)</b>	<b>(41,414,713)</b>	<b>(14,187,353)</b>	<b>(624,764)</b>	-	<b>(75,139,958)</b>
- acquisition costs	(7,392,550)	(15,486,406)	(1,750,142)	(290,275)	-	(24,919,373)
<b>EXPENSES FROM INVESTMENTS IN ASSOCIATES, of which</b>	-	<b>(0)</b>	<b>(69,917)</b>	-	<b>69,917</b>	<b>(0)</b>
- impairment losses of financial assets not measured at fair value through profit or loss	-	(0)	(69,917)	-	69,917	(0)
<b>EXPENSES INVESTMENTS, of which</b>	<b>(1,022,886)</b>	<b>(2,611,920)</b>	<b>(758,065)</b>	<b>(33,495)</b>	-	<b>(4,426,367)</b>
through profit or loss	(631,828)	(1,820,620)	(639,621)	-	-	(3,092,069)
<b>OTHER INSURANCE EXPENSES</b>	<b>(188,275)</b>	<b>(5,963,073)</b>	<b>(553,553)</b>	<b>(5,733)</b>	-	<b>(6,710,633)</b>
<b>OTHER EXPENSES</b>	<b>(1,363,595)</b>	<b>(4,756,617)</b>	<b>(508,248)</b>	<b>(11,507)</b>	-	<b>(6,639,967)</b>
- of which expenses from financial liabilities	(408,940)	(150,817)	(19,411)	(2,032)	-	(581,199)
<b>PROFIT/(LOSS) BEFORE TAX</b>	<b>4,937,010</b>	<b>15,916,674</b>	<b>1,907,106</b>	<b>(97,339)</b>	<b>69,917</b>	<b>22,733,367</b>
<b>CORPORATE INCOME TAX</b>	<b>(1,044,899)</b>	<b>(2,426,385)</b>	<b>(342,254)</b>	<b>(2,525)</b>	-	<b>(3,816,063)</b>
<b>NET PROFIT FOR THE REPORTING PERIOD</b>	<b>3,892,111</b>	<b>13,490,289</b>	<b>1,564,852</b>	<b>(99,864)</b>	<b>69,917</b>	<b>18,917,304</b>
<b>MINORITY INTEREST</b>	-	<b>(15,082)</b>	-	-	-	<b>(15,082)</b>
<b>INTEREST OF PARENT COMPANY</b>	<b>3,892,111</b>	<b>13,505,371</b>	<b>1,564,852</b>	<b>(99,864)</b>	<b>69,917</b>	<b>18,932,386</b>

## 9.3 CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME BY SEGMENT

**Consolidated statement of comprehensive income for the period from 1 January 2015 to 31 December 2015 in accordance with the Decision on Annual Reports of Insurance Undertakings**

in EUR	Life insurance	Non-life insurance	Complementary health insurance	Other health insurance	Intersegment eliminations on consolidation	Total
<b>NET PROFIT OR LOSS FOR THE FINANCIAL YEAR AFTER TAXATION</b>	4,401,177	9,579,315	(676,855)	(226,651)	-	13,076,987
<b>OTHER COMPREHENSIVE INCOME AFTER TAXATION</b>	(1,373,135)	(973,340)	69,835	17,666	-	(2,258,975)
<b>Items not to be allocated to profit or loss in subsequent periods</b>	16,523	(59,174)	-	-	-	(42,651)
Gain/loss from translation of financial statements of foreign operations	15,084	(18,746)	-	-	-	(3,662)
<b>Items that may be allocated to profit or loss in subsequent periods</b>	(1,389,658)	(914,166)	69,835	17,666	-	(2,216,324)
Net gain/loss from re-measurement of available-for-sale financial assets	(1,697,807)	(1,139,406)	84,138	21,284	-	(2,731,791)
Gain/loss, recognised in revaluation surplus	2,390,257	(305,221)	384,282	69,636	-	2,538,953
Transfer of gain/loss from revaluation surplus to income statement	(4,088,064)	(834,185)	(300,144)	(48,351)	-	(5,270,744)
Associated net gain/loss related to capital investments in associates and joint ventures, calculated using the equity method	14,555	31,541	-	-	-	46,097
Tax on items that may be allocated to profit or loss in subsequent periods	293,593	193,699	(14,304)	(3,618)	-	469,370
<b>TOTAL COMPREHENSIVE INCOME FOR THE YEAR, AFTER TAXATION</b>	3,028,042	8,605,975	(607,021)	(208,985)	-	10,818,011
<b>- ATTRIBUTABLE TO MINORITY INTEREST</b>	-	(38,107)	-	-	-	(38,107)
<b>- ATTRIBUTABLE TO CONTROLLING COMPANY</b>	3,028,042	8,644,082	(607,021)	(208,985)	-	10,856,118

**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 - Adjusted**

in EUR	Life insurance	Non-life insurance	Complementary health insurance	Other health insurance	Intersegment eliminations on consolidation	Total
<b>NET PROFIT OR LOSS FOR THE FINANCIAL YEAR AFTER TAXATION</b>	3,892,111	13,490,289	1,564,852	(99,864)	69,917	18,917,304
<b>OTHER COMPREHENSIVE INCOME AFTER TAXATION</b>	3,881,448	3,967,636	71,486	(1,172)	-	7,919,398
<b>Items not to be allocated to profit or loss in subsequent periods</b>	(14,945)	(263,339)	-	-	-	(278,284)
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</b>	3,896,393	4,230,975	71,486	-1,172	-	8,197,682
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
Gain/loss, recognised in revaluation surplus	8,693,880	6,201,215	(142,389)	43,572	-	14,796,277
Transfer of gain/loss from revaluation surplus to income statement	(4,014,361)	(1,083,828)	228,596	(44,984)	-	(4,914,578)
Associated net gain/loss related to capital investments in associates and joint ventures, calculated using the equity method	-	(16,454)	-	-	-	(16,454)
Tax on items that may be allocated to profit or loss in subsequent periods	(783,126)	(869,957)	(14,721)	240	-	(1,667,563)
<b>TOTAL COMPREHENSIVE INCOME FOR THE YEAR, AFTER TAXATION</b>	7,773,559	17,457,925	1,636,338	(101,036)	69,917	26,836,702
<b>- ATTRIBUTABLE TO MINORITY INTEREST</b>	-	(23,230)	-	-	-	(23,230)
<b>- ATTRIBUTABLE TO CONTROLLING COMPANY</b>	7,773,559	17,481,155	1,636,338	(101,036)	69,917	26,859,932

## 10. NOTES TO INDIVIDUAL ITEMS OF FINANCIAL STATEMENTS

## 10.1 INTANGIBLE ASSETS

in euros	Goodwill	Material in rights and licences	Software	ND assets in the process of acquisition	Total
<b>AT COST</b>					
<b>Balance as at 1 Jan 2014 adjusted</b>	-	<b>3,126,306</b>	<b>14,206,629</b>	<b>6,834</b>	<b>17,339,768</b>
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
<b>Balance as at 31 Dec 2014 adjusted</b>	<b>829,201</b>	<b>3,137,414</b>	<b>16,426,341</b>	<b>4,768</b>	<b>20,397,724</b>
<b>New balance as at 1 Jan 2015</b>	<b>829,201</b>	<b>3,137,414</b>	<b>16,426,341</b>	<b>4,768</b>	<b>20,397,724</b>
Increases due to acquisition of companies	-	1,102,917	166,402	-	1,269,319
Decreases due to the withdrawal of the subsidiary	(829,201)	(11,108)	(155,082)	-	(995,391)
Direct increases - investments	-	-	2,084,856	-	2,084,856
Decreases during the year	-	-	(2,043,842)	-	(2,043,842)
Transfers between intangible assets, investment property, and property, plant and equipment	-	-	4,768	(4,768)	-
Other changes	-	19	263	-	282
<b>Balance as at 31 Dec 2015</b>	<b>-</b>	<b>4,229,242</b>	<b>16,483,705</b>	<b>-</b>	<b>20,712,947</b>
<b>VALUE ADJUSTMENT</b>					
<b>Balance as at 1 Jan 2014 adjusted</b>	-	<b>964,173</b>	<b>10,531,902</b>	-	<b>11,496,075</b>
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
<b>Balance as at 31 Dec 2014 adjusted</b>	<b>-</b>	<b>1,261,632</b>	<b>12,712,635</b>	<b>-</b>	<b>13,974,268</b>
<b>New balance as at 1 Jan 2015</b>	<b>-</b>	<b>1,261,632</b>	<b>12,712,635</b>	<b>-</b>	<b>13,974,268</b>
Increases due to acquisition of companies	-	165,438	142,925	-	308,363
Decreases due to the withdrawal of the subsidiary	-	(11,108)	(127,562)	-	(138,670)
Depreciation during the year	-	-	1,753,518	-	1,753,518
Decreases during the year	-	-	(1,958,112)	-	(1,958,112)
Revaluation owing to impairment of assets	-	625,261	83,017	-	708,278
Other changes	-	19	119	-	138
<b>Balance as at 31 Dec 2015</b>	<b>-</b>	<b>2,041,243</b>	<b>12,606,541</b>	<b>-</b>	<b>14,647,783</b>
<b>BOOK VALUE</b>					
<b>Balance as at 31 Dec 2014</b>	<b>829,201</b>	<b>1,875,781</b>	<b>3,713,705</b>	<b>4,768</b>	<b>6,423,456</b>
<b>Balance as at 31 Dec 2015</b>	<b>-</b>	<b>2,187,999</b>	<b>3,877,164</b>	<b>-</b>	<b>6,065,164</b>

As at 31 December 2015, the operating liabilities to suppliers of intangible assets amounted to 394,541 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. All the intangible assets are owned by the Group and free from encumbrances.

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 2015, it did not change the amortisation rates. Amortisation of intangible assets is posted in the income statement among operating costs.

Compared to the year before, the value of non-current intangible assets grew especially when the parent company acquired KDŽO insurance company. When KDŽO left the Group, goodwill was eliminated on the level of the Group, while the parent company formed long-term accruals (in the table above in material rights column) above the carrying value of the investment, in the amount of 1,102,917 euros, from fair value surplus in life insurance portfolio.

Other important changes affecting the movement of non-current intangible assets are investments in a computer infrastructure project in the amount of 1,410,883 euros and investments in software in the amount of 672,278 euros. These assets were in 2015 lower mainly due to disposals of software (in the amount of 1,704,231 euros) and to a lower extent due to disposals of other IT projects in the amount of 227,655 euros.

The Group determined that as at 31 December 2015, apart from economic rights, there was no need for impairment of intangible assets.

## 10.2 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
<b>AT COST</b>					
<b>Balance as at 1 Jan 2014</b>	<b>26,289,456</b>	<b>15,791,948</b>	<b>1,279,035</b>	<b>103,673</b>	<b>43,464,112</b>
Increases due to acquisition of companies	65,783	62,573	-	9,493	137,849
Direct increases - investments	15,125	1,663,061	724,644	4,359	2,407,189
Direct increases - advance payments	-	-	291,260	-	291,260
Activation of assets in 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 INCA	-	-	(370,941)	-	(370,941)
<b>Balance as at 31 Dec 2014</b>	<b>26,472,134</b>	<b>16,606,455</b>	<b>781,320</b>	<b>112,578</b>	<b>43,972,487</b>
<b>New balance as at 1 Jan 2015</b>	<b>26,472,134</b>	<b>16,606,455</b>	<b>781,320</b>	<b>112,578</b>	<b>43,972,487</b>
Increases due to acquisition of companies	-	140,935	-	13,818	154,753
Decreases due to the withdrawal of the subsidiary	-	(140,996)	-	(13,824)	(154,820)
Direct increases - investments	3,180	2,030,339	387,788	3,639	2,424,947
Direct increases - advance payments	-	89,855	-	-	89,855
Decreases during the year	(68,362)	(1,938,844)	-	(98,805)	(2,106,011)
Transfers between intangible assets, investment property, and property, plant and equipment	610	89,855	(643,745)	-	(553,280)
Other changes	-	290	-	65	355
<b>Balance as at 31 Dec 2015</b>	<b>26,407,562</b>	<b>16,877,890</b>	<b>525,363</b>	<b>17,472</b>	<b>43,828,286</b>
<b>VALUE ADJUSTMENT</b>					
<b>Balance as at 1 Jan 2014</b>	<b>3,853,711</b>	<b>12,121,176</b>	<b>-</b>	<b>81,523</b>	<b>16,056,410</b>
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)
<b>Balance as at 31 Dec 2014</b>	<b>4,119,658</b>	<b>12,253,813</b>	<b>-</b>	<b>101,625</b>	<b>16,475,096</b>
<b>New balance as at 1 Jan 2015</b>	<b>4,119,658</b>	<b>12,253,813</b>	<b>-</b>	<b>101,625</b>	<b>16,475,096</b>
Increases due to acquisition of companies	-	105,683	-	11,296	116,978
Decreases due to the withdrawal of the subsidiary	-	(105,729)	-	(11,300)	(117,029)
Depreciation during the year	274,794	1,039,857	-	1,077	1,315,728
Decreases during the year	(344,226)	(1,351,727)	-	(90,827)	(1,786,780)
Other changes	-	21	-	16	36
<b>Balance as at 31 Dec 2015</b>	<b>4,050,226</b>	<b>11,941,917</b>	<b>-</b>	<b>11,886</b>	<b>16,004,029</b>
<b>BOOK VALUE</b>					
<b>Balance as at 31 Dec 2014</b>	<b>22,352,477</b>	<b>4,352,642</b>	<b>781,320</b>	<b>10,953</b>	<b>27,497,391</b>
<b>Balance as at 31 Dec 2015</b>	<b>22,357,336</b>	<b>4,935,972</b>	<b>525,363</b>	<b>5,586</b>	<b>27,824,257</b>

As at 31 December 2015, the operating liabilities to suppliers of property, plant and equipment amounted to 153,070 euros, which are disclosed under other liabilities of the Group. There were no financial liabilities arising from property, plant and equipment acquisition. 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.

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 2025. The Group uses the straight-line depreciation method and in 2015 it did not change the depreciation rates. Amortisation of property, plant and equipment is posted in the income statement among operating costs.

The balance of property, plant and equipment as at 31 December 2015, compared to 2014 year-end, grew by 326,866 euros. This was mainly caused by purchases of larger volume, for example office equipment (in the amount of 541,283 euros), purchases of computer equipment (541,283 euros) and purchases of cars (148,931 euros). Lowering of the amount of property, plant and equipment in 2015 was mainly caused by disposals of computer equipment, totalling 1,331,985 euros.

The decrease of property, plant and equipment was also a consequence of a sale of an item of real estate in the amount of 56,890 euros, where the final profit was 21,510 euros. The receivables from the sale of the real estate were fully settled.

In determining the replacement value, the Group applies the method of direct capitalisation of returns, method of direct comparisons of sales and cost method. The replacement value is calculated by an authorised appraiser of real estate. The last appraisal was performed in 2014. In 2015, only the replacement value of one unit of business premises in Maribor was appraised because it was not included in the 2014 appraisal.

The appraisal of the replacement value was made by an authorised appraiser of real estate in August 2015.

The replacement value was determined using the cost model, where the basis for valuation is:

- Fair value less cost of sales or
- Value in use, depending on which one is higher.

The estimated fair value of the real property (buildings and land) for business operations as at 31 December 2015 amounts to 22,314,015 euros and is higher than its carrying value which amounts to 22,073,964 euros.

The management decided that as at 31 December 2015, there is no need for impairment of property, plant and equipment.

### 10.3 INVESTMENT PROPERTIES

#### Movements in investments in land and buildings

in euros	2015	2014
<b>AT COST VALUE</b>		
<b>Balance as at 1 Jan</b>	<b>31,671,745</b>	<b>30,292,870</b>
Direct increases - investments	434,445	172,130
Direct increases - advance payments	961,307	-
Decreases during the year	(150,380)	(98,666)
Transfer from/to property, plant and equipment	553,280	1,305,411
<b>As at 31 Dec</b>	<b>33,470,397</b>	<b>31,671,745</b>
<b>VALUE ADJUSTMENT</b>		
<b>Balance as at 1 Jan</b>	<b>2,296,022</b>	<b>1,936,177</b>
Depreciation in the financial year	347,584	338,498
Decreases during the year	(8,648)	(28,177)
Transfer from/to property, plant and equipment	(0)	49,524
<b>As at 31 Dec</b>	<b>2,634,958</b>	<b>2,296,022</b>
<b>BOOK VALUE</b>		
<b>As at 31 Dec</b>	<b>30,835,439</b>	<b>29,375,723</b>

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.

At the end of 2015, the balance of investment properties was higher mainly due to investment in purchases of land (1,548,448 euros) and to a lesser extent due to investments in reparation works on existing real property (134,463 euros). Purchases of land were carried out under ordinary market conditions.

As at 31 December 2015, the Group had outstanding liabilities toward the sellers of the investment property in the amount of 799,740 euros, 90,223 euros of which are outstanding for purchases in 2015 and 709,517 euros for a purchase of real property in 2012, as a consequence of a contractual obligation of the seller.

In March 2015, the Group sold an item of investment property in Ljubljana in the amount of 155,000 euros, and the cumulative effect was the profit from the sale in the amount of 10,168 euros. The receivables arising from the sale of the property were settled in full.

The Group has 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 2015, the depreciation rates remained unchanged. The depreciation of investment properties is recognised in the income statement under other operating expenses as investment property expenses.

In determining the fair value, the Group applies the method of direct capitalisation of returns, method of direct comparisons of sales and cost method. The fair value is calculated by an authorised appraiser of real estate. The last appraisal was performed in 2014. In 2015, only the fair value of one unit of real estate in Piran was appraised because it was not included in the 2014 appraisal.

The appraisal of the fair value was made by an authorised appraiser of real estate in August 2015.

The replacement value was determined using the cost model, where the basis for valuation is:

- Fair value less cost of sales or
- Value in use, depending on which one is higher.

The fair value of investment properties as at 31 December 2015 amounts to 31,268,505 euros and is higher than the carrying value which amounts to 30,835,439 euros. Based on the performed appraisals, the management at the end of 2015 decided that there is no need for impairments.

#### Income and expenses from investment properties

in EUR	31/12/2015	31/12/2014
<b>Revenues from investment properties</b>	<b>2,417,556</b>	<b>1,237,178</b>
Other revenues arising from rents charged on investment properties	1,582,730	1,237,178
Gains on the disposal of investment properties	67,744	-
Revenues from reversal of impairment of receivables	767,081	14,800
<b>Expenses for investment properties</b>	<b>(1,344,181)</b>	<b>(387,186)</b>
Depreciation	(425,241)	(338,498)
Direct operating expenses for investment properties that generate rental income	(1,523,157)	(434,116)
Direct operating expenses for investment properties that do not generate rental income	(15,176)	(4,941)
Expenses from impairment of receivables from investment properties	655,459	542,361
Expenses from disposal of investment properties	(36,066)	(151,992)

## 10.4 FINANCIAL INVESTMENTS IN ASSOCIATES

## Investments in the associate

Company name	Ownership interest*		Balance in the books of account in EUR	
	2015	2014	2015	2014
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 stake.

The investment in the associate Nama d.d. is recognised in the financial statements as available-for-sale financial asset at cost. 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.

The appraisal of the replacement value is based on the net asset value. Apart from its basic activities, the strategy of the Group also allows for lease and selling the real property of Nama. In 2015, the majority owners initiated sales activities. The sales value of the company is to an important extent affected by the value of real property owned by Nama.

In 2015, the parent company Adriatic Slovenica received 180,446 euros of dividends from Nama d.d. They were reimbursed in full on 23 December 2015.

## Movements in investments in the associate

in euros	2015	2014
<b>Associates</b>		
<b>As at 1 Jan</b>	12,151,241	12,155,329
Interest (dividend) received	(180,446)	(77,175)
Impairments	(19,330)	89,542
Change in revaluation surplus	46,097	(16,454)
<b>As at 31 Dec</b>	<b>11,997,562</b>	<b>12,151,241</b>

## Information on property and financial position of the associate

Company name	in eurc	Assets		Capital		Revenues		Profit or loss for the year	
		2015	2014	2015	2014	2015	2014	2015	2014
Associate									
Nama trgovsko podjetje d.d.	12,264,427	12,475,584	10,153,481	10,462,015	12,693,657	12,920,493	(39,848)	184,584	

Note: The information on property and financial position of the associate are taken from financial statements, prepared by the associate and are unaudited.

## 10.5 FINANCIAL INVESTMENTS

On global financial markets, 2015 was marked with growth of capital investments, above-average volatility and diversity in movements among investment classes. The reasons for this are mainly in the quick changes of investors' expectations regarding interest and economic indicators. These characteristics also reflected in the domestic capital market where share investments were gradually losing value due to unfulfilled expectations about privatisation, while Slovene state bonds grew considerably compared to historically low required returns due to low inflation expectations.

Changes in economic conditions in 2015 affected the fair values of financial investments, which grew as a consequence of lower required return on European bond markets where the Group holds most of its investments. In the first quarter of the year, the fact pace of growth in fair value of financial investments was mainly caused by expectations related to the Quantitative easing performed by the European Central Bank (ECB) which started in March, and the deflation expectations triggered by rapid fall in oil prices at the end of last year. In the second quarter, there was a negative correction and quick normalisation of prices of bonds due to recovery of oil prices, economic recovery and record-low required returns on bonds, which resulted in a drop of value of financial investments. In the third quarter, the negative correction was also present on stock markets, principally because of popping of the Chinese stock balloon, fear of hard landing of Chinese economy and the consequences for the global economy. The negative value adjustments were therefore most evident in investments in shares and share mutual funds. In the fourth quarter, capital markets temporarily lost the negative sentiment from the previous quarter, which contributed to recovery of stock markets in October and November. In December, the ECB disappointed the investors with its decision on the extending of the Quantitative easing (QE programme) without its increase on monthly level, which again increased volatility on bond and stock markets. The ECB's decision echoed negatively on capital markets until the end of the year, although soon afterwards, in the middle of the month, American FED (Central Bank of America) entirely fulfilled the expectations of analysts and for the first time in 7 years lifted the key interest rate from 0.25 to 0.5.

In the following text, we are presenting the position of investments as at 31 December 2015 per groups and compared to 2014 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 euros	31 Dec 2015	31 Dec 2014
<b>Equity securities</b>	<b>942,806</b>	<b>1,948,514</b>
Listed securities	942,806	1,948,514
<b>Debt securities</b>	<b>6,816,786</b>	<b>8,462,600</b>
Listed securities	6,816,786	8,398,386
Government bonds	(0)	64,214
<b>Total</b>	<b>7,759,592</b>	<b>10,411,114</b>

#### Financial assets measured at fair value through profit or loss – held for trading

in euros	31 Dec 2015	31 Dec 2014
<b>Equity securities</b>	<b>697,237</b>	<b>3,231,457</b>
Listed securities	697,237	3,231,457
<b>Debt securities</b>	<b>11,100,603</b>	<b>25,590,487</b>
Listed securities	3,061,854	10,870,536
Government bonds	8,038,749	14,719,951
<b>Total</b>	<b>11,797,840</b>	<b>28,821,944</b>

The value of financial assets measured at fair value through profit or loss was in 2015 decreased due to assets falling due, as well as due to sales of equity securities and debt securities.

## Available-for-sale financial assets

At the end of 2015, 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. Valuation at cost is used for equity securities in total amount of 29,350,312 euros. Based on expert assessment and internal accounting policies, investment into shares of Elektro Celje d.d. has been permanently impaired. The market value of these shares derogated from the estimated fair value and was 30 % lower than the carrying value. The loss due to the permanent impairment in the amount of 380,153 euros was 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 euros	31 Dec 2015	31 Dec 2014 adjusted
<b>Equity securities</b>	<b>37,386,886</b>	<b>51,127,490</b>
Listed securities	27,556,023	41,726,302
Non-listed securities	9,830,863	9,401,188
<b>Debt securities</b>	<b>118,102,257</b>	<b>92,538,359</b>
Listed securities	19,278,153	25,220,704
Non-listed securities	(0)	6,765,386
Government bonds	98,824,105	60,552,268
<b>Impairment of the value of securities</b>	<b>(3,924,888)</b>	<b>(6,547,650)</b>
<b>Total</b>	<b>151,564,255</b>	<b>137,118,199</b>

As at 31 December 2015, the balance of available-for-sale financial assets was higher than the year before, mostly because of increased investments in state bonds, caused both by lower exposure to deposits and equity securities. In the category of equity securities, only marketable securities went down, predominantly investments in shares. Within the increase of investments in state bonds, the largest relative increase was caused by the exposure to Spanish state bonds.

## Effective interest rates (in %) for debt instruments not measured at fair value:

As at 31 Dec	2015	2014
Debt securities		
– held-to-maturity	5.74%	8.19%

For the market value of the held-to maturity assets see Section 8.2.4., table Book and fair values.

## Held-to-maturity financial assets

### Held-to-maturity financial assets

in euros	31 Dec 2015	31 Dec 2014
<b>Debt securities</b>	<b>39,471,526</b>	<b>33,665,744</b>
Listed securities	27,047,252	21,312,271
Government bonds	12,424,274	12,353,473
<b>Total</b>	<b>39,471,526</b>	<b>33,665,744</b>

The balance of debt securities of financial assets held to maturity was in 2015 increased mostly because of the swap and subscription of newly issued bonds.

In 2015, the Group made a reversal of impairment of Cimos shares from 2014 in the amount of 958,581 euros since Cimos successfully closed the process of compulsory settlement in June 2015. The abrogation of loss in the amount of 958,581 euros was at first recognised as increase in other revenues (revaluatory operating revenues) and later, the receivable

toward Cimos d.d. was set off and recognised in other operating expenses. A part of recognised revenues from the reversal of impairment, which was above the expected impairment from 2014, was recognised in the amount of 543 euros among financial revenues from financial investments held to maturity.

## Loans, deposits and financial receivables

### Loans, deposits and financial receivables

in euros	31 Dec 2015	31 Dec 2014
<b>Loans</b>	<b>32,992,287</b>	<b>31,874,189</b>
Long-term	3,979,283	5,427,646
Short-term	29,013,004	26,446,542
<b>Deposits placed with banks</b>	<b>2,884,501</b>	<b>17,978,744</b>
Long-term	1,043,624	5,371,516
Short-term	1,840,877	12,607,228
<b>Financial receivables</b>	<b>3,847,798</b>	<b>2,334,464</b>
<b>Total</b>	<b>39,724,586</b>	<b>52,187,396</b>

Loans are collateralised in different ways, namely by debt securities, bills of exchange, pledge on real estate (mortgages) or contracts for sale and assignment of claims.

In 2015, the Group received a repayment of a loan, for which, there was a permanent impairment made in the previous year. After receiving the payment, the impairment was reversed in the amount of 117,014 euros and recognised among other revenues as financial revenues from given loans due to reversal of impairment.

### Effective interest rates on loans and deposits

in %	31/12/2015	31/12/2014
<b>Long-term loans in</b>		
- foreign currency	5.10%	5.00%
- local currency	0.00%	3.79%
<b>Short-term loans in</b>		
- foreign currency	0.00%	5.00%
- local currency	4.85%	5.38%
<b>Deposits placed with related parties</b>		
Short-term deposits	1.32%	0.94%
Long-term deposits	2.18%	2.60%

### Financial receivables

in euros	31 Dec 2015	31 Dec 2014
Financial receivables arising from investment properties	1,549,140	1,289,373
Other financial receivables	2,298,659	1,045,090
<b>Total</b>	<b>3,847,798</b>	<b>2,334,464</b>

## 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
<b>Balance as at 1 Jan 2014 adjusted</b>	<b>10,167,434</b>	<b>26,205,969</b>	<b>38,096,356</b>	<b>124,524,767</b>	<b>65,167,996</b>	<b>265,857,072</b>
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 (+/-) through profit or loss (market rates)	(55,829)	721,940	-	2,676,952	-	3,343,063
Change of fair value (+/-) through revaluation surplus (market rates)	-	-	-	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)	(1,105,733,856)
Impairment to lower (fair) value – through profit or loss	-	-	(415,117)	(2,676,952)	-	(3,092,070)
<b>Balance as at 31 Dec 2014 adjusted</b>	<b>10,411,113</b>	<b>28,821,944</b>	<b>33,665,744</b>	<b>137,118,199</b>	<b>52,187,397</b>	<b>262,204,397</b>
<b>New balance as at 1 Jan 2015</b>	<b>10,411,113</b>	<b>28,821,944</b>	<b>33,665,744</b>	<b>137,118,199</b>	<b>52,187,397</b>	<b>262,204,397</b>
Increases due to acquisition of companies	1,460,126	1,018,905	498,812	1,689,176	477,796	5,144,815
Decreases due to the withdrawal of the subsidiary	(2,480,787)	-	(499,377)	(1,692,331)	(54,875)	(4,727,370)
Exchange rate differences	5,237	120,896	(1,275)	72,738	105	197,701
Increase	5,238,271	9,150,789	16,823,625	151,856,825	898,551,597	1,081,621,108
Change of fair value (+/-) through profit or loss (market rates)	(200,550)	(26,988)	(34)	380,153	-	152,582
Change of fair value (+/-) through revaluation surplus (market rates)	-	-	-	(3,273,828)	-	(3,273,828)
Increase due to interest	282,384	660,390	2,336,741	2,552,588	1,739,852	7,571,955
Decrease	(6,956,203)	(27,948,096)	(13,352,710)	(136,759,111)	(913,177,285)	(1,098,193,405)
Impairment to lower (fair) value – through profit or loss	-	-	-	(380,153)	-	(380,153)
<b>Balance as at 31 Dec 2015</b>	<b>7,759,592</b>	<b>11,797,840</b>	<b>39,471,526</b>	<b>151,564,255</b>	<b>39,724,586</b>	<b>250,317,800</b>

## 10.6 UNIT-LINKED LIFE INSURANCE ASSETS

The profitability of unit-linked insurance investments faced strong fluctuation throughout 2015. These investments are indirectly or directly focused on stock markets. Despite the strong dynamic of events on global stock markets, the outcome at the end of the year was positive. Low interest rates, low inflation rates and continued economic recovery in the USA and Europe in general had a positive effect on forecasts, but the high semi-annual growth of stock rates in the third quarter quickly balanced in the negative direction due to fears of Chinese slowing down, which caused the fall of assets of unit-linked insurance policyholders in the third quarter below the level in the beginning of the year. Due to temporary stabilisation of financial markets in the last quarter, the Group generated a positive outcome in the segment of investments of unit-linked insurance policyholders.

## Structure of unit-linked life insurance assets

v EUR	As at 31 Dec 2015	As at 31 Dec 2014
<b>Financial assets measured at fair value through profit or loss - at initial recognition</b>	<b>247,640,881</b>	<b>246,112,183</b>
<b>Equity securities</b>	<b>207,627,225</b>	<b>209,588,720</b>
Listed securities	207,627,225	209,588,720
<b>Debt securities</b>	<b>40,013,656</b>	<b>36,523,463</b>
Listed securities	40,013,656	36,523,463
<b>Loans and deposits with banks</b>	<b>14,325,212</b>	<b>12,193,136</b>
Loans	14,325,212	12,193,136
<b>Monetary assets - deposits redeemable at notice</b>	<b>1,794,246</b>	<b>2,260,951</b>
<b>Total</b>	<b>263,760,340</b>	<b>260,566,270</b>

The investments made for the benefit of unit-linked life insurance policyholders amounted to 263,760,340 euros. These are units of mutual funds, market ETFs funds, cover funds KD Dirigent, Aktivni naložbeni paket, KD Vrhunski and structured securities of issuers DEUTSCHE BANK LONDON and BNP Paribas, in line with the choice of the insurer. Policyholders' assets in products of DEUTSCHE BANK LONDON totalled 9,522,500 euros and assets invested in BNP Paribas products totalled 30,491,169 euros. These are invested in structured securities linked to selected indexes. The guarantee of repayment of 100 % nominal amount of the principal of the investment in products of DEUTSCHE BANK LONDON is given by Deutsche Bank AG London. The guarantee for BNP Paribas investment products is from 75 % to 100 % of the nominal amount of the principal. The guarantor for these products is BNP Paribas Paris.

The balance of financial assets of unit-linked insurance policyholders is compared to the technical provisions for the same products higher by 4,062,630 euros, mainly because the Group mostly invests in structured products (BNP) and the provision for these are much lower due to prefinancing of the policyholders by the insurance company.

## Movements in unit-linked life insurance financial assets

IN euros	2015	2014
<b>Balance as at 1 Jan</b>	<b>257,518,980</b>	<b>213,925,866</b>
Increases due to acquisition of companies	3,695,936	-
Decreases due to the withdrawal of the subsidiary	(3,591,312)	-
Increase	62,280,045	83,225,709
Decrease	(55,155,065)	(76,770,247)
Change of fair value (+/-) through profit or loss (market rates)	(2,487,685)	36,923,891
Deposit placement	62,732,959	66,817,763
Deposit withdrawal	(61,237,358)	(63,853,078)
Accrued interest	3,841	296,366
<b>Balance as at 31 Dec</b>	<b>263,760,340</b>	<b>260,566,270</b>

## 10.7 AMOUNT OF TECHNICAL PROVISIONS TRANSFERRED TO REINSURERS

## Share of reinsurers/co-insurers in technical provisions

in euros	2015	2014
- unearned premiums	(0)	(1)
- from insurance contracts for incurred and reported claims	6,652,797	8,762,170
- from insurance contracts for incurred, but not reported claims	3,073,923	6,670,396
<b>Total non-current part</b>	<b>9,726,720</b>	<b>15,432,565</b>
- unearned premiums	812,371	879,285
- from insurance contracts for incurred and reported claims	5,864,026	9,099,070
- from insurance contracts for incurred, but not reported claims	1,615,189	3,951,406
<b>Total current part</b>	<b>8,291,587</b>	<b>13,929,760</b>
<b>Total</b>	<b>18,018,307</b>	<b>29,362,326</b>

The share of re(co)insurers in technical provisions went down compared to the previous year due to the terminated quota reinsurance contract for car insurance, the consequence of which is the lowering of claims provisions by 10,721,376 euros. The remaining 1,144,718 euros of lower reinsurers' share was caused by reduced volume of new reinsurance claims events in 2015.

## 10.8 RECEIVABLES

## Balance of receivables

in EUR	As at 31 Dec 2015	As at 31 Dec 2014
<b>Receivables from direct insurance operations</b>	<b>20,787,328</b>	<b>22,986,037</b>
gross value	45,385,385	49,213,233
value adjustment	(24,598,057)	(26,227,197)
<b>Receivables from reinsurance and coinsurance</b>	<b>1,633,070</b>	<b>6,313,751</b>
gross value	1,758,280	6,523,061
value adjustment	(125,210)	(209,310)
<b>Income tax receivables</b>	<b>3,541,953</b>	<b>3,531,447</b>
<b>OTHER RECEIVABLES</b>	<b>11,191,992</b>	<b>15,110,280</b>
<b>Other current receivables from insurance operations</b>	<b>3,539,952</b>	<b>4,305,067</b>
gross value	3,586,152	4,528,726
value adjustment	(46,200)	(223,659)
<b>Recourse receivables</b>	<b>5,810,693</b>	<b>8,421,273</b>
gross value	31,053,765	31,595,379
value adjustment	(25,243,072)	(23,174,106)
<b>Operating receivables from the state</b>	<b>206,142</b>	<b>372,968</b>
gross value	223,205	382,033
value adjustment	(17,063)	(9,065)
<b>Operating receivables for advances given</b>	<b>48,781</b>	<b>64,120</b>
gross value	117,987	138,261
value adjustment	(69,205)	(74,141)
<b>Other current operating receivables</b>	<b>1,553,687</b>	<b>1,913,948</b>
gross value	2,451,246	3,010,764
value adjustment	(897,559)	(1,096,816)
<b>Long-term receivables</b>	<b>32,736</b>	<b>32,903</b>
<b>Total receivables</b>	<b>37,154,342</b>	<b>47,941,514</b>

The balance of receivables was as at 2015 year-end lower than the year before by 10,787,171 euros, mostly because the lower amount of receivables from re(co)insurance and receivables from direct insurance operations.

In the structure of receivables as at 31 December 2015, receivables from direct insurance operations prevail with 65 % share. These are receivables from policyholders due to contractual insurance premium. Compared to the previous year, at the end of 2015, the balance of these receivables dropped by 2,198,709 euros, mainly because of lower balance of receivables attributable to insurance premium from additional unit-linked life insurance risks. The reason for a lower balance of these receivables at the end of 2015 is a lower volume of revenues and increased payability.

Compared to the previous year, there was a sharp decrease (by 4,680,681 euros) in receivables from reinsurance and co-insurance, but at the end of 2015, they only account for 5 % in total receivables. The decrease in these receivables was mostly caused by the termination of the quota share reinsurance contract in 2015, which resulted in significantly lower amount of receivables (in the amount of 4,560,736 euros) for the related claims. The effect of termination of this contract is reflected in lower liabilities from reinsurance premiums (refer to Section 10.17. Operating liabilities) and at the same time in the income statement as lower premiums ceded to reinsurers, reinsurance provisions and reinsurers' shares, as also mentioned in Section 10.8.

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 recourse 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			Total
	Subrogations	Other receivables		
<b>As at 1 January 2014</b>	<b>24,542,262</b>	<b>21,581,667</b>	<b>1,184,189</b>	<b>47,308,118</b>
Changes during the year	1,894,245	1,592,439	219,492	3,706,176
<b>As at 31 December 2014</b>	<b>26,436,507</b>	<b>23,174,106</b>	<b>1,403,681</b>	<b>51,014,294</b>
<b>New balance as at 1 January</b>	<b>26,436,507</b>	<b>23,174,106</b>	<b>1,403,681</b>	<b>51,014,294</b>
Changes during the year	(1,713,240)	2,068,966	(373,654)	(17,928)
<b>As at 31 December 2015</b>	<b>24,723,267</b>	<b>25,243,072</b>	<b>1,030,027</b>	<b>50,996,366</b>

## 10.9 OTHER ASSETS

#### Other assets – balance total

in EUR	31 Dec 2015	31 Dec 2014
Inventories	10,459	26,022
Deferred acquisition costs	4,928,114	4,648,983
Deferred expenses and accrued revenues	1,006,138	842,752
<b>Total</b>	<b>5,944,711</b>	<b>5,517,757</b>

### 10.9.1 Deferred acquisition costs

#### Movements in deferred acquisition costs

in EUR	Long-term deferred acquisition costs	Short-term deferred acquisition costs
<b>Balance as at 1 Jan 2014</b>	<b>82,014</b>	<b>4,061,916</b>
Utilised in 2014	41,234	3,688,184
Formed in 2014	68,531	4,165,940
<b>Balance as at 31 Dec 2014</b>	<b>109,310</b>	<b>4,539,672</b>
<b>New balance as at 1 Jan 2015</b>	<b>109,310</b>	<b>4,539,672</b>
Utilised in 2015	119,899	4,665,738
Formed in 2015	131,748	4,933,020
<b>Balance as at 31 Dec 2015</b>	<b>121,160</b>	<b>4,806,954</b>

### 10.10 CASH AND CASH EQUIVALENTS

#### Cash and cash equivalents

in EUR	31 Dec 2015	31 Dec 2014
Cash on hand and cheques received	0	1,405
Balances on accounts	3,758,223	3,269,485
Short-term deposits redeemable on demand	26	8,358,196
Short-term deposits placed (maturity date up to 3 months)	11,452,980	-
Other cash	90,069	186,505
<b>Total</b>	<b>15,301,297</b>	<b>11,815,591</b>

The effective interest rate in 2015 paid on call deposits was between 0.00 % and 0.45 % (2014: from 0.25 % to 1.7 %).

### 10.11 EQUITY

#### Balance of equity

in EUR	31 Dec 2015	31 Dec 2014 adjusted
<b>Share capital</b>	<b>42,999,530</b>	<b>42,999,530</b>
<b>Capital reserves</b>	<b>4,211,782</b>	<b>4,211,782</b>
<b>Reserves from profit</b>	<b>15,543,286</b>	<b>15,771,095</b>
Legal reserves	1,519,600	1,519,600
Other reserves from profit	14,023,686	14,251,495
Reserves for equalisation of credit risk	1,014,505	1,014,505
Reserves for equalisation of catastrophic claims	4,247,869	3,798,823
Other reserves from profit	8,761,311	9,438,167
<b>Translation differences</b>	<b>(1,860,802)</b>	<b>(1,857,425)</b>
<b>Revaluation surplus</b>	<b>3,830,832</b>	<b>6,119,423</b>
<b>Retained net profit</b>	<b>24,117,512</b>	<b>23,702,827</b>
<b>Net profit for the financial year</b>	<b>13,569,040</b>	<b>18,585,335</b>
<b>TOTAL</b>	<b>102,411,181</b>	<b>109,532,567</b>
Minority interest	100,408	138,515

## 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 2015, 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 2015, the share capital did not change.

## Distribution of balance sheet profit

The insurance company Adriatic Slovenica d.d. (parent company) transfers the net profit for the year to balance sheet profit and uses it later for dividend payments together with the rest of balance sheet profit.

At the General meeting held on 10 April 2015, the direct owner and only shareholder of Adriatic Slovenica decided on the distribution of balance sheet profit for 2014. A part of the balance sheet profit in the amount of 17,944,000 euros were used for dividend payments. The rest of balance sheet profit in the amount of 20,054,464 euros remained unallocated and was transferred to the balance sheet profit for 2015. Dividends were paid in full by 13 April 2015.

## Ownership structure

As at 31 December 2015, KD Group d.d. held 10,304,407 shares, i.e. 100 %. In 2015, its stake remained unchanged.

## Distribution of accumulated profit and loss coverage

Adriatic Slovenica Group ended 2015 with a profit before tax totalling 17,921,029 euros and a net profit for the year amounting to 15,196,312 euros. After the completion of financial statements, the management of the parent company 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 parent company can decide on covering the loss from the previous year. The Management Board of the parent company 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.

On 31 December 2015, the Management Board covered the loss of other health insurance in full with the profit carried forward from past years in the amount of 226,870 euros.

## Other reserves from profit

The loss in the segment of supplementary health insurance in the amount of 677,453 euros was covered entirely from the reserve from half of the result (profit) of supplementary insurance formed for this purpose in line with the Health Care and Health Insurance Act and the Decision on detailed instructions for accounting and presentation of transactions as regards offsets in supplementary health insurance.

## Balance sheet profit

After covering losses from past and current periods using profits from current and past year and covering losses from other profit reserves, the final amount of net profit for the current year is 24,117,512 euros. Together with the unallocated profit brought forward from previous years in the amount of 13,569,040 euros, the balance sheet profit as at 31 December 2015 to be distributed at the General Assembly amounts to 37,686,552 euros.

## Reserves and revaluation surplus

The Group 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 2015 ended, in accordance with the Insurance Act, the Company additionally formed 449,047 euros of profit reserves for catastrophic loss equalisation (120,955 euros for nuclear peril and 328,091 euros for earthquake). Reserves for credit risk equalisation remained unchanged at the end of 2015.

### Capital reserves

As at 31 December 2015, the capital reserves of the Group 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 2015, 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 2015 neither the Group nor any third party for the account of the companies within the Group held any treasury shares as security.

### Revaluation surplus

Revaluation surplus refers to changes in fair value of financial assets available for sale, disclosed in other comprehensive income. Within equity, the revaluation surplus is decreased by the deferred taxes payable.

As at the 2015 year-end, the revaluation surplus from pension insurance amounting to 158,730 euros was recognised as an increase in mathematical provisions

Also the actuarial gains/losses, related to provisions for employees, are recognised within the revaluation surplus.

### Revaluation surplus

in EUR	31/12/2015	31/12/2014
Specific revaluation of equity	3,830,832	6,119,423
exchange rate differences in associated companies	295,326	249,229
from reinforcement of property, plant and equipment	141	141
from reinforcement/impairment of available-for-sale financial assets	4,306,451	7,057,446
from net actuarial gains / losses for pension programs	(38,989)	-
from adjustment for deferred taxes	(732,097)	(1,187,394)
<b>Total revaluation surplus</b>	<b>3,830,832</b>	<b>6,119,423</b>

**Movements in revaluation surplus from available-for-sale financial assets with profit**

in EUR	2015	2014
<b>Balance as at 1 January</b>	<b>6,119,422</b>	<b>(2,078,135)</b>
Increases due to acquisition of companies	68,709	-
Withdrawal of subsidiary	(101,986)	-
<b>Change in revaluation surplus from net actuarial gains / losses for pension programs</b>	<b>(38,989)</b>	<b>-</b>
<b>Profits (losses) recognised in revaluation surplus</b>	<b>2,158,394</b>	<b>12,276,724</b>
Net change due to revaluation	2,539,182	14,796,277
Change in deferred taxes due to revaluation	(426,656)	(2,502,974)
Change in revaluation surplus of the acquired company	46,097	(16,454)
Profit / loss from translation of financial statements in other countries – revaluation reserves	(228)	(125)
<b>Transfer of profits (losses) from revaluation surplus to profit or loss</b>	<b>(4,374,718)</b>	<b>(4,079,167)</b>
Change in revaluation surplus transferred on disposal to profit or loss	(5,650,898)	(7,591,530)
Change in deferred taxes on realisation of revaluation surplus	960,653	1,290,493
Transfer of negative revaluation surplus to profit or loss on impairment	380,153	2,676,952
The change deferred taxes from impairments through profit or loss	(64,626)	(455,082)
<b>Balance as at 31 December</b>	<b>3,830,832</b>	<b>6,119,422</b>

## 10.12 TECHNICAL PROVISIONS

## Technical provisions (liabilities arising from insurance contracts) – gross and net

in EUR	Gross + received co-insurance as at 31 Dec 2015	Reinsurance + ceded co- insurance as at 31 Dec 2015	Net as at 31 Dec 2015	Gross + received co- insurance as at 31 Dec 2014 adjusted	Reinsurance + ceded co- insurance as at 31 Dec 2014 adjusted	Net as t 31 Dec 2014 adjusted
Unearned premiums	42,512,644	742,725	41,769,919	43,441,723	805,230	42,636,492
Claims provisions for	<b>106,185,275</b>	<b>16,997,856</b>	<b>89,187,419</b>	<b>114,194,046</b>	<b>28,334,567</b>	<b>85,859,479</b>
- reported claims	51,650,662	12,309,459	39,341,203	53,416,379	17,713,264	35,703,115
- not reported claims	54,534,613	4,688,397	49,846,216	60,777,667	10,621,303	50,156,363
Provisions for bonuses and discounts	681,386	-	681,386	395,257	-	395,257
Mathematical provisions	54,247	-	54,247	1,991	-	1,991
Other insurance technical provisions	197,699	-	197,699	295,093	-	295,093
<b>Total non-life insurance</b>	<b>149,631,250</b>	<b>17,740,581</b>	<b>131,890,670</b>	<b>158,328,110</b>	<b>29,139,798</b>	<b>129,188,312</b>
Unearned premiums	7,270,967	-	7,270,967	8,011,577	-	8,011,577
Claims provisions for	<b>5,789,024</b>	-	<b>5,789,024</b>	<b>5,564,511</b>	-	<b>5,564,511</b>
- reported claims	1,002,820	-	1,002,820	868,571	-	868,571
- not reported claims	4,786,204	-	4,786,204	4,695,940	-	4,695,940
Provisions for bonuses and discounts	1,281	-	1,281	625	-	625
Other insurance technical provisions	312,817	-	312,817	476,372	-	476,372
<b>Total health insurance</b>	<b>13,374,157</b>	<b>-</b>	<b>13,374,157</b>	<b>14,053,085</b>	<b>-</b>	<b>14,053,085</b>
Unearned premiums	439,459	69,647	369,812	485,282	74,055	411,228
Claims provisions for	<b>4,930,872</b>	<b>208,080</b>	<b>4,722,792</b>	<b>5,697,242</b>	<b>148,474</b>	<b>5,548,768</b>
- reported claims	1,540,491	207,364	1,333,126	1,683,599	148,021	1,535,578
- not reported claims	3,390,381	715	3,389,665	4,013,643	453	4,013,190
Mathematical provisions	102,710,827	-	102,710,827	97,613,026	-	97,613,026
Other insurance technical provisions	147,739	-	147,739	319,683	-	319,683
<b>Total life insurance with DPF</b>	<b>108,228,896</b>	<b>277,726</b>	<b>107,951,170</b>	<b>104,115,233</b>	<b>222,529</b>	<b>103,892,704</b>
<b>Total liabilities arising from insurance contracts</b>	<b>271,234,304</b>	<b>18,018,307</b>	<b>253,215,997</b>	<b>276,496,428</b>	<b>29,362,327</b>	<b>247,134,101</b>

## Movements in technical provisions

in EUR	Gross 2015	Reinsurance 2015	Net 2015	Gross 2014 adjusted	Reinsurance 2014 adjusted	Net 2014 adjusted
<b>Movements in unearned premium</b>						
Balance as at 1 Jan	51,934,276	879,285	51,054,991	52,608,836	787,861	51,820,975
Increases due to acquisition of companies	4,219	-	4,219	3,418	-	3,418
Decreases due to the withdrawal of the subsidiary	2,779	-	2,779	-	-	-
Increase in liabilities	48,597,954	812,370	47,785,583	49,685,753	879,285	48,806,468
Decrease in liabilities	50,310,602	879,285	49,431,317	50,359,426	787,861	49,571,565
<b>Balance as at 31 Dec</b>	<b>50,223,068</b>	<b>812,370</b>	<b>49,410,697</b>	<b>51,938,582</b>	<b>879,285</b>	<b>51,059,297</b>
<b>Movements in mathematical provisions</b>						
Balance as at 1 Jan	97,617,625	-	97,617,625	94,975,223	-	94,975,223
Increases due to acquisition of companies	399,578	-	399,578	292,649	-	292,649
Decreases due to the withdrawal of the subsidiary	397,105	-	397,105	-	-	-
Increase in the period	18,611,693	-	18,611,693	12,535,995	-	12,535,995
Decrease in the period	14,643,214	-	14,643,214	11,460,968	-	11,460,968
Change of current-year DPF part	1,176,567	-	1,176,567	1,272,118	-	1,272,118
<b>Balance as at 31 Dec</b>	<b>102,765,143</b>	<b>-</b>	<b>102,765,143</b>	<b>97,615,017</b>	<b>-</b>	<b>97,615,017</b>
<b>Movements in claims outstanding</b>						
Reported claims	55,962,960	17,859,783	38,103,177	56,851,819	15,929,378	40,922,442
Not reported claims	69,483,711	10,621,802	58,861,909	75,015,092	9,740,857	65,274,235
<b>Balance as at 1 Jan</b>	<b>125,446,672</b>	<b>28,481,585</b>	<b>96,965,086</b>	<b>131,866,912</b>	<b>25,670,235</b>	<b>106,196,677</b>
Increases due to acquisition of companies	116,265	490	115,776	113,688	463	113,226
Decreases due to the withdrawal of the subsidiary	105,715	490	105,225	-	-	-
Decrease in provisions due to payments	38,539,155	9,132,562	29,406,592	39,351,620	9,778,687	29,572,934
Change in provisions from preceding years +/-	(14,875,971)	(2,076,761)	(12,799,210)	(14,470,471)	(434,045)	(14,036,426)
Increase in provisions in the current year	45,683,291	288,101	45,395,189	47,297,290	13,025,076	34,272,215
Reported claims	54,193,964	12,516,814	41,677,149	55,968,550	17,861,285	38,107,265
Not reported claims	62,711,688	4,689,602	58,022,085	69,487,250	10,621,757	58,865,493
<b>Balance as at 31 Dec</b>	<b>116,905,651</b>	<b>17,206,417</b>	<b>99,699,235</b>	<b>125,455,799</b>	<b>28,483,042</b>	<b>96,972,758</b>
<b>Movements in other insurance technical provisions</b>						
Balance as at 1 Jan	1,486,361	-	1,486,361	3,162,997	-	3,162,997
Increase in the period	832,732	-	832,732	1,045,392	-	1,045,392
Decrease in the period	782,984	-	782,984	2,721,359	-	2,721,359
<b>Balance as at 31 Dec</b>	<b>1,340,922</b>	<b>-</b>	<b>1,340,922</b>	<b>1,487,030</b>	<b>-</b>	<b>1,487,030</b>

## 10.13 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 2015	Reinsurance + ceded co- insurance as at 31 Dec 2015	Net as at 31 Dec 2015	Gross + received co- insurance as at 31 Dec 2014	Reinsurance + ceded co- insurance as at 31 Dec 2014	Net as t 31 Dec 2014
Claims provisions	428,850	-	428,850	326,627	-	326,627
- reported claims	428,850	-	428,850	326,627	-	326,627
Provisions for unit-linked life insurance policyholders	259,697,710	-	259,697,710	257,277,164	-	257,277,164
<b>Total unit-linked life insurance</b>	<b>260,126,559</b>	<b>-</b>	<b>260,126,559</b>	<b>257,603,791</b>	<b>-</b>	<b>257,603,791</b>

## Movements in technical provisions for unit-linked life insurance policyholders

in EUR	Gross 2015	Reinsurance 2015	Net 2015	Gross 2014	Reinsurance 2014	Net 2014
<b>Movements in claims outstanding</b>						
Reported claims	326,627	-	326,627	244,820	-	244,820
Balance as at 1 Jan	326,627	-	326,627	244,820	-	244,820
Increases due to acquisition of companies	-	-	-	-	-	-
Decreases due to the withdrawal of the subsidiary	-	-	-	-	-	-
Decreased provisions due to payments	241,910	-	241,910	180,707	-	180,707
Change in provisions from preceding years +/-	6,880	-	6,880	(53,691)	-	(53,691)
Increase in provisions in the current year	337,252	-	337,252	316,205	-	316,205
Reported claims	428,850	-	428,850	326,627	-	326,627
Balance as at 31 Dec	428,850	-	428,850	326,627	-	326,627
<b>Movements in claims outstanding for reported and non-reported claims for unit-linked life insurance policyholder</b>						
Balance as at 1 Jan	257,282,345	-	257,282,345	211,832,611	-	211,832,611
Increases due to acquisition of companies	3,634,539	-	3,634,539	2,280,599	-	2,280,599
Decreases due to the withdrawal of the subsidiary	3,591,312	-	3,591,312	-	-	-
Increase in the period	31,620,166	-	31,620,166	65,776,171	-	65,776,171
Decrease in the period	29,248,029	-	29,248,029	22,612,218	-	22,612,218
Balance as at 31 Dec	259,697,710	-	259,697,710	257,277,164	-	257,277,164

## 10.14 OTHER PROVISIONS

## 10.14.1 Other provisions

in EUR	31 Dec 2015	31 Dec 2014
Provisions for employee benefits	3,934,369	3,293,079
Other non-current provisions	1,200,623	785
<b>Total</b>	<b>5,134,992</b>	<b>3,293,864</b>

## 10.14.2 Provisions for employee benefits

### Provisions for employee benefits

in EUR	31 Dec 2015	31 Dec 2014
Provisions for termination benefits	1,546,218	1,065,760
Provisions for jubilee benefits	2,388,151	2,227,318
<b>Total</b>	<b>3,934,369</b>	<b>3,293,078</b>

### Movements in provisions for employee benefits

in EUR	2015	2014
<b>As at 1.1.</b>	<b>3,293,079</b>	<b>2,937,473</b>
Increase at acquisition of subsidiary	5,385	5,864
Decreases due to the withdrawal of the subsidiary	(5,370)	-
Increase in current period	711,161	284,562
Decrease due to paid provisions for termination and jubilee benefits	(293,682)	(310,522)
Actuarial gains and losses	225,966	-
Adjustments arising from past experience	125,357	-
Effect of change of assumptions	100,609	-
Other changes	(2,170)	375,700
<b>As at 31 December</b>	<b>3,934,369</b>	<b>3,293,079</b>

Movements in provisions for unused vacation and jubilee benefits are entirely recognised in the income statement under operating costs. The same goes for changes in provisions for retirement benefits, except for actuarial gains or losses recognised in other comprehensive income, including taxation.

The calculation for 2015 used different assumptions about the discount rate and expected increase in salaries than in 2014.

### The main assumptions applied in the calculation of provisions for termination and jubilee benefits:

- discount rate 1.337 % (31 Dec 2014: 1.236 %),
- expected increase in salaries in the Group, including the expected increase in salaries due to promotions 2.2 % (31 Dec 2014: 1.6 %),
- expected mortality is determined based on Slovene mortality tables from 2007 (the same on 31 Dec 2014),
- 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 2014).

The provision amounts in 2015 include taxes and contributions. The effect of changes in assumptions amounted to 99,184 euros.

### Analysis of sensitivity to changes in parameters

Parameter	Parameter changes	2015
Discount rate	discount curve move by +0,25%	(78,519)
	discount curve move by -0,25%	81,502
Salary increase	change in annual salary increase by +0,5%	146,298
	change in annual salary increase by -0,5%	(133,926)
Mortality	permanent increase in mortality by +20%	(30,447)
	permanent increase in mortality by -20%	30,991
Early termination of employment	expense curve move by +20%	(331,621)
	expense curve move by -20%	385,959

### 10.14.3 Other long-term provisions

#### Movements in other long-term provisions

in EUR	2015	2014
<b>As at 1.1.</b>	<b>785</b>	-
Increase in current period (formation)	1,200,000	785
Decrease (repayment)	(162)	-
<b>As at 31.12.</b>	<b>1,200,623</b>	<b>785</b>

In 2015, the Group received a first instance court judgement for the lawsuit filed by Pozavarovalnica Sava in 2012 against Adriatic Slovenica (described in detail in Section 12). Based on the received judgement, the Group adequately formed long-term provisions in the amount of 1,200,000 euros based on its own assessment and taking into account the prudence principle.

### 10.15 OTHER FINANCIAL LIABILITIES

#### Movements in loans and other current financial liabilities

in EUR	2015	2014
<b>Balance as at 1 Jan</b>	<b>711,811</b>	<b>741,951</b>
Increase	258,765	49,871
Decrease	(30,256)	(386,879)
Mutual eliminations	28,615	306,869
<b>Balance as at 31 Dec</b>	<b>968,936</b>	<b>711,811</b>

### 10.16 OPERATING LIABILITIES

The Group has no secured liabilities.

#### Operating liabilities

in EUR	31 Dec 2015	31 Dec 2014
Liabilities arising from direct insurance contracts	3,887,670	4,745,099
Liabilities arising from reinsurance and co-insurance	1,558,050	11,527,057
Tax liability	1,540,738	6,029,026
<b>Total</b>	<b>6,986,458</b>	<b>22,301,181</b>

Compared to 2014, the operating liabilities as at the 2015 year-end decreased by 69 %, mainly as a result of lower liabilities from reinsurance and co-insurance. Lowering of these liabilities was affected by the termination of the quota share reinsurance contract for car insurance, which resulted in reinsurance decommitment. At the end of 2014, the liabilities from quota reinsurance totalled 9,523,659 euros, accounting for 83 % of all outstanding liabilities from reinsurance.

For 2015, 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 10.25).

### 10.17 OTHER LIABILITIES

#### Other liabilities

in EUR	31 Dec 2015	31 Dec 2014
Other operating (trade) liabilities	18,190,151	18,476,090
Accrued costs/expenses and deferred revenues	4,661,682	7,064,721
<b>Total</b>	<b>22,851,833</b>	<b>25,540,811</b>

The Group does not have any liabilities with a maturity date over 5 years.

### 10.17.1 Other operating liabilities

#### Other operating liabilities

in EUR	31 Dec 2015	31 Dec 2014
<b>Long-term operating liabilities</b>	<b>24,067</b>	<b>8,605</b>
Other long-term operating liabilities	24,067	8,605
<b>Current operating liabilities</b>	<b>18,166,084</b>	<b>18,467,485</b>
Current operating liabilities to suppliers	1,337,653	1,242,773
Current operating liabilities to employees	2,580,331	2,388,831
Other current liabilities from insurance operations	9,603,012	10,084,708
Current operating liabilities to the state (except for income tax)	710,730	485,319
Current liabilities for received advances	37,278	34,229
Other current operating liabilities	3,897,079	4,231,624
<b>Total</b>	<b>18,190,151</b>	<b>18,476,090</b>

At the end of 2015, the balance of other operating liabilities was not much different than the year before. 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 2015, the total of these liabilities is 6,686,719 euros. These liabilities will fall due when all claims will be reported. Moreover, as at 31 December 2015, 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 1,138,667 euros and liability to other insurance companies from supplementary health insurance equalisation schemes in the amount of 888,934 euros.

### 10.17.2 Accrued expenses and deferred income

#### Accrued expenses and deferred income

in EUR	31 Dec 2015	31 Dec 2014
Accrued expenses - operating	817,872	1,850,226
Accrued expenses - for unused annual holidays	1,207,160	1,248,295
Prepaid expenses – acquisition costs and unexpired commissions	705,514	863,981
Prepaid expenses from equalisation scheme for supplementary health insurance	963,644	1,114,856
Other deferred and accrued items	967,493	1,987,362
<b>Total</b>	<b>4,661,682</b>	<b>7,064,720</b>

## 10.18 REVENUES

## 10.18.1 Premium revenues from insurance contracts

## Net premium revenues from insurance contracts in 2015

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	40,069,958	(747,274)	506,193	2,195	39,831,072
Land motor vehicle insurance	34,802,528	(1,939,844)	175,338	27,029	33,065,051
Accident insurance	16,786,229	(181,166)	(93,521)	20,255	16,531,796
Fire and natural forces insurance	16,124,759	(3,749,790)	(59,061)	(60,892)	12,255,016
Other damage to property insurance	12,119,692	(1,436,678)	(37,101)	(11,449)	10,634,464
General liability insurance	7,520,983	(735,679)	297,817	(81,408)	7,001,713
Credit insurance	(144)	-	285,084	-	284,940
Other non-life insurance, excluding health insurance	9,431,119	(578,752)	(147,955)	42,611	8,747,022
<b>Insurance contracts for non-life insurance, excluding health insurance</b>	<b>136,855,125</b>	<b>(9,369,183)</b>	<b>926,795</b>	<b>(61,660)</b>	<b>128,351,076</b>
Health insurance contracts	100,643,709	-	740,610	-	101,384,319
Life insurance	20,233,189	(1,584,450)	47,277	(4,408)	18,691,608
Unit-linked insurance contracts	35,877,852	(3,320)	-	-	35,874,532
Additional pension insurance	4,612,407	-	-	-	4,612,407
Life insurance contracts	60,723,448	(1,587,769)	47,277	(4,408)	59,178,547
<b>Total</b>	<b>298,222,282</b>	<b>(10,956,953)</b>	<b>1,714,682</b>	<b>(66,068)</b>	<b>288,913,941</b>

## Net premium revenues from insurance 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
<b>Insurance contracts for non-life insurance, excluding health insurance</b>	<b>137,885,347</b>	<b>(47,191,793)</b>	<b>(571,631)</b>	<b>98,733</b>	<b>90,220,657</b>
Health insurance contracts	108,193,279	-	1,207,895	-	109,401,173
Life insurance	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
Additional pension insurance	995,468	(1,186)	352	-	994,634
Life insurance contracts	55,985,143	(1,276,349)	52,196	(7,310)	54,753,681
<b>Total</b>	<b>302,063,769</b>	<b>(48,468,142)</b>	<b>688,460</b>	<b>91,424</b>	<b>254,375,511</b>

## 10.18.2 Financial revenues and expenses from investments and investments in associates

## Financial revenues and expenses from investments in 2015

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	2,334,629	3,396,549	837,317	389,946	4,134,377	11,092,817
Financial revenues arising from interest	2,334,629	2,646,554	802,716	282,017	4,134,377	10,200,293
Financial revenues arising from dividend	-	749,995	34,601	107,928	-	892,524
Financial revenues arising from unrealised gains	293,683	8,618,715	248,514	3,695,831	-	12,856,742
Financial revenues arising from net unrealised gains (i.e. reversals of impairment)	-	-	5,488	-	-	5,488
Financial revenues arising from net positive foreign exchange differences	-	-	-	-	51,025	51,025
Financial revenues - reversal of impairment	543	319,268	-	-	-	319,810
Financial revenues - derivatives	-	-	93,801	-	-	93,801
<b>REVENUES FROM INVESTMENTS</b>	<b>2,628,854</b>	<b>12,334,531</b>	<b>1,185,120</b>	<b>4,085,776</b>	<b>4,185,403</b>	<b>24,419,685</b>
Financial expenses arising from investments in associates due to impairment	-	(19,330)	-	-	-	(19,330)
Financial expenses arising from impairment of financial assets not measured at fair value through profit or loss	-	-	-	-	-	-
Financial expenses arising from realised capital losses	(47)	(2,967,661)	-	(2,390)	-	(2,970,098)
Financial expenses arising from net unrealised capital losses	-	(380,153)	(31,763)	(2,688,954)	-	(3,100,870)
Financial expenses arising from net negative foreign exchange differences	-	-	-	-	(1,663)	(1,663)
Financial expenses - derivatives	-	-	(172,381)	-	-	(172,381)
<b>EXPENSES FOR INVESTMENTS</b>	<b>(47)</b>	<b>(3,367,145)</b>	<b>(204,144)</b>	<b>(2,691,344)</b>	<b>(1,663)</b>	<b>(6,264,342)</b>
<b>Net financial result from investments</b>	<b>2,628,807</b>	<b>8,967,387</b>	<b>980,976</b>	<b>1,394,433</b>	<b>4,183,740</b>	<b>18,155,342</b>

Financial revenues and expenses also include net financial revenue/expenses of unit-linked life insurance policyholders. In 2015, the net financial result of these was 903,883 euros. The value of guarantee funds for unit-linked life insurance decreased in 2015 because of the rapid decrease in value of equity securities. In the same period, the technical provisions of these funds decreased, 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 10.13) in 2015 totalled 5,467,835 euros and therefore lowered the final result in this amount.

### 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
impairment)	-	-	721,940	36,871,326	-	37,593,266
Financial revenues arising from net positive foreign exchange differences	-	-	-	-	79,393	79,393
<b>REVENUES FROM INVESTMENTS</b>	<b>2,806,887</b>	<b>13,004,220</b>	<b>2,441,138</b>	<b>38,694,650</b>	<b>4,110,912</b>	<b>61,057,806</b>
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)
<b>EXPENSES FOR INVESTMENTS</b>	<b>(415,117)</b>	<b>(4,005,082)</b>	<b>-</b>	<b>(6,167)</b>	<b>-</b>	<b>(4,426,367)</b>
<b>Net financial result from investments</b>	<b>2,391,770</b>	<b>8,999,138</b>	<b>2,441,138</b>	<b>38,688,482</b>	<b>4,110,912</b>	<b>56,631,440</b>

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.

**Net gains/losses from held-for-trading financial assets**

in euros	2015	2014
Realised profits	1,380,643	678,495
Unrealised profits	404,600	1,392,140
Realised losses	(1,132,129)	(193,123)
Unrealised losses	(430,875)	(670,200)
<b>Total</b>	<b>222,239</b>	<b>1,207,312</b>

**Net gains/losses from financial assets at initial recognition through profit or loss, excluding investment risk**

in euros	2015	2014
Realised profits	184,400	551,015
Unrealised profits	712,902	641,477
Realised losses	(133,493)	(233,611)
Unrealised losses	(545,029)	(697,303)
<b>Total</b>	<b>218,779</b>	<b>261,578</b>

Net gains/losses from financial assets at initial recognition through profit or loss pertaining to unit-linked life insurance amount to 1,345,389 euros (2014: 37,413,612 euros).

The effect of revaluation of financial investments, available-for-sale financial assets, are in 2015 recognised in the statement of other comprehensive income and are presented in Section 10.11.

**Impairment of securities of available-for-sale financial assets**

in euros	2015	2014
<b>Impairment through profit and loss</b>		
Equity securities	380,153	1,010,048
Debt securities	-	1,666,904
<b>Total</b>	<b>380,153</b>	<b>2,676,952</b>

Within the available-for-sale financial assets, permanent impairment of investment in Elektro Celje d.d. shares was made, which totalled 380,153 euros. Losses due to permanent impairment of this investment were recognised in expenses from investments in the income statement within the expenses from impairment of financial assets not measured at fair value through profit or loss.

**Impairment of securities of held-to-maturity financial assets**

in euros	2015	2014
<b>Impairment through profit and loss</b>		
Debt securities	-	415,117
<b>Total</b>	<b>-</b>	<b>415,117</b>

Within the held-to-maturity financial assets, there were no permanent impairments of investments made in 2015.

### 10.18.3 Other insurance revenues

#### Revenues from management commission and other insurance revenues

in euros	2015	2014
Fee and commission income	4,150,714	13,183,879
Revenues from front-end/entry costs for investment contracts with DPF	14,111	-
Other fee income for management of investment contracts with DPF	13,069	37,189
<b>Total</b>	<b>4,177,894</b>	<b>13,221,068</b>

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 2015 by 9,043,174 euros, mostly due to the termination of quota reinsurance of car insurance and consequently the inflow of reinsurance commissions from car insurance quota. In 2015, there were 2,687,515 euros of reinsurance commission revenues, while in the previous year, these revenues amounted to 12,218,690 euros.

### 10.18.4 Other revenues

#### Other revenues

in euros	2015	2014
Other net insurance revenues	3,951,423	4,445,976
Revaluation operating revenues	2,161,159	435,881
Revenues arising from rents charged for investment properties	1,582,730	1,237,178
Revenues arising from disposals of investment properties	67,744	-
Other operating revenues	971,399	2,266,452
<b>Other operating revenues</b>	<b>8,734,455</b>	<b>8,385,486</b>

#### Other net insurance revenues

in EUR	2015	2014
Revenue for management of insurance contracts	566,863	710,298
Revenue from other services provided to KD Funds	850,722	747,940
Revenue from insurance services provided to foreign insurance companies	319,920	326,986
Revenue from rent on parking lot and cars	193,807	191,530
Revenue from Green Card sales	463,550	477,440
Revenue from other services	1,556,562	1,991,782
<b>Total</b>	<b>3,951,423</b>	<b>4,445,976</b>

#### Revaluation operating revenues

Revaluation operating revenues mostly originate in the reversal of impairment of premium receivables, recourse receivables, other receivables and financial receivables. In 2015, due to revenues from reversals of impairment of premium receivables, these revenues are substantially higher – they amounted to 817,527 euros in 2015, while there were none in 2014. Moreover, the increase is also a consequence of reversal of impairment of financial receivables in the amount of 767,081 euros (2014: 14,800 euros), reversal of impairment of Cimos d.d. bonds and reversal of impairment of a loan in the amount of 117,014 euros (refer to Section 10.5. for details).

#### Other operating revenues are:

- collected written-off receivables in the amount of 3,023 euros, compared to 18,847 euros in 2014,
- received penalties and compensations in the amount of 60,653 euros, compared to 14,555 euros in 2014,
- other extraordinary revenues in the amount of 392,708 euros, compared to 378,613 euros in 2014,

- other operating revenues in the amount of 224,044 euros, compared to 53,567 euros in 2014,
- other financial revenues in the amount of only 224,045 euros, generated from revaluation of loans given to Fondpolica policyholders, which was performed due to changes in interest rates; compared to 1,800,871 euros in 2014.

## 10.19 NET CLAIMS INCURRED

### Net claims incurred in 2015

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	Ex-penses from equalisation scheme	Net ex-penses for claims/ benefits paid
Motor vehicle liability insurance	29,282,723	(842,491)	(5,568,043)	(5,631,224)	6,835,165	-	24,076,131
Land motor vehicles insurance	27,941,623	(520,677)	(2,624,261)	(43,381)	3,077,346	-	27,830,649
Accident insurance	8,402,331	-	(456,029)	(24,753)	511,218	-	8,432,767
Fire and natural disasters Insurance	6,265,391	2,524	(504,802)	(1,551,118)	654,847	-	4,866,842
Other damage to property insurance	8,422,442	(39,518)	(112,303)	(427,626)	75,691	-	7,918,686
General liability insurance	3,186,644	2,861	(6,564)	13,726	(13,906)	-	3,182,759
Credit insurance	436,894	(281,474)	-	(6,847)	-	-	148,572
Other non-life insurance, excluding health insurance operations	4,367,653	(53,963)	(216,013)	(326,876)	192,828	-	3,963,829
<b>Non-life insurance contracts, excluding health insurance contracts</b>	<b>88,305,902</b>	<b>(1,732,739)</b>	<b>(9,488,016)</b>	<b>(7,998,100)</b>	<b>11,333,188</b>	<b>-</b>	<b>80,420,235</b>
Health insurance contracts	84,846,307	(8,435)	-	224,512	-	3,631,901	88,694,286
Life insurance	15,221,649	-	(429,788)	(777,282)	(59,449)	-	13,955,131
Unit-linked insurance contracts	23,787,352	-	-	102,223	-	-	23,889,574
Additional pension insurance	851,188	-	-	-	-	-	851,188
Insurance contracts and investment life insurance contracts	39,860,188	-	(429,788)	(675,059)	(59,449)	-	38,695,893
<b>Total</b>	<b>213,012,397</b>	<b>(1,741,174)</b>	<b>(9,917,804)</b>	<b>(8,448,646)</b>	<b>11,273,739</b>	<b>3,631,901</b>	<b>207,810,413</b>

### Net claims incurred in 2014

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	Ex-penses from equalisation scheme	Net ex-penses 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
<b>Non-life insurance contracts, excluding health insurance contracts</b>	<b>88,621,472</b>	<b>(3,757,729)</b>	<b>(26,019,654)</b>	<b>(5,234,377)</b>	<b>(2,795,171)</b>	<b>-</b>	<b>50,814,540</b>
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 and financial contracts - life insurance	35,931,237	-	(336,349)	(681,699)	(19,521)	-	34,893,688
<b>Total</b>	<b>213,184,199</b>	<b>(3,961,340)</b>	<b>(26,356,003)</b>	<b>(6,442,624)</b>	<b>(2,814,691)</b>	<b>4,284,356</b>	<b>177,893,896</b>

## Net claims incurred classified into expenses for the current year and expenses for previous years

in EUR	Gross 2015	Reinsurance 2015	Net2015	Gross 2014	Reinsurance 2014	Net2014
<b>Expenses for claims and benefits paid for current year</b>	<b>219,824,856</b>	<b>964,583</b>	<b>218,860,273</b>	<b>220,460,876</b>	<b>29,665,440</b>	<b>190,795,436</b>
Claims and benefits paid	170,530,926	500,500	170,030,426	169,164,174	16,640,400	152,523,774
Change in outstanding claim provisions	45,662,030	464,083	45,197,947	47,012,346	13,025,040	33,987,306
Expenses from equalisation scheme	3,631,901	-	3,631,901	4,284,356	-	4,284,356
<b>Expenses for claims and benefits paid for previous years</b>	<b>(13,370,378)</b>	<b>(2,320,518)</b>	<b>(11,049,860)</b>	<b>(13,396,285)</b>	<b>(494,746)</b>	<b>(12,901,539)</b>
Claims and benefits paid	40,740,298	9,416,906	31,323,391	40,058,685	9,718,985	30,339,700
Change in outstanding claim provisions	(54,110,676)	(11,737,425)	(42,373,251)	(53,454,969)	(10,213,731)	(43,241,239)
<b>Total</b>	<b>206,454,478</b>	<b>(1,355,935)</b>	<b>207,810,413</b>	<b>207,064,591</b>	<b>29,170,695</b>	<b>177,893,897</b>

## 10.20 COSTS

## 10.20.1 Costs by natural groups

in EUR	2015	2014
Operating costs for material	1,176,550	1,182,990
Acquisition costs	27,129,483	24,919,373
Operating costs for services	20,244,117	21,036,927
Depreciation/amortisation	3,109,264	3,397,369
<b>Labour costs</b>	<b>30,064,995</b>	<b>30,661,960</b>
Payroll – wages and salaries	21,602,389	22,391,713
Social security costs	1,750,600	1,597,135
Pension insurance costs	1,918,846	2,137,547
Other labour cost	3,977,365	3,866,698
Provisions for termination benefits and jubilee benefits	815,795	668,866
<b>Total</b>	<b>81,724,408</b>	<b>81,198,619</b>

## 10.20.2 Costs by functional groups

in EUR	2015	2014
Costs related to acquisition of insurance and investment contracts	27,114,753	24,927,344
Costs related to financial asset management	2,606,555	2,492,402
Costs related to PPE management	671,530	657,209
Other costs for management fees	2,618,434	2,344,289
Costs of sale	21,820,753	23,308,366
Other costs/expenses	20,906,731	21,333,003
<b>Total costs/expenses by functional groups</b>	<b>75,738,755</b>	<b>75,139,958</b>

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. In 2015, these costs totalled 5,985,653 euros in 2015 (2014: 6,058,661 euros). Together with the transfer of a part of other expenses in the amount of 30,857 euros (2014: 34,193 euros), there were 6,016,510 euros transferred to gross expenses for claims paid (2014: 6,092,854 euros).

**10.20.3 Labour costs of own agents**

in EUR	2015	2014
Labour costs	7,394,015	6,851,470
Wages and salaries	5,378,524	4,905,335
Social security costs	388,188	374,257
Pension insurance costs	549,727	559,463
Other labour cost	1,077,576	1,012,415
Costs of services provided by private individuals	348,755	370,415
<b>Total</b>	<b>7,742,771</b>	<b>7,221,885</b>

**10.20.4 Auditor's remuneration**

The audit of annual consolidated financial statements of the parent company Adriatic Slovenica for 2015, as well as 2014, 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. for the period before the withdrawal from the Group – from 1 January 2015 to 31 March 2015.

**Fees paid for auditor's services**

in EUR	2015	2014
Statutory audit of the annual report	167,712	96,781
Other audit services	4,789	-
Tax counselling services	-	-
Other non-audit services	-	-
<b>Total fees for independent auditor's services</b>	<b>172,500</b>	<b>96,781</b>

## 10.21 OTHER INSURANCE EXPENSES

### Other insurance expenses

in EUR	2015	2014
Expenses for preventive activities	844,290	875,900
Contribution for covering losses caused by uninsured and unknown vehicles	108	503,978
Other net insurance expenses	3,840,992	5,330,756
<b>Total</b>	<b>4,685,390</b>	<b>6,710,633</b>

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. The parent insurance company Adriatic Slovenica pays the fire fees in the amount depending on the market share and premium written from fire insurance. In 2015, 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 2014, the parent insurance company paid more fee than it should because the actual amount was determined subsequently. Therefore, there was a small amount of these expenses in 2015.

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 1,065,875 euros (2014: 1,650,470 euros),
- recourse receivables write-offs in the amount of 203,961 euros (2014: 1,557,114 euros),
- write-offs of other receivables in the amount of 239,002 euros (2014: 250,308 euros),
- insurance expenses for car assistance in the amount of 1,708,327 euros (2014: 1,545,148 euros),
- expenses of supervisory bodies and other net insurance expenses in the amount of 623,828 euros (2014: 327,716 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 2015, compared to 2014, 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 non-past due receivables.

## 10.22 OTHER EXPENSES

### Other expenses

in EUR	2015	2014 adjusted
Revaluation operating expenses	2,279,607	3,702,864
Expenses for depreciation of investment properties	425,241	338,498
Other expenses for investment properties	1,538,332	439,057
Expenses for disposal of investment properties	36,066	151,992
Other operating expenses	3,670,615	1,427,462
Finance expenses	947,085	580,093
<b>Total</b>	<b>8,896,947</b>	<b>6,639,967</b>

Revaluation operating expenses were mostly generated by revaluation and impairment of receivables (from premiums, recourses, other receivables and financial receivables). Due to lower expenses from impairment of receivables (in 2015, they totalled 1,094,215 euros, and 2,812,389 euros in 2014). Despite the lower total sum, in 2015, there was an increase in expenses from impairment of intangible assets and impairment of long-term accrued expenses, obtained by the insurance company upon acquisition of KDŽO and due to adjustments from previous years (refer to Section 5.3.).

Expenses from amortisation of investment property are in 2015 slightly higher due to new purchases of investment properties.

Other expenses from investment properties mostly relate to expenses from rented investment property. In 2015, these expenses increased drastically due to the acquisition of a new investment property (on Loška 13, Maribor) – the related expenses totalled 785,334 euros.

Expenses from disposal of investment properties are in 2015 lower than the year before and are entirely attributable to the loss, generated by the sale of investment property in Ljubljana (described in detail in Section 10.3.).

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	2015	2014 adjusted
Payments for charity and cultural purposes	100,750	117,741
Benefits not depending on operating profit or loss	177,128	210,651
Financial penalties and compensations	1,201,599	5,997
Other operating expenses	997,332	1,043,193
The rest of other operating expenses	1,193,806	49,880
<b>Total</b>	<b>3,670,615</b>	<b>1,427,462</b>

The growth of other operating expenses was caused by financial penalties and compensations in the amount of 1,200,000 euros recognised in the income statement due to the lawsuit filed by Pozavarovalnica Sava in 2015 against the parent insurance company Adriatic Slovenica (described in detail in Section 12). Moreover, there was a large amount of other operating expenses which were higher in 2015 due to offsetting of receivables from reversal of impairment of Cimos d.d. bonds (described in detail in Section 10.6.). Other operating expenses mostly comprise administrative and court fees, fees for memberships in the Chamber of Commerce and Industry of Slovenia and associations, and expenses for bonuses.

Finance expenses, which went up compared to the year before, are below presented in more detail.

### Finance expenses

in EUR	2015	2014
Other finance expenses	947,085	580,093
Finance expenses arising from other financial liabilities	106,814	84,636
Finance expenses arising from fees and commissions	396,541	396,541
Finance expenses arising from operating liabilities	443,729	98,916
<b>Total</b>	<b>947,085</b>	<b>580,093</b>

Financial expenses from other financial liabilities are higher by 26 % compared to the previous year, mostly due to higher expenses from operating liabilities (extraordinary financial expenses), expenses for interest and exchange differences. Expenses in all of the categories within these expenses are higher in 2015.

Extraordinary financial expenses are higher due to bonuses paid for the achieved result in unit-linked life insurance management – Vrhunski.

To a smaller extent, expenses from financing were higher also due to financial expenses from commissions, mostly commissions from unit-linked life insurance financing.

Financial expenses from other financial liabilities, composed of expenses for interest and exchange differences from financial liabilities are higher also due to higher exchange differences generated by business transactions of AS subsidiary in Croatia.

## 10.23 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. Moreover, it does not include the reinsurance-related part of changes in technical provisions.

## Reinsurance result for non-life insurance in 2015

Insurance class	in EUR	Reinsurance premiums	Reinsurance claims	Gross reinsurance result	Reinsurance commissions	Net reinsurance result
Accident insurance		181,166	456,029	(274,863)	255,393	(530,255)
Land motor vehicle insurance		1,605,247	2,532,372	(927,125)	1,306,983	(2,234,109)
Marine loss insurance		62,327	121,870	(59,543)	-	(59,543)
Transportation (goods in transit) insurance		222,470	36,525	185,945	11,994	173,950
Fire and natural disaster insurance		3,580,303	534,317	3,045,987	583,415	2,462,572
Other damage to property insurance		1,347,806	67,678	1,280,128	56,881	1,223,247
Motor vehicle liability insurance (MTPL)		1,095,407	5,625,000	(4,529,594)	1,417,227	(5,946,820)
Aircraft liability insurance		9,298	-	9,298	930	8,368
Ship/boat liability insurance		59,948	-	59,948	-	59,948
General liability insurance		647,608	(13,240)	660,849	43,167	617,681
Suretyship insurance		137,078	2,484	134,594	34,945	99,649
Miscellaneous financial loss insurance		82,252	98	82,154	13,973	68,181
Legal expenses insurance		(115)	415	(530)	5,315	(5,845)
Insurance of assistance		-	54,606	(54,606)	85,575	(140,181)
<b>Total non-life insurance</b>		<b>9,030,795</b>	<b>9,418,153</b>	<b>(387,359)</b>	<b>3,815,798</b>	<b>(4,203,157)</b>

## 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
Aviation 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
<b>Total non-life insurance</b>		<b>46,788,952</b>	<b>25,994,491</b>	<b>20,794,461</b>	<b>13,143,806</b>	<b>7,650,655</b>

## 10.24 CORPORATE INCOME TAX

## Taxes

in EUR	2015	2014
Corporate income tax charge	(1,920,077)	(4,284,401)
Deferred tax income/(expense)	(647,732)	468,338
<b>Total</b>	<b>(2,567,808)</b>	<b>(3,816,063)</b>

## Tax base and rate for the calculation of corporate income tax

in EUR	2015	2014 adjusted
<b>Profit or loss before taxes</b>	<b>15,644,795</b>	<b>22,733,367</b>
Revenue adjustment to level recognised for tax purposes	(10,808,613)	(11,548,826)
Expense adjustment to level recognised for tax purposes	7,246,847	16,343,134
Tax allowance	(2,058,911)	(1,897,448)
<b>Total tax base</b>	<b>11,294,569</b>	<b>25,630,227</b>
<b>Rate used for income tax calculation</b>	<b>17</b>	<b>17</b>
<b>Income tax</b>	<b>(1,920,077)</b>	<b>(4,284,401)</b>
<b>Effective tax rate</b>	<b>16.41%</b>	<b>16.79%</b>

## Adjustment between the actual and the calculated tax expense by applying the effective tax rate

in EUR	2015 Value	2014 adjusted Value
<b>Profit or loss before taxation</b>	<b>15,644,795</b>	<b>22,733,367</b>
Tax calculated by using official tax rate (2015: 17%, 2014: 17%)	(2,659,615)	(3,864,672)
<b>Income excluded from the tax base</b>	<b>1,625,494</b>	<b>1,932,492</b>
Dividend income exempt from tax	196,286	180,357
Adjustment of income to the level recognised for tax purposes (decrease)	1,429,209	1,752,135
<b>Expenses not recognised in the tax base</b>	<b>(1,231,963)</b>	<b>(2,456,581)</b>
Increase in expenditure (not recognised for tax purposes in previous years)	600,486	554,956
Reversal of tax allowances from previous	(870)	(3)
Adjustment of income to the level recognised for tax purposes	(1,831,579)	(3,011,535)
<b>Use of tax allowance in the current year</b>	<b>346,007</b>	<b>320,517</b>
<b>Other changes in deferred taxes in the income statement</b>	<b>(647,732)</b>	<b>468,338</b>
<b>Profit or loss after taxation</b>	<b>(2,567,809)</b>	<b>(3,816,063)</b>
<b>Profit or loss after taxation</b>	<b>16.41%</b>	<b>16.79%</b>

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 2015 is 16.41 % (2014: the effective tax rate was after the adjustment changed from 17.11 % to 16.79 %).

In Slovenia, the tax liability from the tax base for 2015 was calculated at a 17 % tax rate, which is the same as the previous year. In the subsidiary AS Neživotno osiguranje, Serbia, tax for 2015 and 2014 was calculated at a 15 % tax rate, as prescribed by the local legislation in Serbia, while in the subsidiary Permanens d.o.o Zagreb, tax for 2015 and 2014 was calculated at a 20 % tax rate, as prescribed by the local legislation in Croatia.

## 10.25 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 euros	31 Dec 2015	31 Dec 2014
<b>Deferred tax assets</b>	<b>3,302,992</b>	<b>3,957,936</b>
– receivables for deferred tax to be recovered	3,302,992	3,957,936
<b>Deferred tax liabilities</b>	<b>732,097</b>	<b>1,194,632</b>
– liabilities for deferred taxes pending payment	732,097	1,194,632

## Overview of bases for deferred tax receivables

in EUR	Base 2015	Deferred tax liability 2015	Base 2014	Deferred tax liability 2014
Due to impairment/value adjustments of receivables for premiums, for recourse receivables and for other current receivables	13,752,293	2,337,890	13,817,012	2,348,892
Due to impairment/value adjustments of financial investments	3,929,310	667,983	7,868,973	1,337,725
Due to impairment/value adjustments of provisions and depreciation above the statutory rate	1,747,764	297,120	1,595,989	271,318
<b>Total</b>	<b>19,429,367</b>	<b>3,302,992</b>	<b>23,281,974</b>	<b>3,957,936</b>

## Overview of bases for deferred tax liabilities

in EUR	Base 2015	Deferred tax liability 2015	Base 2014	Deferred tax liability 2014
Due to reversal of impairment of financial investments	4,306,452	732,097	7,027,247	1,194,632
<b>Total</b>	<b>4,306,452</b>	<b>732,097</b>	<b>7,027,247</b>	<b>1,194,632</b>

## Deferred taxes taken to equity in a given year

in EUR	31 Dec 2015	31 Dec 2014
<b>Revaluation surplus (deferred taxes)</b>		
Available-for-sale financial assets	455,298	(1,642,065)
<b>Total</b>	<b>455,298</b>	<b>(1,642,065)</b>

## Movements in deferred taxes

in EUR	Total
<b>Net balance of assets and liabilities as at 1 Jan 2014</b>	<b>3,927,432</b>
Debited/credited to income statement	477,937
Debited/credited to equity	(1,642,065)
<b>Net balance of assets and liabilities as at 31 Dec 2014</b>	<b>2,763,304</b>
<b>New balance as at 1 Jan</b>	<b>2,763,304</b>
Debited/credited to income statement	(647,705)
Debited/credited to equity	455,298
<b>Net balance of assets and liabilities as at 31 Dec 2015</b>	<b>2,570,896</b>

## Movements in deferred tax liabilities (without offsetting)

v EUR	Total	Other
Balance as at 1 Jan 2014	27,011	-
Debited/credited to equity	1,167,621	-
Balance as at 31 Dec 2014	1,194,632	-
	-	-
New balance as at 1 Jan 2015	1,194,632	-
Debited/credited to equity	(462,535)	-
Balance as at 31 Dec 2015	732,097	-

## 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 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
New balance as at 1 Jan 2015	1,594,027	1,337,726	308,734	266,943	52,239	393,891	4,376	3,957,936
Debited/credited to income statement	47,639	(662,505)	34,659	19,200	(30,945)	(51,377)	(4,376)	(647,705)
Debited/credited to equity	-	(7,238)	-	-	-	-	-	(7,238)
Balance as at 31 Dec 2015	1,641,667	667,983	343,393	286,143	21,294	342,514	0	3,302,993

## 10.26 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 2015	31 Dec 2014 adjusted
Net profit or loss for the financial year	13,114,581	18,932,386
Weighted average number of ordinary shares outstanding	10,304,407	10,304,407
Basic and adjusted net earnings / loss per share (in euros)	1.27	1.84

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

	2015	2014
As at 1 Jan	10,304,407	10,304,407
As at 31 Dec	10,304,407	10,304,407

## 10.27 ISSUES, REDEMPTIONS AND PAYOUTS OF SECURITIES AND DIVIDENDS

In 2015, Adriatic Slovenica Group did not issue, redeem or pay out any debt or equity securities.

### Dividend per share

	2015	2014
Amount of dividends (in euros)	17,944,000	13,400,000
Dividend per share (in euros)	1.74	1.30

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 10 April 2015, the General Meeting of Shareholders of the parent company adopted a resolution to allocate 17,944,000 euros for the payment of dividends to the shareholders. The dividends were paid in full on 13 April 2015.

## 10.28 ADDITIONAL EXPLANATIONS TO THE CASH FLOW STATEMENT

The consolidated cash flow statement is composed of sums of all cash flows of companies within the Group and adjusted with consideration to cash flows among the companies within the Group. The same methodology of cash flow preparation as for the parent company has been applied.

The reconciliation of cash flows from operations is presented in the section below.

## 11. 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.

The rules on related party transactions are laid down in the Group's internal policy on ensuring data, preparation of reports and storage of this data. For mutual services between related parties, transfer prices are used, which are charged at the same rates as for unrelated parties. To determine the prices, the Group uses the comparable uncontrolled price method, where the comparable market prices are defined by means of internal or external comparable uncontrolled price method.

In 2015, the related party transactions included:

- Insurance contract operations – taking out insurance, claims settlement and payments of commissions for concluded insurance contracts;
- Hiring out of business premises and parking spaces;
- Purchases and sales of investment properties;
- Purchases and sales of securities
- Financial services (loans).

In 2015, there were no significant transactions between related parties carried out under unusual market conditions and likely to affect the presentation of the financial position of the Group. 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.

### 11.1 RELATED PARTIES

The related parties of Adriatic Slovenica Group as at 31 December 2015 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: 163

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	2015	2014
Shareholder of Adriatic Slovenica d.d.	258,930	248,561
Associate of Adriatic Slovenica d.d.	68	321
Other associated/affiliated companies of Adriatic Slovenica d.d.	1,580,999	1,229,191
<b>Total</b>	<b>1,839,997</b>	<b>1,478,073</b>

### Purchase of goods and services

in EUR	2015	2014
Shareholder of Adriatic Slovenica d.d.	488,482	559,008
Associate of Adriatic Slovenica d.d.	8	12
Other associated/affiliated companies of Adriatic Slovenica d.d.	4,481,989	3,768,048
<b>Total</b>	<b>4,970,479</b>	<b>4,327,067</b>

### Receivables of the Group from related parties

in EUR	31/12/2015	31/12/2014
Shareholder of Adriatic Slovenica d.d.	3,626	4,114
Other associated/affiliated companies of Adriatic Slovenica d.d.	158,406	154,564
<b>Total</b>	<b>162,032</b>	<b>158,678</b>

### Liabilities of the Group from related parties

in EUR	31/12/2015	31/12/2014
Shareholder of Adriatic Slovenica d.d.	117,075	136,206
Associate of Adriatic Slovenica d.d.	8	12
Other associated/affiliated companies of Adriatic Slovenica d.d.	255,671	174,015
<b>Total</b>	<b>372,755</b>	<b>310,233</b>

### Purchase of investment properties from related parties

In 2014, the Group did not purchase or sell any investment properties to its related parties.

### Bonds issued by the shareholder of the parent company

in EUR	2015	2014
<b>At the beginning of year</b>	<b>11,072,392</b>	<b>9,652,626</b>
Spin-off assets	105,327	-
Bonds purchased from the owners	15,131,750	-
Bonds purchased in the Group	1,004,732	-
Bonds sold in the Group	(12,411,512)	-
Interest charged	1,135,193	676,656
Interest received	(561,887)	(573,908)
Valuation/measurement	290,978	1,317,018
<b>At the end of the reporting period</b>	<b>15,766,973</b>	<b>11,072,392</b>

**Bonds issued by other related parties**

in EUR	2015	2014
<b>At the beginning of year</b>	<b>6,212,877</b>	<b>6,050,921</b>
Spin-off assets	775,642	-
Bonds purchased in the Group	-	168,019
Interest charged	466,073	411,145
Interest received	(480,077)	(427,630)
Valuation/measurement	(938)	10,421
<b>At the end of the reporting period</b>	<b>6,973,577</b>	<b>6,212,877</b>

**Shares of the shareholder of the parent company**

in EUR	2015	2014
<b>At the beginning of year</b>	<b>162,840</b>	<b>116,105</b>
Valuation/measurement	(37,290)	46,735
<b>At the end of the reporting period</b>	<b>125,550</b>	<b>162,840</b>

**Shares of the associate**

in EUR	2015	2014
<b>At the beginning of year</b>	<b>11,705,901</b>	<b>11,705,901</b>
Dividends paid	180,446	77,175
Dividends received	(180,446)	(77,175)
<b>At the end of the reporting period</b>	<b>11,705,901</b>	<b>11,705,901</b>

**Shares of other related parties**

in EUR	2015	2014
<b>At the beginning of year</b>	<b>1,279,892</b>	<b>2,812,704</b>
Shares purchased from other related companies	131,819	-
Shares sold to other related companies	-	(1,752,487)
Dividends paid	89,411	289,294
Dividends received	(89,411)	(289,294)
Valuation/measurement	58,409	219,675
<b>At the end of the reporting period</b>	<b>1,470,120</b>	<b>1,279,892</b>

**Loans received and loans given****Loans given to the shareholder of the parent company**

in EUR	2015	2014
<b>At the beginning of year</b>	<b>8,099,996</b>	<b>10,699,997</b>
Approved loans	9,000,000	17,700,000
Repaid loans	(9,100,000)	(20,300,000)
Interest accrued	401,203	433,966
Interest reduction	(401,411)	(433,966)
<b>At the end of year</b>	<b>7,999,788</b>	<b>8,099,996</b>
<b>Paid interest</b>	<b>425,096</b>	<b>448,306</b>

The newly given loans are of a short-term nature; they were given at market interest rate of 5 % and were adequately collateralised (bills of exchange).

## Loans given to other related parties

in EUR	2015	2014
<b>At the beginning of year</b>	<b>19,751,835</b>	9,801,611
Approved loans	17,800,000	11,800,000
Repaid loans	(15,987,130)	(1,849,100)
Interest accrued	950,259	508,186
Interest reduction	(951,007)	(508,862)
<b>At the end of year</b>	<b>21,563,957</b>	<b>19,751,835</b>
Paid interest	1,000,855	707,820

The loans given to other related parties were given at market interest rate 5 % and 5 % + 3m EURIBOR. The given loans were mostly of short-term nature, only one of them was a long-term one, with the repayment period of up to 5 years. The loans are collateralised with debt securities and bills of exchange.

## Remuneration of members of management and supervision bodies and employees on individual employment agreements – all companies within Adriatic Slovenica Group in 2015

Remuneration type EUR	in	Remuneration of management board members	Remuneration of the Audit Committee members	Remuneration of supervisory board members	Remuneration of audit commission members
Salary		787,750	-		4,605,301
Bonuses and other remuneration		60,127	-	-	912,717
Meeting attendance fees		-	12,358	117,600	-
<b>Total</b>		<b>847,878</b>	<b>12,358</b>	<b>117,600</b>	<b>5,518,018</b>

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 2015 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. and VIZ zavarovalno zastopništvo d. o. o.

## 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 2015

in EUR		Gross salary	Variable part of remuneration	Regres za letni dopust	Reimburse ments of costs*	Insurance premiums	Commissions , bonuses and other fringe benefits	Remuneration for work in subsidiaries
Gabrijel Škof	President of the Management Board	159,600	26,434	1,061	1,777	2,164	1,576	-
Willem Jacob Westerlaken	Member of the Management Board (until 31 Dec 2015)	122,440	20,321	1,061	5,117	319	31,374	-
Varja Dolenc, MSc	Member of the Management Board	120,000	19,621	1,061	1,189	1,683	4,604	-
Matija Šenk	Member of the Management Board	119,340	19,608	1,061	2,661	1,150	1,036	-

\*Including travel expenses using own vehicle and daily allowance at home and abroad.

**Payments to the members of the supervision bodies in 2015**

in EUR		Fees for attending board sessions
Matjaž Gantar, MSc	Chairman	21,600
Aljoša Tomaž	Member	19,200
Tomaž Butina	Member	19,200
Aleksander Sekavčnik	Member	19,200
Borut Šuštaršič	Member, representative of employees (from 28.9.2015)	4,960
Matjaž Pavlin	Member, representative of employees	19,200
Viljem Kopše	Member, representative of employees (until 27.9. 2015)	14,240

As at 2015 year-end, the Group carries the following current operating receivables and liabilities related to the management of the parent company within the Group:

- 934 euros of receivables and 284 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.
- 27,133 euros of receivables and no liabilities from the members of the Supervisory Board. The receivables arise from the insurance business (premiums due) in the amount of 538 euros, and receivables from exercised recourse receivables in the amount of 26,596 euros, being repaid in line with the agreement.
- 7,235 euros of receivables and 3,712 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 6,858 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 2016.

As at 2015 year-end, the parent company within the Group carries receivables in the amount of 23 euros and no liabilities related to members of management or supervision bodies of the associate.

In 2015, 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 2015, 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 1,114 euros of insurance premiums,
- the immediate family members of members of the Supervisory Board paid the aggregate amount of 6,128 euros of insurance premiums,
- the immediate family members of members of the Audit Committee paid the aggregate amount of 4,566 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 2015, based on the concluded insurance premiums, the insurance company paid 230 euros for claims to the immediate family members of members of the Supervisory Board and 231 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 of KD Group d.d. and, at the highest level, the parent company KD d.d.

In 2015, the senior management of the controlling companies of the parent insurance company Adriatic Slovenica, apart from reimbursements for claims arising from insurance contracts, received 152 euros of daily allowance for business trips.

The receivables carried in the books of account at the end of 2015 and arising from the senior management of the parent companies up to the highest parent company amounted to 26,943 euros, being repaid in line with the phased payment agreement. Outstanding receivables refer to the receivables arising from the insurance business (premiums) in the amount of 348 euros, and receivables from exercised recourse receivables in the amount of 26,596 euros. As at 31 December 2015, there are no outstanding liabilities from the management board members of controlling entities.

## 12. 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, mortgage on real property and shares in companies, pledged as collateral for given short-term loans in the amount of 12,394,745 euros; receivables from the state in the amount of 3,225,338 euros, receivables for unrealised recourses from insurance operations in the amount of 8,722,652 euros and receivables for premiums in the amount of 2,229,594 euros.

Among potential receivables and assets, there was a change in receivables arising from insurance operations like receivables from unrealised recourse receivables, higher by 248,916 euros, and receivables from pension insurance premiums, which increased by 1,114,740 euros. Compared to 2014 year-end, on 31 December 2015, there was also an increase in receivables from the state for accrued interest in the amount of 1,046,885 euros. The Group's pledged guarantees for given loans grew at the end of the year by 2,049,437 euros due to potential receivables from pledged shares in companies.

Within its potential receivables as at 31 December 2015, the Group discloses unresolved liabilities from the received lawsuit filed by Pozavarovalnica Sava d.d. in the amount of 848,393 euros, potential liabilities from labour related disputes totalling 37,697 euros and insurance-legal disputes (for example disputes with pharmacies) in the amount of 32,628 euros.

As at 31 December 2015, the Group has three active option contracts (put options), which, if the conditions are met, present for the insurance company a potential obligation of purchasing 21,650 bonds with the label KDH3 (ISIN: SI0032103416) in the amount of 433,000 euros excluding accrued interest. The agreed price of one bond is 100 % of the nominal value (20 euros per bond) plus accrued interest in line with the amortisation plan as at the date of payment of the purchase price by the Group. Sales option contracts are enforceable from 29 September 2016 to 31 December 2016 when they expire.

The Group had no liabilities from pension payments of liabilities from subsidiaries within the group, that would not be included in the balance sheet.

### Important litigations in progress

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. 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 issued a first instance judgement

in favour of Pozavarovalnica Sava in August 2015. An appeal against this judgement has been lodged. Taking into consideration that in this dispute, it is not possible to make assumptions based on case-law and predict the Court's decision, the insurance company adequately formed long-term provisions in the amount of 1,200,000 euros (60 % of the recognised complaint) based on its own assessment and taking into account the prudence principle. The difference between this amount and the amount under dispute (848,393 euros) is accounted for by the insurance company under off-balance potential liabilities.

### 13. EVENTS AFTER THE BALANCE SHEET DATE

No events occurred after the end of the reporting period and before the conclusion of the consolidated financial statements that would require adjustments of the financial statements for 2015.

#### Events after the consolidated balance sheet date, important for business operations in 2016

- Due to the current and forecasted future results of the operations on the Serbian market, the Supervisory Board of the Company adopted the decision in September 2015 to commence with procedures to close down AS neživotno osiguranje a. d. o., Beograd subsidiary. In the past quarter of 2015, the Management Board initiated the procedures that will result in discontinuation of business operations of the insurance company in Serbia in the first half of 2016. AS neživotno osiguranje a. d. o., Beograd therefore discontinued its insurance operations on 24 December 2015 and informed the National Bank of Serbia about it.
- At the end of 2015, insurance company AS neživotno osiguranje a.d.o., Beograd signed a contract with Sava osiguranje, a.d.o., Beograd, based on which, AS neživotno osiguranje will transfer its complete insurance portfolio, including liabilities, to the contractual partner. In February 2016, AS neživotno osiguranje a.d.o., Beograd submitted the required documentation to the National Bank of Serbia in order to acquire approval of the transaction.
- In January 2016, the parent insurance company Adriatic Slovenica established a new subsidiary, named Zdravje AS d.o.o., headquartered at Ljubljanska cesta 3a, Koper, Slovenija. The basis of the new company's vision is to "provide the other health insurance policyholders at Adriatic Slovenica with superior health services when they need them".
- Varja Dolenc, MSc, Member of the Management Board, took over the function of President of the Supervisory Board of the new subsidiary Zdravje AS d.o.o. on 2 February 2016.