Adriatic Slovenica d.d.
and
the Adriatic Slovenica Group

ANNUAL REPORT 2016

AUDITED

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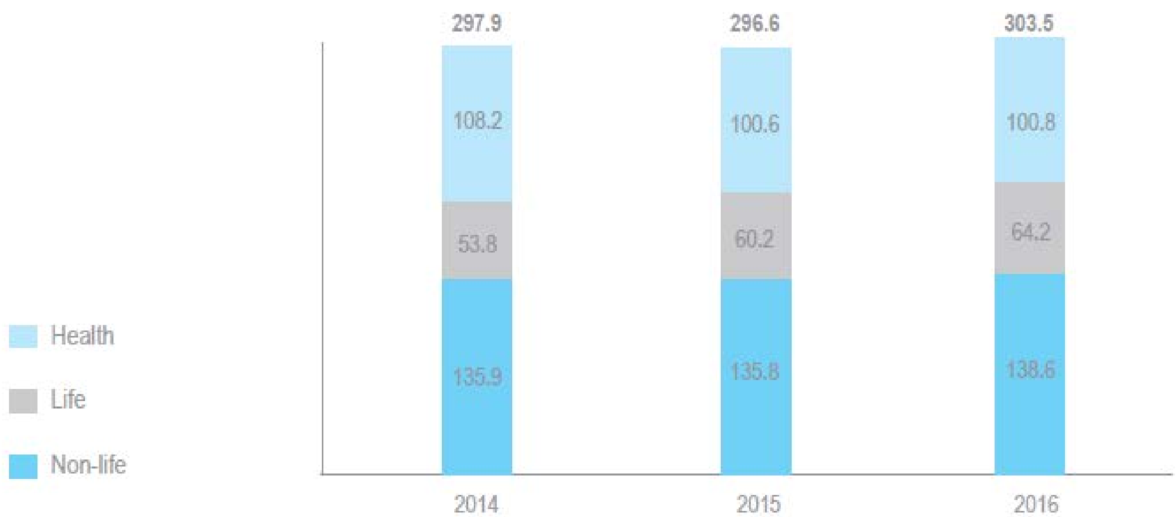
1. ADRIATIC SLOVENICA AND THE ADRIATIC SLOVENICA GROUP (AS AND THE AS GROUP)

1.1 HIGHLIGHTS OF THE COMPANY IN 2016

	2016	2015
Gross written premium and inflows into pension funds (in EUR million)	303.5	296.6
Gross claims paid (in EUR million)	218.7	213.4
Market share	15.1%	15.0%
Profit before tax (in EUR million)	11.0	16.8
Net profit (in EUR million)	11.9	14.3
Financial investments, cash and cash equivalents (in EUR million as at 31 Dec.)	644.8	573.7
Gross liabilities from insurance contracts (in EUR million as at 31 Dec.)	554.5	527.8
Number of employees (as ta 31. Dec.)	1,140	1,092
Return on investment	6.0%	2.5%
Return on equity	12.1%	13.7%
Combined ratio (other insurance)	94.4%	93.3%
Combined ratio (health insurance)	102.2%	101.9%
Carrying amount of capital (in EUR million as at 31 Dec.)	95.9	100.9
Carrying amount of share (in EUR million as at 31 Dec.)	9.31	9.79
Credit rating	BBB- stabilna (Fitch Ratings)	BBB- stabilna (Fitch Ratings)

Gross written premium for the 2014–2016 period including pension fund inflows (in EUR million):



1.2 HIGHLIGHTS OF THE GROUP IN 2016

	2016	2015
Gross written premium and inflows into pension funds (in EUR million) – insurance	303.6	298.2
Gross claims paid (in EUR million) – insurance activity	219.1	214.9
Assets under management (in EUR million as at 31 Dec.) - asset management	500.9	435.3
Profit before tax (in EUR million)	11.3	15.6
Net profit (in EUR million)	12.3	13.1
Financial investments, cash and cash equivalents (in EUR million as at 31 Dec.)	614.8	572.2
Gross liabilities from insurance contracts (in EUR million as at 31 Dec.)	554.5	531.4
Number of employees (as ta 31. Dec.)	1,266	1,278
Return on equity	12.3%	12.3%
Carrying amount of capital (in EUR million as at 31 Dec.)	98.2	102.5
Carrying amount of share (in EUR million as at 31 Dec.)	9.53	9.95

Activities, markets and the position of the AS Group:

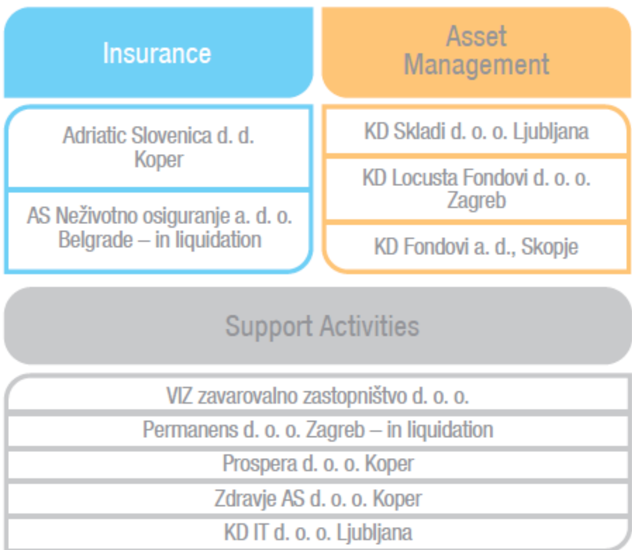
The AS Group (the Group) is one of the largest business groups in Slovenia. Its main activities are:

- insurance,
- asset management and
- other.

The key business activities of the Group are insurance and asset management, whilst the activities of the Group's subsidiaries serve as support to the key activities.

Adriatic Slovenica, Zavarovalna družba d. d. (hereinafter: the Company or AS) is the parent company of the Group. As at the 2016 year-end, the Adriatic Slovenica Group (hereinafter: the AS Group) was one of the largest insurance/financial groups in Slovenia, with a part of its operations in Croatia and Macedonia. The Group aims to provide full insurance protection to its clients, asset management and additional healthcare services through its own network of providers.

The core activities:



In **insurance business**, the Company is the only insurer in Slovenia which provides comprehensive insurance protection through non-life, life, pension and health insurance in Slovenia and also in Croatia to a certain extent through its branch.

Asset management or investment funds management in Slovenia is performed by the subsidiary KD Skladi d. o. o. The main activity of KD Skladi is management of investment funds and other portofolios. The management company KD Skladi, Ljubljana is one of the leading Slovene management companies, which as at 31 December 2016 managed KD Krovni sklad with its 15 sub-funds. Another two management companies operate outside Slovenia, together managing 19 investment funds, of which 15 mutual funds in Croatia and 4 mutual funds in Macedonia. Furthermore, KD Skladi manages assets of guarantee funds of Pokojninsko varčevanje AS and life insurance assets.

Support is provided by the following small companies of the Group operating in Slovenia: VIZ d.o.o., Prospera, družba za izterjavo d. o. o., Zdravje AS d. o. o. in KD IT d. o. o.

Four subsidiaries operate **outside Slovenia**: the Serbian subsidiary AS Neživotno Osiguranje a. d. o. – in liquidation, where the Company is withdrawing from operations following the transfer of the insurance portfolio, and the Croatian Permanens d. o. o. – in liquidation, which transferred its operations to the Zagreb Branch. KD Locusta Fondovi d. o. o. Zagreb and KD Fondovi a. d. Skopje are subsidiaries of KD Skladi.

1.3 STATEMENT BY THE PRESIDENT OF THE MANAGEMENT BOARD

Dear policyholders and business partners, honourable shareholders, distinguished co-workers,

the year 2016 has been an extremely dynamic one for the insurance company Adriatic Slovenica (AS). We have made some major strides towards ensuring long-term stability and future development.

Even traditional industries such as insurance cannot escape global trends. Digitalization is the new reality that has permeated every pore of our lives and is also increasingly affecting our business. Another significant trend that has a direct impact on our operation is demographics. The structure of the population is changing, people are growing older and life expectancy is increasing, which means that insurers are faced with new challenges.

In view of the demographic changes, our focus in the past year has been on developing life insurance. In the field of health insurance, we have launched a new service – we have established the Centre Health AS which links and upgrade existing health insurance with assistance services. This allows us to offer our policyholders a range of clear and efficient solution as well as the very welcome assistance in navigating through the public health system. In the past year, we found the appropriate specialist or the shortest waiting time for our policyholders on 4,187 occasions, securing them an average waiting time of 10 days for an appointment with a specialist. The second milestone has been the establishment of the first own outpatient clinic in Ljubljana Health AS which has given us a substantial comparative edge and represents a springboard for the establishment of an own network of outpatient clinics in Slovenia with a view to providing high quality health services. We have launched the new Pension Saving AS aimed at everyone looking for greater financial security upon retirement. This insurance product provides a saving plan under favourable tax conditions as well as a high level of long-term security of investment thanks to the life-cycle investment policy.

We continue to maintain a surplus capital adequacy even under the methodology of Solvency II. It has been further enhanced through the issue of a subordinated bond in accordance with the Solvency II Regulation placed on the international capital market. The raised funds have been used for enhancing our capital adequacy and for the purchase of the company KD Skladi. Thanks to this purchase, we can now truly provide our clients with a comprehensive range of products and services. The existing insurance cover has been complemented with numerous saving solutions and asset management services provided by the most successful asset managers in Slovenia in recent years.

In 2016, we have managed to maintain a high level of financial stability of our operations as well as the "BBB-" financial strength rating of the insurance company which has been reaffirmed by the international rating agency Fitch Ratings.

At the end of 2015, we entered the Croatian non-life insurance market through our branch, having previously already sold life insurance on the Croatian market. In the beginning of 2016, we launched a communication campaign promoting our most significant novelty in this market – i.e. the online sale of motor vehicle insurance. We are planning to expand online sale to other non-life insurance products.

In 2016, we posted a total of EUR 303.5 million of gross insurance premium including inflows into pension funds; our market share of 15.1 % puts us in third place on the Slovene insurance market. In spite of the increasingly harsh business environment marked by ever tougher competition and the falling profitability of financial instruments, we recorded positive growth in all three business segments in the past year. The highest growth rate was achieved in life and pension insurance (6.6% including inflows into pension funds). A growth rate of 2 % was recorded in non-life insurance and in health insurance, supplementary health insurance accounted for the bulk of the growth. On the other hand, we also recorded an increase in gross claims paid which went up by 2.5 percent compared to 2015 (EUR 218.7 million in total). In the non-life insurance segment, claims arising from motor vehicle insurance have shown the greatest increase; claims related to damage caused by summer hailstorms to vehicles and property have also gone up, as have international claims and claims related to trucks. Due to the age of the life insurance portfolio, an increase in the number of maturities was recorded in 2016, particularly in unit-linked life insurance. For the second successive year, we recorded a high increase in claims arising from complementary health insurance. In the past year, this increase has been primarily the result of the higher number of provided health services, the expansion of certain health programmes and the shortening of waiting times. Predictions show that surcharges for health services will continue to rise, so the increase of the premium taking effect as of 1 March 2017 is inevitable. In general, significant changes are to be expected in the field of health insurance, brought on by the new draft Health Care and Health Insurance Act. We have adjusted our development strategy accordingly and are prepared for the coming changes, our ambition being a system that will guarantee financial sustainability, efficiency and intergenerational solidarity.

We ended 2016 with a net profit of EUR 11.9 million. Our operation was safe, efficient and profitable, allowing us to achieve a 12.1 percent return on equity. We placed an even stronger emphasis on the accessibility of our services and customer satisfaction. We have successfully launched the modern, safe and fast online portal MOJ AS, allowing clients to review their policies, check their payments, modify payment methods, file claims and monitor claim handling by themselves anywhere and anytime. We have upgraded assistance services for motor vehicle insurance policyholders and have developed an even friendlier roadside assistance service in cooperation with partner garages and repairers.

Trust is one of the key values in our new reality but it can in no way be taken for granted. We need to reaffirm it with every customer through credible, clear and simple messages and services. That is why I am very pleased that our customers have recognized our efforts once again. In the opinion survey Zavarovalniški monitor 2016, the public has ranked us in second place in terms of visibility, likeability and variety of choice, while the professional public recognizes us as a financial institution with an above-average reputation. In-house surveys on the satisfaction of our policyholders also prove that we are doing well.

The full circle of safety that brings together our insurance products and services is therefore truly dynamic and very much alive. We are constantly on the lookout for innovative solutions while our industry is faced with new and increasingly demanding regulations. How swiftly we respond is up to us. I therefore optimistically view the Organisational Energy Prize awarded to our more than thousand-strong team last year as an assurance that we can master the new reality.

Sincerely,

Gabrijel Škof,
President of the Management Board

1.4 SUPERVISORY BOARD REPORT

Supervision of the operation of Adriatic Slovenica d.d. and the Adriatic Slovenica Group

The purpose of the report of the Supervisory Board is to provide the General Meeting of Shareholders with an expert evaluation of the materials for the session when the shareholders will examine the Annual Report and decide on the distribution of accumulated profit. The Supervisory Board is responsible for reviewing the Annual Report of Adriatic Slovenica d.d. and the Consolidated Annual Report of Adriatic Slovenica. In its report, the Supervisory Board is required to specify the manner and scope of its supervision of the Company's operation in the course of the business year and provide its opinion of the auditor's report and other statutory reports.

In 2016, the Supervisory Board was composed of Matjaž Gantar as Chairman, Aljoša Tomaž as Vice-Chairman, Aleksander Sekavčnik and Tomaž Butina as members, Matjaž Pavlin as member and employee representative and Borut Šuštaršič as member and employee representative. Since the term of office of Matjaž Gantar as Supervisory Board member expired on 29 December 2016, the Supervisory Board proposed to the General Meeting of Shareholders to re-appoint him as Supervisory Board member for a five-year term. The general Meeting of Shareholders did so on 22 December 2016.

The Supervisory Board performed its activities in accordance with the agreed model of supervision over the operation of the Management Board. In 2016, the Supervisory Board held nine regular sessions and four sessions by correspondence. In the course of the regular and correspondence sessions, the Supervisory Board discussed the quarterly performance and risk reports as well as the periodical reports on the implementation of plans with regard to premium, claims and costs; regularly monitored investment positions and profitability and followed-up on the implementation of measures aimed at improving performance and attaining set goals.

The Supervisory Board approved the Annual Report of Adriatic Slovenica d.d. for 2015 and the Consolidated Annual Report of Adriatic Slovenica for 2015 as well as the report on the relationship with the controlling company in 2015. In addition to the reports on the Company's performance, the Supervisory Board also examined and gave its consent to the business policy and financial plan for 2016 and the work plans of the key functions Internal Audit and Compliance for 2016. Furthermore, the Supervisory Board approved the Own Risk and Solvency Assessment (ORSA) report of the insurance company Adriatic Slovenica.

In 2016, the Supervisory Board also discussed the following significant issues: it gave its consent to the issue of subordinated bonds totalling EUR 50,000,000 that were admitted to trading on the Global Exchange Market of the Irish Stock Exchange; it took note of the resignation of Management Board member Varja Dolenc and appointed Jure Kvaternik as Management Board member (conditional on obtaining the authorisation of the Insurance Supervision Agency); it took note of the resignations of members of the Audit Committee of the Supervisory Board Jure Kvaternik, Matjaž Gantar and Milena Georgievski and appointed Supervisory Board member Matjaž Pavlin as Chairman of the Audit Committee and independent experts Mojca Kek and Vera Dolinar as members.

The Supervisory Board also adopted the new Charter of the Audit Committee of the Supervisory Board of Adriatic Slovenica d.d. In 2016, the Supervisory Board approved the convocations of General Meetings of Shareholders where shareholders decided on the re-appointment of a Supervisory Board member, the appointment of the certified auditor for the business years 2016, 2017 and 2018, on bringing the operation of the insurance company in conformity with the Insurance Act and on the distribution of accumulated profit and granted a discharge to the Supervisory and Management Board for the business year 2015.

Pursuant to the Insurance Act, one of the duties of the Supervisory Board is the monitoring of the functioning of Internal Audit. In the course of such monitoring, the Supervisory Board gave its consent to the annual work programme of the Internal Audit Team for 2016, examined the report on the activities of Internal Audit in 2015 and also discussed a separate report on Internal Audit activities in the first half of 2016. All reports were presented by the Director of Internal Audit. On the basis of the above reports on the activities of Internal Audit, the Supervisory Board found that no violations were detected in risk management that could jeopardize the viability of the Company.

With a view to enhancing the contribution of the Supervisory Board to the implementation of the mission and strategic goals of the Company and the Group, the Supervisory Board regularly examined the reports of the Audit Committee. The activities of the Audit Committee focused on risk management and the efficiency of internal controls, the efficiency of Internal Audit, financial statements and external audit and on monitoring the progress of inspections and the follow-up on decisions issued by regulators to the Company.

In the period from the end of the business year 2016 until the adoption of the Annual Report and Consolidated Annual Report for that year, the Supervisory Board closely monitored the Company's operation, conducted a regular annual review of the Company's governance policies and gave its consent to the business policy and financial plan for 2017 as well as the work plans of the key functions Internal Audit and Compliance for 2017.

Review and approval of the Annual Report

At its 92nd session on 29 March 2017, the Supervisory Board examined the Annual Report and Consolidated Annual Report of Adriatic Slovenica for 2016 along with the corresponding reports of the certified auditor KPMG Slovenija d.o.o., the proposal of the Management Board on the distribution of accumulated profit and the proposal for granting a discharge.

The reports of the certified auditor indicate that the financial statements of Adriatic Slovenica d.d. and the Adriatic Slovenica Group are a fair presentation of the Company’s and Group’s financial positions as at 31 December 2016 as well as of financial results and cash flows in the business year 2016 and in accordance with IFRS.

The Supervisory Board took note of the report of the Audit Committee giving a positive opinion on the Annual Report and the Consolidate Annual Report.

At the same session, the Supervisory Board also took note of the report on the activities of Internal Audit in the second half of 2016 and the annual report for 2016. The Supervisory Board issued a positive opinion on the annual report on the activities of Internal Audit in 2016.

Furthermore, the Supervisory Board took note of the report by the Management Board on the relationship with the controlling company in 2016 and the auditor’s opinion on this report, issued on the basis of Article 546 of the Companies Act. The auditor’s opinion states that none of the collected data suggested that the factual information provided in the report on the relationship with the controlling company was inaccurate, or that the value of the Company’s performance with respect to the legal transactions listed in the report was disproportionately high or that there were any circumstances warranting a materially different assessment of disadvantages that that provided by the Management Board.

The Supervisory Board finds that the content of the Annual Report and the Consolidated Annual Report present a true and fair view of the operation of Adriatic Slovenica d.d. and the Adriatic Slovenica Group. On the basis of the review of the Annual Report and the examination of the auditor's reports for 2016, the Supervisory Board:

- **approves the Annual Report of Adriatic Slovenica d.d. for 2016,**
- **approves the Consolidated Annual Report of the Adriatic Slovenica Group for 2016,**
- **gives a positive opinion on the reports of the auditor KPMG Slovenija d.o.o.,**
- **proposes to the General Meeting of Shareholders to grant a discharge to the Management and Supervisory Board and to allocate the accumulated profit in accordance with the proposal of the Management Board, which is as follows:**

The distributable profit of the Company as at 31 December 2016 amounts to EUR 39,421,263.34 and shall be allocated in the following manner:

- ***a part of the distributable profit amounting to EUR 10,613,539.21 shall be used for dividend payments of EUR 1.03 gross per share. The dividend shall be paid on 15 May 2017 to all shareholders registered in the Share Register of the Central Securities Clearing Corporation (KDD) as at 14 May 2017;***
- ***the rest of the distributable profit amounting to EUR 28,807,724.13 shall remain undistributed and the decision on its use shall be made in the coming years.***

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Koper, 29 March 2017

Aljoša Tomaž
Vice Chairman of the Supervisory Board

1.5 REPORT OF THE AUDIT COMMITTEE OF THE SUPERVISORY BOARD

Report of the Audit Committee of the Supervisory Board on its activities in 2016 and on the review of materials for the approval of the Annual Report for 2016

Formal aspect

The purpose of the report of the Audit Committee is to provide the Supervisory Board with an expert assessment of the materials which are the basis for the examination by the Supervisory Board of the Annual report of Adriatic Slovenica d.d. and the Adriatic Slovenica Group along with the auditor's reports, the Management Board's proposal on the distribution of accumulated profit, the report on the relationship with the controlling company and the annual report on the activities of Internal Audit in 2016.

The Audit Committee provides the Supervisory Board with expertise required for the implementation of supervision over the management of the Company. In 2016, the Audit Committee held seven sessions at which members discussed the following topics:

1. risk management and efficiency of internal controls;
2. operating efficiency of Internal Audit;
3. financial reporting;
4. audit of financial statements;
5. auditor selection and independence;
6. monitoring of the progress of inspections, follow-up on decisions issued by regulators to the Company;
7. monitoring of processes (debt recovery, preparation for Solvency II).

The Audit Committee also held 4 sessions in 2017 in the course of which, in addition to regular tasks, it examined the materials related to the approval of the Annual Report for 2016.
At the beginning of 2016, the Audit Committee was composed of: Matjaž Gantar as the Chairman, Jure Kvaternik as the Vice-Chairman and Mojca Kek, Milena Georgievski and Matjaž Pavlin as members. After Jure Kvaternik, Matjaž Gantar and Milena Georgievski resigned from their posts, the Supervisory Board at its session on 9 December 2016 appointed Supervisory Board member Matjaž Pavlin as the Chairman of the Audit Committee and independent experts Mojca Kek and Vera Dolinar as members of the Audit Committee. At the same session, the Supervisory Board also adopted the new Charter of the Audit Committee of the Supervisory Board of Adriatic Slovenica d.d.

Substantive aspect
Risk management and efficiency of the internal control system
In the reporting period, members of the Audit Committee monitored the efficiency of risk management in the Company by closely following the Company's performance and examining risk reports.
The Audit Committee examined the work plans of the key functions Internal Audit and Compliance for 2016 and proposed that the Supervisory Board approve the plans.

Operating efficiency of Internal Audit
The Audit Committee regularly monitors the functioning of Internal Audit, the adequacy of procedures, the operating efficiency and performance as well as the compliance of operations with the International Standards for the Professional Practice of Internal Auditing. In 2016, Internal Audit carried out its activities on the basis of the annual work programme; all essential parts of the programme were implemented. The Internal Audit Team performed 11 regular audits and 1 irregular audit (3 reports were issued in the first quarter of 2017). The Audit Committee examined the individual audit reports that were presented by the Director of Internal Audit. The Director also provided quarterly reports on the implementation of recommendations issued to the auditees. The Internal Audit Team monitored the implementation of their own recommendations as well the recommendations issued by the external auditor KPMG and the recommendations arising from the audits of KD Životno osiguranje, now the Zagreb branch. Five reports were drafted to this end (4 quarterly reports and a Report on the state of

unimplemented recommendations of the Zagreb branch). In addition to the audits and the follow-up, the Internal Audit Team also provided informal advisory services, monitored the day-to-day operation of the Company and carried out other audit activities mandated by the management.

In the audit reports for 2016, the Internal Audit Team issued 89 recommendations with a view to creating added value. Auditees were successful in redressing the deficiencies and irregularities, as the bulk of recommendations were implemented by the specified deadlines.

The minutes of the performance review carried out by the Insurance Supervision Agency also show that the organization, tasks and functioning of Internal Audit are compliant with the requirements of the Insurance Act and the professional standards of internal auditing.

The Audit Committee also discussed the semi-annual reports that are submitted to the Supervisory Board and the annual report on the activities of Internal Audit that is submitted to the Supervisory Board and the General Meeting of Shareholders.

In view of all the above, the Audit Committee is of the opinion that the Internal Audit Team performed its auditing activities in 2016 successfully and efficiently, using the appropriate procedures.

Financial statements and external audit

In accordance with its competences, the Audit Committee was involved in the selection of the external auditor KPMG Slovenija d.o.o. and in determining the frame of reference for the relationship with the external auditor.

The Audit Committee was first informed about the progress of the audit. Based on the auditor's opinion, the audit was conducted without any difficulties.

With regard to the Annual Report of Adriatic Slovenica d.d. and the Adriatic Slovenica Group for 2016 and the corresponding audit reports by KPMG Slovenija d.o.o., the Audit Committee concludes:

- that the Annual Report was prepared within the statutory time limit and contains all the mandatory elements;
- 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 adequately formed its statutory reserves and reserves for own shares;
- that KPMG Slovenija d.o.o. issued an unqualified opinion on the financial statements of the company and the group.

Conclusions

In the light of the above, the Audit Committee proposes to the Supervisory Board:

1. to issue a positive opinion on the Internal Audit report for the second half of 2016 and the annual report on the activities of Internal Audit in 2016;
2. to issue a positive opinion on the auditor's report and to approve the Annual Report and the Consolidated Annual Report of Adriatic Slovenica d.d. and the Adriatic Slovenica Group for the business year 2016 in their proposed form.

Koper, 29 March 2017

Matjaž Pavlin,
Chairman of the Audit Committee

1.6 STRATEGY AND PLANS OF THE AS GROUP

1.6.1 The mission, values and vision of the Group

The Company and the Group are both part of the KD Group. Since 2012, it has been implementing the new development strategy, optimising its financial structure and strengthening its financial robustness. With the new strategy that is based on the insurance industry and complemented by high-quality asset management services and investment products, solid foundations for cost-effective operations, growth and development were laid. Organisational restructuring and product portfolio optimisation are underway so as to make AS the leading company of the Group.

Mission

The mission of the Group is to provide comprehensive insurance protection and identify risks in order to guarantee a higher level of security to its clients. The Group offers the best insurance and financial solutions at a fair price, together with professional support to clients when deciding on the best protection or submitting a claim. The Group stands by its clients and aims to exceed their expectations as it provides new dimensions of security by offering modern and transparent services.

Vision

The AS Group aims to become one of the leading insurance/financial groups with its main market in Slovenia and a branch in Croatia. In these markets, the Company will sell life, non-life, pension and health insurance products, including high-quality asset management and investment products. Clients are at the very centre of its activities, with high quality and competitive solutions – products, services and sales channels being developed to satisfy their needs.

Values

In its operations, all employees pursue five core values, including the management of the Company, which lives the values, thereby setting an example for the employees. The values are the basis of mutual relationships within the Company and are reflected in the Company's relationship with the clients and other stakeholders. These values include: responsibility, trust, pro-action, passion, pleasure and the winner's attitude.

1.6.2 Goals achieved by the AS Group in 2016

The Company continued to implement its strategy, set in the medium-term business plan. Following the merger of Zavarovalnica Maribor with Tilia into Zavarovalnica Sava, AS became the third largest insurer on the Slovene market with a 15.1% market share, which increased by 0.1 percentage point over the corresponding period of the previous year. Premium growth was recorded in all three business segments, the highest in the life and pension insurance segments (including pension funds inflows of 6.6%). Non-life insurance excluding health insurance saw a 2% growth. In health insurance, the Company managed to stop the downward trend in complementary health insurance; supplementary health insurance added most to the growth in this segment.

With EUR 11.9 million of net profit in 2016, the Company maintains a high profitability of its operations, achieving the return on equity (ROE) of 12.1% in 2016.

In accordance with Solvency II methodology, the Company maintains excess capital adequacy, which was further improved by issuing subordinated debt in the first half of 2016, when it issued bonds with a total nominal value of EUR 50 million based on an offer to issue securities that was addressed to well-informed investors. The bonds are classified into the multilateral trading facility (MTF) of the Irish Stock Exchange's Global Exchange Market (GEM). The raised funds were used to strengthen the capital adequacy and purchase the shareholdings in KD Skladi. In this way, the Group pursues its strategy to become one of the leading insurance groups based on core insurance business with an additional offering of high-quality asset management and investment products.

The Company managed to maintain high financial stability of operations, confirmed by the international rating agency Fitch Ratings, which assigned the Company the "BBB–" insurer financial strength rating. The outlook remains "stable", which shows a strong position on the Slovene insurance market and confirms the appropriate capital adequacy of the Company.

In 2016, "Center Zdravje AS" (AS Centre of Health) began its operations, integrating and upgrading the existing assistance services with health services by providing clear and effective solutions to the policyholders' health problems. The Company established its own clinic, which is the first in the future network of own healthcare providers. With their help it will be easier for the Company to achieve distinctive advantages and establish good standards of health services.

On foreign markets, the Company succeeded in consolidating the operation of its branch in Croatia. In 2016 it started selling motor vehicle insurance online, in addition to life insurance. The Zagreb Branch began the year with a strong advertising campaign of the Company as a new composite insurer entering the Croatian market and offering new, online sale of motor vehicle insurance. The Branch was quick in establishing the call center to assist clients with taking out motor vehicle insurance. In October 2016, the website www.as-direct.hr counted its thousandth car insurance policy.

By the end of 2015, the AS Group sold non-life insurance in Serbia, but in 2016 it decided to exit the Serbian insurance market. With the authorisation of the National Bank of Serbia, it transferred the insurance portfolio of the non-life insurer AS neživotno osiguranje to another Serbian insurer. At the end of May, the voluntary liquidation procedure of AS neživotno osiguranje commenced and is not yet concluded.

1.6.3 Plans of the AS Group for 2017

The key objective for 2017 is profit maximisation and further strengthening of the capital adequacy of both the Company and the Group. The Group plans to achieve an adequate level of operating profit, which will allow for a dividend payment to the shareholders of the Company in accordance with the applicable dividend policy and adopted risk appetite. In 2017, the return on equity (ROE) of the Group is planned at above 10%. In capital management the Company will strive to maintain or even increase the excess capital adequacy level as this, inter alia, ensures better resilience in the case of possible negative scenarios and provides additional security for clients.

The second main goal is to maintain the existing "BBB–" insurer financial strength rating and therefore a solid position on the Slovene insurance and asset management market, in addition to adequate capitalisation.

In 2017, it is expected that the Group will operate under challenging market conditions and in a record-low or even zero interest rate environment on financial markets. Premium written is planned at over EUR 300 million, similar trends in claims experience as in 2016 and a lower investment return due to the negative effect of the nominal return. The combined ratio in non-life insurance is expected to reach 95%, while the combined ratio in health insurance is planned at 98%.

The focus in 2017 will be on the following strategic objectives:

- improvement of sales channels productivity, control of sales activities with emphasis on development of cross-selling;
- within the Group, offer of a full range of non-life, life, pension and health insurance products, supplemented by high-quality asset management performed by the subsidiary KD Skladi, and promotion of insurance and financial product cross-selling;
- design of a new health insurance business model, taking into account the announced healthcare reform;
- further reduction of negative changes in the portfolio;
- development and increase of the profitability of existing products and their sale;
- improvement of cost-effectiveness in key business segments;
- improvement of loss ratio in the non-life and health insurance segments;
- achievement of the Solvency II capital adequacy of the Company in accordance with the adopted risk appetite;
- improved capital investment structure in accordance with the guidelines for raising the credit rating;
- further optimisation of sales processes and streamlining of operations.

In the non-life insurance segment, the Company will mainly develop new covers, thereby further expanding its offering through various sales channels, streamlining the processes by increasing the number of automatic insurance procedures, redesigning the insurance products with a poor result, and ensuring regular supervision and sales support. Taking the loss ratio of each product or cover into account, the prices of less profitable lines will be changed.
In line with the planned strategy, the Company will develop three important areas: online insurance sales, telematics and assistance insurance. In order to improve the client assistance service, a new "all-in-one" assistance insurance policy will be developed, which will include medical assistance and assistance in life insurance.

Client segmentation will be introduced in transport vehicle insurance. The aim is to provide more favourable conditions to clients with better loss ratios, therefore it is planned to change the criteria for determining a premium. The Company will continue to automate the criteria for granting special discounts based on claims experience and client rating, where an increase in profitability, a lower risk of errors and lower need for control are expected. The car assistance offering will be upgraded so as to increase sales and maintain profitability of these covers.

In accident insurance, covers will be adapted to specific segments and target groups, and to the offerings in which accident insurance is combined with health, life and other non-life insurance. Apart from that, the Company will provide high-quality assistance services to its clients.

In the life and pension insurance segments, the Company will continue to promote the sale of term and unit-linked insurance, optimize the portfolio of traditional insurance and upgrade electronic insurance underwriting processes. At the end of the first quarter of 2017, AS as the first insurance company in Slovenia will introduce automated life insurance sales so that the clients will be able to take out this type of insurance anywhere (at an electronic or mobile point of sale), which will be enabled via the web solution Skleni AS (AS Underwrite), including the software support provided by Munich Re reinsurance company.

The insurance terms and product range will be adapted to the new legal requirements, primarily to comply with the Insurance Distribution Directive (IDD) and the Packaged Retail and Insurance-based Investment Products (PRIIP) Regulation. Unit-linked life insurance will be completely redesigned, especially in the part relating to cost calculation and provision of guarantees. The Company will switch to the modular concept of combining insurance according to the manner in which advice and composing of insurance are provided. Term life insurance will be redesigned and linked to the concept of AS Centre of Health via additional insurance of critical illness and a second opinion. It will be adjusted to the actual needs of policyholders with regard to the insured risks including the possibility to adapt it to their lifestyle. The Company will design special pension insurance products custom tailored to the groups of individuals and companies. The implementation of the investment policy will be carefully monitored, since an above-average return on pension funds is the key factor for the success of pension insurance. A higher visibility of pension annuities in the market will be achieved by offering various and competitive additional pensions.

In the health insurance segment, the Company will continue with the projects that link the development of innovative products, the organisation of the network of healthcare providers, the creation of the own network of healthcare providers and assistance services of AS Centre of Health.

In December 2016, the Ministry of Health presented a draft health reform and an amendment to the Health Care and Health Insurance Act that provides for the abolition of complementary health insurance in 2019. The insurance companies were not involved in the preparation of proposal and do not know the financial details and effects of the law as the Ministry did not make them public by the end of February 2017. According to the information obtained to date, it is estimated that the announced changes will not contribute to a long-term stable funding of healthcare in Slovenia and stand for the monopolisation of health insurance in Slovenia.

Complementary health insurance products will remain the key insurance product, which will continue to be upgraded with additional accident insurance in 2017 so as to provide for effective and comprehensive medical care and financial security of the clients. Health insurance products will be developed to include the cover for accident and illness risks, whose realisation substantially changes a policyholder's life.

Additional insurance will be linked to the services of the Company or Zdravje AS clinic, which – as one of the service providers in the AS network – will begin with health activities in orthopedics, general surgery, cardiology and physiotherapy in 2017. Additionally, it will offer its services in the market. The Company plans to expand its range of services in order to it reach the maximum possible scope in terms of capacity by the end of 2017.

In marketing and sales, the focus will be on increasing cross-selling. The Company will strive for a flawless user experience at every point of contact between the policyholder and the Company, via all sales and communication channels and all devices. In 2017, a new loyalty-incentive model will be introduced in order to promote a healthy lifestyle and thus respond to client needs. Through further digitization the Company will be able to deal with clients in an even more personalized manner.

The Company will continue to pursue its marketing and sales philosophy of the "full circle of safety", thus implementing sales activities accordingly in order to boost cross-selling. The focus will be on suitable and comprehensive insurance protection provided not only to the new clients but also to the existing clients. The key guiding principle is pursuing the strategic objective – achieving an appropriate index of cross-selling. Special attention will be devoted to the range of health, life and pension insurance products.

In foreign markets, the Zagreb Branch will continue to sell life insurance, with a focus on unit-linked insurance products. The Branch will boost its sale of AO insurance. In Croatia, activities take place to launch complementary health insurance sale.

In 2016, a greater focus will be on **IT management** and IT solutions as well as on ensuring a continuous IT system operation. The monitoring systems will be upgraded with additional functionality, expanding their use. Quality and safety of IT solutions will be ensured by safety checks and by expanding the platform set up in 2016 so as to be used for continuous development and integration.

Audit trails will be upgraded on an as-needed basis in line with the personal data protection requirements. Apart from that, important processes will be upgraded.

Integrations with new information systems will be of key importance, for example Skleni AS, which will be, in the first phase, used for online life insurance sales within the AS sales network. Within the framework of the existing data warehouse architecture, the volume and quality of data will be increased. In risk management, controlling and particularly in the context of Solvency II regulation, the Company will primarily automate data preparation or their transfer into dedicated solutions as for example Risk Integrity. The central client registry will include the 360° client view, while the tools for a more effective implementation of the insurance sales process will be upgraded.
The MojAS and PokojninaAS portals will be updated with additional content and services that are suitable for mobile phones and tablets. By using application programming interface (API), which is a prerequisite for a successful digital transformation, the Company wishes to connect even more closely with its partners, draw nearer to its clients and thus enter the world of the API economy.

In solving insurance cases, the Company will aim to achieve the objectives of the Road Assistance project in conjunction with the My Service network as soon as possible. In 2017, three major projects will be launched to ensure efficiency, quality and speed of the Company's services. In the scope of the first project, the e-report and claim settlement will be upgraded, the second is the Client Rating project, which will not only increase segmentation and shift the focus of the Company to complex cases but also accelerate the payments of benefits and damages. The third planned project is the SPSS tool, which will upgrade the Client Rating project, also increasing the efficiency in detecting and preventing fraud.

In finance, accounting and payment transactions, 2017 will be a turning point as new payment methods will be introduced. Like the other participants in payment transactions in Slovenia, the Company will set up a system of marking the payment orders with a new QR code. This will be the basis for making payments, especially via smartphones. Increase in the volume of such payments in connection to the expected introduction of prompt payment means that it is necessary for the Company to start activities that will reduce or abandon cash transactions.

In the HR and training segment, the Company will continue to strengthen employees' skills, motivation and satisfaction. IT will continuously measure the organisational climate and employee satisfaction, carry on with evaluation of competences and job performance, as well as enhance education and training of all employees, with emphasis on the development of behavioural and sales competences. The Company will continue to introduce measures that aim at obtaining the full "Family-Friendly Enterprise" certificate. With respect to training, coaching will be introduced and employees will be encouraged to consolidate the knowledge acquired in the "Achieving of Sales Excellence" project". Apart from that, in-house mentoring will be introduced and the AS educational centre and a range of other activities will be developed.

2. MAJOR BUSINESS EVENTS OF THE COMPANY AND THE GROUP IN 2016 AT THE BEGINNING OF 2017

- The Company successfully adapted its operations to the Solvency II requirements.
- The Company successfully launched the new, modern, safe and fast portal MOJ AS (MY AS), which enables clients to view their insurance policies, verify payments, change the payment method, report a claim and monitor its settlement process.
- Based on the offer to issue securities addressed to well-informed investors, the Company issued bonds in the total nominal value of EUR 50,000,000.00
- Zdravje AS d. o. o., KD Skladi d.o.o. and KD IT d.o.o. joined the Group, with AS being their sole shareholder.
- After the sale was stopped, AS neživotno osiguranje a. d. o., Belgrade transferred its insurance portfolio and entered a voluntary liquidation.
- On 31 October 2016, Varja Dolenc resigned as a Management Board member and from all other functions in the subsidiaries of the AS Group.
- On 27 October 2016, the Supervisory Board appointed Jure Kvaternik a new member of the Management Board, subject to obtaining an authorisation from the Insurance Supervision Agency.
- On 17 November 2016, the rating agency Fitch Ratings re-assigned the Company a “BBB–” insurer financial strength rating with a stable outlook. The credit rating reflects a strong position on the Slovene insurance and asset management markets, in addition to adequate capitalisation.
- Due to several years of rising healthcare costs and additional costs for such services as well as forecasts indicating that additional costs will increase in 2017, in December 2016 the Company began activities to raise the complementary health insurance premium. The policyholders were informed that as of 1 March the premium will be higher.

No material business events occurring in early 2017 were recorded in the AS Group.

3. CORPORATE GOVERNANCE STATEMENT

As required by the fifth paragraph of Article 70 of the Companies Act (ZGD-1), Adriatic Slovenica issues a corporate governance statement, which is an integral part of the Management Report. The corporate governance statement refers to the period from 1 January 2016 to 31 December 2016.

Governance system

The corporate governance system is regulated by the rules, which in a transparent and understandable manner determine:

- the organisational structure with precisely defined, transparent and consistent internal relationships regarding the responsibilities;
- an effective system of information transmission, proportionate in nature, scale and complexity of the Company's operations, with effective key management functions that are integrated into the organisational structure and decision-making processes of the Company;
- the structure of written rules, processes and risk management procedures, which comprise measures to ensure regular and continuous operations;
- the governance and management bodies of the Company and all employees are familiar and comply with the laws, professional rules and internal regulatory framework, taking into account their competences, powers and responsibilities, and the field of work.

Statement on the use of corporate governance codes

In 2016, the Company did not commit to apply the published corporate governance codes. The Company has only one shareholder and its securities are not traded on the official market. In its operations, the Company abides to the Insurance Code, available on the website of the Slovenian Insurance Association at www.zav-zdruzenje.si.

Description of the main features of the internal controls and risk management system in the Company related to the financial reporting procedure

Internal controls are guidelines and procedures established by the Company and implemented at all levels in order to manage the risks related to financial reporting. The purpose of internal controls is to ensure efficiency and effectiveness of operations, reliability of financial reporting and compliance with the applicable laws and other external and internal regulations.

The Company is subject not only to the Companies Act but also to the special provisions of the Insurance Act, which regulates the obligation of insurance companies to establish and maintain adequate internal controls and risk management system. The implementing regulations related thereto are issued by the Insurance Supervision Agency and the Company complies with them.

Accounting controls are closely linked to IT controls, which restrict and control access to the network, data and applications as well as ensure completeness and accuracy of data capturing and processing.
For the purpose of financial reporting on a consolidated basis, the procedures and internal controls are defined in the internal accounting rules and the rules on providing consolidated financial statements of the Adriatic Slovenica Group.

The Group members submit their financial information for the preparation of consolidated financial statements in the form of reporting packages, prepared as required by the International Financial Reporting Standards (IFRS) and the guidelines of the parent company and within the time limits set in accordance with the financial calendar of the Company. The reporting packages include in-built cross controls that ensure data consistency. The packages are checked by external auditors. As an additional control of the accuracy of the reporting packages, the subsidiaries provide their original accounts. The introduction of unified information systems in subsidiaries and of the applications that support consolidation, planning and reporting increased the effectiveness of financial information exchange between the subsidiaries and the parent company and thus the information control. The appropriateness of established and operating internal IT controls is checked by IT specialists as part of the regular annual audit of financial statements.

In addition to the aforementioned system, AS set up a system of internal controls also in other important business processes. Internal controls include procedures and actions that ensure compliance with the law and internal rules. All major business processes in the Company are described, including with definitions of control points and individual controllers. The basic controls include checking the received documentation or systemic or manual control of the data processed.

The Company follows the rules and regulations on the appropriate handling of confidential data and internal information, the admissibility of investments and the prohibition of insider trading. It regularly monitors the actions of employees when conducting transactions with financial instruments for their own account.

Other persons to whom the Company has delegated the provision of particular services have to perform their tasks and duties in compliance with the laws, implementing regulations, the service contract, internal rules and working procedures that are in force in the Company.

Key functions

The Company established an effective corporate governance system with four key internal control functions: the risk management function, the actuarial function, the compliance function and the internal audit function. They are set up as separate organisational units (teams), which are directly subordinated to the Management Board. The tasks, responsibilities, processes and reporting obligations of every key function are regulated in detail in the respective internal documents.

The actuarial function

It is organised in two permanent teams: Actuarial Activities for Non-life Insurance and Actuarial Activities for Life Insurance.

The key duties of the actuarial function include:

- coordination of the calculation of insurance technical provisions for the purposes of calculating capital requirements;
- information of the managing and supervisory bodies on the reliability and adequacy of methods, models and assumptions, which were used in the calculation of insurance technical provisions, and on the adequacy of calculated insurance technical provisions;
- control of the calculation of insurance technical provisions when approximations are applied in the calculation;

- verification of the appropriateness of the overall underwriting risk policy; provision of an opinion whether the amount of the premium of individual products is sufficient to cover all the obligations arising from these insurance contracts;
- verification of the adequacy of reinsurance or transfer of risk to a special purpose vehicle;
- participation in the introduction and implementation of the risk management system, particularly in the development, application and monitoring of the appropriateness of capital requirement calculation models and in conducting own risk and solvency assessment.

The actuarial function has access to all information of the Company that is needed to perform the duties of the actuarial function (records, data, documents, reports, correspondence with the Insurance Supervision Agency).

The risk management function

It is placed within the risk management system or the second pillar (line of defence) of an effective risk management system. The primary task of the risk management function is to report on the risks defined as material to both the Management Board and the Supervisory Board. On its own initiative or at the request of the Management Board or the Supervisory Board, the risk management function also reports on other specific areas of risk.

The main risk management objectives are:
- comprehensive coordination and supervision of activities related to risk management in the Company;
- measurement and assessment of the comprehensive risk profile of the Company, including early identification of potential future risks;
- reporting to the Management Board on the risks defined as material.

Moreover, the risk management function coordinates all internal and external reporting procedures related to risks.

Risk management is discussed in greater detail in Section 7.1 hereof.

The compliance function

The compliance function is placed within the internal controls system (internal control) the second pillar (line of defence) of an effective risk management system.
From the organisational point of view the compliance function holder is a member of the permanent Compliance Team that is also managed by the holder. The function holder has an appropriate independence and has access to the applicable information and the members of the broader management team. The compliance function holder is a member of the Risk Management Committee, which is a consultative body with regard to the risk management system. The Compliance Team cooperates mainly with the permanent Legal Support and Risk Management teams, and where appropriate also with members of other process teams, whereby it has to be ensured that every task is performed by a person who did not participate in planning or carrying out of an activity that is subject of a task, and it has to be ensured that the conflict of interest is avoided so that it cannot affect the performance of the tasks in the context of compliance monitoring.

The tasks and responsibilities of the compliance function are:
- monitoring and regular assessment of the appropriateness and effectiveness of regular procedures and measures introduced to remedy any deficiencies in the Company's compliance with the applicable regulations and other commitments;
- provision of advice and assistance in ensuring compliance of the Company’s operations with the obligations set by the applicable regulations and with any other commitments;

- assessment of potential impacts of changes in the legal environment on the operations of the Company in terms of compliance with the applicable regulations and other commitments;
- definition and assessment of risks relating to the compliance of the operations of the Company with the applicable regulations and other commitments;
- informing the Management Board and the Supervisory Board on compliance of the operations of the Company with the applicable regulations and other commitments as well as on the assessed compliance risk of the operations of the Company.

Internal audit

The internal audit is organised as an independent Internal Audit Team, which is directly subordinated to the Management Board. It is separated from other organisational units of the Company, both functionally and organisationally. Based on the risk assessment, the Internal Audit Team performs permanent and comprehensive supervision of the operations of the Company in order to verify and assess whether the risk management processes, internal controls and governance of the Company are adequate and operate in the manner ensuring the achievement of the following important objectives:

- effective and efficient operations of the Company, including the achievement of business and financial performance goals, and protection of assets against loss;
- reliable, timely and transparent internal and external financial and non-financial reporting;
- compliance with the law, other applicable regulations and internal rules.

The Internal Audit Team helps the Company to achieve the set objectives by promoting well-thought-out and organised assessment methods and by improving the effectiveness of risk management and control processes. Furthermore, it contributes to added value by providing independent and impartial assurances and advisory services. The Internal Audit Team reports on its work to the Management Board, the Audit Committee and the Supervisory Board.

The work of the Internal Audit Team is described in detail in Section 7.2.

External audit

The audit of the financial statements of the AS Group and the parent company AS is performed by the audit firm KPMG d. o. o., Ljubljana. In line with the applicable local laws, the audit of the financial statements of the Zagreb Branch is performed by Antares revizija d. o. o. The company adheres to the provisions of the Insurance Act on the regular change of the external auditor.

Disclosure of information in line with the sixth paragraph of Article 70 of the Companies Act
The information is presented in detail in Section 4.1 of the Management Report.

The management bodies of Adriatic Slovenica

The governance system
The Company has a two-tier management system. It is run by the Management Board, whose work is supervised by the Supervisory Board.

The Company pursues a diversity policy in management and supervisory bodies. In the composition of the Management and Supervisory Boards the following aspects of the diversity policy are taken into account: age, education and professional experience, whereas gender is not taken into consideration.

General Meeting of Shareholders

Competences

The General Meeting of Shareholders decides on:

- adoption of the Annual Report if the Supervisory Board did not approve the Annual Report or if both the Management Board and the Supervisory Board left the decision on the adoption of the Annual Report to the General Meeting of Shareholders;
- distribution of accumulated profit based on the proposal of the Management Board and the report submitted by the Supervisory Board;
- appointment and recall of the Supervisory Board members;
- granting of a discharge to the Management and Supervisory Boards;
- amendment to the Articles of Association;
- measures to increase or reduce the capital;
- winding down the Company and change of status;
- appointment of an audit at the proposal of the Supervisory Board;
- other matters stipulated by law and the Articles of Association.

Convening of the GMS

The General Meeting of Shareholders, the body through which shareholders of the Company exercise their rights in respect of matters concerning the Company, is convened at least once a year, by the end of August at the latest. The General Meeting of Shareholders may also be convened in other circumstances set out by law or the Articles of Association and when this is in the interest of the Company. As a general rule, the Company's Management Board convenes the General Meeting of Shareholders. The law stipulates when it can be convened by the Supervisory Board or the shareholders of the Company.

Entitlement to attend the General Meeting of Shareholders

All shareholders who are entered into the Central Securities Depository of securities issued in dematerialised form no later than by the end of the fourth day before the date of the General Meeting of Shareholders have the right to attend the General Meeting and exercise their voting right if they apply to be present no later than by the end of the fourth day prior to the date of the General Meeting of Shareholders. Conditions for participation or exercising of voting rights are specified in the convening of the General Meeting.

Resolutions

The General Meeting of Shareholders adopts resolutions by the majority of the votes cast (simple majority) unless the Articles of Association or the law lay down a higher majority or other requirements.

Voting right

The shareholders' voting right is exercised proportionally with their own stake in the Company's share capital. Each no-par value share corresponds to one vote. The voting right can also be exercised by proxy holders based on the written mandate and also through a financial organisation or shareholders' association.

The General Meetings of Shareholders (GMS) held in 2016

In 2016, the General Meeting of Shareholders of Adriatic Slovenica was convened three times:

- The 49th General Meeting of Shareholders was held on 7 April 2016. The General Meeting of Shareholders took note of the adopted Annual Report of Adriatic Slovenica and the AS Group for 2015, including the auditor's opinion, the Supervisory Board's Report on the Verification of the Annual Report for 2015 and the Opinion of the Supervisory Board of the Company on the Annual Internal Audit Report for 2015 by the

Internal Audit Department. Moreover, the shareholders passed the resolution that on 8 April 2016 a part of accumulated profit of EUR 13,246,819.60 would be allocated for dividend payments, while the remaining part would remain undistributed. It granted a discharge to both the Management Board and the Supervisory Board for 2015. Furthermore, it re-appointed the audit firm KPMG d. o. o. as auditors for 2016.

- The 50th General Meeting of Shareholders was held on 28 June 2016 and adopted the resolution to amend the Articles of Association. The most important change was the abolition of activities that can no longer be conducted by insurance companies under the new Insurance Act (ZZavar-1) (Other activities auxiliary to financial services and pension funding (66.990), Other activities auxiliary to financial services, except insurance and pension funding (66.190), Security and commodity contracts brokerage (66.120)).
- On 22 December 2016, the 51st General Meeting of Shareholders was held, which adopted a resolution on the appointment of the audit firm KPMG d.o.o. as auditors of annual reports for the 2016–2018 period. Moreover, it re-appointed Matjaž Gantar a Supervisory Board Member for a new five-year term of office.

The Annual General Meeting of Shareholders of the Company is planned for 2017 after the adoption of the Annual Report. The convocation of the General Meeting of Shareholders and the agenda, including the draft decisions, the venue of the General Meeting and the participation conditions, will be published at www.as-skupina.si.

Supervisory Board

Operation of the Supervisory Board

The Supervisory Board oversees the management of the Company's business operations. In performing its work, the Supervisory Board follows the applicable regulations. It holds at least six sessions annually, usually holding one session after each quarter.

Powers and responsibilities

As part of its more important duties, the Supervisory Board:

- gives approval to the business strategy of the Company;
- approves the financial plan of the Company;
- gives consent to the Management Board with respect to written rules of the governance system;
- gives consent to the Management Board with respect to IAD's annual work plan;
- assess the adequacy of processes and the effectiveness of internal audit;
- drafts the opinion on the annual internal audit report for the General Meeting of Shareholders;
- discusses the findings of the ISA (Insurance Supervision Agency) and other regulatory bodies supervising the Company;
- verifies annual and interim reports of the Company;
- verifies the Annual Report submitted by the Management Board, takes a position on the Audit Report and prepares a report for the General Meeting of Shareholders, stating any observations and confirms it;
- reviews the draft proposal for the distribution of accumulated profits and submits its findings to the General Meeting of Shareholders in form of a written report.

In accordance with the law, the Supervisory Board holds at least one session per quarter, usually after the end of each quarter.

Supervisory Board in 2016

In accordance with the Articles of Association and the applicable law, the Supervisory Board is composed of six members, of which four shareholder representatives are appointed by the General Meeting of Shareholders, whereas two SB members – employee representatives are elected by the Works Council of the Company, which then informs the General Meeting of Shareholders of its decision. The Supervisory Board is appointed for a maximum five-year term with the possibility of reappointment.

The Supervisory Board Members – shareholder representatives are Matjaž Gantar as Chairman, Aljoša Tomaž as Vice Chairman, and Tomaž Butina in Aleksander Sekavčnik as members. Matjaž Pavlin and Borut Šuštaršič sit on the Supervisory Board as its members – employee representatives. In 2016, Matjaž Gantar and Matjaž Pavlin were both re-appointed as the Supervisory Board Members.

Employment, education, presentation, term of office and disclosure of membership in management and supervisory bodies:

Composition of the Supervisory Board as at 31 Dec. 2016	Office	Started serving as the SB member	Term of office (duration in years)
Matjaž Gantar	Chairman	30 Dec. 2016 (reappointment)	5
Aljoša Tomaž	Deputy Chairman	6 Sept. 2012	5
Tomaž Butina	Member	6 Sept. 2012	5
Aleksander Sekavčnik	Member	2 Oct. 2012	6 Sept. 2017
Borut Šuštaršič	Member - employee representative	28 Sept. 2015	4
Matjaž Pavlin	Member - employee representative	7 April 2016 (reappointment)	5

Shareholder representatives

Matjaž Gantar, Chairman of the Supervisory Board

Matjaž Gantar, MS in Economics, has led a long entrepreneurial career, incorporating, managing and internationalising the operations of several companies. Together with the Slovene cooperative system, he incorporated the asset management company Kmečka družba d.d. in 1994, which developed under his management into the Group KD Group, one of Slovenia's largest financial groups, which also operates abroad.

Today he presides over the KD Group d.d. Board of Directors, acts as the Executive Director and a member of the Board of Directors of KD d.d. and chairs the Management Board of the AS Fundacija foundation.

With his knowledge and experience, he was a member of the Slovene Government's Strategic Council, he presided over the Gazela Council, a member of the Board of Directors of the Slovenian Investment Fund Association and was also a Supervisory Board member of several renowned Slovene companies.

Aljoša Tomaž, Vice Chairman of the Supervisory Board

Aljoša Tomaž holds a BSc in Economics. He held senior managerial positions in the financial and business informatics sectors. Since 1989 he has occupied the leading banking positions in Slovenia and abroad

Since 26 April 2012 he has been an Executive Director in KD Group, and from 7 June 2012 also a member of its Board of Directors.

He joined the Group KD Group in 2006, first as a member of the senior management in Adriatic Slovenica d.d. In 2007 he was appointed Assistant Director in KD Group, where he headed the establishment of KD Banka d.d and then he acted as the CEO of KD Banka d.d.

Aleksander Sekavčnik, Member of the Supervisory Board

Aleksander Sekavčnik holds a BSc in Economics and has year-long experience in the financial industry.

Aleksander Sekavčnik is a Vice Chairman of the Board of Directors of the KD Group and KD. He is also the Managing Director of Sekavčnik in družbenik d.n.o. His former appointments include acting as Director of Capital Markets in PM&A BPD and as the Management Board member in charge of Finance and Accounting in Slovenica.

Tomaž Butina, Member of the Supervisory Board

Tomaž Butina holds a BSc in Computer Science. He is a member of the Board of Directors of the KD Group and KD, Chairman of the Supervisory Board of KD Skladi and Director of Dermatologija Bartenjev - Rogl d.o.o. and Avra d.o.o.

Tomaž Butina has year-long managerial and capital markets experience, which he gained and upgraded in Slovenska zadružna kmetijska banka d.d. (today DBS Fistro), PM&A and Beta Invest. He acted as a member of the Supervisory Board of Final, Jata, Gradis IPGI, KD ID, KD, KD Življenje and KD Skladi, and was a member of the Board of Directors of KD Banka.

Employee representatives

Borut Šuštaršič, Member – Employee Representative

Borut Šuštaršič holds an undergraduate degree in economics and has been employed at the Adriatic Slovenica and its predecessors for more than 17 years. In this time, he has been active in sales, sales network management and branch office management. He has gained extensive experience in insurance activities.

For the last 12 years, he has been a member of the Works Council (now as the Works Council Chair), currently serving his fourth term. As a member of the workers' co-management body, amongst others, he monitors the Company's operations and co-decides on important staff and status-related decisions.

Matjaž Pavlin, Member – Employee Representative

Matjaž Pavlin holds an undergraduate degree in traffic technology engineering and has been employed at the Adriatic Slovenica and its predecessors for more than 19 years. In this time, he has been active in sales, product development and risk underwriting, and has thus gained broad experience in insurance activities.

Remunerations, reimbursements and other benefits

Data on earnings of the Supervisory Board members are disclosed in Section 11.4 of the Accounting Report. Remunerations are in line with the resolution passed by the 43rd General Meeting of Shareholders held on 3 September 2012.

Shareholdings of Supervisory Board members

The Supervisory Board members do not own any shares of the Company.

3.1.1 Supervisory Board Committees

In line with the law and good practice, the Supervisory Board may appoint one or several committees in charge of a particular area, which prepare draft resolutions of the Supervisory Board, ensure their implementation and perform other duties, thus supporting the Supervisy Board’s work.

Audit Committee

The operation of the Audit Committee: The Audit Committee of the Supervisory Board was established in 2007, even before this became obligatory for insurance undertakings. The duties and competences of the Audit Committee are set out in the Companies Act, the Charter of the Audit Committee, the Rules of Procedure of the Audit Committee, the Rules of Procedure of the Supervisory Board and other autonomous sources of law (e.g. recommendations of the Audit Committee).

The Audit Committee performs the following important duties:

- monitors the effectiveness of internal controls in the Company, internal audit and risk management systems;
- monitors the financial reporting processes;
- monitors the statutory audits of separate and consolidated financial statements;
- reviews and monitors the independence of the auditor for the Company's Annual Report, particularly when providing additional non-audit services;
- proposes to the Supervisory Board a candidate to be appointed as an auditor of the Company’s Annual Report;
- monitors the integrity of financial information provided by the Company;
- assesses the Annual Report and prepares proposals for the Supervisory Board;
- participates in determining the main areas of auditing;
- participates in the preparation of the agreement between the auditor and the Company;
- cooperates with the auditor in auditing the Company's Annual Report, particularly by exchanging information on major issues relating to the audit.

Audit Committee in 2016

In 2016, the Audit Committee composition changed. Matjaž Gantar, Milena Georgievski and Jure Kvaternik resigned as its members. The Audit Committee has 3 members, of which its Chairman is the Supervisory Board member, while the other two members are independent experts.

Composition of the Audit Committee as at 31 Dec. 2016	First and last name	Start date of term of office
Matjaž Pavlin	Chairman – SB member	12 Dec. 2016 (extension)
Vera Dolinar	Member – independent expert	12.12.2016
Mojca Kek	Member – independent expert	12 Dec. 2016 (extension)

Payments, reimbursements and other benefits

Data on earnings of the Audit Committee members are disclosed in Section 11.4 of the Accounting Report. Remuneration of the Audit Committee members is in line with the resolution passed by the 45th General Meeting of Shareholders held on 27 May 2013.

3.1.2 Management Board

Operation of the Management Board

The Management Board manages, presents and represents the Company in legal transactions. The Management Board acted within the framework of the meetings of the Management Board. In addition to formal meetings of the Management Board, it exercised the powers and responsibilities in the daily operations as well as the powers and responsibilities with regard to the General Meeting of Shareholders as defined by the Companies Act and the Insurance Act. The Management Board performed the activities in relation to the Supervisory Board in accordance with the Company's Articles of Association and the Rules of Procedure of the Supervisory Board. The Management Board has at least two members; the specific number of board members is set by the Supervisory Board according to Company's business needs. In legal transactions, the Company must always be represented jointly by at least two members.

The Management Board performs the following duties:

- manages and organises the operations of the Company;
- presents and represents the Company;
- is responsible for the legality of the operations of the Company;
- adopts the development strategy of the Company and submits it to the Supervisory Board for approval;
- adopts the business and financial plan of the Company subject to the approval of the Supervisory Board;
- adopts internal documents of the Company;
- reports to the Supervisory Board on the operations of the Company and the Group;
- drafts an annual report and submits it, including the auditor's report and proposal on distribution of accumulated profits, to the Supervisory Board for approval;
- convenes the General Meeting of Shareholders;
- implements the resolutions passed by the General Meeting of Shareholders and the Supervisory Board.

Management Board in 2016

In 2016, the composition of the Management Board changed when Varja Dolenc resigned as its member on 31 October 2016. On 27 October 2016, the Supervisory Board appointed Jure Kvaternik a new Management Board member, who however had not yet obtained the authorisation of the ISA by the time this Annual Report was completed.

Composition of the Management Board as at 31 Dec. 2016	First and last name	Start date of term of office	Duration of term of
Gabrijel Škof	President	01.10.2012	5 years
Matija Šenk	Member	30.01.2014	5 years

Education, presentation, the term of office, and disclosure of membership in managerial and supervisory bodies of other legal entities:

Gabrijel Škof, President of the Management Board

Gabrijel Škof, LL.B., was born in 1960. After he had graduated from the Faculty of Law and passed the bar exam, he has been active in the insurance business since 1989, when he was employed by ZavarovalnicaTriglav, where he held various managerial posts.

In his career, he was a member of different supervisory and managerial bodies in Slovenia and abroad. He was a Member of the Supervisory Board of Triglav Osiguranje, Croatia, a Member and Chairman of the Supervisory

Board of the DDOR bank, Serbia, a Member of the Supervisory Board of Triglav, Zdravstvena zavarovalnica, Koper, and a Member of the Supervisory Board of Triglav Re reinsurance company, Ljubljana.

In November 2006, Gabrijel Škof was appointed Member of the Management Board, while since October 2007 he has been the President of the Management Board. He currently performs other functions in professional organisations, associations, and bodies of companies and institutions:

- a member of the Management Board of KD Group;
- Executive Director of KD Group;
- a member of the Council of the Slovenian Insurance Association;
- a member of the Supervisory Board of Jedrski pool GIZ;
- a member of the Organising Committee for the preparation and implementation of Insurance Days ;
- A member of the Managers' Association of Slovenia.

Matija Šenk, Member of the Management Board

Matija Šenk, BSc in Mathematics and a certified actuary, was born in 1962. He has gained extensive experience in the insurance industry (since 1996).

In the companies of the Group KD Group, Matija Šenk has held many managerial posts. He served as a member and President of the Management Board of Adriatic Slovenica, a long-serving President of the Management Board of KD Življenje and Executive Director of KD Group. His five-year term of office in the Management Board of Adriatic Slovenica commenced on 30 January 2014.

He currently performs other functions in professional organisations, associations, and bodies of companies and institutions:

- a member of the Board of Directors of KD Group;
- Executive Director of KD Group;
- Chairman of the Supervisory Board of Gea College;
- Chair of the Advisory Board of the European Actuarial Academy;
- a regular lecturer at the Chief Risk Officer Assembly within the framework of the Geneva Association;
- a member of numerous insurance associations;
- a lecturer, author and co-author of books and articles on insurance business.

Varja Dolenc, Member of the Management Board (until 31 October 2016)

She was born in 1971 in Ljubljana. Following her graduation at the Faculty of Economics of the University of Ljubljana – specialisation in money and finance, she continued her post-graduate studies at the University of Reading, Great Britain. For 17 years, she has been acquiring knowledge and experience in the largest Slovene bank. She served as a Management Board Member of AS from 13 January 2014 to 31 October 2016, in charge of finance, accounting, treasury and controlling.

Until her resignation on 31 October 2016, she was the Director of the subsidiary KD IT, the Chairwoman of the Supervisory Board of the associate Projektor and the Chairwoman of the Supervisory Board of the subsidiary Zdravje AS.

Remunerations, reimbursements and other benefits
The data on remuneration of the Management Board members are discussed in greater detail in Section 11.4 of the Accounting Report.

Equity shares
No equity shares were held by the Members of the Management Board.

In Koper, 13 March 2017

Matija Šenk
Member of the Management Board

Gabrijel Škof
President of the Management Board

4. GENERAL INFORMATION ABOUT ADRIATIC SLOVENICA AND THE AS GROUP

4.1 AS

Adriatic Slovenica Zavarovalna družba d. d. (AS insurance company)	
Abbreviated company name	ADRIATIC SLOVENICA d. d.
Address	Ljubljanska cesta 3a, 6503 Koper, Slovenia
Phone	++386 5 66 43 100
E- mail	info@as.si
Website	www.as.si
Corporate website	www.as-skupina.si
Company registration number	5063361
VAT identification number	SI 63658011
Share capital	EUR 42,999,529.80
Equity attributable to the controlling company	100%
Date of entry into the Companies Register:	20 November 1990
Management Board:	Gabrijel Škof, President; Matija Šenk, Member
Credit rating	BBB- stabile (Fitch Ratings)

Share capital and shareholders of Adriatic Slovenica as at 31 December 2016

Shareholder structure	No. of shares	Portion
KD Group d. d.	10,304,407	100.00%
Total	**10,304,407**	**100.00%**

As at the reporting date, the share capital of the Company amounted to EUR 42,999,529.80.

Shares

Along the general information on shares, below is also the information required to be disclosed in line with the sixth paragraph of Article 70 of the Companies Act (ZGD-1).

All shares of Adriatic Slovenica are ordinary, no-par value, registered and dematerialised, and all of the same class. The shares give their holders the following rights:

- the right to participate in the management of the Company (each share entitles its holder to one vote at the General Meeting of Shareholders);
- the right to a proportional part of the Company's profit (dividend);
- the right to a proportionate part of the assets remaining after liquidation or bankruptcy.

Restrictions on the transfer of shares: All shares of Adriatic Slovenica are freely transferable.

Holders of qualifying holdings under the Takeover Act (ZPre-1): KD Group d. d. is the sole shareholder and holder of the qualifying holding.

Holders of securities with special controlling rights: Adriatic Slovenica did not issue any securities with special controlling rights.

Employee share schemes: Adriatic Slovenica does not have a regulated employee share scheme.
Restrictions on voting rights are not defined.

Agreements between shareholders which may result in restrictions on the transfer of securities or voting rights: No agreements are possible as there is only one shareholder.

Company regulations on the appointment and replacement of the Management Board Members: In line with the Articles of Association, the President and Members of the Management Board of Adriatic Slovenica are appointed by the Supervisory Board for a five-year term with the possibility of re-appointment. The natural persons with an unlimited legal capacity that fulfil the conditions laid down in the Companies Act, the Insurance Act and the Fit and Proper Policy for managerial personnel may be appointed to the Management Board. The Supervisory Board may recall the Management Board or its members for reasons stipulated by law.

Company regulations on the appointment and replacement of the Supervisory Board Members: In accordance with the Articles of Association of Adriatic Slovenica, the Supervisory Board consists of six Members. Four of them are shareholder representatives elected by the General Meeting of Shareholders and two are employee representatives elected by the Company's Works Council or directly by the Company's employees, of which the Works Council informs the General Meeting of Shareholders.
Members of the Supervisory Board, shareholder representatives, are elected by the General Meeting of Shareholders by a majority vote of the present shareholders. The term of office of the Supervisory Board members is 5 years, with the possibility of re-election. Natural persons with an unlimited legal capacity that fulfil the conditions laid down in the Companies Act, the Insurance Act and the Fit and Proper Policy for managerial personnel may serve as Supervisory Board members. In accordance with the law, the General Meeting may recall the Supervisory Board Members, shareholder representatives, early with a resolution by a majority that corresponds to at least three-quarters of the represented share capital.

The Adriatic Slovenica rules on amendments to the Articles of Association: The Articles of Associations contain no specific rules for their amendment. They can be changed based on the law in a General Meeting of Shareholders' resolution by a majority that corresponds to at least three-quarters of the represented share capital.

Powers of the Management Board, particularly with regard to own shares: The powers of the Management Board are set by the law. The Company's General Meeting of Shareholders did not grant the Management Board any powers related to own shares.

Important agreements taking effect, being amended or terminated based on the change in the control of the Company as a result of a public takeover bid: Adriatic Slovenica covers its exposure with reinsurance for its own account (retrocession). As it is customary in reinsurance activities, the retrocession contracts contain provisions on the basis of which the contracting party may withdraw from the contract if a significant change in ownership or control occurred with the other party.

Agreements between the Company and the members of its management or supervisory body on compensation in case of their resignation, dismissal without cause or the termination of their employment due to a statutory takeover bid (under the law governing takeovers): In the case of resignation, Management Board members are not eligible to a severance pay. If, however, they are recalled or if their employment agreement is terminated by the Supervisory Board without cause, in the case of business reasons, or in the event of inability to perform, the Management Board members are entitled to a severance pay.

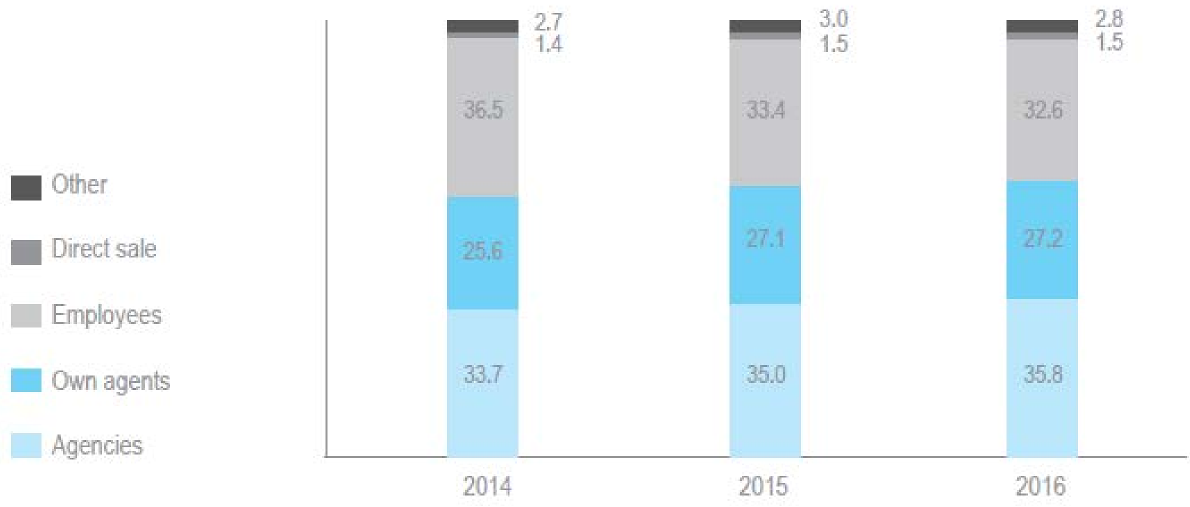
4.2 ORGANISATION AND ORGANISATIONAL STRUCTURE OF ADRIATIC SLOVENICA

Adriatic Slovenica, the parent company of the AS Group, provides its services through a stable and extensive sales network in Slovenia, which was developed in the region already in 1993. The parent company is the junction of business activities abroad and the development of core and supporting activities of the AS Group.
The parent company is a process-oriented organisation. Fundamental and support processes are carried out by permanent and flexible process teams. Business processes in the Company are divided into sections: corporate affairs, sales and development, operational implementation, and risks and finance. The Company carries out its business processes at its headquarters, in its branch offices and in the Zagreb Branch.

Sales network

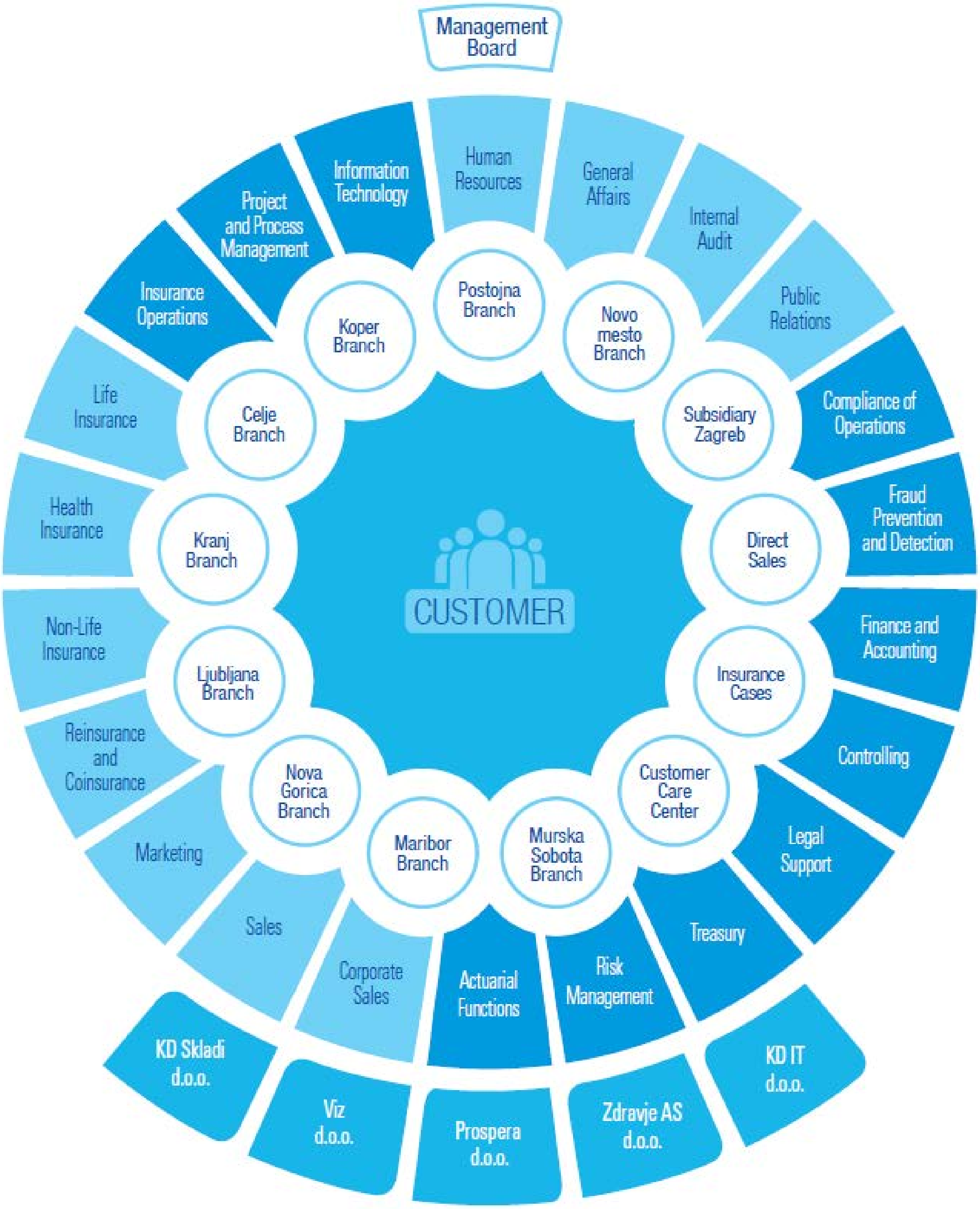
A wide sales network is available to clients at 373 points of sale throughout Slovenia. The key branch offices are in all major regional centres of Slovenia: Koper, Postojna, Nova Gorica, Ljubljana, Kranj, Novo mesto, Celje, Maribor and Murska Sobota. The Company also provides its services in another six branch offices (Domžale, Idrija, Krško, Slovenj Gradec, Miren, Ribnica), 36 representative offices and two additional points of sale operating under branch offices.
Insurance services are supplemented with a network of contracted insurance agencies at 146 points of sale and 174 complementary points of sale. Individual client management is provided by 281 insurance agents, 661 agents of authorised agencies and 44 contracted agents, who sell a comprehensive range of products. In some branches, the services of KD Skladi were available to the clients. Apart from that, in 2016 clients were able to purchase AS insurance products also at one bank.Adriatic Slovenica improves and intensively develops its range of insurance products and services through digital channels, by upgrading its web portal and by developing mobile applications.The sales network of the Zagreb Branch in Croatia consists of three channels: own agent network, the Permanens agency (until October 2016) and 21 external agencies with offices in Zagreb, Varaždin and Split, where services are provided in the sales network of 59 employed and 5 contracted agents.

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



Organisational scheme of Adriatic Slovenica and the AS Group with subsidiaries*

The Company is a process-oriented organisation keeping the client at the centre of its activities.



*The subsidiary KD Skladi d.o.o. has two subsidiaries: KD Fondovi Locust d.o.o. Zagreb and KD Fondovi a.d. Skopje.

A brief history of the Company

Adriatic Slovenica d.d. was founded in 1990 when Adriatic Zavarovalna družba d. d. Koper was established from the regional unit of the insurance community Triglav in Koper. In the next three years, it put in place an extensive sales network across Slovenia and Istria with branches in Koper, Pula, Ljubljana, Celje, Kranj, Postojna, Nova Gorica, Novo mesto, Maribor and Murska Sobota.

The Company continued to expand through mergers and takeovers: in 2005 Slovenica d.d. merged with Adriatic and was renamed Adriatic Slovenica Zavarovalniška družba d.d. In the 2013 Adriatic Slovenica took over the employees and the entire portfolio of its sister insurance company KD Življenje.
In 2015, after the acquisition of the Croatian KD Životno osiguranje d.d., the cross-border merger of Adriatic Slovenica with KD Životno Osiguranje took place.

4.3 THE AS GROUP

In addition to the parent company Adriatic Slovenica, Zavarovalna družba d.d., the Group consists of the direct subsidiaries KD Skladi d.o.o., Prospera d.o.o., VIZ d.o.o., Zdravje AS d.o.o., AS neživotno osiguranje a.d.o. and Permanens d.o.o. (the latter two are in liquidation), all wholly owned by Adriatic Slovenica.

The subsidiary KD Skladi holds a 94.6% stake in the indirect subsidiary KD Fondovi a.d. Skopje and a 70% stake in the indirect subsidiary KD Locust Fondovi d.o.o.

The parent company holds a 48.51% percent stake in Nama trgovsko podjetje d. d., Slovenia, and is therefore considered an associate.

KD Skladi

KD Skladi, družba za upravljanje d. o.o.	
Address	Dunajska cesta 63, 1000 Ljubljana, Slovenia
Company registration number	5834457
VAT identification number	SI 56687036
Activity:	- activity of custody funds and other funds and similar financial entities - financial fund management
Share capital	EUR 1,767,668
Equity attributable to the controlling company:	100%
Date of entry into the Companies Register:	11 March 1994 under No.Srg 1392/94
Management and supervisory bodies:	Luka Podlogar, President of the Management Board; Casper Frans Rondeltap, Member of the Management Board

KD Skladi is the oldest and one of the leading asset management companies in Slovenia. It was incorporated in 1994 as Kmečka družba d.d. Its name was changed numerous times (in 2001 it was first renamed KD Investments, then KD Investments, družba za upravljanje, d.d. and KD Investments, družba za upravljanje, d.o.o.). Since 2008, it is named KD Skladi, družba za upravljanje, d.o.o., with the short name KD SKladi d.o.o.

The company's principal strategy is to offer investors, particularly those from South-East Europe, the widest possible range of investment options worldwide, and at the same time to provide a comprehensive investment offer in this region to investors across the world.

As at the 2016 year-end, it managed KD Krovni sklad (Umbrella Fund) with 15 sub-funds including KD Galileo, the first Slovene mutual fund that invests in different types of securities (shares, bonds, deposits) on various global capital markets and in different branches.

The principal activity of KD Skladi is investment fund management. At the end of 2016 it managed the following subfunds of KD Krovni sklad: KD Galileo, mešani fleksibilni sklad (KD Galileo, Mixed Flexible Fund), KD Rastko, evropski delniški sklad (KD Rastko, Europe Equity Fund), KD Bond, obvezniški – EUR (KD Bond – EUR), KD MM, sklad denarnega trga – EUR (KD MM, Money Market – EUR), KD Prvi izbor, sklad delniških skladov (KD First Selection, Fund of Equity Funds), KD Balkan, delniški (KD Balkan, Equity), KD Novi trgi, delniški (KD New Markets, Equity), KD Surovine in energija, delniški (KD Raw Materials and Energy, Equity), KD Tehnologija, delniški (KD Technology, Equity), KD Vitalnost, delniški (KD Vitality, Equity), KD Indija – Kitajska, delniški (KD India – China, Equity), KD Latinska Amerika, delniški (KD Latin America, Equity), KD Vzhodna Evropa, delniški (KD Eastern Europe, Equity), KD Dividendni, delniški (KD Dividend, Equity), and KD Amerika, delniški (KD America, Equity). At the end of 2016, the company also managed the assets of other portfolios in the framework of financial instruments management service.

Outside Slovenia, two fund management subsidiaries manage together 19 investment funds, of which 15 mutual funds in Croatia and four in Macedonia. As at 31 December 2016 KD Skladi was the controlling company of the management company KD Locusta Fondovi d.o.o., Savska cesta 106, Zagreb, in which it has a 70% stake, and of the management company KD Fondovi A. D. Skopje, Bul. Partisanski odredi 14A, Skopje, Macedonia, in which it has a 94.60% stake.

In Slovenia, KD Skladi manages assets worth EUR 501 million. With a 20.4 percent market share, it is the third largest asset management company in Slovenia. In over two decades of operation, it has received numerous awards for the successful management and was awarded nine times in a row the title Trusted Brand for the most trusted brand among investment firms. Excellence in the management of the sub-funds of KD Krovni sklad (Umbrella Fund) is also monitored by an independent international agency Morningstar. As at 31 December 2016, 4 out of 12 sub-funds of the KD Umbrella Fund, which were evaluated, received the highest score of 5 or 4 stars (KD Prvi izbor (KD First Selection), KD Vitalnost (KD Vitality), KD Bond (KD Bond), KD Technologija (KD Technology)).

Slovenia	31 Dec. 2016
No. of funds	15
No. of employees in asset management	12
Total no. of employees	54
Assets under management	EUR 501 million
Croatia	31 Dec. 2016
No. of funds	15
No. of employees in asset management	4
Total no. of employees	9
Assets under management	EUR 68 million
Macedonia	31 Dec. 2016
No. of funds	4
No. of employees in asset management	1
Total no. of employees	6
Assets under management	EUR 12 million

Prospera

Prospera družba za izterjavo d.o.o.	
Address:	Ljubljanska cesta 3, 6000 Koper, Slovenia
Phone, fax:	++386 5 66 43 333; ++386(5) 6643 480
E- mail:	info@prospera-kp.si
Web page:	www.prospera-kp.si
Company registration number:	6074618000
VAT identification number:	SI 34037616
Activity:	Other financial service activities, except insurance and pension funding, n.e.c.
Share capital:	EUR 100,000
Equity attributable to the controlling company:	100%
Date of entry into the Companies Register:	16 December 2011
Management and supervisory bodies:	Bojana Merše, Director; Savo Marinšek, Authorised Officer

At the 2011 year-end, Adriatic Slovenica founded the Prospera subsidiary for specialised debt recovery as a part of the AS Group and is thus included in the consolidated financial statements of the controlling company. The principal activity of Prospera is bad debt recovery, especially the debt under judicial recovery procedures.

Viz

Viz zavarovalno zastopništvo d. o. o.	
Naslov	Ljubljanska cesta 3a, 6000 Koper, Slovenia
Free toll phone:	080 11 24
E- mail:	info@prospera-kp.si
Web page:	www.wiz.si
Company registration number:	6161456000
VAT identification number:	SI87410206
Activity:	Activities of insurance agents and brokers
Share capital:	EUR 430,000
Equity attributable to the controlling company:	100%
Date of entry into the Companies Register:	14 May 2012
Management and supervisory bodies:	Marko Štokelj, Director; Bor Glavić (until 30 April 2016)

Viz is a smaller company with 3 employees, which operates in Koper. In addition to sale of insurance contacts, it is responsible for the development, processing and support processes of WIZ insurance, which have been sold since 28 May 2012 exclusively on the website www.wiz.si. Through WIZ insurance brand, Adriatic Slovenica offered the first exclusively web-based car insurance. It is a simple, affordable and quality insurance for people with a dynamic lifestyle, who use modern ways of doing business on a daily basis. In 2016, accident and health insurance were also sold under the WIZ brand.

Zdravje AS

Zdravje AS d. o. o.	
Address:	Ljubljanska cesta 3a, 6000 Koper, Slovenia
Phone:	++386 030 704 429
E- mail:	info@zdravje-as.si
Company registration number:	6332846000
VAT identification number:	SI 22745866
Activity:	Specialist outpatient health care service
Share capital:	EUR 352,490
Equity attributable to the controlling company:	100%
Date of entry into the Companies Register:	5 February 2016
Management and supervisory bodies:	Katerina Rihter, Director

Zdravje AS was established with the conversion of Atis Inženiring d.o.o. into Zdravje AS d.o.o., with Adriatic Slovenica as the only company member. The principal activity of Zdravje AS is specialist outpatient health care service. In addition, the company has been registered to perform certain other activities (education, training and advanced training in sport and recreation, general outpatient healthcare services, alternative forms of treatment and body care activities).
The establishment and start-up of Zdravje AS gave a unique differentiating advantage to Adriatic Slovenica, as the insurance company works in partnership with its own healthcare service provider. The Ministry of Health issued the authorization to provide private health care to the company at the end of 2016.

The company had four employees as at the end of 2016 in one organisational unit (specialist clinic) at Vojkova 48 in Ljubljana.

KD IT

KD IT d. o.o.	
Address:	Celovška 2016, 1000 Ljubljana, Slovenia
Company registration number:	1964780000
VAT identification number:	SI 15923363
Activity:	IT services
Share capital:	EUR 8,140,081.29
Equity attributable to the controlling company:	100%
Date of entry into the Companies Register:	3 January 2005
Management and supervisory bodies:	Varja Dolenc (until 31 October 2016), Edvard Šimec (from 1 November 2016)

KD IT is a small service provider with four employees with its principal purpose to provide IT services for Adriatic Slovenica as its client. In line with the Group's development strategy, in June 2016 Adriatic Slovenica became the only shareholder of the company. In 2016, KD IT carried out legislative and other projects for life insurance processes. In 2017, the company will ensure support to life insurance portfolio management, with its focus on providing maintenance for IS Amarta in relation to the client's business needs and strategies.

AS neživotno osiguranje, Belgrade

AS neživotno osiguranje a. d. o. Belgrade (in liquidation)	
Abbreviated company name:	AS neživotno osiguranje a.d.o.
Address:	Bulevar Milutina Milankovića 7v, 11000 Novi Beograd, Serbia
Phone, fax:	+ +381 11 260 86 76; ++ 381 11 31 21 689
E- mail:	info@as-osiguranje.rs
Web page:	www.as-osiguranje.rs
Company registration number:	20384166
VAT identification number:	105510418
Activity:	Non-life insurance
Share capital:	EUR 5,241,063
Equity attributable to the controlling company:	97.27%
Date of entry into the Companies Register:	28 January 2008
Management:	Vanja Jurjevič, liquidator

The subsidiary **AS Osiguranje** started selling non-life insurance in Serbia in the autumn of 2008. In 2015, AS decided to withdraw from the Serbian market and therefore transferred its insurance contracts to another insurance company in Serbia in 2016. At the end of May 2016, the voluntary liquidation procedure of the company was initiated, which has not yet been completed.

Permanens

Permanens d.o. o. (in liquidation)	
Address:	Draškovićeva 10, 10000 Zagreb, Croatia
Company registration number:	080666730
VAT identification number:	56019896671
Activity:	Activities of insurance agents and brokers
Share capital:	EUR 142,347.87
Equity attributable to the controlling company:	100%
Date of entry into the Companies Register:	27 June 2008
Management:	Nikolina Vidović Turković, liquidator

In recent years, the company has been one of the key sales channels of KD životno osiguranje. Since the entry of the cross-border merger with KD životno osiguranje, Adriatic Slovenica has been the only shareholder in Permanens, which is in the process of voluntary liquidation due to the consolidation of its sales activity within the framework of the Zagreb Branch. The company has no employees.

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5. PERFORMANCE IN 2016

5.1 OVERVIEW OF DEVELOPMENTS IN THE ECONOMY AND THE INSURANCE MARKET

Slovenia's macroeconomic environment in 2016

In 2016, favourable macroeconomic developments were still present in Slovenia. Economic growth was one of the highest in the euro area. It increased by 2.5%, which was largely generated by growth in exports and production of the manufacturing industry. Domestic consumption also played an important role. The growth of final consumption was significantly stimulated by households, whose consumption is becoming more and more stable thanks to employment growth, while final government consumption was boosted once again in the third quarter.

Labour market conditions have improved from one period to the next. Favourable developments mostly occurred due to the companies' increased confidence in economic recovery and partially to greater use of more flexible employment forms. Employment has been growing both in the private sector and in predominantly public services. At the year-end, unemployment decreased to the 2009 year-end level. Year-on-year registered unemployment rate was reduced by 1.5 percentage point to 10.8%. Thanks to good economic results and considerable reduction of unemployment, the average nominal gross salary also increased year-on-year, remaining high mostly in the field of predominantly public services due to the withdrawal of some austerity measures. Due to the tendency towards maintaining competitiveness, it is expected that salary growth rate will be similar to productivity growth in the future.

Supply factors and partially the further increase of demand contributed to higher consumer prices. An inflation of 0.5% was caused particularly by price fluctuations relating to energy products, but also—to a certain extent—by unprocessed food prices. In 2016, the price competitiveness of the Slovene economy hovered around the positive level of the previous year despite the appreciation of the euro.

Furthermore, favourable economic conditions contributed to the reduction of public deficit owing to moderate revenue growth, especially earnings relating to improved labour market conditions, and reduction of government expenditure in respect of the significant downturn in investment connected to the use of European funding.

At the end of 2016, Slovenia's debt was lower compared to the year before, as it was repaid on a net basis in the last quarter. Debt costs were cut in view of its restructuring, while maturity was lengthened.

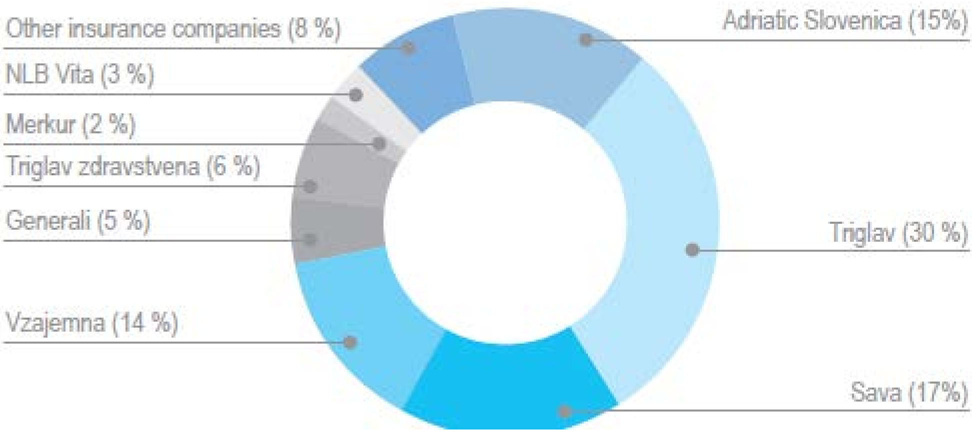
The Slovene insurance market in 2016

Improvements in the macroeconomic environment had a positive impact on the performance of insurance companies in 2016. According to collected data of the Slovenian Insurance Association, gross written premium shows a growth in demand for insurance products in 2016. A premium of EUR 2 billion was accumulated in total, which represents an increase of 1.4% compared to the comparable previous period.

Written premium from non-life insurance (including health insurance) totalled EUR 1,457 million (72.9%), while written premium from life insurance amounted to EUR 542 million (27.1%). The growth of written premium was strongly influenced by the 4.5% growth of the non-life insurance market. Over the observation period, health insurance experienced an increase of 1.4%, while the effects of the increased number of events witnessed by the largest service providers was reflected in the life insurance market. Life insurance premium was thus reduced by 3.5%.

The Slovene insurance market was once again marked by a high concentration rate. The four largest insurance companies held a 76% share of the insurance market. The reporting year was also characterized by the merger of Zavarovalnica Maribor and Tilia, now operating as Zavarovalnica Sava. Adriatic Slovenica therefore ranked third among the insurance companies by holding a 15.13% market share, representing an increase of 0.1 percentage point compared to 2015.

The structure of the Slovene insurance market in 2016:



The Croatian macroeconomic environment and insurance market in 2016

The Croatian macroeconomic environment and insurance market will be analysed in greater detail due to the performance of the cross-border branch in Zagreb. After a steady GDP growth in the first half of 2016, it increased to 2.8% by the end of the year. The positive trend was created by favourable developments in tourism, improvement of private consumption, growth in export of goods and services as well as a stimulated investment activity. According to experts, a slight downturn in growth intensity is expected in 2017, as it will be limited by the impact of the tax reform on private consumption and investment.

According to the data of the Croatian national bank, employment was up by 1.8% in 2016. Employment potential, which will be slightly smaller in 2017 compared to the previous year reflecting GDP growth stabilisation, will bring about a survey-based unemployment rate of 13.9% based on surveys. In 2016, nominal salary growth stood at 1.8% and it is assumed to be influenced by the positive developments in the private sector also in the future. Meanwhile, the salary amounts in the public sector shall remain unchanged until the end of negotiations between the government and the trade unions and their outcome.

In addition, consumer prices went up by 0.1% on average in 2016. In 2017, the inflation rate may reach 1.6% due to the strengthening of the following external inflation factors: crude oil and raw material price increases, rise in inflation in the euro area and a stronger dollar compared to the euro (and indirectly to the kuna).

In 2016, the Croatian insurance market achieved a growth of 0.4%. In total, insurance companies collected premiums of EUR 1,158 million, which is EUR 4.9 million more than in the previous year. Growth was driven by non-life insurance, representing 66.7% or EUR 772.8 million of written premiums, which shows an increase of 0.9%.

The life insurance structure did not change over the last period. In 2016, motor insurance prevailed with 23.3%, comprehensive motor vehicle insurance premium accounted for 9.2% of total written premium, while the rest of the premium was evenly divided between other insurance subclasses.

There were 23 insurance companies in the market, which was fairly concentrated as 3 insurance companies held a market share of 48.3% at the end of the year. The considerable effort of international insurance companies, creating new trends in insurance with their presence, thereby contributing to market development.

5.2 THE SLOVENE INDUSTRY OF MUTUAL FUNDS

In 2016, the consolidation of operations of domestic management companies continued. Two management companies, Ilirika DZU and Alpen Invest, ceased their activities of investment fund management.
On 31 December 2016, seven management companies had authorisations to manage investment funds.
At the 2016 year-end, 235 mutual funds were available in the Slovene market and 111 were managed by Slovene management companies which had—according to the data of the Securities Market Agency—assets amounting to EUR 2.474 billion from 422,365 investors as at 31 December 2016.

This means that the assets managed within mutual funds increased by 6.7% in 2016 from EUR 2.319 billion as at the 2015 year-end. After the global financial crisis in 2014, the total number of investors in mutual funds started to increase, but it declined by 1.7% by the end of 2016, compared to 429,734 investors as at the 2015 year-end. The number of investors dropped despite higher profitability of mutual funds owing to favourable conditions in financial markets and deposit interest-rate cuts.

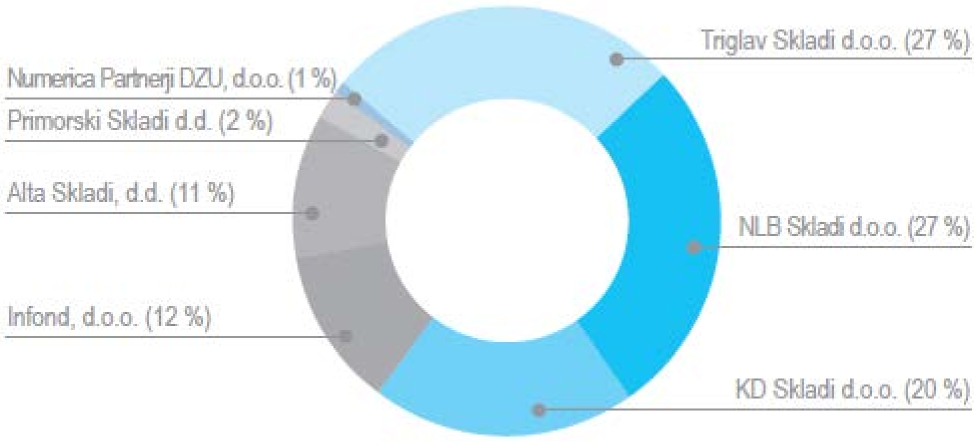
As at 31 December 2016, KD Skladi, the third largest management company in Slovenia holding a 20.4% market share, managed assets amounting to EUR 501 million from 54,730 investors. Compared to the end of 2015 when they amounted to EUR 453.3 million, the assets managed within the KD Umbrella Fund were up by 15.1% (EUR 65.6 million) due to the effects of: the takeover of the Ilirika Umbrella Fund representing 8.1% (EUR 35.2 million), asset management in capital markets representing 8.6% (EUR 37.2 million) and negative net inflows representing 1.6% (EUR –6.8 million). In 2016, payments into the KD Umbrella Fund totalled EUR 40.5 million, while payouts amounted to EUR 47.3 million.

As at 31 December 2016, KD Skladi managed the KD Umbrella Fund with 15 subfunds (16 subfunds as of 5 January 2017). Apart from managing the KD Umbrella Fund, it is also responsible for managing assets of well-informed investors.

The market structure of Slovene management companies

With regard to the value of net assets managed within mutual funds, most were managed by Triglav Skladi, i.e. EUR 673.8 million, which represents a market share of 27.5%. It is followed by NLB skladi with EUR 670.5 million and a market share of 27.4% and KD Skladi with EUR 501 million and a market share of 20.4%.

Market shares of individual management companies as at 31 December 2016, measured by value of net assets managed by mutual funds:



Capital markets in 2016

The year 2016 yielded a positive result for the global stock markets. The MSCI World Index gained 8.8%, the value being measured in euro. The global markets were cheaper at the beginning of the year and then grew throughout the entire period. The S&P 500 Index reached an all-time high, while the Dow Jones Industrial Average reached a new milestone of 20,000 points in the last days of the year. Purchasing power was slightly lower, an increase might be expected in 2017. American stock investments were more costly than the Japanese and European ones. After an unsuccessful 2015, things turned around in emerging markets and the MSCI Index gained almost 13%. Bond markets were influenced by central banks. Moreover, the interest rates in Europe, the US and Japan reached the required minimum yield to maturity. Economic growth was lower in most parts of the world compared to 2015. Consumer prices started to go up in the second half of the year. It was an exciting year on the political front: the Brexit, Trump's election in the US, the elections in Spain, the referendum in Italy and strengthening of populist parties in the EU. After historically low levels in January and February, raw material markets recovered by the end of the year and thus heightened inflation expectations in 2017.

Developed markets

The US, the driving force of 2015, experienced a growth rate below 2% in 2016. The American labour market was strong also in 2016, the unemployment rate being 4.7% in December, which is already on the verge of full employment. Salary growth was a bit slower than in previous years. The real property market continued to recover, as shown in the reports on real property sales and construction activity. According to the latest data, the annual inflation rate stood at 1.7%. The Federal Reserve raised interest rates by 0.25 percentage point at its meeting in December. In Europe, the ECB introduced some new measures to stimulate economic growth, reduce unemployment and push up inflation to the desired 2%. Interest rates were reduced to –0.4% for bank deposits held with the ECB. From now on, the Central Bank will also purchase investment-grade corporate bonds. Some measures were also taken to encourage banks to provide more credit to the economy. At the meeting in December, the asset purchase programme was extended until the end of 2017. The Central Bank in Japan, where low economic growth and deflationary pressures have been lurking about the economy for more than 20 years, adopted new stimulus measures. Moreover, lax monetary policy in Europe and Japan was the main reason for record-low yield on bonds. The Japanese 10-year government bond registered negative yield to maturity for the larger part of the year. There is still some insecurity regarding the Brexit as considerable fluctuations of the British currency and stocks can be expected also in 2017.

Emerging markets

Among the BRIC countries, Brazil saw the largest investment growth, i.e. 66%, followed by Russia with 53%. The stock indexes in China and India remained virtually unchanged. All yields are expressed in MSCI stock indexes in euro. The main reason for market growth in Brazil and Russia is a rise in energy products and industrial metals prices, showing a substantial increase after the fall in 2015 and early 2016. At the beginning of the year, the (Brent) crude oil price started at USD 56.82 per barrel, representing a 100% rise compared to the lowest price in 2016. Economic growth in China dropped below 7% in 2016. Some sectors are still suffering from overcapacities, for instance steelworkers. In addition, China has been facing major capital outflows amounting to—according to some estimates—up to USD 900 billion at the annual level. There were some problems in India after Modi abolished some of the high denomination banknotes and withdrew more than 80% of cash in circulation as an anti-corruption measure. Economic growth in India, which is the highest among the BRIC countries according to recent data, will be difficult to reproduce in the first six months of 2017. The inflation rate in Russia has been decreasing throughout the year and stood at 5.4% in December, enabling Elvira Nabiullina, Head of Central Bank of Russia, to reduce interest rates, which might have a positive impact on the country's economy in 2017. Officially, Russia is still in technical recession.

Slovenia and the Balkans

In regional markets, the shares in Croatia and Serbia were more expensive than in Slovenia. In 2016, Crobex gained 19.4%, while Belex15 gained a good 11%. The year ended with higher values for most of the SBITOP stocks. Unemployment in Slovenia was reduced by more than two percentage points and came to 10.5% according to the latest research, which is still above the euro area average. The progress in reducing unemployment is even more visible in Croatia and Serbia. The HDZ party won the parliamentary elections in Croatia. In 2016, the privatisation of Hidroelectrica still hasn't started in Romania, but it should be happening in 2017. According to the MSCI Market Classification, new privatisations and consequently larger capitalisation of the Romanian market may result in Romania's shift to emerging markets. Romania currently belongs to the same category as the rest of the Balkan countries, i.e. "fringe markets".

5.3 ANALYSIS OF OPERATIONS OF ADRIATIC SLOVENICA

5.3.1 Gross written premiums from insurance and co-insurance contracts and AS pension funds inflows

In the reporting period, premium from the non-life insurance segment accounted for the bulk of total written premium, followed by premium from the health, life and pension insurance segments.

The structure of written premium by insurance class in 2016 – Adriatic Slovenica

Gross written premiums from insurance and co-insurance contracts and AS pension funds inflows by insurance class:

in EUR thousand	2016	2015	2014	Index 2016/2015	Index 2015/2014	Structure 2016
Accident insurance	17,277	16,729	15,877	103.3	105.4	5.7
Land motor vehicle insurance	34,358	34,161	34,524	100.6	99.0	11.3
Fire and natural disaster insurance	16,744	15,998	16,030	104.7	99.8	5.5
Other damage to property insurance	12,493	12,025	12,257	103.9	98.1	4.1
Motor third party liability insurance	39,636	40,069	40,577	98.9	98.7	13.1
General liability insurance	8,341	7,426	7,476	112.3	99.3	2.7
Other insurance	9,711	9,384	9,193	103.5	102.1	3.2
Total non-life (other) insurance	**138,560**	**135,791**	**135,933**	**102.0**	**99.9**	**45.6**
Mixed and term life insurance	21,472	20,161	18,714	106.5	107.7	7.1
Unit-linked life insurance	37,080	35,440	34,169	104.6	103.7	12.2
Pension insurance	5,632	4,612	870	122.1	530.0	1.9
Total life and pension insurance	**64,184**	**60,214**	**53,753**	**106.6**	**112.0**	**21.1**
Health insurance	**100,784**	**100,644**	**108,193**	**100.1**	**93.0**	**33.2**
TOTAL	303,528	296,649	297,880	102.3	99.6	100.0

The structure of written premium in non-life (other) insurance in 2016:

In 2016, premiums of other insurance segments increased by 2% compared to 2015. Growth was recorded in all non-life insurance classes, excluding motor vehicle liability insurance, where the severe price competition continued. Policyholders decided to switch insurance companies already in the case of minimum differences in premium, even though AS offers numerous benefits and rewards continuity.

In the reporting period, accident insurance premium recorded above-average growth of 3.3% due to increased premiums in accident insurance for children and youth and accident insurance of persons during their occupational activity.

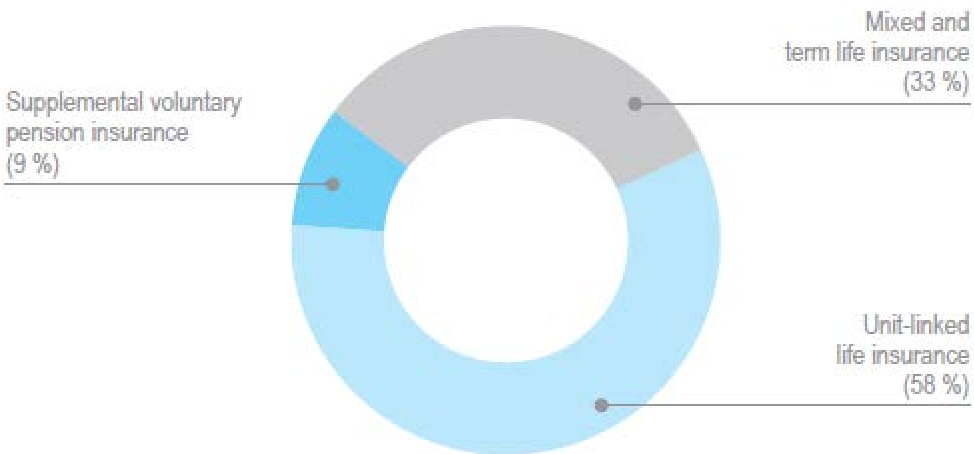
Fire insurance premium was up 4.7% thanks to industry fire insurance with a higher premium for new policyholders. The growth in fire insurance, apart from trade and industry, was considerably lower and was mostly based on premium growth of the DomAS (*Home AS*) product.

Except livestock, crop and computer insurance, all other insurance classes within claims experience recorded higher premiums, resulting in a 3.9% total growth. Growth indexes are high especially in construction and erection insurance showing that these activities started to emerge from the crisis. Premium growth in machinery breakdown insurance (6.2%) came from more consistent malus calculations and portfolio rehabilitation. The largest subclass – household insurance saw an increase of 2.7%.

Liability insurance reached a growth rate of 12.3%. An increase this high was produced by growth in general liability insurance and manufacturer liability insurance, the latter being the highest within this class. As far as professional liability is concerned, strong growth was achieved also by professional liability insurance in healthcare.

Among other insurance classes which recorded a 3.5% growth, the largest rise was experienced by financial aid and assistance insurance, mostly car assistance. Despite the economic situation which was not stimulating for purchases of new vessels, vessel liability insurance remained at the same level as in 2015.

The structure of written premium in life and pension insurance in 2016 (including pension funds inflows):

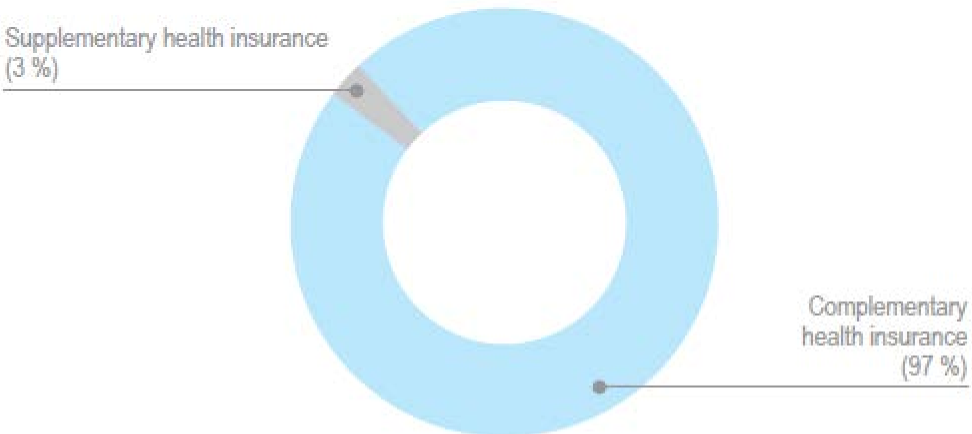


Policyholders were offered life insurance with death benefit for working and ageing population as well as insurance with a savings component to promote primarily the sale of unit-linked insurance. In 2016, investment options for single premium insurance were improved, especially for the existing clients and as an alternative to other savings options after the expiration of existing insurance policies.

The unit-linked insurance premium increased by 4.6%, while the highest growth was achieved by single premium insurance. The second largest life insurance group (risk, additional and mixed life insurance) realised a growth of 6.5%. Risk and additional insurance, both for working and ageing population, generated excellent sale results. However, the interest in traditional mixed insurance declined, mostly due to the reduction in investment guarantees.

With regard to pension insurance, a new pension insurance scheme was introduced in the savings period and the period of additional pension payouts. The number of new contracts increased more than twofold compared to the previous year, exceeding EUR 5.6 million in premium payments, largely into new life-cycle funds.

The structure of written premium in health insurance in 2016:



In 2016, the Company was successful in selling complementary health insurance. Compared to 2015, there were far less surrenders relating to this line of business. In the first ten months of 2016, the Company managed to retain its policyholders, but an increased number of surrenders was registered in November, which probably resulted from the change in the discount system for complementary health insurance. In terms of sales, 2016 still yielded a positive result. The decision to integrate additional services (the AS Health Centre, free assistance at home, etc.) into the complementary health insurance portfolio turned out to be right.

Considering the above, complementary health insurance premium remained at the level of the previous year totalling EUR 97.8 million. Throughout the entire year, the sale of complementary health insurance coincided with the sale of supplementary health insurance, which is why the premium share of the latter increased from 2.5% to 3% in 2015 exceeding EUR 3 million.

The number of policyholders and insurance contracts by insurance class in 2016:

Name of insurance class	Adriatic Slovenica d. d.		AS Group
	Number of policyholders in 2016	Number of insurance policies in 2016	Number of insurance policies in 2016
Accident insurance	3,374,087	423,965	423,965
Health insurance	689,256	378,709	378,709
Land motor vehicle insurance	148,136	148,136	148,136
Aircraft insurance	7	7	7
Marine insurance	1,718	1,718	1,718
Cargo insurance	2,088	2,088	2,088
Fire and natural disaster insurance	82,552	82,552	82,552
Other damage to property insurance	94,037	94,037	94,037
Motor third party liability insurance	278,461	278,461	278,461
Aircraft liability insurance	18	18	18
Marine liability insurance	5,640	5,640	5,640
General liability insurance	12,421	12,421	12,421
Suretyship insurance	368	368	368
Miscellaneous financial loss insurance	1,904	1,904	1,904
Legal expenses insurance	6,292	6,292	6,292
Assistance insurance	193,779	193,779	193,779
Life insurance	66,786	65,620	65,620
Unit-linked life insurance	82,052	79,462	79,462
Capital redemption insurance	5,529	5,529	5,529

Note: As of 1 January 2009, the number of insurance policies sold is aligned with the statistical insurance standard. The relevant indicator is the number of signed insurance contracts at the level of line of business as reported in the past using the ST forms. A long-term policy is taken into account for each year of its duration.

5.3.2 Gross claims paid

Gross claims paid of Adriatic Slovenica by insurance class:

in EUR thousand	2016	2015	2014	Index 2016/2015	Index 2015/2014	Structure 2016
Accident insurance	7,995	8,366	7,295	95.6	114.7	3.7
Land motor vehicle insurance	27,599	26,908	25,311	102.6	106.3	12.6
Fire and natural disaster insurance	5,968	6,195	5,980	96.3	103.6	2.7
Other damage to property insurance	8,152	8,307	8,763	98.1	94.8	3.7
Motor third party liability insurance	29,377	27,760	24,898	105.8	111.5	13.4
General liability insurance	2,836	3,148	3,150	90.1	99.9	1.3
Other insurance	4,145	4,444	5,236	93.3	84.9	1.9
Total non-life (other) insurance	**86,073**	**85,127**	**80,633**	**101.1**	**105.6**	**39.4**
Mixed and term life insurance	14,811	15,213	13,198	97.4	115.3	6.8
Unit-linked life insurance	27,141	23,740	21,927	114.3	108.3	12.4
Pension insurance	435	851	366	51.1	232.3	0.2
Total life and pension insurance	**42,388**	**39,804**	**35,491**	**106.5**	**112.2**	**19.4**
Health insurance	**90,243**	**88,470**	**92,712**	**102.0**	**95.4**	**41.3**
TOTAL	218,704	213,400	208,836	102.5	102.2	100.0

Non-life (other) insurance

Gross claims paid in the non-life insurance segment went up by 1.1% in comparison with 2015. The biggest gross claim growth was achieved by motor vehicle liability insurance, where several large claims caused by trucks abroad were paid. The Company believes that the economic recovery is underway, which is also reflected in the increase in freight transport. Among major trends in claims experience is the rise in international claims and claims related to trucks.

Apart from that, 2.6% more claims were paid in the land motor vehicle insurance class owing to summer storms with hail causing vehicle damage. Claims paid in other insurance classes were lower than in 2015.

Life and pension insurance

In 2016, a much larger extent of maturities of unit-linked life insurance was seen in the life insurance segment compared to previous years. There were far less unit-linked insurance policy surrenders, but more traditional mixed and risk insurance policy surrenders than in previous years. The total number of claims in traditional line of business (death, accident and critical illness diagnosis) was smaller compared to last year. With regard to pensions, the number of extraordinary terminations (surrenders) was reduced by more than half in 2016—in comparison with 2015—showing positive effects of amended legislation and the new pension insurance model offered by the Company.

Health insurance

In 2016, claims from complementary health insurance substantially exceeded the planned and realised claims from the previous year due to the fact that the Health Insurance Institute of Slovenia (ZZZS) saw a 4% increase in inflow from compulsory health insurance contributions because of favourable economic conditions. Claims therefore increased also in complementary health insurance, mostly as a result of a larger quantity of supplied services or cases, expansion of several healthcare programmes and shorter waiting periods. In some specialities or activities, higher claims were the consequence of a rise in healthcare service prices approved by the ZZZS as of June 2016.

Claims in additional health insurance were at the expected level. Exceptions were certain holders of critical illness and surgery insurance policies and a part of the drug insurance portfolio.

5.3.3 ANALYSIS OF OPERATIONS OF ADRIATIC SLOVENICA– Financial result and position

Financial result

Adriatic Slovenica performed well, ending 2016 with a net profit of EUR 11.9 million and net return on equity of 12.1%.

Income statement

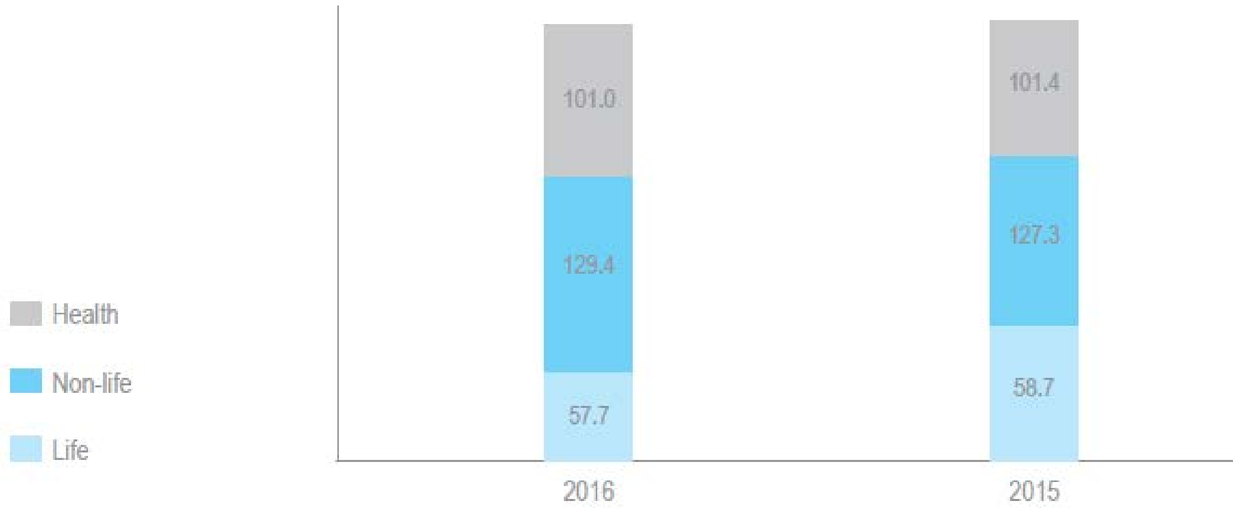
in EUR thousand	2016 Non-life	2016 Life	2016 Health care	2016 Total	2015 Non-life	2015 Life	2015 Health care	2015 Total	Index 16/15
REVENUES	142,582	96,298	101,606	340,486	143,411	75,185	102,977	321,573	105.9
Net premium revenue	**129,377**	**57,709**	**101,025**	**288,111**	**127,281**	**58,670**	**101,384**	**287,335**	**100.3**
Gross written premium	138,560	59,476	100,784	298,820	135,791	60,214	100,644	296,649	100.7
Ceded written premium	-9,271	-1,798	0	-11,069	-8,856	-1,586	0	-10,442	106.0
Change in unearned premium	88	31	241	360	346	43	741	1,129	31.9
Commissions receivable	**1,180**	**561**	**0**	**1,741**	**3,718**	**447**	**0**	**4,165**	**41.8**
Other revenue	**4,128**	**2,554**	**176**	**6,857**	**4,801**	**1,935**	**460**	**7,196**	**95.3**
Other operating revenue	2,428	1,024	160	3,612	3,134	1,746	364	5,244	68.9
Rental revenue from investment property	1,672	222	15	1,910	1,629	6	93	1,728	110.5
Other financial revenue	28	1,308	0	1,336	38	183	3	224	596.4
Other fee and commision income	0	0	0	0	0	0	0	0	-
Investment revenue	**7,898**	**35,473**	**406**	**43,777**	**7,611**	**14,133**	**1,133**	**22,877**	**191.4**
Revenue from shares in associates	0	0	0	0	0	35	0	35	-
Investment revenue	7,898	35,473	406	43,777	7,611	14,099	1,133	22,842	191.7
EXPENSES	-132,222	-93,395	-103,916	-329,532	-130,431	-70,255	-104,071	-304,758	108.1
Net claims incurred	**-78,930**	**-42,831**	**-90,649**	**-212,410**	**-79,323**	**-38,631**	**-88,694**	**-206,649**	**102.8**
Gross claims paid	-86,073	-42,385	-90,243	-218,701	-85,127	-39,804	-88,470	-213,400	102.5
Reinsurers' and co-insurers' share	4,306	572	0	4,878	9,264	430	0	9,693	50.3
Changes in claims provisions	2,836	-1,017	-405	1,413	-3,460	742	-225	-2,942	-48.0
Change in insurance technical provisions for unit-linked insu	**0**	**-22,922**	**0**	**-22,922**	**0**	**-1,826**	**0**	**-1,826**	**1,255.0**
Change in other insurance technical provisions and liabilities	**-289**	**-3,946**	**125**	**-4,110**	**-239**	**-4,730**	**163**	**-4,806**	**85.5**
Change in other insurance technical provisions	-389	-3,946	125	-4,210	47	-4,730	163	-4,519	93.2
Change in liabilities from investment contracts	0	0	0	0	0	0	0	0	-
Expenses for bonuses and discounts	100	0	0	101	-286	0	-1	-287	-35.1
Operating expenses	**-41,103**	**-19,699**	**-12,344**	**-73,145**	**-38,964**	**-18,947**	**-14,350**	**-72,261**	**101.2**
Costs of services	-25,211	-13,088	-6,957	-45,256	-24,134	-13,453	-7,712	-45,299	99.9
of which: Acquisition costs	*-16,696*	*-7,859*	*-2,181*	*-26,735*	*-16,253*	*-8,300*	*-2,546*	*-27,099*	*98.7*
Labour costs	-13,522	-5,950	-4,752	-24,224	-12,569	-4,797	-5,649	-23,015	105.3
Costs of material and energy	-522	-190	-155	-867	-579	-177	-219	-975	88.9
Depreciation and amortisation	-1,847	-471	-480	-2,799	-1,682	-519	-770	-2,971	94.2
Other expenses from insurance operations	**-3,536**	**-194**	**-192**	**-3,922**	**-4,020**	**-276**	**-346**	**-4,642**	**84.5**
Other expenses	**-5,812**	**-1,635**	**-547**	**-7,994**	**-5,199**	**-1,781**	**-499**	**-7,479**	**106.9**
Revaluation operating expenses	-586	-852	-139	-1,577	-164	-827	-208	-1,199	131.6
Investment property expenses	-2,913	-140	-2	-3,055	-1,969	-30	-13	-2,012	151.8
Other operating expenses	-1,273	-162	-211	-1,645	-2,951	-212	-263	-3,426	48.0
Other financial expenses	-1,041	-481	-195	-1,716	-115	-712	-14	-841	203.9
Investments expenses	**-1,409**	**-865**	**-309**	**-2,584**	**-2,664**	**-4,002**	**-343**	**-7,010**	**36.9**
Expenses for shares in associates	0	-84	0	-84	-389	0	0	-389	21.5
Investments expenses	-1,409	-781	-309	-2,500	-2,275	-4,002	-343	-6,621	37.8
Financial expenses for interest	**-1,142**	**-1,304**	**0**	**-2,446**	**-21**	**-62**	**-2**	**-85**	**2,885.0**
PROFIT BEFORE TAX	10,361	2,902	-2,309	10,954	12,980	4,930	-1,094	16,815	65.1
TAX	-35	-95	1,072	943	-2,024	-718	191	-2,551	-37.0
Income tax	-2,450	-189	414	-2,224	-1,417	-528	177	-1,768	125.8
Deferred tax	2,415	94	658	3,167	-607	-191	14	-783	-404.4
NET PROFIT/LOSS	10,326	2,808	-1,237	11,897	10,956	4,211	-904	14,264	83.4

Net premium revenue

In the reported period, gross written premium amounted to EUR 298.8 million or 0.7% more than the year before. The recognized growth would have been significantly higher, but for 2016 revenue from voluntary pension insurance premium was recorded as assets from investment contracts (EUR 4.8 million). In non-life insurance, growth was observed for all insurance classes, with the exception of MTPL insurance. In the life insurance segment, single premium and term insurance was commercially interesting, while minimum growth in health insurance was provided with an increased volume of new supplementary health insurance and by managing the cancellations of complementary health insurance. By taking into account the premiums ceded to reinsurers and changes in unearned premiums, the Company collected EUR 288.1 million in net premium in 2016, which is 0.3% more than in 2015. The ceded reinsurance premium was 6.0% higher and amounted to EUR 11.1 million, while the release of unearned premiums in 2016 had an insignificant effect on net operating revenue – the drawdown of this type of deferred revenue only amounted to EUR 360 thousand.

The predominant segment in the net premium revenue structure was non-life insurance. In 2016, it reached EUR 129.4 million, accounting for a 44.9% share, which is EUR 2.1 million (1.6%) more than in 2015. Non-life insurance is followed by the health insurance segment with EUR 101 million (0.4% less than in 2015) of net revenue and life insurance with EUR 57.7 million and a 20% share of total net premium revenue.

The structure of net premium revenue by business segment in 2016 and 2015 (in EUR million):



Net claims incurred

In 2016, net claims incurred, taking into consideration the changes in claims provisions, amounted to EUR 212.4 million, which represents a 2.8% growth compared to the previous year. This was significantly connected to both gross claims settled and reinsurers' shares. In non-life insurance, there was an increase in loss events arising from MTPL insurance, land motor vehicle insurance and fire and natural disaster insurance. Life insurance was marked by the consequences of a large volume of maturities. The increase in health insurance claims was the result of the measures adopted by the Health Insurance Institute of Slovenia (ZZZS), which were aimed at shortening waiting periods and expanding the selected healthcare programmes. In some activities, increases in claims were the result of higher prices of health services, which was the measure recognized by ZZZS since June 2016.

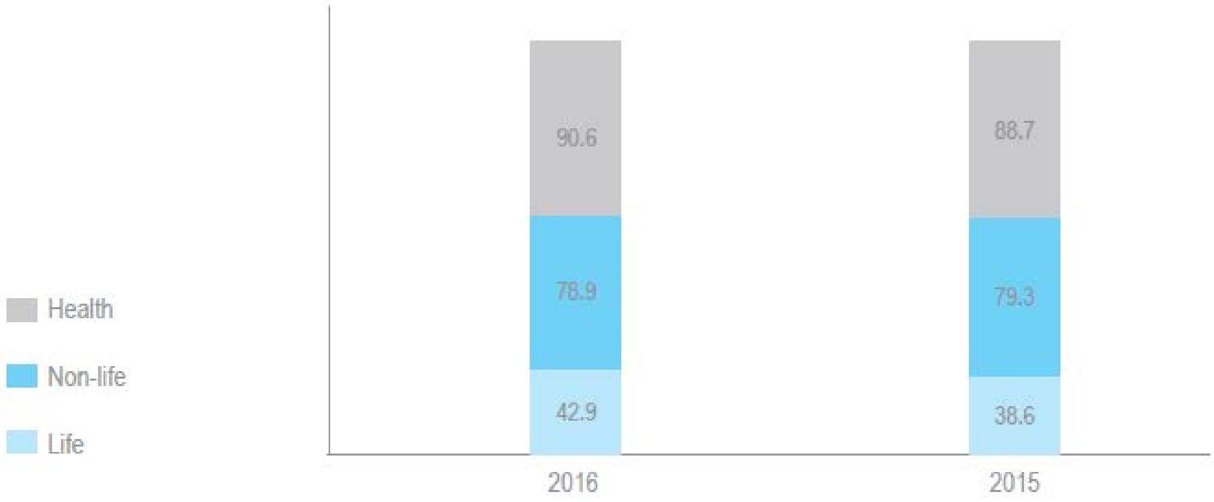
Lower reinsurers' shares greatly contributed to higher net claims incurred, amounting to EUR 4.9 million in 2016, which is 49.7% lower than the year before (mainly in non-life insurance).

Claims provisions (including changes in reinsurance claims provisions) decreased by EUR 1.4 million in 2016, while they were formed in the amount of EUR 2.9 million in 2015.

In the structure of net claims incurred, health insurance is the prevailing segment with a 42.7% share (EUR 90.6 million), which increased by 2.2% (EUR 2.0 million) in 2016 compared to 2015. In the second place, net claims incurred in the non-life segment faced a downturn by 0.5% and amounted to EUR 78.9 million. Net claims incurred in life insurance stood at EUR 42.8 million with a 20.2% share of total net claims incurred.

The ratio between net claims incurred and net premium deteriorated by 2.5% or 1.8 percentage point, up from 71.9% to 73.7%.

The structure of net claims incurred by business segment in 2016 and 2015 (in EUR million):



Operating expenses

Operating expenses (excluding claim settlement costs, which are recorded under gross claims incurred) amounted to EUR 73.1 million and increased by EUR 0.9 million (1.2%) in 2016. The increase is based on the 5.3% change in labour costs. Service costs, which mainly include acquisition costs (EUR 26.7 million), amortisation costs (EUR 2.8 million) and material costs, remained at the 2015 level.

The structure of operating expenses in 2016 and 2015 (in %):

Changes in insurance technical provisions

In 2016, the volume of mathematical/insurance technical provisions for unit-linked insurance changed by EUR 22.9 million due to portfolio management and the increased unit value of policyholders' assets. Other insurance technical provisions climbed by EUR 4.2 million. In the life insurance segment, they were EUR 3.9 million higher, while in the non-life segment they were EUR 289 thousand higher. At the same time, drawdown of provisions in health insurance amounted to EUR 125 thousand.

Investment revenue and expenses

The Company achieved a net financial result from investing activities in the amount of EUR 41.2 million, exceeding the result from 2015 by EUR 25.3 million. This was mainly contributed by investment revenue, which was 91.4% (EUR 20.9 million) higher and amounted to EUR 43.8 million. The increase is related to growth in net unrealised gains of unit-linked life insurance investments (EUR 30.4 million in 2016 and EUR 6.4 million in 2015). In contrast, investment expenses were EUR 4.4 million (63.1%) lower and amounted to EUR 2.6 million. The decrease is related to both lower net unrealised gains of unit-linked life insurance investments (EUR 3.7 million in 2016 and EUR 6 million in 2015) and lower losses in the sale of financial assets.

Other revenue and expenses and financial expenses for interest

In 2016, the net result of other revenue (including fee and commission revenues or insurance revenue) and expenses (including financial expenses for interest) totalled EUR –5.8 thousand and was EUR 5 million lower than in the previous comparable period. This result is based both on lower other revenue and higher other expenses. Other revenue amounted to EUR 8.6 million in 2016, which mostly decreased as the result of lower other insurance revenue (by EUR 2.4 million – lower received reinsurance fees and commissions). At the same time, other expenses were higher than the year before by EUR 2.2 million, amounting to EUR 14.4 million. Their increase was mostly the result of increased investment property expenses, other financial expenses for operating liabilities and financial expenses for interest (interest on subordinated debt).

Net profit or loss

Detailed financial statements of the Company show that net operating result in the amount of EUR 11.9 million consists of positive results in life insurance (EUR 2.8 million) and non-life insurance (EUR 10.3 million), while the loss in the amount of EUR 1.2 million was recorded in health insurance. The following factors had an impact on the decreased net profit in 2016 when compared to previous years: lower result from investing activities (excluding the effect of unit-linked life insurance), a negative technical result in health insurance, which continued in 2016, and a minor deterioration in the technical result of non-life insurance.

Financial result ratios from 2014 to 2016:

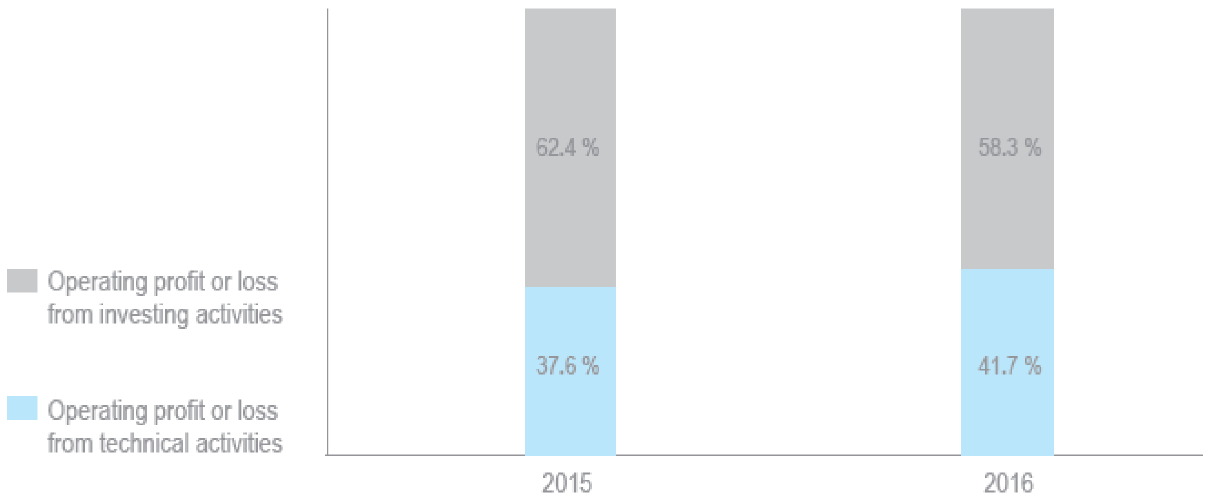
	2016		2015		2014	
	Non-life	Health care	Non-life	Health care	Non-life	Health care
Net expense ratio	30.9%	12.2%	27.7%	14.2%	28.6%	13.5%
Net loss result	61.0%	89.7%	62.3%	87.5%	56.1%	84.3%
Expense ratio	33.4%	12.5%	31.0%	14.4%	34.0%	14.7%
Combined ratio	94.4%	102.2%	93.3%	101.9%	90.2%	99.0%

Profit/loss before taxation by segments for 2016 and 2015*

	2016				2015			
	Non-life	Life	Health care	Total	Non-life	Life	Health care	Total
Operating profit or loss from technical activities	7,268	-473	-2,224	4,571	8,471	-197	-1,950	6,324
Operating profit or loss from investing activities	3,093	3,375	-85	6,383	4,509	5,127	856	10,492
Profit before tax	10,361	2,902	-2,309	10,954	12,980	4,930	-1,094	16,815

* The technical result of life insurance includes the transfer of return on unit-linked insurance and guaranteed return. The profit or loss from investing activities combines a presentation of all financial revenues and expenses: investment revenue and expenses, investment property revenue and expenses, financial revenue and expenses from interest, other financial revenue/expenses.

The structure of profit before tax for 2016 and 2015:



Revenue and expenses for the year by insurance class of the parent company:

in EUR thousand	2016	
Name of insurance class	Revenue	Expenses
Accident insurance	17,914	(12,455)
Health insurance	101,586	(103,668)
Land motor vehicle insurance	36,094	(40,121)
Railway insurance	-	-
Aircraft insurance	5	(12)
Marine insurance	594	(613)
Cargo insurance	1,544	(1,100)
Fire and natural disaster insurance	17,780	(18,547)
Other damage to property insurance	12,913	(14,182)
Motor third party liability insurance	46,938	(42,137)
Aircraft liability insurance	12	(17)
Marine liability insurance	622	(336)
General liability insurance	8,872	(4,720)
Credit insurance	509	(200)
Suretyship insurance	85	(18)
Miscellaneous financial loss insurance	762	(774)
Legal expenses insurance	128	(60)
Assistance insurance	6,068	(4,380)
Life insurance	32,651	(30,725)
Unit-linked life insurance	67,589	(66,160)
Capital redemption insurance	6,214	(6,833)

Financial position

As at 31 December 2016, total assets of the Company stood at EUR 733 million, representing a 10.2% increase compared to the previous year. The increase resulted from growth in unit-linked insurance assets and the recognition of pension insurance premium as assets from investment contracts in 2016. The bulk of assets at the year-end was accounted for by life insurance assets (63.2%), 35.8% by non-life insurance assets and the rest by health insurance assets.

The structure of assets

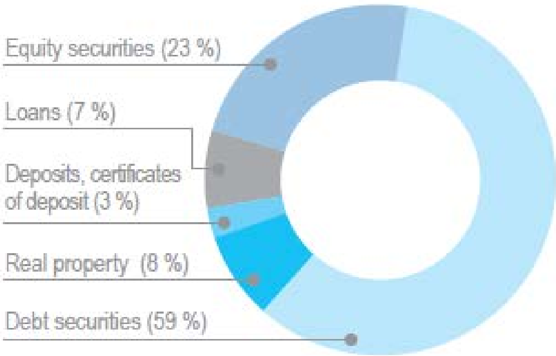
in EUR thousand	2016	in %	2015	in %	Index 16/15
ASSETS	**733,215**	**100.0%**	**665,355**	**100.0%**	**110.2**
Intangible assets	5,513	0.8%	6,065	0.9%	90.9
Property, plant and equipment	29,340	4.0%	27,823	4.2%	105.5
Non-current assets for sale	2,030	0.3%	2,030	0.3%	100.0
Deferred tax assets	6,084	0.8%	2,832	0.4%	214.8
Investment property	29,567	4.0%	30,835	4.6%	95.9
Financial assets and financial investments in subsidiaries and associated companies	58,161	7.9%	20,190	3.0%	288.1
Financial investments	259,131	35.3%	245,974	37.0%	105.3
- loans and deposits	32,353	4.4%	38,758	5.8%	83.5
- held to maturity	38,008	5.2%	39,472	5.9%	96.3
- available for sale	180,930	24.7%	152,425	22.9%	118.7
- recognised at fair value through profit and loss	7,840	1.1%	15,321	2.3%	51.2
Unit-linked insurance assets	287,601	39.2%	263,760	39.6%	109.0
Reinsurers' and co-insurers' share of insurance technical provisions	17,399	2.4%	17,215	2.6%	101.1
Assets from financial contracts	4,753	0.6%	0	0.0%	-
Receivables	22,766	3.1%	29,787	4.5%	76.4
- receivables from direct insurance operations	17,407	2.4%	18,447	2.8%	94.4
- receivables from reinsurance and co-insurance operations	1,773	0.2%	1,568	0.2%	113.1
- current tax receivables	0	0.0%	3,484	0.5%	0.0
- other receivables	3,586	0.5%	6,288	0.9%	57.0
Other assets	5,330	0.7%	5,940	0.9%	89.7
Cash and cash equivalents	5,539	0.8%	12,902	1.9%	42.9

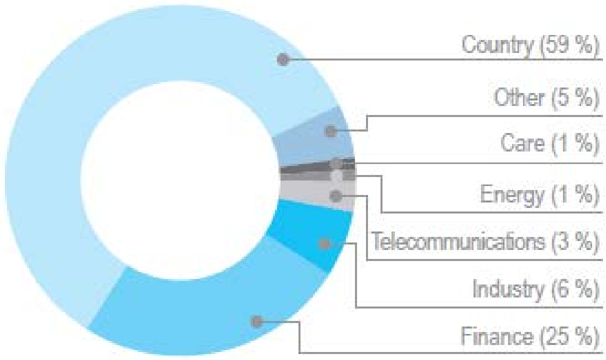
As at 31 December 2016, on the assets side, investments were recognised as the most important category. They accounted for EUR 639.2 million or 87.2% of total assets (31 December 2015: EUR 560.8 million). Compared to the previous year, the volume of investments expanded by 14%.

As at the 2016 year-end, EUR 287.6 million was accounted for by unit-linked insurance assets, EUR 259.1 million by other financial investments, EUR 58.2 million by financial investments in Group members, EUR 29.6 million by investment property and EUR 4.8 million by financial assets.

Due to portfolio management activities and growth of unit value of unit-linked insurance assets, the unit-linked insurance assets of increased by 9% compared to the previous year, and accounted for a 39.2% share of total assets as at 31 December 2016 (31 December 2015: a 39.6% share).

The structure of AS financial assets by type as at 31 December 2016 (excluding unit-linked insurance assets):





As at 31 December 2016, receivables amounted to EUR 22.8 million, accounting for 3.1% of total assets, and decreased by 23.6% compared to the year before. The decrease in the value of receivables arising from direct insurance operations resulted from a more effective recovery of premium payments, lower current tax assets and other receivables (reinsurance fees and commissions), totalling EUR 7.2 million.

As at 31 December 2016, property, plant and equipment and long-term intangible assets totalled EUR 34.9 million. The former accounted for 4% and the latter for 0.8% of total assets. Theirtotal share remained similar to the previous year.

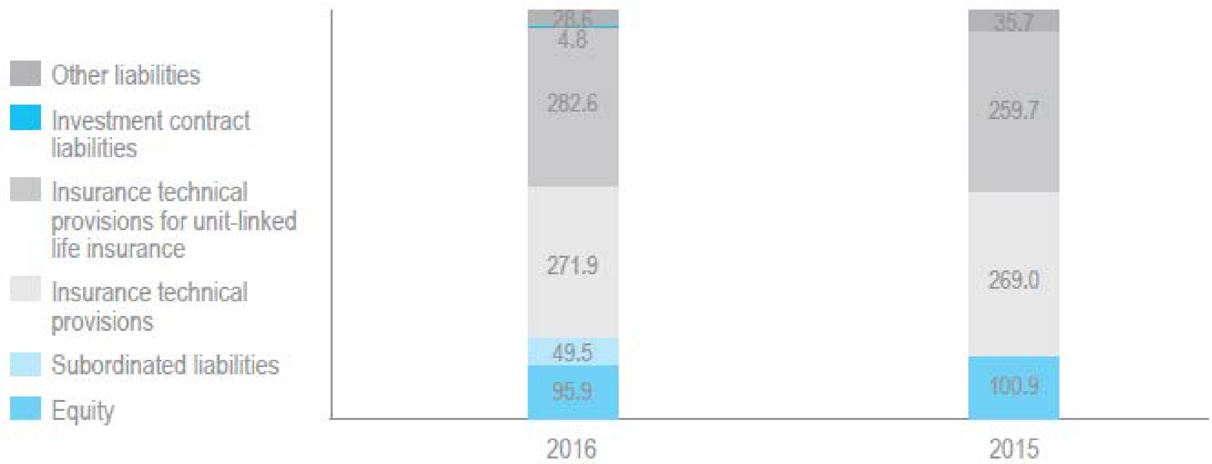
The amount of insurance technical provisions transferred to reinsurance/coinsurance decreased by EUR 184 thousand to EUR 17.4 million.

The structure of liabilities:

in EUR thousand	2016	in %	2015	in %	Index 16/15
LIABILITIES	733,215	100.0%	665,355	100.0%	110.2
CAPITAL	**95,915**	**13.1%**	**100,930**	**15.2%**	**95.0**
Capital and reserves attributable to majority shareholders of the Company	**95,915**	**13.1%**	**100,930**	**15.2%**	**95.0**
Called-up capital	*43,000*	*5.9%*	*43,000*	*6.5%*	*100.0*
Share premium	*4,212*	*0.6%*	*4,212*	*0.6%*	*100.0*
Reserves from profit	*9,224*	*1.3%*	*15,543*	*2.3%*	*59.3*
Own shares/interest shares (deductible)	*0*	*0.0%*	*0*	*0.0%*	*-*
Translation reserves	*0*	*0.0%*	*0*	*0.0%*	*-*
Fair value revaluation reserve	*0*	*0.0%*	*0*	*0.0%*	*-*
Revaluation reserve	*59*	*0.0%*	*3,540*	*0.5%*	*1.7*
Net profit brought forward	*26,468*	*3.6%*	*19,917*	*3.0%*	*132.9*
Net profit or loss for the period	*12,954*	*1.8%*	*14,719*	*2.2%*	*88.0*
Minority interest	**0**	**0.0%**	**0**	**0.0%**	**-**
Subordinated issued bonds	**49,453**	**6.7%**	**0**	**0.0%**	**-**
Insurance technical provisions	**271,896**	**37.1%**	**269,045**	**40.4%**	**101.1**
Unearned premium	49,383	6.7%	49,762	7.5%	99.2
Insurance technical provisions for life insurance	107,251	14.6%	102,765	15.4%	104.4
Claims provisions	114,097	15.6%	115,307	17.3%	99.0
Other insurance technical provisions	1,165	0.2%	1,210	0.2%	96.3
Insurance technical provisions for unit-linked life insurance	**282,619**	**38.5%**	**259,698**	**39.0%**	**108.8**
Other provisions	**3,815**	**0.5%**	**4,577**	**0.7%**	**83.4**
Liabilities from non-current assets held for sale	**0**	**0.0%**	**0**	**0.0%**	**-**
Deferred tax liabilities	**99**	**0.0%**	**732**	**0.1%**	**13.5**
Investment contract liabilities	**4,753**	**0.6%**	**0**	**0.0%**	**-**
Financial liabilities	**1,046**	**0.1%**	**984**	**0.1%**	**106.3**
Operating liabilities	**6,418**	**0.9%**	**6,893**	**1.0%**	**93.1**
Other liabilities	**17,200**	**2.3%**	**22,496**	**3.4%**	**76.5**

As at 31 December 2016, total equity amounted to EUR 95.9 million, which is 5% less than the year before. The proportion of equity in total assets went up by 2.1 percentage points and stood at 13.1% as at 31 December 2016. The share capital, consisting of 10,304,407 ordinary registered no-par value shares, remained unchanged in 2016 and totalled EUR 43 million at the year-end. The value of revaluation reserves decreased due to the lower value of available-for-sale financial assetsand amounted to EUR 59 thousand as at the 2016 year-end. The accumulated profit, which includes net profit from previous periods and net profit for the current period, amounted to EUR 39.4 million as at the year-end. Compared to the previous year, it has increased by the amount of net profit for the current period of EUR 11.9 million, the change in released profit reserves in the amount of EUR 1.1 million, the change in released reserves for equalisation of catastrophe claims in the amount of EUR 5.6 million and dividends paid in the amount of EUR 13.2 million.

Structure of liabilities of the Company as at 31 December 2016:



On the liabilities side, the insurance technical provisions totalled EUR 554.5 million at the 2016 year-end when compared to the year before, increasing their volume in parallel to decreasing their total share in total assets to 75.6%. The insurance technical provisions for unit-linked insurance grew by 8.8% to EUR 282.6 million, whereas other insurance technical provisions rose only slightly to EUR 271.9 million.

With the issuance of the subordinate debt in the first half of 2016, the financial liabilities of the Company increased to EUR 49.5 million.

As at 31 December 2016, operating liabilities stood at EUR 6.4 million. At the same time, liabilities from financial contracts were recognized in the amount of EUR 4.8 million (formation in 2016 in connection to pension insurance premium). Based on other short-term liabilities from insurance operations, other liabilities decreased by EUR 5.3 million to EUR 17.2 million.

5.4 ANALYSIS OF THE AS GROUP OPERATIONS

Consolidated financial statements of the Group comprise financial statements of the parent company Adriatic Slovenica d.d. and the subsidiaries: Prospera d.o.o., VIZ d.o.o, KD Skladi d.o.o., KD IT d.o.o., Zdravje AS d.o.o., AS neživotno osiguranje a.d.o. (in liquidation) and Permanens d.o.o (in liquidation). A substantial value of economic categories of the Group include the assets, liabilities, revenue and expenses of the parent company Adriatic Slovenica.

Financial result

The Adriatic Slovenica Group operated well in 2016, ending the reporting year with net profit in the amount of EUR 12.3 million and return on equity of 12.3%.

Operating results

	2016						2015					
in EUR thousand	Non-life	Life	Health care	Management	Consolidation	Total	Non-life	Life	Health care	Management	Consolidation	Total
REVENUES	145.253	96.798	101.627	3.482	-1.206	345.954	147.274	76.073	102.975	0	78	326.400
Net premium revenue	**129.539**	**57.709**	**101.025**	**0**	**0**	**288.273**	**128.351**	**59.179**	**101.384**	**0**	**0**	**288.914**
Gross written premium	138.560	59.476	100.784	0	0	298.820	136.855	60.723	100.644	0	0	298.222
Ceded written premium	-9.289	-1.798	0	0	0	-11.086	-9.369	-1.588	0	0	0	-10.957
Change in unearned premium	268	31	241	0	0	540	865	43	741	0	0	1.649
Commissions receivable	**1.180**	**561**	**0**	**0**	**0**	**1.741**	**3.718**	**460**	**0**	**0**	**0**	**4.178**
Other revenue	**5.309**	**2.954**	**196**	**3.478**	**-1.206**	**10.731**	**6.350**	**2.002**	**460**	**0**	**-78**	**8.734**
Other operating revenue	3.609	1.423	181	122	-438	4.897	4.683	1.813	364	0	0	6.860
Rental revenue from investment property	1.672	222	15	0	-38	1.872	1.629	6	93	0	-78	1.650
Other financial revenue	28	1.308	0	0	-209	1.127	38	183	3	0	0	224
Other fee and commision income	0	0	0	3.357	-521	2.836	0	0	0	0	0	0
Investment revenue	**9.225**	**35.574**	**405**	**4**	**0**	**45.208**	**8.854**	**14.433**	**1.131**	**0**	**0**	**24.418**
Revenue from shares in associates	161	74	0	0	0	236	0	354	0	0	0	354
Investment revenue	9.064	35.500	405	4	0	44.972	8.854	14.079	1.131	0	0	24.063
EXPENSES	-135.496	-93.680	-104.119	-2.554	1.206	-334.642	-135.654	-70.954	-104.069	0	-78	-310.755
Net claims incurred	**-79.223**	**-42.831**	**-90.649**	**0**	**0**	**-212.703**	**-80.420**	**-38.696**	**-88.694**	**0**	**0**	**-207.810**
Gross claims paid	-86.488	-42.385	-90.243	0	0	-219.117	-86.538	-39.860	-88.470	0	0	-214.868
Reinsurers' and co-insurers' share	4.542	572	0	0	0	5.113	9.453	430	0	0	0	9.883
Changes in claims provisions	2.723	-1.017	-405	0	0	1.300	-3.335	735	-225	0	0	-2.825
Change in insurance technical provisions for unit-linked insu	**0**	**-22.922**	**0**	**0**	**0**	**-22.922**	**0**	**-2.363**	**0**	**0**	**0**	**-2.363**
Change in other insurance technical provisions and liabilities	**-217**	**-3.946**	**125**	**0**	**0**	**-4.038**	**-242**	**-4.764**	**163**	**0**	**0**	**-4.843**
Change in other insurance technical provisions	-317	-3.946	125	0	0	-4.139	44	-4.764	163	0	0	-4.556
Change in liabilities from investment contracts	0	0	0	0	0	0	0	0	0	0	0	0
Expenses for bonuses and discounts	100	0	0	0	0	101	-286	0	-1	0	0	-287
Operating expenses	**-43.072**	**-20.067**	**-12.547**	**-2.534**	**1.206**	**-77.014**	**-42.096**	**-19.358**	**-14.350**	**0**	**65**	**-75.739**
Costs of services	-25.802	-13.143	-7.039	-1.634	1.206	-46.413	-24.944	-13.667	-7.712	0	78	-46.245
of which: Acquisition costs	*-16.608*	*-7.812*	*-2.181*	*0*	*1*	*-26.600*	*-16.201*	*-8.395*	*-2.546*	*0*	*0*	*-27.142*
Labour costs	-14.881	-6.055	-4.832	-841	0	-26.609	-14.729	-4.977	-5.649	0	0	-25.354
Costs of material and energy	-539	-192	-177	-13	0	-920	-628	-188	-219	0	0	-1.035
Depreciation and amortisation	-1.850	-677	-499	-46	0	-3.072	-1.796	-526	-770	0	-13	-3.105
Other expenses from insurance operations	**-3.707**	**-194**	**-192**	**0**	**0**	**-4.093**	**-4.063**	**-276**	**-346**	**0**	**0**	**-4.685**
Other expenses	**-6.674**	**-1.635**	**-547**	**-18**	**0**	**-8.874**	**-6.533**	**-1.793**	**-499**	**0**	**13**	**-8.813**
Revaluation operating expenses	-1.117	-852	-139	0	0	-2.108	-1.239	-833	-208	0	0	-2.280
Investment property expenses	-2.913	-140	-2	0	0	-3.055	-1.969	-30	-13	0	13	-2.000
Other operating expenses	-1.593	-162	-211	-16	0	-1.982	-3.189	-218	-263	0	0	-3.671
Other financial expenses	-1.051	-481	-195	-2	0	-1.728	-136	-712	-14	0	0	-863
Investments expenses	**-1.461**	**-781**	**-309**	**-2**	**0**	**-2.553**	**-2.277**	**-3.642**	**-341**	**0**	**0**	**-6.261**
Expenses for shares in associates	-52	0	0	0	0	-52	-13	-6	0	0	0	-19
Investments expenses	-1.409	-781	-309	-1	0	-2.501	-2.264	-3.636	-341	0	0	-6.241
Financial expenses for interest	**-1.142**	**-1.304**	**0**	**0**	**0**	**-2.446**	**-22**	**-62**	**-2**	**0**	**0**	**-86**
PROFIT BEFORE TAX	9.757	3.118	-2.492	928	0	11.312	11.620	5.119	-1.094	0	0	15.645
TAX	34	-113	1.123	-10	0	1.034	-2.040	-718	191	0	0	-2.568
Income tax	-2.508	-223	414	-214	0	-2.531	-1.569	-528	177	0	0	-1.920
Deferred tax	2.542	111	709	205	0	3.566	-471	-191	14	0	0	-648
NET PROFIT/LOSS	9.791	3.005	-1.369	918	0	12.346	9.579	4.401	-904	0	0	13.077

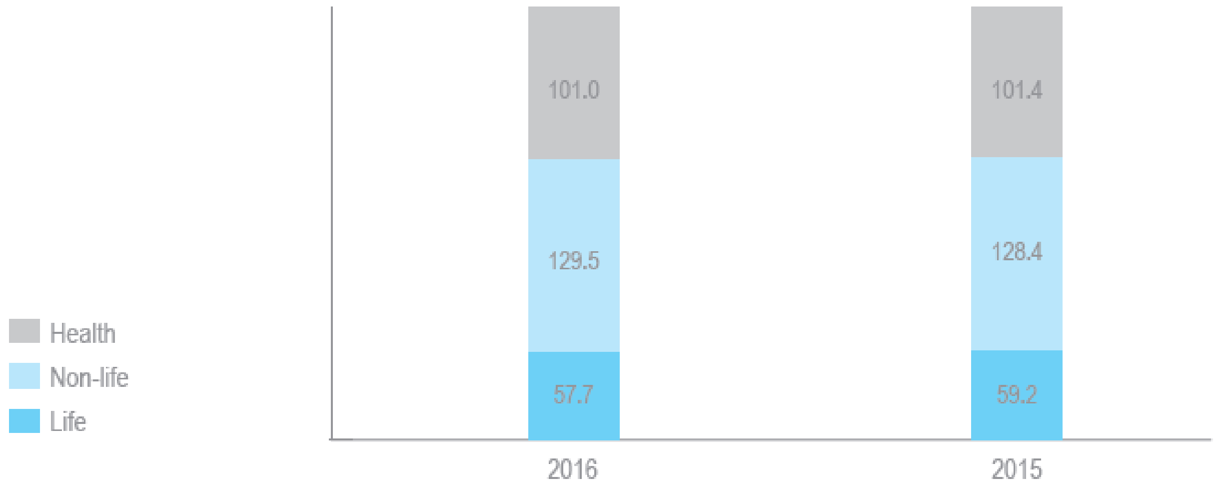
Net premium revenue

In the reporting period, gross written premium of the Group was 0.2% higher than the year before, amounting to EUR 298.8 million. The recognized growth would have been significantly higher, but for 2016 revenue from voluntary pension insurance was recorded as assets from investment contracts (EUR 4.8 million).

In non-life insurance, growth was observed for all insurance classes, with the exception of MTPL insurance. In the life insurance segment, single premium and term insurance was commercially interesting, while minimum growth in health insurance was provided with an increased volume of new supplementary health insurance and by managing the cancellations of complementary health insurance. By taking into account the premiums ceded to reinsurers and changes in unearned premiums, the Company collected EUR 288.3 million in net premium, which is 0.2% less than in 2015 and a result of the changed reinsurance protection. The ceded reinsurance premium was 1.2% higher and amounted to EUR 11.1 million, while the release of unearned premiums in 2016 had an insignificant effect on net operating revenue – the drawdown of this type of deferred revenue only amounted to EUR 540 thousand.

The predominant segment in the net premium revenue structure was non-life insurance. In 2016, it reached EUR 129.5 million, accounting for a 44.9% share, which is EUR 1.2 million (0.9%) more than in 2015. Non-life insurance is followed by the health insurance segment with EUR 101.0 million (0.4% less than in 2015) of net revenue and life insurance with 57.7 million and a 20.0% share of total net premium revenue.

The structure of net premium revenue by business segment in 2016 and 2015 (in EUR million):



Net claims incurred

In 2016, net claims incurred, taking into consideration the changes in claims provisions, amounted to EUR 212.7 million, which represents a 2.4% growth compared to the previous year. This was significantly connected to both gross claims settled and reinsurers' shares. In non-life insurance, there was an increase in loss events arising from MTPL insurance, comprehensive motor vehicle insurance and fire and natural disaster insurance. At the same time, life insurance was marked by the consequences of a large volume of maturities. The increase in health insurance claims was the result of the measures adopted by the Health Insurance Institute of Slovenia (ZZZS) in the form of expanding the selected health programmes and shortening waiting periods. In some activities, increases in claims were the result of higher prices of health services, which was the measure recognized by ZZZS since June 2016.

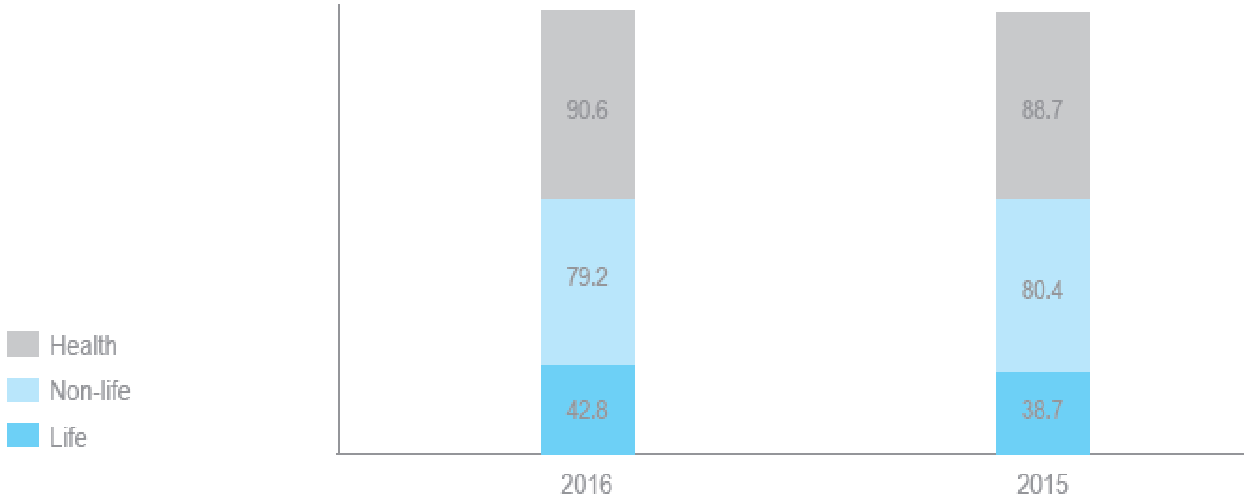
Lower reinsurers' shares greatly contributed to higher net claims incurred, amounting to EUR 5.1 million in 2016, which is 48.3% lower than the year before (mainly in non-life insurance).

Claims provisions (including changes in reinsurance claims provisions) decreased by EUR 1.3 million in 2016, while they were formed in the amount of EUR 2.8 million in 2015.

In the structure of net claims incurred, health insurance is the prevailing segment with a 42.6% share (EUR 90.6 million), which increased by 2.2% (EUR 2.0 million) in 2016 compared to 2015. In the second place, net claims incurred in the non-life segment faced a downturn by 1.5% and amounted to EUR 79.2 million. Net claims incurred in life insurance stood at EUR 42.8 million with a 20.1% share of total net claims incurred.

The ratio between net claims incurred and net premium revenue deteriorated by 2.6% or 1.9 percentage point, up from 71.9% to 73.8%.

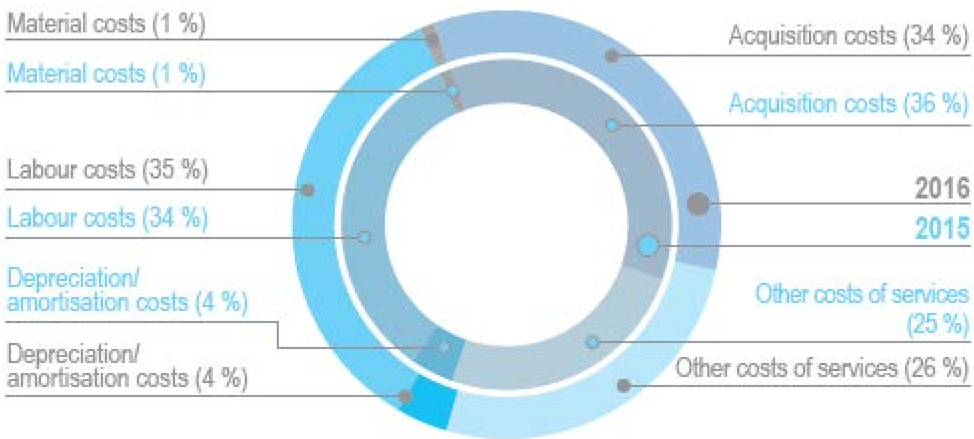
Structure of net claims incurred by business segments in the 2015-2016 period (in EUR million):



Operating expenses

Operating expenses (excluding claim handling costs, which are recorded under gross claims incurred) amounted to EUR 77.0 million and increased by EUR 1.3 million (1.7%) in 2016. The increase resulted from the consolidation effect of KD Skladi and other companies included in the consolidation and is reflected in higher labour costs and other service costs. Acquisition costs (EUR 26.6 million), amortisation/depreciation costs (EUR 3.1 million) and material costs remained at the 2015 level.

The structure of operating expenses in 2016 and 2015 (in %):



Changes in insurance technical provisions

In 2016, the volume of mathematical/insurance technical provisions for unit-linked insurancechanged by EUR 22.9 million due to portfolio management and the increased unit value of policyholders' assets. Other insurance technical provisions climbed by EUR 4.0 million in 2016. In the life insurance segment, they were EUR 3.9 million higher, while in the non-life segment they were EUR 217 thousand higher. At the same time, drawdown of provisions in health insurance amounted to EUR 125 thousand.

Investment revenue and expenses

The Company achieved a net financial result from investing activities in the amount of EUR 42.7 million, exceeding the result from 2015 by EUR 24.5 million. This was mainly contributed by investment revenue, which was 85.1% (EUR 20.8 million) higher and amounted to 45.2 million. The increase is related to growth in net unrealised gains of unit-linked life insurance investments (EUR 30.4 million in 2016 and EUR 6.4 million in 2015). In contrast, investment expenses were EUR 3.7 million (59.2%) lower and amounted to EUR 2.6 million. The decrease is related to both lower net unrealised gains of unit-linked life insurance investments (EUR 3.7 million in 2016 and EUR 6.0 million in 2015) and lower losses in the sale of financial assets.

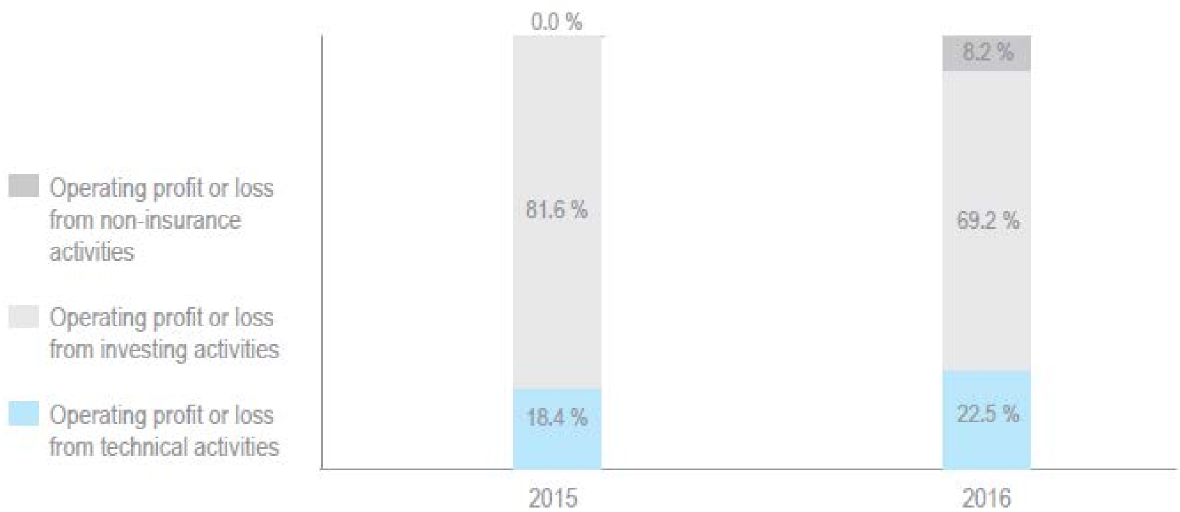
Other revenue and expenses and financial expenses for interest

In 2016, the net result of other revenue (including fee and commission revenue or insurance revenues) and expenses (including financial expenses for interest) totalled EUR –2.9 million and was EUR 2.3 million lower than in the previous comparable period. This result is based on higher other revenue and other expenses. Other revenues amounted to EUR 12.5 million in 2016. The impact of consolidation (the effect of KD Skladi. and other companies included in the consolidation) brings an additional EUR 3.5 million of revenues at the Group level. At the same time, their observed growth was hindered mostly by a decrease in other insurance revenue (by EUR 2.4 million – lower received reinsurance commissions). Total other expenses were higher than the year before by EUR 1.8 million, amounting to EUR 15.4 million. Their increase was mostly the result of increased investment property expenses, other financial expenses for operating liabilities and financial expenses for interest (interest on subordinated debt).

Net profit or loss

Detailed financial statements of the Group show that net operating result in the amount of EUR 12.3 million consists of positive results in life insurance (EUR 3 million), non-life insurance (EUR 9.8 million) and asset management (EUR 0.9 million), while a loss in the amount of EUR 1.4 million was recorded in health insurance. The following factors had an impact on the decreased net profit in 2016 when compared to the previous years: lower financial results from investing activities (excluding the effect of unit-linked life insurance), a negative technical result in health insurance, which continued in 2016, and a minor deterioration in the technical result of non-life insurance.

The structure of profit before tax for 2016 and 2015:



Financial position

As at 31 December 2016, total assets of the Group stood at EUR 737.3 million, representing a 10% increase compared to the previous year. The increase resulted from growth in unit-linked insurance assets and the recognition of pension insurance premium as assets from investment contracts in 2016. The bulk of assets at the year-end was accounted for by life insurance assets (63.9%), 35.9% by non-life insurance assets and the rest for the implementation of health insurance activities and asset management.

The structure of assets:

in EUR thousand	2016	in %	2015	in %	Index 16/15
ASSETS	737,307	100.0%	670,547	100.0%	110.0
Intangible assets	33,883	4.6%	6,065	0.9%	558.7
Property, plant and equipment	31,918	4.3%	27,824	4.1%	114.7
Non-current assets for sale	4	0.0%	25	0.0%	17.4
Deferred tax assets	7,034	1.0%	3,303	0.5%	212.9
Investment property	27,444	3.7%	30,835	4.6%	89.0
Financial assets and financial investments in subsidiaries and associated companies	12,130	1.6%	11,998	1.8%	101.1
Financial investments	269,781	36.6%	250,318	37.3%	107.8
- loans and deposits	38,508	5.2%	39,725	5.9%	96.9
- held to maturity	38,008	5.2%	39,472	5.9%	96.3
- available for sale	184,025	25.0%	151,564	22.6%	121.4
- recognised at fair value through profit and loss	9,240	1.3%	19,557	2.9%	47.2
Unit-linked insurance assets	287,601	39.0%	263,760	39.3%	109.0
Reinsurers' and co-insurers' share of insurance technical provisions	17,399	2.4%	18,018	2.7%	96.6
Assets from financial contracts	4,753	0.6%	0	0.0%	-
Receivables	28,983	3.9%	37,154	5.5%	78.0
- receivables from direct insurance operations	18,916	2.6%	20,787	3.1%	91.0
- receivables from reinsurance and co-insurance operations	1,773	0.2%	1,633	0.2%	108.6
- current tax receivables	78	0.0%	3,542	0.5%	2.2
- other receivables	8,216	1.1%	11,192	1.7%	73.4
Other assets	5,456	0.7%	5,945	0.9%	91.8
Cash and cash equivalents	10,920	1.5%	15,301	2.3%	71.4

As at 31 December 2016, on the assets side, investments were recognised as the most important category. They accounted for EUR 603.8 million or 81.6% of total assets (31 December 2015: EUR 556.9 million). Compared to the previous year, the volume of investments expanded by 8.0%. As at the end of 2016, EUR 287.6 million was accounted for by unit-linked insurance assets, EUR 269.8 million by other financial investments, EUR 12.1 million by financial investments in Group members, EUR 27.4 million by investment property and EUR 4.8 million by financial contracts.

Due to portfolio management activities and growth in unit value of unit-linked insurance assets, the unit-linked insurance assets increased by 9% compared to the previous year, and accounted for a 39% share of total assets as at 31 December 2016 (31 December 2015: a 39.3% share).

As at 31 December 2016, receivables amounted to EUR 29.0 million, accounting for 3.9% of total assets, and decreased by 22.0% compared to the year before,. The decrease in the value of receivables arising from direct insurance operations resulted from a more effective recovery of premium payments, lower current tax assets and other receivables (reinsurance fees and commissions), totalling EUR 8.3 million.

As at 31 December 2016, property, plant and equipment and long-term intangible assets totalled EUR 65.8 million. The former accounted for 4.3% and the latter for 4.6% of total assets. Their total share increased by 3.9 percentage points.

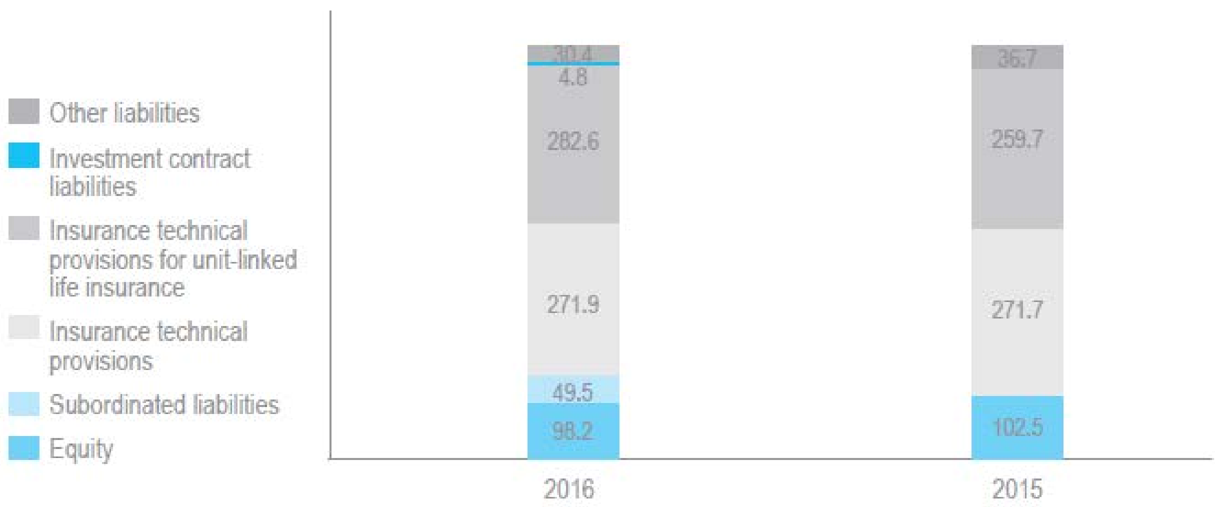
The amount of insurance technical provisions ceded to reinsurance/coinsurance decreased by EUR 619 thousand to EUR 17.4 million.

The structure of liabilities:

in EUR thousand	2016	in %	2015	in %	Index 16/15
LIABILITIES	737,307	100.0%	670,547	100.0%	110.0
CAPITAL	**98,181**	**13.3%**	**102,512**	**15.3%**	**95.8**
Capital and reserves attributable to majority shareholders of the Company	**97,788**	**13.3%**	**102,411**	**15.3%**	**95.5**
Called-up capital	*43,000*	*5.8%*	*43,000*	*6.4%*	*100.0*
Share premium	*4,212*	*0.6%*	*4,212*	*0.6%*	*100.0*
Reserves from profit	*9,224*	*1.3%*	*15,543*	*2.3%*	*59.3*
Own shares/interest shares (deductible)	*0*	*0.0%*	*0*	*0.0%*	*-*
Translation reserves	*-1,931*	*-0.3%*	*-1,861*	*-0.3%*	*103.7*
Fair value revaluation reserve	*0*	*0.0%*	*0*	*0.0%*	*-*
Revaluation reserve	*355*	*0.0%*	*3,831*	*0.6%*	*9.3*
Net profit brought forward	*29,518*	*4.0%*	*24,118*	*3.6%*	*122.4*
Net profit or loss for the period	*13,410*	*1.8%*	*13,569*	*2.0%*	*98.8*
Minority interest	**393**	**0.1%**	**100**	**0.0%**	**391.9**
Subordinated issued bonds	**49,453**	**6.7%**	**0**	**0.0%**	**-**
Insurance technical provisions	**271,896**	**36.9%**	**271,663**	**40.5%**	**100.1**
Unearned premium	49,383	6.7%	50,223	7.5%	98.3
Insurance technical provisions for life insurance	107,251	14.5%	102,765	15.3%	104.4
Claims provisions	114,097	15.5%	117,334	17.5%	97.2
Other insurance technical provisions	1,165	0.2%	1,341	0.2%	86.9
Insurance technical provisions for unit-linked life insurance	**282,619**	**38.3%**	**259,698**	**38.7%**	**108.8**
Other provisions	**4,077**	**0.6%**	**5,135**	**0.8%**	**79.4**
Liabilities from non-current assets held for sale	**0**	**0.0%**	**0**	**0.0%**	**-**
Deferred tax liabilities	**111**	**0.0%**	**732**	**0.1%**	**15.1**
Investment contract liabilities	**4,753**	**0.6%**	**0**	**0.0%**	**-**
Financial liabilities	**986**	**0.1%**	**969**	**0.1%**	**101.7**
Operating liabilities	**6,584**	**0.9%**	**6,986**	**1.0%**	**94.2**
Other liabilities	**18,648**	**2.5%**	**22,852**	**3.4%**	**81.6**

As at 31 December 2016, total equity amounted to EUR 98.2 million, which is 4.2% less than the year before. The proportion of equity in total assets went down by 2 percentage points and stood at 13.3% as at 31 December 2016. Reserves from profit were reduced by the amount of the transferred reserves for equalisation of catastrophe claims (EUR 5.6 million) to reteined earnings. The value of revaluation reserves decreased due to the lower value of available-for-sale financial assetsand amounted to EUR 355 thousand as at the 2016 year-end.

The structure of liabilities of the Company as at 31 December 2016 (in EUR million):



The insurance technical provisions totalled EUR 554.5 million as at 2016 year-end when compared to the year before, increasing their volume in parallel to decreasing their total share in total assets to 75.2%. The insurance technical provisions for unit-linked insurance grew by 8.8% to EUR 282.6 million, whereas other insurance technical provisions rose only slightly to EUR 271.9 million.

With the issuance of the subordinate debt in the first half of 2016, the financial liabilities of the Group increased to EUR 49.5 million.

As at 31 December 2016, operating liabilities stood at EUR 6.6 million. At the same time, liabilities from financial contracts were recognized in the amount of EUR 4.8 million (formation in 2016 in connection to pension insurance premium). Based on other short-term liabilities from insurance operations, other liabilities decreased by EUR 4.2 million to EUR 18.6 million.

6. CUSTOMER AT THE CENTRE OF PRODUCTS AND SERVICES OF THE AS GROUP IN 2016

6.1 IMPORTANT CUSTOMER SERVICES

6.1.1 CIRCLE OF SAFETY

AS takes care of customer safety as a whole and therefore enables to its policyholders a comprehensive set of insurance products and complementary services. The range of insurance products is supplemented with innovative insurance-financial products, modern services and advice so as to provide customer-tailored insurance solutions, while simultaneously ensuring quality and modern insurance protection, advice and rapid assistance whenever needed, particularly in claim settlement.

To simplify the use of services, numerous sales and service channels have been developed and linked to the internal processes in the Company and the AS Group. Thereby the services are becoming ever faster and simpler for customers. The key goal of the Company's strategy in 2016 was to provide an excellent consumer experience each time the Company is contacted.

Customer satisfaction is regularly monitored and measured. Every year two internal large-scale customer satisfaction surveys are carried out in relation to key business processes. Satisfaction with the claim settlement process has been measured since 2007, whereas in 2011 the measurement of satisfaction with the insurance underwriting process on different sales channels was added.

The results confirm a high satisfaction rate of policyholders in both insurance underwriting and claim settlement:

91% of the policyholders are satisfied with the Company.

92% of the policyholders had their expectations for insurance underwriting fulfilled.

6.1.2 MOJ AS (MY AS)

Satisfaction of policyholders is at the centre of the Company's activities. Their experience is analysed so as to introduce improvements, which is why, at the beginning of 2016, the offering of modern and smart services was expanded. The MOJ AS Portal was introduced, thus enabling the customers to independently examine their insurance policies, check payments, change payment methods, report claims and monitor claim settlement progress on their computers, tablets or mobile phones. The MOJ AS Portal is a one-stop-shop where our policyholders are provided all important information. By the end of the year, as many as 10 thousand users registered on the portal and on average more than 150 users check the data every day. The portal also includes a new pension-related section where customers can examine on a daily basis their pension account balance and pension calculation as well as find proposals to improve pension-related savings.

89% of policyholders believe that AS insurance products are of good quality, modern and adjusted to their needs.

6.1.3 WIZ ONLINE BRAND

Under its WIZ brand, since 2012 AS has offered full online operations to the customers who wish to have an entirely online business relationship with the Company. Those are simple, price worthy and quality insurance products for the customers with a dynamic lifestyle who use modern ways of business operation on a daily basis.
The popularity and visibility of the WIZ brand is very much related to well-known personalities who like users of online motor vehicle and health insurance products have a dynamic lifestyle. It is therefore important for WIZ that skier Filip Flisar once again confirmed his cooperation with the WIZ brand and that he was joined by professional freestyle snowboarder Marko Grilc and blogger Urška Ahac.

6.1.4 ASfalt (ASphalt) MOBILE APPLICATION

The application, which has already been downloaded by almost 9 thousand users, was offered to all drivers free of charge in 2015. Thereby drivers are ensured immediate traffic assistance. They can follow traffic information and conditions on saved routes across Slovenia and abroad, search for their parked car or call Car Assistance with one click if they get in trouble. Traffic information as well as quick call Car Assistance in the case of a traffic accident or a broken-down vehicle are invaluable for drivers.

6.1.5 CENTER ZDRAVJE AS (AS HEALTH CENTRE)

The AS Health Centre, reachable at telephone number 080 81 10, predominantly offers quick and quality assistance to customers using services from the supplementary insurance scheme Specialisti in zdravila (Specialists and Medicines).
Customers also appreciate free assistance; even in the case of rejected authorizations they are offered the so-called navigation service that is used to help them find information about the shortest waiting period in the public healthcare system. We helped as many as 4,568 callers who contacted us for a piece of advice and assistance regarding the complementary health insurance services.
AS holds an important share of the complementary health insurance portfolio and it carries a series of activities related to supplementary health and accident insurance to develop innovative products, regulate the network of healthcare service providers, design its own network of healthcare service providers and develop assistance services of the AS Health Centre.

In 2016, the AS Health Centre started running its own outpatient clinic, which is a completely new customer service. It operates under the auspices of the subsidiary Zdravje AS, also established in 2016, whose vision is to offer state-of-the-art health services to policyholders whenever needed.

As many as 99% of the policyholders are satisfied with the AS Health Centre (because of understandable advice, kindness of advisers, responsiveness, consideration of wishes, speed of authorization consents and assistance when choosing a specialist).

6.1.6 ROADSIDE ASSISTANCE

One of the new, quick and modern customer services is Roadside Assistance that AS provides in Slovenia and abroad to all motor liability insurance policyholders. After having a traffic accident, the policyholders can call a toll-free telephone number 080 28 28, where experts provide information about completing the European Accident Report, organize roadside assistance as well as help report a loss event and select the nearest authorized car garage within the Moj servis (My Service) network, which can make all necessary arrangements for car damage repair. The car service network across Slovenia also ensures a free-of-charge use of a replacement vehicle to its customers and, above all, a quick and quality damage appraisal and repair by using original spare parts and without additional errands.

As many as 87% of the policyholders believe that their loss or accident event was settled quickly.

6.1.7 CUSTOMER CARE

The AS services are daily accessible to customers via phone, e-mail, MY AS Portal and in person. The Customer Care Centre provides comprehensive, quick and quality response with the aim of ensuring customer satisfaction and providing a comprehensive customer service. The content of questions posed via all communication channels is diverse and complex due to the fact that from one year to another the policyholders wish to have a more transparent overview of their insurance products and the rights arising from them.

97% of the policyholders believe that the staff are professional and kind.

6.1.8 AS KLUB (AS CLUB)

In 2016 AS Klub ugodnosti (AS Bonus Club) celebrated its 10th anniversary; upon establishment it was one of the first bonus clubs in Slovenia and the first club of this kind in the financial field. Through its partners it enables important savings to its members (already more than 100,000) and provides useful information.

6.1.9 SATISFACTION OF POLICYHOLDERS, VISIBILITY AND REPUTATION OF THE COMPANY

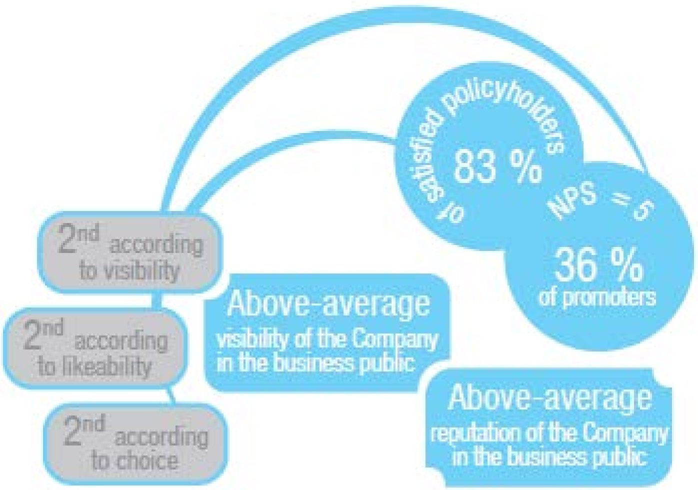
Surveys, results and analyses of policyholder satisfaction, recognition, visibility and reputation of the Company and the brand are a permanent guideline for the development of insurance products, services, sales channels and business processes. The Company would like its policyholders to be satisfied, thrilled with the experience gained with the Company and to faithful remain loyal. For this reason, the Company constantly monitors their satisfaction via internal and external surveys, the latter being carried out by independent research institutions.

Among the most important regular surveys performed by external institutions are Zavarovalniški monitor (Insurance Monitor) (by Gfk Slovenija) and Ugled podjetja (Company Reputation) (by Kline & Partner) that we have been following already since 2001 or 1994, respectively.

Zavarovalniški monitor is a continuous insurance market survey polling the general public of Slovenia, which examines name recognition and likeability of insurance companies, insurance coverage of the general public, information sources, policyholder satisfaction, recommendation index, etc. For many years, the AS insurance company has been placed second among all insurance companies regarding its name recognition and visibility. In 2016 it was also ranked second most liked insurance company and second best choice among all insurance companies in the case the policyholders decided to purchase a new insurance product.

With an average score of 4.2 (on a rating scale from 1 to 5) or with 83% of satisfied policyholders, AS achieved a high satisfaction rate of its customer.

In 2016, a positive recommendation index was recorded (which means that one third of the respondents chose 9 or 10 when asked “How likely is it that you would recommend the insurance company to your friends and acquaintances, on a rating scale from 0 to 10?”



Ugled is a continuous survey examining reputation and name recognition of the largest and most visible companies in Slovenia. In 2016 the survey captured 800 representatives from the business world who assessed 60 companies. According to the 2016 survey results, Adriatic Slovenica was once again placed among the companies with an above-average recognition rate and reputation in the category of financial institutions.

6.2 INSURANCE DEVELOPMENT

6.2.1 Non-life insurance products

In 2016 the biggest share of premiums collected by AS was in the field of non-life insurance. The planned development related to different products was realised. As regards comprehensive marine insurance, some marine premium rates with a weak loss ratio were increased, while the actuarial bases for solar power plant insurance, health assistance abroad and Multirisk insurance were redesigned. Moreover, The criteria for calculating motorcycle insurance premium were automated and the tariff for online underwriting of WIZ Avto was further segmented. At the beginning of 2016, the Company entered the Croatian market by introducing the online car insurance underwriting application.

In order to expand the product range and streamline business operations, AS started cooperating with the Agro insurance company, which is specialized in crop insurance. The sales network will only underwrite specialized products of this insurance company. In 2016 accident insurance products continued to be linked to health and other life insurance products.

Apart from that, accident insurance products saw the modernization of the long-term product "Nezgodno zavarovanje otrok in mladine do 26. leta" (Accident insurance for children and youth below 26 years of age), insurance coverage was adjusted to specific segments or target groups (professional athletes, recreational athletes), the offering of insurance products was adapted to individual sales channels and the assistance services of the AS Health Centre were expanded to include "Accident insurance for children and youth below 26 years of age".

6.2.2 Life and pension insurance products

In 2016, AS successfully transitioned to a new pension scheme with a new life-cycle investment policy "Pokojninsko varčevanje AS" (AS Pension Saving), gradually integrated the existing policyholders into the scheme as well as acquired new companies and successfully started selling the individual pension insurance products. A new pension scheme for additional pension annuities "Dodatna pokojnina AS" (AS Additional Pension) was introduced, which will next year help the Company to compete on the ever-growing market of pension annuity disbursing companies pursuant to the Pension and Disability Insurance Act (ZPIZ-2).

As regards life insurance products, in the previous year the Company continued to promote the sales of risk and unit-linked insurance products, optimized the portfolio of traditional life insurance products and continued to redesign underwriting processes (implementation of the Skleni AS project (AS Underwrite) that will help make a transition to an electronically supported life insurance underwriting process, which will be linked to all back-office IT systems in the Company).

In early 2016, the Fondpolica insurance product was made more flexible by loosening the limitations related to the selection of individual additional accident insurance covers. Additional life insurance products for the event of death were also upgraded. The upgraded accident annuity was added to the Življenjski kasko – Asistenca življenja (Whole Life Insurance – Life Assistance) product (payment already above 25% of permanent disability). The same holds true of Varna leta AS (AS Secure Years) intended for elderly people; for this insurance product, the cover for the case of permanent disability due to an accident may also be selected.

In September, the Company redesigned the Enkratna priložnost AS (AS Unique Opportunity) product by offering the possibility to select a new investment Aktivni AS (AS Active). This is an internal fund where resources are managed in a technologically innovative manner – by using a computer-based investment strategy. With the new investment, innovation was added to the existing characteristics of the product (stability and safety, loyalty bonus, quick access to funds) and thereby an above-average risk-adjusted growth of the policyholder's assets was enabled.

6.2.3 Health insurance products

In 2016, AS started implementing a strategic programme for ensuring comprehensive healthcare to its policyholders. Aside from the innovative product package that offers a comprehensive solution in the field of healthcare and thereby added value, the Center Zdravje AS (AS Health Centre) was established for policyholders. This centre links and upgrades the existing assistance services with health services as well as offers to policyholders clear and efficient solutions for their health problems.
Thus the Company started actively placing itself between policyholders and health service providers, which resulted in lower costs of health services from additional health insurance. The Company established its first outpatient clinic, which marks the outset of forming the future network of own health service providers. Insurance in the event of critical illnesses and surgeries as well as the system of discounts for fundamental health insurance products were both redesigned.

6.2.4 Development and sales activities of companies in the AS Group

KD Skladi

KD Skladi successfully follows the latest global trends and developments in the insurance industry. In 2016, it started its first version of robo financial advice, which includes artificial intelligence algorithms and results from the investment to future technology – KD AI. KD AI is a new philosophy of asset management and financial advisory services of KD Skladi. The first two products where this philosophy was applied are asset management and financial advice. The latter is used to optimize investors' portfolios on the basis of quantitative algorithms – Mean CVaR. Using a systemized approach, all investors no matter where in Slovenia are taken through the same procedure. They are provided a high-quality above-standard service of KD Skladi – advice for an optimal investment portfolio within the KD Krovni sklad (KD Umbrella Fund), which takes into account the identified investor's risk tolerance. The other product covered by KD AI is asset management within the KD Krovni sklad that on the basis of quantitative algorithms – Mean CVaR – dynamically optimizes investors' portfolios.

At the product level, KD Skladi constantly develops new investment opportunities for its investors – in April 2016 it launched a new equity fund KD Amerika (KD America) and, just before the year-end, it received a permission of the Securities Market Agency to manage a bond sub-fund KD Corporate Bonds – EUR.

6.3 MARKETING AND SALES ACTIVITIES

6.3.1 Brand management and marketing communication

The visibility and reputation of the AS brand continued to be strengthened at the corporate and product levels. Continual surveys show that in 2016 the Company once again maintained brand visibility and reputation as well as improved its image; the AS brand was introduced in the Croatian market.

Activities at the corporate level were focused on strengthening the reputation and position of the Company as a stable, innovative and socially responsible insurer, as well as an important partner in pension and health insurance. At the product level, the Company continued to stress its marketing and sales activity "Skleni polni krog varnosti" (Close a Full Circle of Safety), representing the Company as the insurer that understands the needs and desires of its policyholders and helps them find optimum solutions. By doing so, the policyholders are provided full expert support in selecting suitable covers and settling claims.

6.3.2 Communication with the broad social environment

The Company communicates with the environment also by supporting different projects and events at the national and regional levels; communication with the media plays an important part.

From time to time, the business units of the Company independently organize small professional and other gatherings of business partners in their regions or they do so in cooperation with other companies of the KD Group.

News about products and introduced business models were shared with the broad social environment at events organized by the Company or other organizers:

- On 5 April, Pokojninsko varčevanje AS (AS Pension Saving) was presented at the 3rd MSP conference for small and medium- sized enterprises, which took place in Ljubljana at the Chamber of Commerce and Industry of Slovenia.
- In April, KD Group companies, in cooperation with the Business Academy of Časnik Finance, organized a financial consultation on the financial system and its sustainability.
- On 14 April, at the Slovenian Public Relations Conference in Portorož, participants were presented a case of good insurance practice "Specialists and Medicines" through user experience related to a health service – a specialist check-up – offered by AS under this insurance product.
- In September 2016, AS attended the 2nd International Conference on Life Insurance and a round table on preserving stability and profitability in Zagreb.
- Pursuant to the strategy of the Company, in a centralized form and coordinated with other companies of the KD Group, AS proactively and in a planned manner cooperates with the media and responds to all questions posed by journalists. Through the media, the general public is regularly informed of any news, operating results and important business decisions. Policyholders are advised on how to respond in the case of loss events due to catastrophic natural disasters.

Analysis of unpaid media coverage by value, publicity, classification and tone of publication:

Comparative criteria	year 2015	year 2016
ANALYSED COMMENTARIES	1260	987
Value of unpaid commentaries	495,879 €	786,710 €
Adjusted value (PR value)	2,479,395 €	3,933,550 €
PUBLICITY OF COMMENTARIES		
Planned	52.9 %	69.0 %
Unplanned	47.1 %	31.0 %
CLASSIFICATION OF COMMENTARIES		
Primary	26.3 %	29.8 %
Secondary	73.7 %	70.2 %
VALUE OF COMMENTARIES		
Positive	80.3 %	86.6 %
Neutral	18.4 %	13.4 %
Negative	1.3 %	0.0 %

(Source: Press Clipping analysis 2016)

In the subsidiaries, communication with the broad social environment takes place in line with the strategy adopted by the parent company. It is a two-way communication process that is based on the promotion of insurance, services and financial products.

6.3.3 Sales activities

Sales activities

Through different sales promotions and activities, the Company addresses all target groups of policyholders with the goal of providing them the fullest possible circle of safety.

The most important sales activities in 2016 were:

- As a sponsor of the Olympic Committee of Slovenia, and in the spirit of the Olympic year, AS started a special sales promotion called Olympic Offer and offered Bon Zdravje AS (AS Health Coupon) to its customers, bringing a number of bonuses, including the exclusive insurance product Specialists and Medicines, assistance at home and services of the new AS Health Centre, as well as additional bonuses with AS business partners;
- to be able to provide better assistance to customers taking out car insurance via car service stations, a hotline was introduced providing advice from Monday to Friday (afternoon included) and on Saturday mornings;
- in spring, customers were offered a new prizewinning game “Stranke KPP priporočajo AS” (KPP Customers Recommend AS) intended to promote and facilitate the sale of new car insurance products with specific complementary contractual business partners;
- car insurance policyholders and those who have suffered loss were rendered a free-of-charge services Pomoč na cesti (Road Assistance) and Moj service (My Service) offering a 24/7 assistance;
- during the summer Olympic games, the policyholders of Adriatic Slovenica were reminded of the Olympic Offer bonuses and AS was present at different events, such as a reception for silver Olympic medallist Vasilij Žbogar in Izola;

- in cooperation with the Institute of Ocupational Safety, AS introduced a special bonus for young athletes from 7 to 26 years of age enabling them a free-of-charge preventive check-up;
- during the autumn sales promotion, customers were offered bonuses when taking out motor vehicle insurance for personal vehicles and home insurance as well as an ”AS Health” coupon enabling a free-of-charge specialist service or a selection of up to 4 free-of-charge monthly insurance premiums for Specialists and Medicines. The value of the coupon was increased by adding the possibility of using it in the AS outpatient clinic in Ljubljana or at nine other locations in Slovenia with different providers. Thereby the accessibility was increased and the range of specialist services expanded;
- special bonuses were provided to the policyholders joining the AS pension scheme: a free-of-charge special accident insurance with progression or a 6-month free-of-charge premium for a special insurance package Specialists and Medicines.

AS also continued to expand its online sales activities:

- at the beginning of the year, the Company launched the online sale of car insurance products at www.as-direct.hr, sold by the Zagreb Branch under the AS Osiguranje brand;
- a key online novelty in 2016 was the MOJ AS Portal;
- the new website AS Health Centre was introduced presenting the advantages of health insurance products.

6.4 OTHER DEVELOPMENT ACTIVITIES

6.4.1 Information technology

The IT work programme in 2016 once again followed the business needs of the Company and the IT strategy. The Company monitored the business environment and IT trends as well as considered experts' demands and good IT management practices.
The KD Group companies and AS subsidiaries were provided adequate IT support and a roaming service in the AS private cloud.

The branch in Croatia started selling car insurance online at www.as-direct.hr and its IT management was consolidated with the parent company. Taking out the Specialists and Medicines insurance package via e-sklepalnik (e-underwriting application) was introduced and a new, modern, safe and quick MOJ AS Portal was successfully activated.

A new sales promotion solution called Mlinček (Little Grinder) went into production.

IT solutions for the subsidiary Zdravje AS were ensured, through which AS intends to expand its offering by providing outpatient health services to its policyholders.

The Moody's Analitics – Risk Foundation Platform solution was introduced, on the basis of which in 2016 the Company already reported to the regulator in line with the Solvency II requirements.

Security risk management: to improve IT quality, security and reliability, several security tests were performed for major changes posing a security risk to the Company and its customers. In 2016, awareness raising about IT continued because despite the quality technical aids available (firewalls, antivirus programmes, SIEM) the Company is aware of the importance of each empowered individual in the society.
In the years to come, if necessary, new sources will be added, the quality of existing records will be monitored and the changes will be followed in accordance with the requirements of the new European legislation relating to data protection.

6.4.2 Quality management system

Since the introduction of the Quality Management System (SVK) in 2004, the Company has developed a centralized document, process and project management system. The systematic approach supports the implementation of operating goals. Considering the fact that over the last decade a number of new internal assessment procedures, various controls, audit and compliance review procedures have been introduced, Adriatic Slovenia intended to discontinue using the external review of SVK compliance in 2017. However, the Company will maintain and continue to develop central process management (documents, inventories, indicators), the central management system with the internal normative structure, management and appraisal of external suppliers.

7. RISK MANAGEMENT AND INTERNAL AUDIT

7.1 RISK MANAGEMENT

In the reporting period, the insurance sector was affected by the Solvency II Directive, which came into effect on 1 January 2016, and the new Insurance Act, with which the Directive was transposed into Slovene legislation. In 2016, the first complete own risk and solvency assessment (ORSA) was conducted for the Company, which will be upgraded in the future.

Along with regular and other risk management activities, regular risk reports will be prepared, various scenarios will be implemented and impact analysis will be performed regarding the effect of the planned investment or insurance activities on the capital adequacy of the Company and achievement of the set risk appetite. In the future, the Company will continue to primarily focus on monitoring and managing the underwriting, market and operating risks, which, if realised, may have a major impact on the Company in particular.

7.1.1 Risk management system

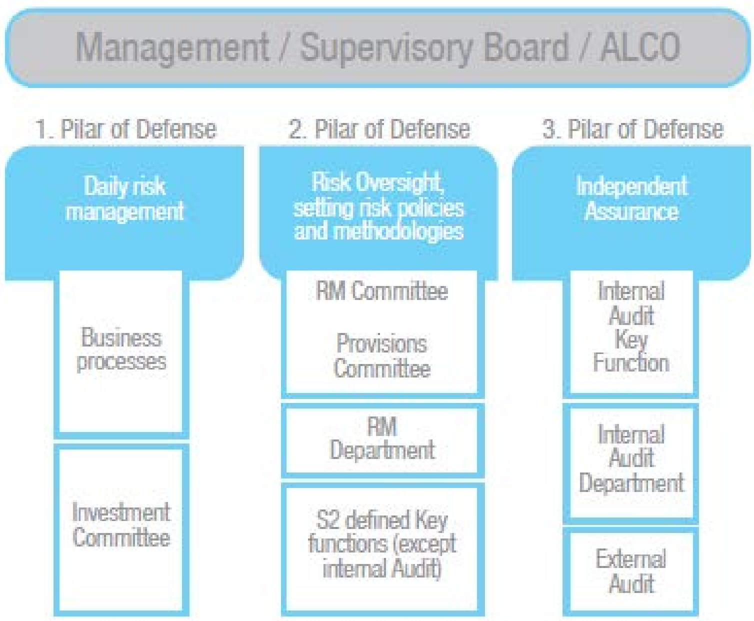
The risk management system of the Company is a comprehensive process, managed and supervised by the Management Board and designed not only to identify potential events that may have a negative impact on the operations of the Company but also to manage risks based on the risk appetite by giving reasonable assurances on the achievement of business goals of the Company. Risk management is understood by the Management Board as the first line of defence or as a way to avoid the occurrence of the situation, which could endanger the existence of the Company. The capital of the Company complements risk management in terms of ensuring compliance with the obligations of the Company even during adverse extraordinary events.

In line with the Solvency II requirements, along with the risk management key function, the Company established the following key management functions: the compliance function, the actuarial function and the internal audit function.

In accordance with the three lines of defence system, the risk management process is implemented throughout the whole Company. The first line of defence, which includes all business processes in the Company or their owners and the Investment Committee, is responsible for regular operational management of risks arising from the process or being a result of the process. Risk managers (usually the director of the team in charge of a particular process) therefore assume risks and are responsible for ongoing identification, assessment, measurement and reporting (to the Risk Management Team) as well as for the initial management or risks arising from their processes.

The Risk Management Committee, the Risk Management Team and the risk management key function, including the actuarial and compliance key functions, form the second line of defence, which is responsible for reviewing and coordinating the first line of defence, developing policies and strategies, setting risk tolerances and limits, as well as preparing reports and presenting them to the ALCO Committee, the Management Board and the Supervisory Board of the Company. The third line of defence, which includes the internal and external audit or other assurance providers, is responsible not only for an independent assessment of the effectiveness of the risk management process and practices but also for providing timely and objective recommendations and assurances regarding risk management.

The three lines of defence system is summarised in the following figure:



In the context of the three lines of defence system, several committees have been established, among which the Assets and Liabilities Management Committee (ALCO) has the most important role in the risk management system. In addition to asset and liability management, the Committee approves balance sheet risk management policies and the risk appetite relating to balance sheet risks as well as provides guidelines for the provision of the planned key risk indicators (KRIs) in line with the business policy of the Company.

The Risk Management Committee has been established with the aim of ensuring uniform identification and assessment of the risks to which the Company is exposed. Moreover, the Committee gives professional opinions and proposals to the Management Board regarding the management of these risks in order to ensure efficient management of the Company. The Investment Committee has been established with an aim to implement the strategic and tactical investment activity in the Company, while the Provisions Committee was set up to monitor and manage the provisions arising from the assumed liabilities of the Company.

7.1.2 Risk Management Process

Risk management means the identification, measurement or assessment, control and monitoring of risks at all levels, including reporting on the risks to which the Company is or may be exposed in its operations.
In the context of the policies defining the risk management system, Adriatic Slovenica developed specific risk management action plans, which include:

- internal risk management procedures;
- risk management measures and internal procedures for their implementation;
- internal procedures for monitoring the implementation of risk management measures.

The market risk management process comprises the following main steps:

- risk identification, which involves a comprehensive and timely identification of risks to which the Company is or may be exposed and an analysis of the causes of their occurrence;

- risk measurement or assessment, which includes the preparation of quantitative and/or qualitative assessments for measurable and/or unmeasurable risks identified in the risk identification process;
- risk management, which encompasses the process of selection and introduction of risk reduction measures;
- risk monitoring, which comprises the rules on risk liability, frequency and monitoring;
- risk reporting, which includes regular and extraordinary reports and the frequency of reporting.

7.1.3 Definition of Risk Categories

The risk management system includes at least the following key areas of risks:

- taking out insurance and establishment of insurance technical provisions;
- asset-liability management;
- investments, including investments in derivatives in particular and similar commitments;
- liquidity;
- management of underwriting, market, credit, operational, liquidity and concentration risks and any other risks to which the Company is exposed;
- reinsurance and other techniques for reducing the risks.

Underwriting risk is the risk of loss or of adverse change in the value of insurance liabilities, due to inadequate pricing and provisioning assumptions taken into account in the calculation of insurance technical provisions.

Market risk is the risk of loss or of adverse changes in the financial situation of an insurance undertaking, resulting from fluctuations in the level and in the volatility of market prices of assets, liabilities and financial instruments.

Credit risk is the risk of loss or of adverse changes in the financial situation of an insurance undertaking, resulting from fluctuations in the credit position of securities issuers, counterparties and potential debtors, to which an insurance undertaking is exposed in the form of counterparty default risk, credit spread risk and concentration risk.

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events.

Liquidity risk is the risk that the Company is unable to realise its investments and other assets in order to settle its financial obligations when they fall due.

Concentration risk means exposure to risk with the possibility of loss, which is high enough to be a threat to the solvency or financial position of the Company.

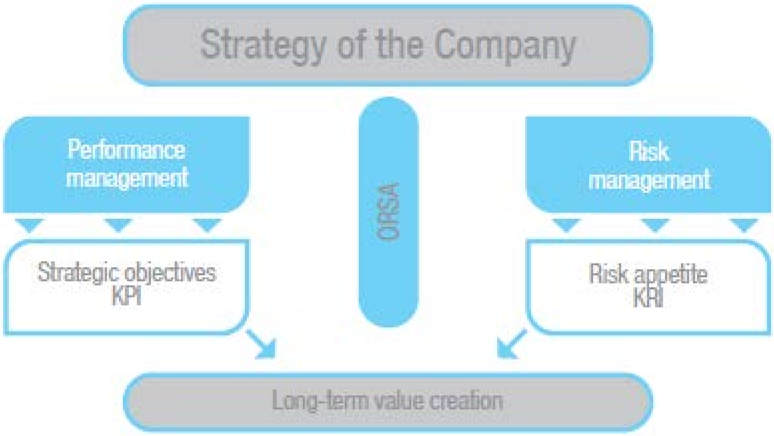
The material risk of the Company in which, directly or indirectly, all the other mentioned types of risk are reflected, is the **risk of ensuring appropriate capital adequacy** or the risk that the capital of the Company is insufficient to cover all the risks assumed. Capital risk relates to inappropriate capital structure and level in relation to the volume and manner of operation or to the problems which the Company would face in acquiring fresh capital, particularly if it needed to increase its capital rapidly or in adverse conditions. An adequate capital base provides a safety reserve for various risks to which the Company is exposed in its operations. The Company manages this risk primarily by maintaining an appropriate surplus capital above its solvency needs, calculated in accordance with the standard formula and own assessment, and by implementing a specific capital risk management policy. Ensuring sufficient capital in relation to the solvency needs is one of the key elements of the assigned credit ratings of the Company.

Risk management types are discussed in greater detail in Section 7 of the accounting part of the Report.

7.1.4 The integration of the risk management system and the Company's business strategy

Risk management begins by developing a strategy, as is the case with all the other activities related to the operations of the Company. After the strategy was created, the supervisory mechanisms were set up, which enable the strategy to be carried out by optimally implementing the key value factors and effectively managing the risks arising from these factors by all departments/teams of the Company.

The integration of the Company's business strategy and the risk management system:



The basic concept of the risk management strategy is the risk appetite, including tolerances to most material risks, which is defined in line with the business strategy and the capital management strategy (risk capacity).

At the Company level, the risk appetite represents the total amount of risk which the Company is prepared to assume in the pursuit of its mission and vision, business and strategic goals. The risk appetite is limited with the risk capacity, which the Company is able to assume based on its available economic capital. The risk appetite is clearly defined and appropriately presented throughout the whole organisation at all levels and is included in the business planning process of future operations. The risk appetite is expressed in the form of statements and metrics.

Risk tolerance represents the maximum risk which the Company is willing to assume with respect to each risk category in order to achieve its business and strategic objectives by cumulatively operating within the framework of the defined risk appetite. The operational limits relate to day-to-day business decisions.

7.1.5 Own risk and solvency assessment

As one of the integral parts of its business strategy, the Company specifically plans its capital requirements or the available capital so as to reflect all material risks to which the Company is exposed. This is performed in the context of own risk and solvency assessment (ORSA). The primary ORSA objectives are to ensure sound and prudent risk management within the Company through a better understanding of comprehensive capital requirements and capital allocation, as well as through the understanding of the interconnection between risks and capital management in the planning of future operations of the Company.

Apart from that, the aim of the ORSA is to provide another view of the capital adequacy assessment of the Company by comparing its own risk profile assessment with the assumptions used to calculate the regulatory capital requirements so as to verify whether the regulatory SCR calculation method (the standard formula) correctly takes into account the entire risk profile of the Company. The Company can manage its risks either through capital requirements and by ensuring regulatory capital or with other risk mitigation techniques, taking into consideration the business strategy, the risk profile, and the accepted risk limits and tolerances. By identifying its comprehensive capital requirements, the Company decides whether to assume or transfer certain risks, sets optimal capital allocation and assesses other performance parameters, which are reflected in the strategic decisions of the Company.

From this perspective, the ORSA is included in the management of operations, especially in strategic decisions. In the framework of the ORSA, the Company also takes into account the risks which could be realised outside the strategic planning period.
In contrast, the ORSA has to reflect the business strategy of the Company. When performing the ORSA, it is therefore necessary to take into consideration the strategic decisions impacting the risk profile of the Company, the capital requirements and the available capital of the Company. The management and supervisory bodies of the Company should be aware of and clearly understand the implications of the strategic decisions on the abovementioned capital aspects of the Company. Furthermore, they should take into account whether such implications are desired, feasible or whether the Company could even afford them, considering the scope and the quality of its own funds. It is therefore necessary to examine every major strategic decision, which may impact both the capital requirements and the available capital, in the light of the ORSA.

7.2 INTERNAL AUDITING

Internal auditing in the Company is carried out in accordance with the requirements of the Insurance Act (ZZavar-1) and other applicable regulations, the professional internal auditing rules issued by the Slovenian Institute of Auditors and the internal documents of the Company.

In performing internal audits, particular attention is paid on:

- auditing those insurance areas that represent higher risks for the Company and consequently a greater potential damage or loss or major lost opportunities;
- to assess the risk management system and the established internal control system;
- monitoring the compatibility of operations with the requirements of Solvency II;
- with the aim to create added value;
- Verification, whether operations are economical and in compliance with internal rules and external regulations;
- Identification of risk, arising from occurrence of fraud;
- transfer of best business practices.

8. EMPLOYEES AND SUSTAINABLE DEVELOPMENT IN THE AS GROUP

8.1 EMPLOYEES OF AS AND THE AS GROUP

In 2016, staff restructuring and increasing the share of specialist staff continued. Primarily, the staff specialised in analytics, IT and sales were recruited. When it comes to HR, the annual verification and assessment of competences, which was also performed in 2016, serves as the basis for the introduction of development measures contributing to the acquisition of competences that are crucial for effective operation and development of the company.

The performance of staff management systems was also monitored in 2016 by measuring the organisational climate, management systems and employee satisfaction, as well as by observing key HR indicators.

After the merger of the Zagreb Branch, its HR processes started to be gradually adapted to the processes of the parent company. By introducing the Effective Staff method, staff information support was harmonised and the activities were launched to carry out annual development interviews – AS Dialogue and management by objectives.

8.1.1 The number and educational structure of employees in AS and the AS Group

As at the end of 2016, AS and its subsidiaries had 1,266 employees. Taking into account the employment share in individual companies, 1,213.5 employees worked in the AS Group.

AS had 1,140 employees as at the end of 2016, which is 48 more than in the previous year. Considering the employment share in individual companies, 1,071 employees or 94% worked full-time, while 69 employees or 6% worked part-time.

The number of employees in AS and the AS Group:

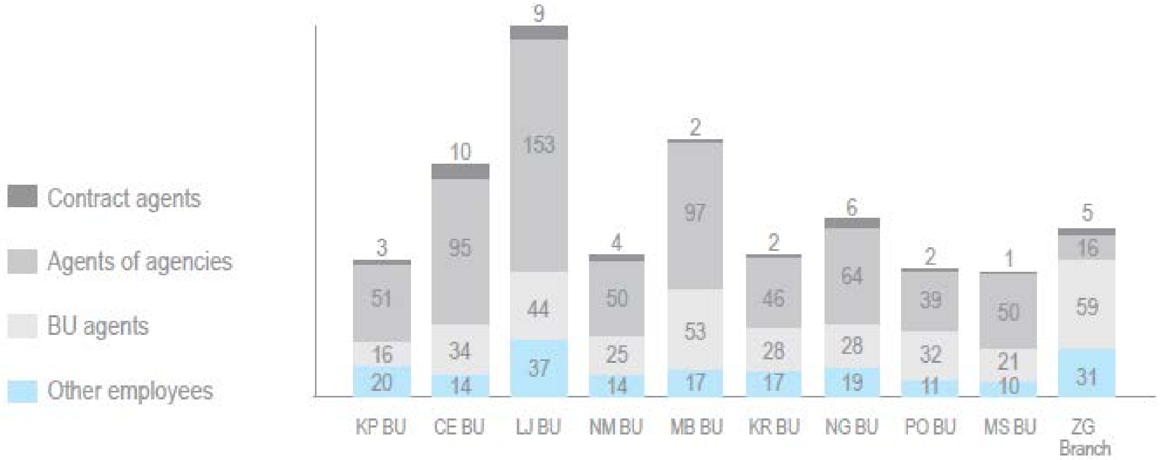
The parent company and subsidiaries	Number of employees				Difference	
	2016		2015		2016/2015	
	per person	FTE	per person	FTE	per person	FTE
Adriatic Slovenica d.d.	1,140	1,108.20	1,092	1,054.90	48	53.3
AS neživotno osiguranje a. d. o.	5	5	46	46	-41	-41
Prospera, družba za izterjavo, d.d.	42	27.8	49	32.6	-7	-4.8
VIZ, zavarovalno zastopništvo, d.o.o.	3	3	5	5	-2	-2
Permanens d.o.o.*	0	0	6	6	-6	-6
Zdravje AS, zdravstvene storitve, d.o.o.	3	2.5	0	0	3	2.5
KD IT, informacijske storitve, d.o.o.	4	3.1	11	11	-7	-7.9
KD Skladi, družba za upravljanje, d.o.o.	54	48.9	54	48.9	0	0
KD Fondovi AD, Skopje	6	6	6	6	0	0
KD Locustra Fondovi d.o.o.	9	9	9	9	0	0
Total	1,266	1,213.50	1,278	1,219.40	-12	-5.9

Note:
*Since November 2016, Permanens d.o.o. has been in liquidation
**FTE - the number of employees in relation to the share of employment in a particular company

Among the Adriatic Slovenica staff, 66% were women and 34% were men. The average age of employees was 43.4 years. The proprotion of fixed-term employees was 7% as at the end of 2016.

AS has a wide sales network in all regions. As at the 2016 year-end, insurance products were sold by 281 insurance agents employed in AS, 661 agents working through authorised agencies and 44 contract agents.

Number if agents in the distribution network in 2016:



The largest share (as much as 47%) of AS and subsidiary 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 36%—since the statutory requirement for insurance agents is completed secondary education.

Level of education	2016	2015
	Share (in %)	Share (in %)
Level I–IV	3	3.2
Level V	35.6	36.4
Level VI	13.9	14.3
Level VII	43.3	42.2
Level VIII–IX	4.3	3.9
Total	100	100

8.1.2 Employee care in AS

By following the "Family-Friendly Enterprise" policy, the Company strives for a better work-life balance of its employees, which definitely reflects in their satisfaction, affiliation, motivation and final productivity.
In 2016, two new measures were introduced as part of the basic "Family-Friendly Enterprise" certificate: the option of 5 additional days of paid leave due to exceptional family circumstances and re-induction of employees returning to work after a long period of absence.

A safe and healthy work environment, good interpersonal relations and a positive atmosphere was provided for the employees. This endeavour is supported by the activities of the Sports and Culture Club "Pravi ASi" (*True AceS*), annual gatherings, sports events, preventive medical check-ups for employees as well as group accident insurance, voluntary supplemental pension insurance and "Critical illness and surgery" insurance, which are co-financed by the Company.

In addition, employees with families, retired personnel and Slovene war veterans can benefit from the quality and affordable accommodation facilities of the Company, located in Slovenia and Croatia. In 2016, 95 employees and their families took advantage of this option.

In the desire to foster good interpersonal relations, AS has once again organised social events, a spring gathering in Ankaran and a Christmas and New Year's celebration. Around Christmas time, presents were handed out to the children of employees as in previous years.

In line with the applicable legislation on safety and health at work, the Company tends to the health and well-being of its employees. As part of the health-screening programme, 32% of employees were referred to preliminary, periodic or targeted check-ups. As every year, vaccination against seasonal influenza was organised for Company employees.

All employees are included in group accident insurance and they can also join the voluntary supplemental pension insurance scheme co-financed by the Company. As at the end of 2016, 97% of all employees were included in the AS group supplementary pension insurance scheme. The average monthly premium co-financed by the employer amounted to EUR 40 per employee.

The employees can take out accident insurance also for their pre-school and school children. The Company provides a special bonus to all its employees if they decide to purchase the above-standard health insurance "Zdravje AS – Težke bolezni in operacije" (*AS Health – Critical illness and surgery insurance*), and favourable insurance terms for their family members. This insurance was taken out by 963 employees and 243 members of their families.

The sports and cultural association "Pravi Asi" has been operating since 2010 in order to promote sports and cultural activities as well as active socialising of employees even outside working hours. Some of the association's objectives are organising sports and recreation activities, promoting a healthy lifestyle and creating a positive atmosphere among the employees.

8.1.3 Employee training and development

The Company wants to keep up with numerous developments in the insurance market and become familiar with new modern approaches, therefore investing in employees' knowledge is the key to achieving this goal. In Adriatic Slovenica, HR development represents an important social value, which is why the Company makes sure its employees benefit from the best conditions to develop skills, values and continuous personal growth, greater creativity, a sense of team work as well as the ability to adapt to the changes in the market and facilitate business decision-making.

All this can be achieved within the in-house training system **Akademija AS** (AS Academy). When organising the AS Academy training courses, it always begins with knowledge right at its source, which is then upgradedt with experience of different teams. The Company is extremely proud of its in-house instructors who share their knowledge with enthusiasm and a great deal of motivation.

Among organised events, 83% were workshops and training seminars intended for closed groups of employees, while 17% were external expert seminars in Slovenia and abroad. As much as 50% of training seminars were led by in-house instructors. And how much training was provided? Training was received by 98.50% of employees and totalled up to **58 hours** on average.

Special attention in the AS Academy programme was given to the content from the **Health Promotion** section. In line with the annual health promotion programme, numerous activities took place to motivate as many employees as possible in 2016. Lectures and workshops promoting a healthy lifestyle and informing the employees about the importance of physical activity during both work and leisure time, relaxation and the principles of healthy eating were organised at various locations. Apart from workshops, indoor and outdoor workout sessions with kinesiologists were organised.

Employees in subsidiaries

The employees of the Prospera, Viz, KD Skladi, Zdravje AS and KD IT subsidiaries enjoy the same benefits as the employees of the parent company. Employees in subsidiaries are included in the parent company training programmes, mostly through AS Academy and AS eAcademy.

8.1.4 Work-related injuries

In AS, the number of accidents at work that resulted in absence from work (work-related injuries) was the same as in 2014. Employees working in the field tend to be more susceptible to work-related injuries, especially due to unforeseen circumstances and traffic conditions.

In 2016, over half of the recorded injuries occurred in the working environment due to recklessness during walking, slips and falls. All but one of the injuries were minor ones, causing only brief absence from work, i.e. up to 30 working days.

Work-related injuries in AS in the 2014–2016 period:

The number and share of injuries	2016		2015		2014	
	number	share in %	number	share in %	number	share in %
At work	4	67	3	37,5	4	67
On business trips	2	33	5	62,5	2	33
TOTAL	6	100	8	100	6	100

Lost work days due to injuries at work in AS in 2014–2016:

Lost work days due to injuries at work	2016	2015	2014
	number	number	number
	73	106	61

8.1.5 Communication with the employees

On 15 January 2016, the new intranet site **KompAS** was launched, which is a modern interactive communication channel replacing ASnet from 2004. It enables the employees to quickly access all information and documents used during work as well as business applications representing their work tools. From a business point of view, transparent and permanent access to a complete collection of internal documentation and repository of older documents is very important.

The employees in subsidiaries arepartly or fully included in all communication activities. All employees in subsidiaries regularly receive the AS News in-house newsletter and participate in joint events for employees. The employees of the Prospera and Viz subsidiaries are connected through the same KompAS intranet page, while the employees from Prospera can additionally use Pronet.

8.2 SUSTAINABLE DEVELOPMENT

Since its establishment, Adriatic Slovenica has been supporting a plethora of projects, initiatives and campaigns of national importance as well as regional and local celebrations with donations and sponsorships contributing to a better quality of life. The Company has been promoting projects related to healthcare, sport, culture, preservation of natural and cultural heritage, education and safety, especially relating to health preservation and a healthy lifestyle. In 2016, over 330 projects across Slovenia were supported.

Major sponsorships and donations

Adriatic Slovenica is traditionally associated with sport, therefore special attention is devoted to insurance for athletes of all categories. Top-level athletes could rely on the Company's support as the official insurer of the Olympic national teams (Team Slovenia since 1993).

The Company has been cooperating with the Football Association of Slovenia for the past 16 years. In September 2016, a new sponsorship agreement was signed for the period to 2020 when Slovenia's football team will be competing in the World Cup and the European Championship. AS also supports the Handball Federation of Slovenia and the national handball team, which won a bronze medal in the World Handball Championship in France in January 2017, and it will continue to do so until 2018. The Company continued to sponsor Vasilij Žbogarits (for the17th year), the greatest Slovene sailor of all time, and Filip Flisar, a free-style skier.

In addition, Adriatic Slovenica is the sponsor of the Alpine Association of Slovenia, offering affordable accident insurance and foreign rescue costs insurance with 24-hour assistance and medical assistance abroad as well as liability insurance to the Association and more than 50,000 of its members.

In culture and preservation of natural and cultural heritage, the Company has been supporting the Portorož Auditorium and the Koper Theatre since 2002. The Company worked closely with Volčji Potok Arboretum and the Lipica Stud Farm by organising special events, which not only contributed to the conservation of cultural and natural heritage and to the visibility of natural beauties but also providedadditional content to the visitors.

Since 1995, the **AS Foundation** (known as Ajda at the time and later as KD Foundation) has been offering financial assistance to talented students, particularly to graduate and post-graduate students studying music abroad.

In 2012, The Company acquired an extensive art collection, which has been exhibited in the **AS Gallery** at the KD headquarters on Dunajska 63 in Ljubljana since 2014. More than 10 exhibitions were organised in the gallery, which is becoming increasingly known as the new flourishing cultural scene in Ljubljana by the public and the media.

A responsible attitude towards the environment has been a long-standing practice of the Company and its employees. The Company aims to reduce its carbon footprint in many ways, especially by investing in retrofitting of the existing premises and purchasing more environmentally-friendly vehicles. Electricity, water and paper saving measures are also important, for instance digitisation of operations, separation of hazardous waste, toners, ink cartridges, IT equipment and batteries (the latter since 2014) in separate containers as part of recycling bin sets for waste separation available in all branch offices. In 2016 at the headquarters in Koper, the Company managed to reduce utility costs by more than EUR 13,000 per year, office supply costs by one fifth and the costs of motor fuel consumption by 8%.

With respect to **healthcare**, the Company supported the initiative "Moj zdravnik" (*My Doctor*) for the 15th time in a row as the main sponsor. "Moj zdravnik" is an annual nomination of the best and most respected Slovene doctors, organised by the Viva Magazine, which promotes education, development initiatives and the reputation of the health profession. For many years, the Company has been rewarding blood donors through the Red Cross regional branches in Izola and Koper. As part of its health promotion programme, the Company carried out preventive measurements of blood pressure, heart rate, blood sugar, cholesterol and body composition across Slovenia.

As far as **charity** is concerned, considerable support was given to the "Podari malico" (*Donate A School Meal*) project, within which school meals are given out to children from socially deprived environments. At the end of 2016, the Company donated funds to children instead of buying Christmas business gifts and thus contributed to 2,066 meals, also with the help of its policyholders who took out insurance for children and youth online.

For the second time, the team of 51 runners of Adriatic Slovenica contributed to the success of the Wings for Life World Run, which took place on 8 May 2016 in Ljubljana. Sponsorship will also be provided in 2017.

9. PERFORMANCE INDICATORS

Performance indicators of the AS Group show performance by category in the form of segment presentations of the AS Group operations, with an emphasis on insurance activity. Apart from the indicators shown below, the performance indicators in line with the "Decision on Annual Reports and Quarterly Financial Statements of Insurance Companies" (Official Gazette of the RS no. 1/16), laid down by the supervisor – the Insurance Supervision Agency, are also prepared for the parent company Adriatic Slovenica. These indicators are developed with regard to the prescribed accounting data prepared by the Company so as to report to the supervisory authority and they differ from the indicators under the International Financial Reporting Standards. For this reason, the indicators are presented in the appendix to the Annual Report for the purposes of reporting to the Insurance Supervision Agency.

Growth of gross written premium (GROWTH INDEX (ratio between gross written insurance premiums for the current and the previous year)	Adriatic Slovenica		Group	
	2016	2015	2016	2015
Total insurance contracts	101	100	100	99
Non-life insurance contracts	102	100	101	99
Life insurance contracts	99	112	98	108
Health insurance contracts	100	93	100	93

Loss ratio (net claims incurred as a % of net premium income)	Adriatic Slovenica		Group	
	2016	2015	2016	2015
Total insurance contracts	74%	72%	74%	72%
Non-life insurance contracts	61%	62%	61%	63%
Life insurance contracts	74%	66%	74%	65%
Health insurance contracts	90%	87%	90%	87%

Operating costs as a % of gross written insurance premium	Adriatic Slovenica		Group	
	2016	2015	2016	2015
Total insurance contracts	24%	25%	26%	25%
Non-life insurance contracts	30%	29%	31%	31%
Life insurance contracts	33%	32%	34%	32%
Health insurance contracts	12%	14%	12%	14%

Gross profit/loss for the year as a % of net premium income	Adriatic Slovenica		Group	
	2016	2015	2016	2015
Total insurance contracts	4%	6%	4%	5%
Non-life insurance contracts	8%	10%	8%	9%
Life insurance contracts	5%	8%	5%	9%
Health insurance contracts	-	-	-	-

Gross profit/loss for the year as a % of average total assets	Adriatic Slovenica		Group	
	2016	2015	2016	2015
Total	2%	2%	2%	2%
Total insurance contracts	4%	5%	4%	4%
Non-life insurance contracts	1%	1%	1%	1%
Life insurance contracts	-	-	-	-
Asset management	-	-	0%	-

Return on equity (net profit/loss for the year as a % of average total equity)	Adriatic Slovenica		Group	
	2016	2015	2016	2015
Total	12%	14%	12%	12%

AUDITED

FINANCIAL STATEMENTS FOR 2016

Adriatic Slovenica d. d.

CONTENTS

1. STATEMENT OF MANAGEMENT RESPONSIBILITY

The Management Board of Adriatic Slovenica insurance company is responsible for the preparation of the Annual Report for the year ended 31 December 2016. 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 the 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 and good management. 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 2016.

The Management Board is also responsible for proper management of accounting, for taking appropriate measures to protect the assets of the Company 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, 22 March 2017

Management Board of the Company:

Gabrijel Škof
President of the Management Board

Matija Šenk
Member of the Management Board

2. AUDITOR'S OPINION

KPMG Slovenija, podjetje za revidiranje, d.o.o.
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Independent Auditor's Report[i]

To the owners of Adriatic Slovenica d.d.

Opinion

We have audited the separate financial statements of the Adriatic Slovenica d.d. ("the Company"), which comprise the separate statement of financial position as of 31 December 2016, the separate statement of profit or loss and other comprehensive income, the separate statement of cash flows, and the separate statement of changes in equity for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying separate financial statements give true and fair view of the separate financial position of the Company as at 31 December 2016, and of its separate financial performance and its separate cash flows for the year then ended in accordance with the International Financial Reporting Standards as adopted by the European Union ("IFRS as adopted by the EU").

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's Responsibility for the Audit of separate Financial Statements* section of our report. We are independent of the Company in accordance with both the International Ethics Standards Board for Accountants Code of Ethics for Professional Accountants (IESBA Code) and the ethical requirements that are relevant to our audit of the separate financial statements in Slovenia and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code.

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

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the separate financial statements of the current period. These matters were addressed in the context of our audit of the separate financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

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

KPMG

Recoverability of the carrying amounts of non-marketable investments

The carrying amount of investments in subsidiaries and associates as at 31 December 2016: EUR 58.161.079 (2015: 20.189.796);
The carrying amount of financial investments as at 31 December 2016: EUR 259.131.080 (2015: EUR 245.974.277);
Impairment loss recognized in 2016: EUR 1.373.515 (2015: EUR 380.153).

We refer to the financial statements: Notes 5.4, 5.5 and 6.1 (accounting policies), Notes 10.4, 10.6 and 10.22.2 (financial disclosures).

Key audit matter	Our response
The Company's investments account for 43 percent of its total assets as at 31 December 2016. Approximately one third of the balance consists of non-marketable investments carried at cost, such as investments in subsidiaries and associates, and portfolio investments in non-marketable shares, with the remainder comprised of loans, primarily to related parties. On a regular basis, the Company performs an assessment of whether any indications of impairment exist in respect of the non-marketable investments, as required by relevant accounting standards. The impairment assessment is based on the evaluation of the investees' financial performance, with subsequent detailed impairment testing in respect of those investees with poor or deteriorating performance, mainly using the discounted cash flow method. The amounts of projected future cash flows of non-marketable investments are significantly influenced by the key assumptions made by management associated with the determination of the WACC, country risk rates and growth rates. Therefore measurement of the investments' respective recoverable amounts by reference to the underlying future operating cash flows is a complex process that requires significant subjective judgments.	Our procedures included, among others: • Updating an understanding of management's processes over the determination of recoverable amounts of the Company's investments; • Evaluating the reasonableness of the Company's judgments as to the existence of impairment indicators and consequently the requirement to perform related impairment tests, based on our understanding of the current market conditions and by independently assessing the investees' financial performance based on the analysis of their historical performance against past forecasts; • For investments with identified impairment indicators, with the assistance of our own valuation specialists, assessing the Company's assumptions and estimates applied to determine the recoverable amounts. Our procedures included, among others: – evaluating the appropriateness of the valuation method used for the assets in question; – challenging the reasonableness of the key assumptions applied by external valuation experts engaged by the Company, such as the growth rates, and WACC by reference to external market data platforms; – evaluating the historical reliability of forecasts by comparing actual performance against previous forecasts. • Evaluating the Company's analysis of the sensitivity of the impairment tests' results to changes in key assumptions. • Assessing the adequacy and appropriateness of the Company's disclosures related to the significant judgments and the sensitivity of the outcome of impairment assessment to changes in key assumptions.

KPMG

Recoverable amounts of investment property	
The carrying amount of investment property as at 31 December 2016: EUR 29.566.583 (2015: EUR 30.835.438); related impairment loss recognized in 2016: EUR 905.825 (2015: EUR 0). *We refer to the financial statements: Notes 5.3 and 6.3 (accounting policies), Notes 10.3 and 10.22 (financial disclosures).*	
Key audit matter	**Our response**
Investment property is the property the Company holds to earn rental income. This includes primarily office space and the Kolosej Maribor, a cultural, entertainment and business centre. Investment property is stated at cost less accumulated depreciation and accumulated impairment losses. As the property is partly unoccupied and partly generating low rental income streams, there are indications that its carrying amount may be below the recoverable amount. The determination of the recoverable amounts of the Company's investment properties is based on the assessment of their value-in-use or fair value less costs to sell, or both, as applicable. It involves significant management judgment and estimates, using the input from valuation reports produced by the external valuation experts engaged by the Company, in particular in respect of the assumptions such as discount rates applied, cash flow projections (based on expected future rental income) and comparable market transactions. The judgment involved in making the assessment is particularly high for the single most significant investment property, due to its specific nature (Kolosej Maribor, a cultural, entertainment and business centre). The recoverable amount of the investment property is highly sensitive to changes of the assumptions used, and therefore we consider determination of the recoverable amounts of investment property to be the key audit matter.	Our audit procedures included, among others: • Assessing the competence and objectivity of the external experts engaged by the Company; • With the support of valuation experts engaged by us: – critically evaluating, by reference to the relevant financial reporting standards, the appropriateness of the methodology applied by the Company and its external experts in its determination of the recoverable amounts of the investment property, and – comparing the key inputs used to past experience with these and other similar properties, and market data, mainly with regards to rental income, capitalization rates and discount rates applied; • Critically challenging the assumptions used in the sensitivity analysis of the Kolosej Maribor, a cultural, entertainment and business centre, mainly focusing on discount rate, proportion of idle space and rental income, which we corroborated with independent external sources. • Assessing the adequacy and appropriateness of the Company's disclosures related to the significant judgments and the sensitivity of the outcomes of the impairment assessment to changes in key assumptions.

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Measurement of life insurance technical provisions	
Life insurance technical provisions as at 31 December 2016: EUR 107.250.524 (2015: EUR 102.765.143), increase of life insurance technical provisions in 2016: EUR 4.210.408 (2015: EUR 4.519.135). *We refer to the financial statements: Notes 5.15 and 6.4 (accounting policies), Note 10.15 (financial disclosures).*	
Key audit matter	**Our response**
Life insurance technical provisions represent a significant liability in the Company's statement of financial position. Measurement of these liabilities is associated with significant estimation uncertainty as it requires management to exercise judgment and develop complex and subjective assumptions used as inputs into the underlying valuation model based on standard actuarial methodologies. At each reporting date, the Company is required to perform a liability adequacy test (hereinafter, "LAT") with an aim to determine whether its recognized life insurance technical provisions are adequate. The test is based on the comparison of the management's best estimate of the present value of cash flows arising from the in-force insurance contracts with the stated amounts of provisions. In case the LAT test shows that the amounts of life insurance technical provisions are insufficient in light of the estimated future cash flows, the deficiency is recognized in the income statement by setting up an additional provision. The Company's key assumptions used in the cash flow model include those in respect of: expected expenses, lapse and mortality rates and discount rates used. Relatively minor changes in these assumptions can have a significant effect on the amounts of the related liabilities. In view of the above-mentioned factors, we consider measurement of life insurance technical provisions to be a key risk in our audit.	Our procedures included, among others: • Evaluating the methodology and assumptions used by the Company in measuring life insurance technical provisions against relevant regulatory and financial reporting requirements; • Testing the design and operating effectiveness of selected key controls over the Company's process for setting and updating actuarial assumptions, and also testing general IT controls associated with the related data collection, extraction and validation; • Assessing the results of the Company's experience analysis ('back-testing'), and using those historical results to challenge the key assumptions used in the measurement of the insurance liabilities as at 31 December 2016; • With the support of our own actuarial specialists, evaluating the reasonableness of the Company's estimates of future cash flows by means of: – comparing prior year's cash flow predictions with the actual outcomes; – the analysis of lapse rates used in LAT based on the comparison of Company's calculation of lapse rates to our own independent calculation based on the data extracted from the clients' databases; – the reasonableness of mortality rates extracted from the Company's experience studies; – comparing the expense assumptions with those previously used, and comparing prior year assumptions to actual outcomes; • Recalculating the movements in life insurance technical provisions for the year; • Assessing the Company's disclosures in respect of life insurance technical provisions against the requirements of the relevant financial reporting standards.

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Independent Auditor's Report[1]

To the owners of Adriatic Slovenica d.d.

Opinion

We have audited the separate financial statements of the Adriatic Slovenica d.d. ("the Company"), which comprise the separate statement of financial position as of 31 December 2016, the separate statement of profit or loss and other comprehensive income, the separate statement of cash flows, and the separate statement of changes in equity for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying separate financial statements give true and fair view of the separate financial position of the Company as at 31 December 2016, and of its separate financial performance and its separate cash flows for the year then ended in accordance with the International Financial Reporting Standards as adopted by the European Union ("IFRS as adopted by the EU").

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's Responsibility for the Audit of separate Financial Statements* section of our report. We are independent of the Company in accordance with both the International Ethics Standards Board for Accountants Code of Ethics for Professional Accountants (IESBA Code) and the ethical requirements that are relevant to our audit of the separate financial statements in Slovenia and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code.

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

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the separate financial statements of the current period. These matters were addressed in the context of our audit of the separate financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

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- Obtain an understanding of internal control relevant to the audit 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 Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the separate financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the separate financial statements, including the disclosures, and whether the separate financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the separate financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

On behalf of the auditing company

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

Damjan Ahčin, FCCA	Katarina Sitar Šuštar, MBA
Certified auditor	*Certified auditor*
	Partner

Ljubljana, 22 March 2017

KPMG Slovenija, d.o.o.
1

[i] 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 and is not to be signed. This translation is provided for reference purposes only.

3. FINANCIAL STATEMENTS

3.1 BALANCE SHEET

Balance sheet as at 31 December 2016

(in EUR)	Note	31 Dec 2016	31 Dec 2015
Assets		**733,214,576**	**665,354,600**
Intangible assets	10.1	**5,512,694**	**6,065,163**
Property, plant and equipment	10.2	**29,340,310**	**27,823,294**
Non-current assets held for sale	10.5	**2,029,983**	**2,029,983**
Deferred tax assets	10.26	**6,083,846**	**2,832,029**
Investment properties	10.3	**29,566,583**	**30,835,438**
Financial investments in subsidiaries and associates	10.4	**58,161,079**	**20,189,796**
Financial investments	10.6	**259,131,080**	**245,974,277**
In loans and deposits		32,352,930	39,617,921
In held-to-maturity financial assets		38,008,230	39,471,526
In available-for-sale financial assets		180,929,889	151,564,256
In financial assets measured at fair value		7,840,031	15,320,574
Unit-linked investments of policyholders	10.7	**287,601,433**	**263,760,339**
Amounts of technical provisions ceded to reinsurers	10.8	**17,399,320**	**17,215,350**
Assets from financial contracts	10.9	**4,753,190**	**-**
Receivables	10.10	**22,766,149**	**29,786,767**
Receivables from direct insurance business		17,407,497	18,446,651
Receivables from reinsurance and coinsurance		1,772,999	1,567,876
Income tax receivables		(0)	3,483,865
Other receivables		3,585,653	6,288,375
Other assets	10.11	**5,330,357**	**5,940,403**
Cash and cash equivalents	10.12	**5,538,551**	**12,901,762**
Off-balance sheet items	12	**24,724,739**	**28,372,790**
Equity and liabilities		**733,214,576**	**665,354,600**
Equity	10.13	**95,915,172**	**100,930,157**
Share capital		42,999,530	42,999,530
Capital reserves		4,211,782	4,211,782
Reserve from profit		9,223,936	15,543,287
Revaluation surplus		58,661	3,540,100
Retained net earnings		26,467,638	19,916,770
Net profit or loss for the financial year		12,953,626	14,718,688
Subordinated liabilities	10.14	**49,453,317**	**-**
Technical provisions	10.15	**271,895,805**	**269,044,614**
Unearned premium provisions		49,382,871	49,762,262
Mathematical provisions		107,250,524	102,765,143
Claims provisions		114,097,124	115,307,024
Other technical provisions		1,165,287	1,210,185
technical provisions for unit-linked insurance	10.16	**282,619,438**	**259,697,710**
Other provisions	10.18	**3,815,150**	**4,576,757**
Deferred tax liabilities	10.15	**98,641**	**732,097**
Liabilities from financial contracts	10.17	**4,753,190**	**-**
Other financial liabilities	10.19	**1,046,383**	**984,291**
Operating liabilities	10.20	**6,417,671**	**6,893,232**
Liabilities from direct insurance contracts		3,862,611	3,868,003
Liabilities from reinsurance and coinsurance contracts		1,955,043	1,484,491
Income tax liabilities		600,017	1,540,738
Other liabilities	10.21	**17,199,809**	**22,495,744**
Off-balance sheet items	12	**24,724,739**	**28,372,790**

The accounting policies and notes set out on pages from 109 to 233 are an integral part of the financial statements.

3.2 INCOME STATEMENT

Income statement for the period from 1 January 2016 to 31 December 2016

(in EUR)	Note	2016	2015
NET PREMIUM INCOME	**10.22**	**288,110,763**	**287,335,263**
Gross written premiums		298,820,030	296,648,952
Premiums ceded to reinsurers and coinsurers		(11,069,029)	(10,442,444)
Change in unearned premiums		359,762	1,128,755
REVENUES FROM INVESTMENTS IN ASSOCIATES, of which	**10.22**	**-**	**34,953**
INCOME FROM INVESTMENTS	**10.22**	**43,777,104**	**22,841,819**
OTHER INCOME FROM INSURANCE OPERATIONS, of which	**10.22**	**1,741,010**	**4,164,825**
- fee and commission income		1,741,010	4,164,825
OTHER INCOME	**10.22**	**6,857,324**	**7,118,090**
NET EXPENSES FOR CLAIMS AND BENEFITS PAID	**10.23**	**(212,410,024)**	**(206,648,963)**
Gross amounts of claims and benefits paid		(218,701,287)	(213,400,456)
Reinsurers'/coinsurers' shares		4,877,763	9,693,470
Change in claims provisions		1,413,499	(2,941,977)
CHANGE IN OTHER TECHNICAL PROVISIONS	**10.15**	**(4,210,408)**	**(4,519,135)**
CHANGE IN TECHNICAL PROVISIONS FOR THE BENEFIT OF UNIT-LINKED INSURANCE POLICYHOLDERS	**10.16**	**(22,921,728)**	**(1,826,453)**
EXPENSES FOR BONUSES AND DISCOUNTS		**100,722**	**(286,786)**
OPERATING EXPENSES, of which	**10.24**	**(73,145,012)**	**(72,195,291)**
- acquisition costs		(26,735,474)	(27,099,309)
EXPENSES FROM INVESTMENTS IN ASSOCIATES, of which	**10.22**	**(83,819)**	**(389,169)**
EXPENSES INVESTMENTS, of which	**10.22**	**(2,500,272)**	**(6,622,244)**
- impairment losses of financial assets not measured at fair value through profit or loss		(1,373,515)	(380,153)
OTHER INSURANCE EXPENSES	**10.25**	**(3,922,235)**	**(4,642,130)**
OTHER EXPENSES	**10.26**	**(10,439,693)**	**(7,549,436)**
PROFIT/(LOSS) BEFORE TAX		**10,953,732**	**16,815,342**
CORPORATE INCOME TAX	**10.28**	**942,917**	**(2,551,113)**
NET PROFIT FOR THE REPORTING PERIOD		**11,896,650**	**14,264,229**

(in EUR)	Note	2016	2015
Basic net earnings/loss per share	**10.30**	**1.15**	**1.38**
Diluted net earnings/loss per share		**1.15**	**1.38**

The accounting policies and notes set out on pages from 109 to 233 are an integral part of the financial statements.

3.3 STATEMENT OF COMPREHENSIVE INCOME

Statement of comprehensive income for the period from 1 January 2016 to 31 December 2016

(in EUR)	Note	2016	2015
NET PROFIT OR LOSS FOR THE FINANCIAL YEAR AFTER TAXATION		**11,896,650**	**14,264,229**
OTHER COMPREHENSIVE INCOME AFTER TAXATION	**10.13**	**(3,658,226)**	**(2,326,028)**
Items not to be allocated to profit or loss in subsequent periods		**(142,532)**	**(34,396)**
Net gain/loss, recognised in revaluation surplus of property, plant and equipment		(141)	-
Actuarial net gain/loss for pension programmes		(142,391)	(34,396)
Items that may be allocated to profit or loss in subsequent periods	**10.13**	**(3,515,694)**	**(2,291,633)**
Net gain/loss from re-measurement of available-for-sale financial assets		(4,234,030)	(2,761,003)
Gain/loss, recognised in revaluation surplus		4,543,903	2,509,741
Transfer of gain/loss from revaluation surplus to income statement		(8,777,934)	(5,270,744)
Tax on items that may be allocated to profit or loss in subsequent periods		718,337	469,370
TOTAL COMPREHENSIVE INCOME FOR THE YEAR, AFTER TAXATION		**8,238,424**	**11,938,201**

The accounting policies and notes set out on pages from 109 to 233 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 2016 to 31 December 2016

				III. Reserves from profit							
in EUR	Note	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 EQUITY
Total amount at the end of previous financial year		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
OPENING BALANCE IN THE FINANCIAL PERIOD		**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**
Comprehensive income net of tax	**10.13**	-	-	-	-	-	-	**(3,481,439)**	**(176,772)**	**11,896,650**	**8,238,439**
a. Net profit/loss for the year		-	-	-	-	-	-	-	-	11,896,650	11,896,650
b Other comprehensive income	**10.13**	-	-	-	-	-	-	(3,481,439)	**(176,772)**	-	(3,658,211)
Allocation of net profit/loss for the preceeding year to retained profit/loss		-	-	-	-	-	-	-	14,718,688	(14,718,688)	-
Payment (accounting) of dividends	**10.31**	-	-	-	-	-	-	-	(13,246,820)	-	(13,246,820)
Allocation of net profit to reserves from profit	**10.13**	-	-	-	-	-	(1,056,976)	-	-	1,056,976	-
Setting up and using reserves for credit risk and for catastrophic losses		-	-	-	**(1,014,505)**	(4,247,869)	-	-	**5,262,375**	-	-
Other		-	-	-	-	-	-	-	(6,603)	-	(6,603)
CLOSING BALANCE AS AT 31 DECEMBER		**42,999,530**	**4,211,782**	**1,519,600**	**-**	**-**	**7,704,336**	**58,661**	**26,467,638**	**12,953,626**	**95,915,173**

The accounting policies and notes set out on page 200 are an integral part of the financial statements.

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

				III. Reserves from profit							
in EUR	Note	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 EQUITY
Total amount at the end of previous financial year		42,999,530	4,211,782	1,519,600	1,014,505	3,798,823	9,438,167	5,797,421	19,496,508	18,501,956	106,778,292
Adjustments for previous financial year									(338,910)	427,866	88,956
OPENING BALANCE IN THE FINANCIAL PERIOD		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
Increase at acquisition of subsidiary		-	-	-	-	-	-	68,708	-	-	68,708
Comprehensive income net of tax	**10.13**	-	-	-	-	-	-	**(2,326,029)**	-	**14,264,229**	**11,938,200**
a. Net profit/loss for the year		-	-	-	-	-	-	-	-	14,264,229	14,264,229
b Other comprehensive income	**10.13**	-	-	-	-	-	-	(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	**10.31**	-	-	-	-	-	-	-	(17,944,000)	-	(17,944,000)
Settlement of loss incurred in preceding years	**10.13**	-	-	-	-		(676,855)	-	(226,651)	903,506	-
Setting up and using reserves for credit risk and for catastrophic losses		-	-	-	-	449,047		-	-	(449,047)	-
CLOSING BALANCE AS AT 31 DECEMBER		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 200 are an integral part of the financial statements.

The 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 Companies Act, the 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 2016 to 31 December 2016

(in EUR)	Note	2016	2015
Cash flows from operating activities		**1,818,835**	**12,231,034**
Income statement items		**7,814,627**	**21,660,255**
Net premiums written in the period		292,458,639	286,206,507
Revenues from investments (other than financial revenues)		2,269,844	18,169,460
Other operating revenues (other than revaluation and excluding the decrease in provisions) and financial revenues from operating receivables		6,998,577	8,996,852
Net claims paid for the period		(213,826,285)	(197,687,522)
Net operating expenses excluding depreciation costs and change in deferred acquisition costs		(69,837,969)	(77,878,531)
Investment expenses (excluding depreciation and financial expenses)		(1,726,562)	(7,328,514)
Other operating expenses excluding depreciation (other than revaluation and excluding the increase in provisions)		(6,297,319)	(7,050,117)
Income tax and other taxes excluded from operating expenses		(2,224,297)	(1,767,882)
Changes in net operating assets (receivables for insurance, other receivables, other assets and deferred tax assets and liabilities) of balance sheet items		**(5,995,793)**	**(9,429,221)**
Opening less closing operating receivables from direct insurance operations		890,352	2,479,203
Opening less closing receivables from reinsurance		(238,098)	4,820,992
Opening less closing other receivables from (re)insurance contracts		1,601,593	(274,439)
Opening less closing other receivables and assets		(2,150,525)	116,005
Opening less closing deferred tax assets		(3,166,936)	783,231
Opening less closing inventories		1,655	11,809
Closing less opening liabilities from direct insurance operations		(5,392)	(779,578)
Closing less opening liabilities from reinsurance		470,552	(10,013,914)
Closing less opening other operating liabilities		(3,481,195)	250,722
Closing less opening other liabilities (other than unearned premium)		800,539	(6,367,954)
Closing less opening deferred tax liabilities		(718,337)	(455,298)
Net cash from/(used in) operating activities		**1,818,835**	**12,231,034**
Cash flows from investing activities		**(42,988,640)**	**7,795,677**
Cash inflows from investing activities		**123,824,765**	**126,114,040**
Cash inflows from interest received from investing activities		5,274,060	7,762,956
Cash inflows from dividends and participations in profit of others		415,130	1,302,421
Cash inflows from disposal of financial investments		118,135,575	117,048,663
Cash outflows from investing activities		**(166,813,404)**	**(118,318,363)**
Cash outflows to acquire intangible assets		(1,747,002)	(1,373,764)
Cash outflows to acquire property, plant and equipment		(3,007,660)	(1,350,596)
Cash outflows to acquire financial investments		(162,058,742)	(115,594,003)
Net cash from /(used in) investing activities		(42,988,640)	7,795,677
Cash flows from financing activities		**33,806,595**	**(17,944,000)**
Cash inflows from financing activities		**49,052,228**	**(0)**
Cash inflows from long-term loans and issued bonds		49,052,228	-
Cash outflows from financing activities		**(15,245,634)**	**(17,944,000)**
Cash outflows for interest paid		(1,998,814)	-
Cash outflows to pay out dividends and other participations in profit		(13,246,820)	(17,944,000)
Net cash from/(used in) financing activities		**33,806,595**	**(17,944,000)**
Closing balance of cash and cash equivalents	**10.12**	**5,538,551**	**12,901,762**
Cash flows for the period		**(7,363,211)**	**2,082,711**
Opening balance of cash and cash equivalents	**10.12**	**12,901,762**	**10,819,051**
Changes as at 1 January		**-**	**107,027**
Closing balance of cash and cash equivalents for the previous year		**-**	**10,712,024**

The accounting policies and notes set out on pages from 109 to 233 are an integral part of the financial statements.

3.6 STATEMENT OF ACCUMULATED PROFIT

Statement of accumulated profit for 2016

(in EUR)	Note	Total 2016	Total 2015
Net profit/(loss) for the financial year		**11,896,650**	**14,264,229**
Net profit carried forward (+) / net loss carried forward (-)	**10.13**	**26,467,638**	**20,143,420**
- result for the current year under effective standards		26,467,638	20,143,420
Decrease in reserves	**10.13**	**1,056,976**	**676,855**
Increase in other reserves under the decision of the Management Board and of the Supervisory Board		**-**	**449,047**
Balance-sheet profit allocated by the Annual General Meeting as follows:		**39,421,263**	**34,635,458**
− to the shareholder		-	13,246,820

The accounting policies and notes set out on pages from 109 to 233 are an integral part of the financial statements.

By the end of the financial statements audit process, the shareholders had not yet passed the resolution on the distribution of the accumulated profit.

4. INTRODUCTORY NOTES AND BASES FOR THE PREPARATION OF FINANCIAL STATEMENTS

The insurance company Adriatic Slovenica d.d. is a public limited company with the 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 2016, Adriatic Slovenica d.d. established the new subsidiary ZDRAVJE AS d. o. o. and acquired two new subsidiaries KD IT d. o. o. and KD Skladi d. o. o.

Adriatic Slovenica d.d. (the controlling company) together with the subsidiaries PROSPERA d.o.o., VIZ d.o.o., Permanens d.o.o., ZDRAVJE AS d. o. o., KD IT d. o. o. and KD Skladi d.o.o., forms the Adriatic Slovenica Group for which, in addition to separate financial statements and the annual report, also prepares the consolidated financial statements and disclosures to the consolidated financial statements for the year ended 31 December 2016. In 2016, KD životno osiguranje d.d. was a member of the AS Group – now in liquidation. The assets of the subsidiary were disclosed among non-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.

Access to consolidated annual reports and financial statements

The insurance company is a part of the KD Group finančna skupina d.d. and 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, Slovenia, where the consolidated financial statements are available for inspection. 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

Management and governance bodies of the insurance company Adriatic Slovenica d.d. in 2016

Gabrijel Škof, President of the Management Board
Varja Dolenc, MSc, Member of the Management Board (until 31 October 2016)
Matija Šenk, Member of the Management Board
Since 1 November 2016, the parent company was led by two-tier management. In 2016, the Supervisory Board appointed Jure Kvaternik a new Management Board member, who starts serving on the Board after he obtains the authorisation of the ISA.

Supervisory Board of the insurance company Adriatic Slovenica d.d in 2016

Matjaž Gantar, Chairman
Aljoša Tomaž, Member
Tomaž Butina, Member
Aleksander Sekavčnik, Member
Matjaž Pavlin, Member, employee representative
Borut Šuštaršič, employee representative

Audit Committee of the insurance company Adriatic Slovenica d.d. in 2016

Matjaž Gantar, Chairman (until 12 December 2016)
Matjaž Pavlin, Chairman (since 12 December 2016, prior Audit Committee member)
Mojca Kek, Deputy Chairman (since 12 December 2016, prior member (independent expert))
Milena Georgievski, member (independent expert) (until 12 December 2016)
Jure Kvaternik, member (until 12 December 2016)
Vera Dolinar, member (independent expert) (since 12 December 2016)

Shareholders as at 31 December 2016

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

Number of employees as at the 2016 year-end

Data on employees by number and level of education in 2016

	Qualification level					
Number of employees as at	I.- IV.	V.	VI.	VII.	VIII.-IX.	Total
1 Jan 2016	34.00	391.00	156.00	425.00	27.00	1033.00
31 Dec 2016	30.00	385.00	155.00	446.00	34.00	1050.00
1 Jan 2016 AS branch	2.00	27.00	0.00	27.00	1.00	57.00
31 Dec 2016 AS branch	5.00	42.00	0.00	38.00	5.00	90.00
2016 average	**35.8**	**432.9**	**154.8**	**467.5**	**34.1**	**1125.2**

Note: The number of employees as at the end of the reporting year 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 as of 1 January. The above table shows the number of employees per person in Adriatic Slovenica as at the reporting date.

Legend: "AS" – the number of employees in Adriatic Slovenica
"Zagreb Branch" – the number of employees in Adriatic Slovenica, Zagreb Branch

Some employees of Adriatic Slovenica are partially employed at Prospera d.o.o. subsidiary, therefore, the number of employees of the Company is calculated considering the proportion of employment in individual companies. As at the 2016 year-end, the number of employees in Adriatic Slovenica, taking into consideration these proportion, is 1,108 and is different from the number of employees per person, which was 1,140 employees.

4.1 BASIS FOR THE PREPARATION OF FINANCIAL STATEMENTS

The financial statements and the annual report (management report and accounting report) prepared by the Adriatic Slovenica zavarovalna družba d. d. have been prepared in accordance with the International Financial Reporting Standards (IFRS), as adopted by the European Commission Regulation and in accordance with the provisions of the national legislation, the Slovene Companies Act (ZGD-1) and its amendments and the Insurance Act (ZZavar-1). Furthermore, the financial statements and annual report have been prepared in compliance with the national implementation regulation, the Decision on Annual Reports and Quarterly Financial Statements of Insurance Undertakings issued by the Insurance Supervision Agency (Official Gazette of the Republic of Slovenia No. 1/16). The financial statements are prepared under the going concern assumption. The reporting period is equal to the calendar year.

4.1.1 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 2016 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 2016:
In accordance with the requirements laid down in International Financial Reporting Standards and the EU, companies will have to observe for future periods the following amended and modified standards and interpretations:

IFRS 9 - Financial Instruments (2014)

The amended standard becomes effective for annual periods beginning on or after 1 January 2018 (postponement until 2020 has been proposed for insurance companies). Conversion of previous periods is not required, but permitted as long as the information is available and without applying recognitions. Earlier application is permitted.

This standard replaces IAS 39 Financial Instruments: Recognition and Measurement, with the exception that IAS 39 remains in force for a fair value hedge of interest rate risk of a portfolio of financial assets or financial liabilities. Companies may choose as its accounting policy to apply either hedge accounting in accordance with IFRS 9 or the existing hedge accounting under IAS 39.

Although the bases of permissible measurement of financial assets – at either amortized cost, fair value through other comprehensive income (FVOCI) or at fair value through profit or loss (FVLP) – are similar to IAS 39, the criteria for determining the appropriate measurement vary significantly.

- the financial assets are held within a business model that is designed to collect contractual cash flows; and
- the contractual terms include specific dates of cash flows that are solely payments of principal and interest on the principal amount outstanding.

Furthermore, the company may present subsequent changes in fair value (including foreign exchange rate gains or losses) of an equity instrument that is not held for trading irrevocably within other comprehensive income. These subsequent changes can no longer be reclassified to profit or loss in any case.

Debt instruments measured at fair value through other comprehensive income, interest income, expected credit losses and the foreign exchange rate gains or losses are recognized in profit or loss in the same way as assets measured at amortized cost. Other gains and losses are recognized in other comprehensive income and after derecognition, reclassified to profit or loss.

Model calculation of impairment in accordance with IFRS 9 replaces the model of incurred losses, as known in IAS 39. It also includes a model of expected credit losses, which means that the impairment may be recognized even before the loss has been incurred.

IFRS 9 contains a new general hedge accounting model, which better adapts the accounting to risk management. Different types of hedging relationships - fair value, cash flow and net investments in foreign companies - remain unchanged, but further assessment is required.

The standard contains new requirements that need to be met (continuation and discontinuation of hedge accounting) and allows additional types of exposures to be treated as hedged items.

Additional extensive disclosures are required in respect of risk management and hedging activities.

The Company does not expect for this amendment to have any impact on its financial statements as of the date of initial application as presented below.

At this stage, it is not clear what proportion of debt securities will be measured through other comprehensive income (FVOCI), through profit or loss, or at amortized cost, since it depends on the result of business model test. Considering the nature and purpose of the debt securities, which the Company records in different groups under IAS 39, it is not expected that a significant proportion of these assets would be measured differently under IFRS 9.

The possibility exists that equity instruments currently classified as available for sale will be measured at FVOCI in accordance with IFRS 9, which depends on the Group's decision as of the date of initial application of the standard. The Company has not yet decided on the classification of those instruments.

It is expected that the deposits will continue to be measured at amortized cost in accordance with IFRS 9.

Based on the preliminary estimate, the Company expects that almost all financial instruments that are classified as assets and liabilities in accordance with IAS 39 will continue to be measured at amortized cost as defined by IFRS 9.

It is further anticipated that the expected credit loss model under IFRS 9 will accelerate the recognition of impairment losses and bring higher impairment at initial application.

At this moment, the Company cannot estimate with certainty the impact of the initial application of IFRS 9 on its financial statements prepared in accordance with IFRS.

IFRS 15 - Revenue from Contracts with Customers

The new standard is effective for annual periods beginning on or after 1 January 2018. Earlier application is permitted.

Clarifications to IFRS 15, Revenue from Contracts with Customers have not yet been approved by the competent bodies of the EU; however, the EU has approved IFRS 15, Revenue from Contracts with Customers, including its effective date.
The new standard provides a framework that has replaced the existing guidance for revenue recognition under IFRS. An entity shall apply a five-step model to determine when exactly to recognize revenue and to what amount. The new model determines that revenue is recognized when the control over the goods and services has been transferred to the customer and in the amount up to which the entity expects to be entitled. Given that the criteria are met, revenue shall be recognized:

- over time and in a way that shows the operations of the entity, or
- at the moment when the control over the goods and services has been transferred to the customer.

In addition, IFRS 15 establishes principles that commit an entity to ensuring high quality and extensive disclosures to users of financial statements providing useful information about the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers.

Although the initial estimate of the potential impact of IFRS 15 on the Company's financial statements has not yet been fully completed, the Management Board assumes that on the date of the first application the standard will not significantly affect the Company's financial statements. The Company does not foresee that the timing and measurement of its revenue under IFRS 15 will change due to the nature of its operations and the types of revenue.

Annual Improvements

The plan of annual IFRS improvements 2014–2016 Cycle was published on 8 December 2016 and introduces changes to two standards and, as a consequence, amendments to other standards and interpretations, which result in accounting changes for presentation, recognition or measurement. Amendments to IFRS 12, Disclosure of Interests in Other Entities, effective for annual periods beginning on or after 1 January 2017, Amendments to IAS 28 Investments in Associates and Joint Ventures are effective for annual periods beginning on or after 1 January 2018. Earlier application is permitted.

The Company does not expect for these amendments to have any impact on its financial statements.

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

IFRS 16 - Leases

This standard is effective for annual periods beginning on or after 1 January 2019. Earlier application is permitted, but not before an entity applies IFRS 15.

IFRS 16 replaces IAS 17 Leases and the related clarifications. The standard removes the existing model of dual accounting for leases and, instead, requires the Group to account for the majority of the leases under a single on-balance sheet model without distinguishing between an operating and a finance lease.

According to IFRS 16, the contract contains a lease if it conveys the right to control the use of an identified asset for a period of time in exchange for consideration. The new model provides that, under such contract, the lessee shall recognize the right-of-use asset and lease liabilities. The right-of-use asset is depreciated, and interest is added to the liabilities. This results in a concentrated pattern of costs for most leases, even if the tenant pays a fixed annual rent.

The new standard introduces o number of restricted exceptions, including:

- leases with a lease term of 12 months or less and containing no purchase option and
- leases where the underlying asset has a low value (low-value leases, small-ticket leases).

The introduction of the new standard will not substantially change the lease accounting for the lessor and from the lessor's perspective, the distinction between the operating lease and finance lease remains in force.
The Company does not expect for this amendment to have any impact on its financial statements as of the date of initial application.

Amendments to IFRS 2 - Classification and Measurement of Share-based Payment Transactions

This amendment is effective for annual periods beginning on or after 1 January 2018 and shall be applied retrospectively. Earlier application is permitted.
The amendment addresses share-base payments in the following areas:

- the effects of vesting conditions on the measurement of a cash
- the classification of a share
- the accounting where a modification to the terms and conditions of a share

The Company does not expect for this amendment to have any impact on its financial statements as of the date of initial application, since the Company has no share-based payment transactions.

Amendments to IFRS 4 - Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts

This interpretation is effective for annual periods beginning on or after 1 January 2021 and shall be applied retrospectively.

The amendments address concerns arising from implementing the new financial instruments standard, IFRS 9, before implementing the new insurance contracts standard that the IASB is developing to replace IFRS 4. The amendments introduce two options for entities issuing insurance contracts. The first one is a temporary exemption from applying IFRS 9 allowing entities to defer the application of IFRS 9 (the »deferral approach«). The second option is the »overlay approach« intended to mitigate instability deriving from applying IFRS 9 before implementing the new envisaged insurance contracts standard.

The Company as an entity issuing insurance contracts will apply the exemption from applying IFRS 9 and, consequently, foresees no significant impact in its financial statements.

Amendment to IFRS 10 and IAS 28 Sale or Contribution of Assets between an Investor and its Associate or Joint Venture

The International Accounting Standards Board (IASB) has deferred the effective date of the amendments. However, early application is permitted.

The amendment clarifies that in transactions with an associate or joint venture the extent of the gain or loss recognition depends on whether the asset sold or contributed constitute a business in which

- the entire gain or loss is recognised when the transaction is made between the investor and its associate or joint venture covering the transfer of an asset or assets constituting a business (irrespective of whether the asset is located in a subsidiary or not), while a partial gain or loss is recognised when the transaction is made between the investor and its associate or joint venture covering the transfer of an asset that does not constitute a business even if the assets are located in the subsidiary.

The Company does not expect for this amendment to have any significant impact on its financial statements as of the date of initial application.

Amendment to IAS 7

This amendment is effective for annual periods beginning on or after 1 January 2017 and shall be applied retrospectively. Earlier application is permitted.

The amendment requires additional disclosures that will help the users of financial statements evaluate the changes in financial liabilities including the changes in cash flows and non-monetary changes (e.g. the impact of exchange rate gains and losses, changes in the acquisition or loss of control over subsidiaries, changes in fair value).
The Company does not expect for this amendment to have any significant impact on its financial statements as of the date of initial application.

Amendment to IAS 12 - Recognition of Deferred Tax Assets for Unrealised Losses

This amendment is effective for annual periods beginning on or after 1 January 2017 and shall be applied retrospectively. Earlier application is permitted.

The amendment clarifies in more detail how and when to account for deferred tax assets in certain cases, and how to determine the amount of future taxable income for the purpose of assessing the recognition of deferred tax assets.
The Company does not expect for this amendment to have any significant impact on its financial statements as of the date of initial application, since the Company has already introduced the measuring of future taxable income in the way as required by this amendment.

Amendments to IAS 40 - Transfers of Investment Property

The amendments are effective for periods beginning on or after 1 January 2018 and shall be applied prospectively.

The amendments strengthen the principle set out in IAS 40 Investment Property concerning transfer to investment properties or from them, so that it now provides that such a transfer is made only if there is a change in the use of the property. In accordance with these changes, a transfer is made when and only when there is a real change in use – i.e. when an asset starts or ceases to meet the definition of investment property and there is evidence of a change in use. A mere change of the management's purpose is no reason for transfer.

The Company does not expect for this amendment to have any impact on its financial statements as of the date of initial application, since the Company transfers a property to investment properties of from them only in case of an actual change in use.

IFRIC 22 - Foreign Currency Transactions and Advance Consideration

This interpretation is effective for annual periods beginning on or after 1 January 2018.

The Interpretation clarifies how to determine the date of a transaction for the purpose of determining the exchange rate to be applied upon initial recognition of the related asset, expense or income (or part thereof) on derecognition of non-monetary assets or non-monetary obligations in relation to a made or received advance payment in foreign currency.

In such a case, the transaction date is the date on which the company first recognized a non-cash asset or a non-monetary obligation in relation to a made or received advance payment.

The Company does not expect for this amendment to have any impact on its financial statements as of the date of initial application, since the Company upon initial recognition of non-cash or non-monetary obligations in relation to advance payments made or received uses the exchange rate in effect on the transaction date.

4.2 TRANSLATION FROM FOREIGN CURRENCIES

4.2.1 Functional and presentation currency

The financial statements are presented in euros, which is the functional and presentation currency of Adriatic Slovenica. All financial statement disclosures are also presented in euros. Due to rounding of amounts, minimal differences may arise from summing up certain items (EUR + (-) 1).

4.2.2 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 as 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 at the date 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 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.

4.3 INSURANCE AND FINANCIAL CONTRACTS

The Company concludes contracts, under which it accepts insurance or financial risk or both types of risk from the policyholder, which is why it classifies its products under insurance and financial contracts.

Insurance contracts include contracts with a significant insurance risk. They may also include financial risk, whereas financial contracts do not include insurance risk.

A material insurance risk is defined as the possibility of having to pay significant additional benefits on the occurrence of a loss event. A significant additional benefit is defined as the difference between the benefits payable on the occurrence of a loss event and the benefits payable if the loss 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 case of occurrence of loss event and the payment in the remaining cases. As a general guideline, the Company defines 10% as the benchmark for assessment of significance of insurance risk, if the additional benefits payable in the case of occurrence of a loss event amount to at least 10% of benefits payable in other events.

Part of insurance contracts held by the Company as at 31 December 2016 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 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.

4.3.1 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 borne by the policyholder.

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, assistance insurance, 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 the policyholder's obligation for payment occurs. Revenues contain all costs in addition to premiums, including the agency fee, except taxes. The part of the premiums from in-forceinsurance contracts which refers to unexpired insurance coverage on the balance sheet date, is presented as unearned premium reserve and represents a liability of the Company. Written premiums less changes in unearned premium reserves are recognised as income.

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

Health insurance contracts

The Company provides three out of four types of voluntary health insurance in accordance with the provisions laid down in the Health Care and Health Insurance Act (hereinafter: the ZZVZZ), specifically complementary 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 groups offering complementary health insurance are included in equalisation schemes under the Health Care and Health Insurance Act (the ZZVZZ), which equalizes the differences in the medical costs between different structures of the insured of individual insurance companies with regard to age and gender. The 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 in the event of death during the term of the insurance contract, 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 due to cancer and lifelong annuity insurance. Some types of life insurance can be concluded with additional accident insurance, additional critical illness insurance and other additional insurance. In this group the Company also accounts for voluntary supplementary pension insurance under the PN-A01 pension plan and deferred temporary annuity contracts.

Premiums, claims, 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 for these contracts. 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 using assumptions on mortality, surrenders, costs and revenues from investments as they are recognised in the products' premium calculations, or more prudent 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 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 additional accident insurance. In some products, the risk premium is calculated from tables and in others as a % of the premium paid.

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.

The amount of liabilities includes the changes in asset unit value that are reduced by management fees and risk premiums. In addition, liabilities are increased by premiums and reduced by costs. In the case of surrender, the liabilities are reduced and the surrender value equals the Group's liabilities, reduced by surrender fee in the event of surrender 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 yet converted net premiums paid. Depending on the insurance product, the liabilities are increased for any advance payments.

It is assumed that in each period risk premiums charged based on expected population mortality, are sufficient to cover death claims in excess of the unit values on individual personal accounts of insured. 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 where 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 unbundled from the main insurance contract.

4.3.2 Reinsurance contracts

The contracts concluded between the Company and the reinsurers that entitle the Company to reimbursement of damages arising from one or more insurance contracts issued by the Company, and meeting the criteria of definition of insurance contracts, are classified as reinsurance contracts.

4.3.3 Financial contracts

Financial contracts are contracts that carry financial risk without a material insurance risk.

Under financial contracts, the Company includes voluntary supplementary pension insurance concluded under the Pokojninsko varčevanje AS – individualno and Pokojninsko varčevanje AS – kolektivno pension schemes.

The Company is managing assets from voluntary supplementary pension insurance in the separate funds Pokojninsko varčevanje AS in accordance with the lifecycle investment policy. The funds Pokojninsko varčevanje AS, which were formed based on the legislation of the Republic of Slovenia regulating additional pension insurance (SVPI), provides financial optimization of saving for supplementary pension as well as tax benefits to both employees and employers.

The Pokojninsko varčevanje AS funds consists of:

the Pokojninsko varčevanje AS Drzni up to 50 fund,
- the Pokojninsko varčevanje AS Umirjeni between 50 and 60 fund,
- the Pokojninsko varčevanje AS Zajamčeni above 60 fund.

The investment policy of each fund is designed specifically for the target age group of policyholders and in accordance with the investment goals for the age group, at which individual funds are aimed. In the Pokojninsko varčevanje AS Zajamčeni above 60, the fund manager assures a return of 60% of average annual interest rate on goverment securities, which is taking into account the legal basis prescribed by the finance minister for calculation of the minimum return.

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies used for the preparation of the financial statements are presented in the text below. These accounting policies have been followed consistently in the preparation of the financial statements for the financial year 2016.

5.1 INTANGIBLE ASSETS

The Company values intangible assets at the cost value, 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 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 2016	Useful life in 2016 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 intangible assets is the period in which it is possible to expect economic benefits from the asset. The useful lives are determined by the Company according to the duration of contractual or other rights. Based on this, the useful life cannot be longer from the period in which the Company may use the asset; however, it may be shorter. Intangible assets may have a non-defined useful life if, based on an analysis of all relevant factors, it is determined that there is no foreseeable limit to the period in which it is expected that the asset will generate net cash inflows for the Company.

The impairment test is performed for all significant intangible assets, for which carrying amount exceeds their recoverable amount. An impairment test is performed for all assets whose individual purchase price exceeds EUR 50,000. The determined impairment loss (the asset's carrying amount that exceeds its recoverable amount) is recognised in the income statement as loss due to impairment.
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.

5.2 PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment are classified according to their nature as property (property held for own use) 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, 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. Depreciation starts when assets are available for use, i.e. as of 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 2016	Useful life in 2016 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

Property (buildings) used by the Company for the performance of its own activities are part of the whole – a cash-generating unit, i.e. the Company, which generates cash inflows by performing its principal activities. The recoverable amount is generally the amount that is larger than the value in use or fair value decreased by costs of sale.

The management believes that in normal (expected) business conditions the book value of property intended for the performance of activities is at least equal to the recoverable amount of property. Recoverable amount is normally the cost that is larger than the value in use or fair value decreased by costs of sale.
The management assesses the values of these properties in case the business circumstances significantly change or deviate from normal (expected) business conditions or when the properties intended for own use are reclassified into investment properties.

In such cases, recoverable amount is determined based on property appraisals by external certified appraisers. The appraisals are prepared using the same methodology as used for measurement of recoverable amounts of investment property. If the recoverable amount of properties is lower than their carrying amount, such properties are impaired and the Company recognizes this difference in the income statement as an impairment loss, and is considered an operating expense.

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 revenues, if any, and the carrying amount of the item, including disposal costs are recognised in profit or loss as revaluation revenue or revaluation expense.

5.3 INVESTMENT PROPERTIES

Investment properties (land and buildings) are assets held by the Group with the purpose to earn cash flow from rent, increase the value or both. If a property is classified as an investment property, the Management Board takes into account the purpose of the property.

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 2016	Useful life in 2016 in years
Buildings	1.3 -1.8%	56-77

At least once per year, the Management Board performs an impairment testof investment properties, namely using accredited independent appraisers qualified to perform valuation of property. For new real property, its purchase price is considered as fair value.

The Management Board performs an impairment test for investment properties, for which the carrying amount exceeds 5% of the materiality in terms of financial statements as a whole. The Company defines the materiality in terms of financial statements as a whole at 3% of the equity, as recorded in the balance sheet.

In the assessment of impairment test for investment properties, the return of each property and market profitability is taken into account. If the actual return of an individual property exceeds the required return of property, the property does not show signs of imapirment. Otherwise, the recoverable amount is determined for the property, using the following property valuation methods (also defined in valuation methods in the section on fair value):

- the income approach: this approach is based on the principle of present value of future returns – rent and similar revenues arising from the management of the property (value in use),
- the market approach: this approach determines the indicator value of the real property based on transactions for the same or very similar property. This approach is especially useful for real properties that are sold in large numbers on the secondary market (fair value).

The Company performs impairment of an investment property to the value of recoverable amount if the recoverable ampunt of the property is lower than the carrying amount, under the same conditions that apply for properties classified as property, plant and equipment.

Property, which the 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 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.

5.4 INVESTMENTS IN SUBSIDIARIES AND ASSOCIATES OF THE GROUP

Subsidiaries

Subsidiaries are the companies in which the 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 Company particularly assesses whether it controls that company and determines whether the company is a controlling company or a subsidiary.

The 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 on an interim basis if there are any signs of impairment. Recoverable amount assessments are performed by independent appraisers based on external valuations of company value.

For the recognition of impairment losses of subsidiaries, the following assessment procedures were used:

- the subsidiaries in bankruptcy proceedings, financial reorganisation (compulsory composition) or in liquidation are impaired up to the recoverable amount;
- the subsidiaries whose business results are deteriorating and operating losses are increasing are impaired in the amount of losses in proportion to the ownership stake in the event that the value of the capital of the company – in proportion to the ownership stake – is lower than the cost of the investment;
- discounted cash flow valuation;
- the net asset value method.

The amount of the impairment loss is measured as the difference between the asset's carrying amount and its recoverable amount or the amount of estimated future cash flows discounted at the current market rate of return for a similar financial asset. The difference in the value is recognised in profit or loss as revaluation financial expenses.

Associates

The insurance company considers investment in a company as associate if there is significant influence, but does not have 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 Company measures its investment in an associate at the cost value and tests the investment for impairment if there is indication sign that an investment in an associate may be impaired. The assessment of potential impairment is performed by external appraisers based on external valuations of company value, or by using internal models.

For the recognition of impairment losses, the same procedures are used as for subsidiaries and the difference in value is recognised in profit or loss as revaluation financial expenses.

5.5 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 financial contracts and any losses associated with risk arising from insurance contracts. Financial investments are recognised at transaction date and upon sale at derecognition date.

Types of financial assets

After initial recognition depending on the purpose for which the investment was acquired, financial assets as classified as:
- loans, deposits and receivables,
- held-to-maturity financial assets,
- available-for-sale financial assets,
- financial assets measured at fair value through profit or loss.

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 rate method. Interest calculated using the effective interest rate method is recognised in the income statement.

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 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 rate 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 rate method is recognised in the income statement.

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, for which fair value cannot be measured, namely by performing impairment test (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.

Financial assets measured at fair value through profit or loss

Financial assets measured at fair value through profit or loss are divided into two subcategories: the "held for trading" (TRA) subcategory and the "upon initial recognition" (FVD) subcategory:

- in the "held for trading" subcategory, the Company classifies all (short-term) financial assets that were acquired for trading or for which there is evidence of recent short-term profit and all derivatives that are not financial guarantee contracts. This subcategory also includes derivatives used by the Company to hedge against risks since the Company does not use special rules for accounting treatment of hedging;
- in the "upon initial recognition" subcategory, the Company classifies financial assets tied to long-term unit-linked insurance contracts and financial assets for the purpose of eliminating or significantly reducing inconsistencies in measurement or recognition ("accounting mismatch"), which would otherwise arise from the measurement of assets or liabilities or from the recognition of gains and losses on various bases.

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 Company also allocates the policy loans from unit-linked insurance, represented by financial instruments recorded as units and valued using the value of units of funds of related policies.

Financial assets measured at 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.

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 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 fair value assessment of **equity securities**, the Company continuously assesses the market activity, where the final rate of the last day of trading with the security must not be older than one month and the exchange rate used must be based on adequate liquidity, or the turnover on the trading date (regular transactions without batches) must amount to at least 20% of total value of the security position (market value of the last valuation), or at least EUR 50,000 in absolute terms. The smallest of the values is taken into account as a criterion.

In the assessment of fair value of **debt securities** traded on the regulated securities market, the Group sets an exchange rate based on the closing price published on the stock exchange on the balance sheet date. If there is no information about the closing price on the balance sheet date for an individual debt security, the closing price from the last day, on which the debt security was traded will be used, but this closing price may not be older than one month. The final price used must be based on adequate liquidity, where the total volume of concluded transactions on this day must be at least EUR 500,000. If published prices on the active market do not meet the activity criteria, fair value is calculated based on the bid rate published on the balance sheet rate in the Bloomberg system from BVAL (Bloomberg Valuation Service) or based on the internal model for the calculation of fair value of the debt security. Fair value is determined monthly using internal models, namely for corporate debt securities based on the internal model for fair value calculation of the corporate debt security and for government debt securities based on the internal model for fair value calculation of the government debt security.

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 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 exists at all, 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 Company valued at cost and the need for impairment is determined individually. These financial assets are allocated by the 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
INTERNAL / EXTERNAL APPRAISERS			
Debt securities	**Internal model**		
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 maturity date of the securities for which fair value note	
Debt securities – companies and financial institutions	Calculation of sum of required profitability for	State bonds of comparable maturity	Level 2
		Credit risk for risky industries (CDS), considering the comparable maturity and investment class rate	
		illiquidity	
Equity securities	**Internal model**		
	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
Investment properties	**Authorised external appraisers**		Level 3
	Market method	Analysis of actual real estate market transactions	
	Revenue method (direct capitalisation method)	Present value of future expected gains	
		Capitalisation rate (gains and repayment)	
		Discount rate	
		Allowance for lack of marketability (illiquidity)	
Capital investments in associates	**Authorised external appraisers**		Level 3
	Net asset value method	Change in prices of real estate	
	Discounting of cash flows	g (growth rate in period of constant growth)	
		net margin (constant growth period)	
		discount rate	
		discount for lack of marketability	
EXTERNAL APPRAISERS (market organiser)			
Debt securities - compound	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
Equity securities - compound	stochastic model	curve of EUR SWAP interest rates, credit adjustments of the issuer, credit adjustments of comparable issuers, share index volatility	Level 2
BLOOMBERG BVAL			
Debt securities			
Debt securities - state	Cash flow discounting	curve of EUR SWAP interest rates, credit adjustments of the issuer, credit adjustments of comparable issuers, indicative quotations, BVAL rate estimate of 6 - 10	Level 2
		curve of EUR SWAP interest rates, credit adjustments of the issuer, credit adjustments of comparable issuers, indicative quotations, BVAL rate estimate of 1 - 5	Level 3
Debt securities – companies and financial institutions	Cash flow discounting	curve of EUR SWAP interest rates, credit adjustments of the issuer, credit adjustments of comparable issuers, engendered, actual quotes, indicative quotations, BVAL rate estimate of 6 - 10	Level 2
		curve of EUR SWAP interest rates, credit adjustments of the issuer, credit adjustments of comparable issuers, engendered, actual quotes, indicative quotations, BVAL rate estimate of 1 - 5	Level 3

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 on the payment of interest or principal,
- loan rescheduling under more favourable conditions due to the inability to service the debt,
- bankruptcy of the debtor or financial reorganisation;
- disappearance of an active market for such financial assets due to financial difficulties.

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 income statement items where the amount of the reversal is recognised.

Assets measured at fair value

The 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 12 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 12 months, whereas for the assessment of a significant decrease in fair value the insurance company's management considers at least a 30% 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.

5.6 UNIT-LINKED INSURANCE CONTRACT INVESTMENTS

Unit-linked assets, which are measured at fair value, are disclosed separately and classified as financial assets at fair value through profit or loss upon initial recognition. Additionally, policy-based loans backed by unit-linked insurance contracts are classified as financial assets at fair value through profit or loss. The latter are treated as financial instruments, accounted for as units and measured at net asset value per unit of insurance policy funds used to back the loans.

The value of the units of financial instruments used as investments of the fund backing unit-linked insurance is calculated as at the balance sheet date by multiplying the number of units of individual financial instruments with their active market price as at that day. Financial investments for unit-linked insurance contracts are revalued on a monthly basis.

5.7 ASSETS FROM FINANCIAL CONTRACTS

Assets from financial contracts are recorded separately, because the Company uses the returns arising from such assets to cover obligations from financial contracts and losses due to financial risks, but not losses arising from insurance risk from insurance operations. Financial investments and cash assets are recorded under assets from financial contracts. The Company recognizes and values financial investments of assets from financial contracts in the same way as other financial investments (see Section 6.5).

5.8 REINSURERS' SHARE OF INSURANCE TECHNICAL PROVISIONS

The benefits to which the 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 assets are derecognised when the rights from reinsurance contracts expire or are transferred to a third party.

5.9 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 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 for the first payment. In case the indemnity amount in an individual case exceeds EUR 30,000, it is recognised – the subrogation receivable toward the policyholder or debtor in the balance sheet evidence does not exceed the estimated indemnity amount. The subrogation receivable is in such cases estimated individually, taking into account individual adjustments of subrogation receivables. In forming subrogation receivables for car insurance, the insurance company can (based on Article 7 of ZOZP and Article 3 of the General terms) exercise the right of refund of indemnity paid, including late payment interest and expenses in the maximum amount of EUR 12,000, except if the damage is done intentionally and the Company claims the refund of the total amount.

Before the subrogation receivable is exercised, the unexercised subrogation claims are kept as off-balance sheet items and no impairment is formed. The only exception is subrogation claims under credit insurance that become exercised immediately after inception. Paid subrogation claims are recognised as decrease of claims paid.

Impairment of receivables

At each reporting date (at least on a quarterly basis), the 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 Company has set up indicators for impairment (uncollectability) of receivables, which trigger the calculation of the impairment charge which decreases financial result of the Company.

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 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.

Value adjustments of **subrogation** receivables are made collectively – separately for collateralised (mortgage-backed) and uncollateralised receivables. The impairment represents a proportion of actual non-payments in the preceding financial period. Due to a higher default risk, impairments are made individually per subrogation claim above EUR 10,000. After end of the financial year, the percentage of value adjustment per receivable may be reassessed only if their average recovery rate is substantially changed. The accrued and unpaid interest from transactions with recourse, disclosed in accounts receivable, are impaired at the same percentage as the subrogation receivables. Receivables from the subrogation procedure costs more than 30 days overdue are impaired at the same percentage as the subrogation receivables. For assessment and impairment purposes, factoring claims are treated as subrogation receivables.

5.10 OTHER ASSETS

Amongst other assets, the 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 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.

5.11 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 Company 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.

5.12 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 liabilities arising from internal relationships (between individual funds or general ledgers) are separately presented in financial statements. At the end of the reporting period, the receivables and liabilities among individual funds are offset and the balance is presented as receivables or liabilities, which are offset, i.e. balanced, in the cumulative balance sheet.

5.13 EQUITY

The Company as a composite insurance company discloses the share capital and other capital components separately by insurance group. The baseline split ratio is established to ensure capital adequacy required for performing insurance business in the non-life insurance segment and separately for the life insurance segment.

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 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 assets of the Company.

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 Companies Act (ZGD-1), insurance legislation governing the establishment of 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).

In item other reserves from profit, reserves for catastrophic losses and equalisation provisions were formed in accordance with the Insurance Act (ZZavar). In accordance with IFRS, such provisions were disclosed as a separate item under reserves from profit in the Company equity. With the ZZavar-1 amendment and the implementation of the new Solvency II regime such reserves are no longer formed. The Company transferred the reserves for catastrophic losses and equalisation provisions to retained earnings. Furthermore, within the framework of other reserves, formed in line with the previously applicable laws, the Company recognises half of the profits generated before the end of 2013 by complementary 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 complementary 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 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 balance sheet 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.

5.14 SUBORDINATED LIABILITIES

Under subordinate liabilities, the Company discloses liabilities arising from the issuance of subordinated bonds. Subordinated bonds are debt securities where in the event of insolvency or capital inadequacy of the issuer, the holder is entitled to payment contained in this security only after all liabilities of the issuer against unsubordinated creditors are settled. In financial statements, subordinated debt is measured at amortized cost.

5.15 INSURANCE TECHNICAL PROVISIONS

The Company must establish appropriate insurance 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. Insurance 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 insurance technical provisions, and the Rules on the formation of insurance technical provisions.
The Company recognises as liabilities gross technical provisions and insurance technical provisions for the received co-insurance. The liabilities reinsured and co-insured are reported under the assets of the Company.

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 at the end 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 sum insured is equally distributed across the term of the policy or if it is increasing or decreasing:

- equally distributed sum insured- majority of insurance classes;
- increasing sum insured - for building and construction insurance (other damage to property insurance);
- decreasing sum insured - credit insurance.

Mathematical provisions

Life insurance contracts

Mathematical provisions are established in the amount of the present value of estimated future obligations of the 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 sum insured with allocated surpluses in the event of maturity or payment of agreed sum insured 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 the long-term business fund of collective additional pension insurance for 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 insured 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 sum insured (additional annuity in annuity insurance), which is guaranteed. An additional sum insured is paid out in the event of 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 advance payments.

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 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 Company is obliged to pay on the basis of insurance contracts, where an insurance event occurs before the end of the reporting period, and regardless whether the insurance event has already been reported, including all costs incurred to the Company on the basis of these contracts.

No discounting of 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 claim file:

- for claims reported but not settled by the end of the accounting period, an individual account of all relevant claim 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 paid or based on incurred 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 long tailed ot short tailed.

The statistical method depends 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 paid or incurred 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 accident year, and the columns represent the number of years from the time the claims incurred to and the time it was paid or incurred. It is assumed that the pattern of claims in the future will be similar to the pattern from the past years. The prediction of ultimate claims is based on the calculation of average annual development factors which are smoothened into decreasing pattern.

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 subrogations.

The provisions for claim settlement costs are included in the gross provisions for claims

Other insurance technical provisions

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 unearned premium reserves of individual contract.

Other insurance technical provisions

The Company presents provisions for unexpired risk among other insurance technical provisions.

Provisions for unexpired risk are established to cover claims and expenses associated with active insurance contracts which will incurre after the accounting period and are not covered under unearned premium provision. Provisions for unexpired risks are calculated at the level of lines of business. The criterion for their formation is the negative result (loss) of line of business in the current period and the opinion that the negative result of line of business is a result of the premium which was set too low. The provisions for unexpired risk are also formed in other special cases when the Company is aware of the accapted liabilities for which it does not have any unearned premiums formed.

5.16 INSURANCE TECHNICAL PROVISIONS FOR UNIT-LINKED 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 securities with guaranteed maturity benefit. The provisions are created for the products for which the Company bears the credit risk associated with the issuer of the security and the concentration risk. They are formed for the risk of unbundling of securities components or illiquidity of the issuer of the security to which the guarnetee is bound.

5.17 LIABILITIES FROM FINANCIAL CONTRACTS

Under liabilities from financial contracts, the Company classifies obligations of the Pokojninsko varčevanje AS funds. These are formed for voluntary supplemental pension insurance concluded using the Pokojninsko varčevanje AS – individualno and Pokojninsko varčevanje AS – kolektivno pension schemes. They are calculated based on the collected net premium from policyholders by savings account and fund by multiplying the number of asset units in the fund with the value of an asset unit in the fund on the valuation date. Net premium of policyholders (savers) is gross written premium less entry costs.

In relation to the liabilities from financial contracts in the fund with a guaranteed return (Pokojninsko varčevanje AS guaranteed above 60), the guaranteed asset value is also calculated – the number of guaranteed asset units multiplied with the value of the guaranteed asset unit on the valuation date. The guaranteed return under the adopted pension scheme for the Pokojninsko varčevanje AS guaranteed above 60 provides guaranteed return of 60% of the average annual interest rate on government securities, taking into account the legal basis prescribed by the finance minister to calculate the minimum guaranteed return.

If the asset value by individual savings account is less than the guaranteed asset value, the Company will form liabilities (provisions) due to the failure to achieve the guaranteed return. Liabilities to savers due to the failure to achieve the guaranteed return are formed within own funds of fund manager under other non-current liabilities for the ZPIZ 2. Within the fund AS pension saving fund – Zajamčeni od 60, these liabilities are recognised as contingent liabilities to savers in the off-balance-sheet items, which at the time of the payout (surrender) are paid out in the value calculated as at the day of surrender.

5.18 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 value cannot be reliably assessed.

Accrued and deferred items include 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.

Employee benefits

Employee benefits include provisions for the unused part 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 item 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 Group 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.

5.19 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 are accounted for as expenses at maturity.

5.20 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.

5.21 REVENUES AND EXPENSES

Revenues include fair value of received compensation 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 is revenues from unit-linked insurance services that are accounted 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 ceded to co-insurance and reinsurance and decreased by the change in net unearned premium reserves. The basis for recognising gross insurance premiums are invoiced premiums, except for UL (unit-linked fund) and life insurance where such basis is premium paid.

When non-life and health insurance contracts are terminated, the calculated revenues from premiums are decreased by the proportional part of the unexpired period for which the insurance premium has been calculated. In the accounting books, gross insurance premiums and reinsurance and/or co-insurance share are recorded separately.

Revenues from insurance premiums are monitored separately by insurance group and lines of business.

Revenues and expenses from investments

Revenues and expenses from investments include revenues arising from interest, realised gains/losses from the disposal of investments, dividends, gains and losses from foreign exchange differences, and revenues and expenses from 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 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 when previously recognised impairment 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 revenue for insurance and financial contract management are recognised as other insurance revenues.

Revenue from **fees and commissions from insurance contracts** is mostly revenue from reinsurance fees and commissions.

Revenue from fees and commissions from financial contracts is mostly revenue from entry/exit fees (for entry and exit costs) and fees for management of financial contracts. In accordance with the pension scheme of the voluntary pension insurance, the Company as the fund manager is entitled to the charged entry fee, which means that the gross written premium is reduced by the entry costs. For asset management within the funds, net premium is therefore used. The Company calculates the net asset value of individual funds on a monthly basis and charges a management fee, which also belongs to the fund manager and reduces the asset value of the fund. Upon termination of saving account or exit (surrender), the Company is entitled to the surrender fee, reducing the surrender value of the saver by the exit fee.

Other revenues

Under other revenues, other net insurance revenues and revaluation operating revenues are carried. Furthermore, other revenues include revenues from rentals of 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 claims incurred

Net claims incurred are direct expenses arising from the insurance business. They are carried separately by line of business.

Net claims incurred are composed of gross calculated claims that include direct and indirect claims handling costs and are increased in the income statement by claims from received co-insurance and decreased by the claims, ceded to co-insurance and reinsurance and increased by the change in net claims provisions.

Net claims incurred 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. Claims handling 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 defers expenses for the acquisition of non-life insurance contracts.

Under life insurance contracts and financial contracts with discretionary participation feature, acquisition costs are deferred 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.

5.22 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 Company charges and pays the insurance contracts tax of 8.5% of the taxable amount in compliance with the Insurance Contracts Tax Act.

For the taxable part of its operations, the insurance company charges the VAT in compliance with the Value Added Tax Act and exercises the right to deductible VAT. For its principal activity, the Company has the right to 1% deducted VAT (the rate is controlled annually). For its property leasing activities, the Company exercises the right to a 100% 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 as at the balance sheet date. The tax rate applied in the calculation of corporate income tax for 2016 was 17%. The Slovene local tax legislation prescribes an increase of the tax rate from 17% to 19% as of 1 January 2017. Based on the legislative changes, the management believes that the available taxable profit, against which deductible temporary differences could be used, will occur in 2017 or later, which is why the deductible temporary differences are recognised at the 19% 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 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 2016), and then reported in the tax report of the prent 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 2016).

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.

6. SIGNIFICANT ACCOUNTING ESTIMATES AND ASSUMPTIONS

The 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.

6.1 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 value. Determining what is a significant and prolonged requires consideration. In the course of this consideration, the Company checks, among other factors: the normal volatility of the stock price and how long stocks prices have been declining, 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 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 value of 30% or 12 months sustained significant decline in fair value.

On the basis of an expert opinion, the Company in 2016 permanently impaired unquoted investments in shares of Elektro Celje d.d.and Elektro Ljubljana d.d. (see Section 10.6 for details) and impaired tradable investments in shares of Tovarna olja d.d. and of mutual fund “KD MM, sklad denarnega trga – EUR”. 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.

6.2 FAIR VALUE MEASUREMENT OF DEBT SECURITIES

On the day of assessment, the Company measures the fair value of debt securities which have a price on an active market by determining the main market price based on the stock exchange value, taking into account the market activity criteria assessment. If the published values on the active market do not comply with the market activity criterion, an internal model is used to calculate the market value.

The Company measures the fair value of debt securities (marketable bonds) traded on the OTC market according to Bloomberg BID spreads using the Bloomberg Valuation Service (BVAL). This is the next generation of prices for determining the fair value of investments available in Bloomberg, representing the price which is calculated on the basis of directly and indirectly observed market inputs. Moreover, BVAL rates are equipped with quality assessment on a scale from 1 to 10, where 10 means the highest possible quality of data.

As at 31 December 2016, the fair value of investments, calculated based on the internal model, is by 4.81% higher than the fair value, calculated using the prices from the active market.

6.3 MEASUREMENT OF INVESTMENT PROPERTY RECOVERABLE VALUE

Due to potential impairments, the fair value of investment properties is checked at least once a year by independent certified appraisers qualified to perform property valuation. The management also assesses impairment signs for investment properties whose value exceeds 5% of the carrying amount, which is considered material based on financial statements as a whole.

In 2016, a valuation and an impairment assessment were performed for the investment property Kolosej Maribor, a cultural, entertainment and business centre offering a range of services in Maribor. By pursuing its development strategy, a number of investment and maintenance works took place in 2016, serving as a basis for further development and rebranding set for 2017. The Center boasts the most modern movie theatre in Slovenia, which was reflected in a higher number of visitors. In 2016, a 14% growth in the number of moviegoers was achieved, which is above average considering the projected market growth of 2–3%.Some commercial premises are also available at the property, intended especially for bars and restaurants, which are attracting a growing interest. Lease agreements with existing lessees were renewed and the number of

permanent parking space renters increased substantially, as set out in the annual plan. To sum up, all indicators show that the final objective, i.e. a full recovery of the centre under the new name MARIBOX, will be attained.
The income approach (direct capitalisation method) was used to assess the recoverable value of the property Kolosej Maribor, taking into account current and future growth as well as the development of the building.

Recoverable value was measured using the following assumptions:

- the capitalisation rate (discount rate) of 6.54% consisting of:
- real risk-free rate of return of 0.62%
- liquidity premium of 1.50%,
- risk premium of 3.10%,
- premium for the preservation of capital of 1.02%.

Apart from recoverable amount assessment, a sensitivity analysis was also made for the property in the case of changes in rental prices and occupancy of the premises (see Section 10.3).

6.4 IMPAIRMENT LOSSES ON RECEIVABLES AND LOANS

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 decrease 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, determined based on past losses. In 2016, the Company applied the same methodology for assessment of appropriateness of fair value calculation (and impairment adjustments of receivables) as in previous years (see Policies, Section 5.9.). In its revision of loans, the Company did not identify any signs that would suggest impairments to be made.

6.5 ESTIMATIONS OF INSURANCE 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 Company, while the nonmaterial damages and claims incurred in court proceedings are assessed by lawyers (attorney-at-law) of the 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 item claim provisions, 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 on claims paid.

The paid claims are arranged in a triangle where the rows represent the year of loss event occurrence, while the columns represent the number of years lapsed after the year in which the loss event occurred until the year in which claims are paid. The claim paid in a particular year is the sum of the calculated amounts of claims between 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, which is determined for each line of business. The development factor represents the ratio between the paid claims for an individual year and the paid claims for the previous year. If the triangle shows that the development has not been completed, the development factor is also determined. The prediction of ultimate 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 claimsand 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 line of busness 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

Line of business in EUR	Provision for incurred but not reported claims (IBNR) 31 Dec 2016	Provision for incurred but not reported claims (IBNR)) 31 Dec 2015
Accident insurance	7,748,043	8,429,385
Health insurance	5,617,722	4,786,204
Land motor vehicles insurance	1,483,391	1,638,407
Marine loss insurance	45,090	73,150
Goods in transport insurance	114,069	91,203
Fire and natural forces insurance	701,895	738,387
Other damage to property insurance	1,068,398	1,198,778
Motor vehicle liability insurance	28,426,248	29,632,288
Liability for ship/boat insurance	28,722	12,722
General liability insurance	9,663,454	11,745,326
Credit insurance	3,875	14,320
Suretyship insurance	6,690	203,076
Miscellaneous financial loss insurance	36,477	37,429
Legal expenses insurance	662	1,808
Travel assistance insurance	227,764	273,804
Life insurance	2,904,791	3,390,381
Total	**58,077,294**	**62,266,667**

Estimations of individual claims are regularly reviewed and adjusted if needed due to new information. Provisions for incurred but not reported claims (IBNR) have a higher level of estimation uncertainty arising from estimation of liabilities which will be settled from already incurred claims. IBNR provisions are determined by the Company based on analysis of past loss events, using different mathematical and statistical methods. The 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 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.

Non-life insurance claims experience

in EUR					Accident/loss year						
Cumulative claim payment	pred 2007	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
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	88,231,654
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	81,956,952	-
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	83,397,478	-	-
3 years after loss year	-	105,349,656	117,524,811	107,637,944	95,301,074	89,085,735	94,028,156	83,827,339	-	-	-
4 years after loss year	-	105,958,430	115,587,514	105,953,158	93,622,460	86,234,853	94,315,327	-	-	-	-
5 years after loss year	-	104,800,746	114,800,364	104,876,792	93,138,216	87,113,178	-	-	-	-	-
6 years after loss year	-	103,746,421	113,669,023	104,466,465	92,620,067	-	-	-	-	-	-
7 years after loss year	-	103,449,456	113,329,522	104,972,611	-	-	-	-	-	-	-
8 years after loss year	-	103,455,029	113,291,067	-	-	-	-	-	-	-	-
9 years after loss year	-	103,406,827	-	-	-	-	-	-	-	-	-
Cumulative loss estimate	-	103,406,827	113,291,067	104,972,611	92,620,067	87,113,178	94,315,327	83,827,339	83,397,478	81,956,952	88,231,654
Total losses paid until 31 Dec. 2016	-	101,119,994	110,695,998	101,399,266	89,681,287	82,744,766	90,441,096	78,983,392	75,774,176	69,186,295	51,237,836
Claim provisionss - balance 31 Dec. 2016	13,743,522	2,286,833	2,595,070	3,573,345	2,938,781	4,368,412	3,874,232	4,843,947	7,623,303	12,770,657	36,993,817

Claims provisions do not include claim handling costs.

Non-life claims provisions (excluding health insurance) as recognised in the balance sheet

in EUR	Census + IBNR	Claims provisions for claim handling costs	Total
Claims provisions as at 31 Dec 2015	98,714,315	5,443,965	104,158,280
Claims provisions as at 31 Dec 2016	95,611,918	5,776,132	101,388,049

Life insurance contracts

The liabilities, which arise from traditional life insurance contracts with a discretionary participation feature (DPF), are calculated on the technical assumptions used in 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 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 Company uses the Slovene 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 amount required by regulation.

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 7.2.1).

In 2016, the Company did not modify the assumptions used for the calculation of liabilities arising from life insurance contracts.

6.6 ESTIMATES OF FUTURE PAYMENTS UNDER LIFE INSURANCE CONTRACTS

The significant estimates and assumptions used for the calculation of liabilities arising from the issued life insurance contracts refer to expected mortality, lapse rate, 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 each 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.

6.7 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 insurance company, including the expected salary increase due to promotion,
- expected mortality expressed based on 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.

7. 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 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, the Company is 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 Company accepts risks, knowing that businesses with higher level of risk usually bears higher return. The optimum balance between risk and return 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 Company, the Management Board is responsible for the promotion of transparent and clear decisions and processes, which represent important building blocks of the risk awareness culture in the Company. With constant optimisation and expansion of the risk management function, the Company remains prepared for all the risks in its future business operations.

7.1 CAPITAL ADEQUACY REQUIREMENTS AND CAPITAL MANAGEMENT

One of the Company's most important missions, which is also required by law, is ensuring an adequate capital level (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 Company pursues the goal of maintaining a certain surplus of available capital above the required level (pursuant to applicable legislation), which not only ensures protection against unpredictable adverse events but also guarantees continued operation and coverage for potential losses from current operations, while maintaining adequate return on capital. Ensuring a suitable surplus of capital above the required level represents—apart from profitability of operations— one of the two most significant accepted risk appetites. In addition to ensuring capital adequacy, the Company determines risk appetite also for profitability of operations.

Disclosure of capital adequacy in accordance with the Solvency II Directive and the new Insurance Act (ZZavar-1) became binding for the Company as of the beginning of 2016. On Day 1 when the new regime came into effect, the Company recorded a surplus of available capital above the required level (SCR). The capital under the Solvency II regime differs from the carrying amount as it is calculated as the difference between the fair value of assets and liabilities, while all balance sheet items, which have not been measured in this way so far need to be revalued at fair value for the purposes of Solvency II. A major difference is seen especially in technical provisions, which are considered as the best estimate increased by risk margin in accordance with the Solvency II principles.

In the first half of the year, the Company issued a subordinated bond deemed to belong to own funds pursuant to the Delegated Regulation, which further improved its capital adequacy. During the preparatory and transitional period before Solvency II came into effect, the Company already calculated capital adequacy by applying the standard formula, which is still used. All informative capital adequacy calculations showed capital adequacy of the Company.

In 2016, the parent company performed the own risk and solvency assessment (ORSA) as an additional verification of capital surplus adequacy, bringing a new perspective on the assessment of the Company's capital adequacy by comparing the own assessment of the Company's risk profile with the assumptions used in the calculation of regulatory capital requirements to check if the regulatory SCR calculation method (standard formula) covers the entire risk profile of the Company correctly. As part of own assessment, the impact of planned activities in terms of their effect on the Company's capital adequacy in its future operations was also tested.

The Company confirms that as at 30 September 2016, the day of the last assessment and report to the regulator on capital adequacy in line with Solvency II, it achieved capital adequacy showing capital surplus above the required SCR level and the accepted risk appetite.

The management and supervisory bodies of the parent company need to be aware of and clearly understand the implications of strategic decisions for the above-mentioned capital aspects of the Company, as well as consider whether these implications are desired, feasible or if the Company can even afford them, considering the amount and quality of own funds. Therefore, in line with the applicable policies, all major strategic decisions that could affect the capital requirements and the Company's available capital are examined in terms of their impact on the Company's capital adequacy.

According to the results of the own risk and solvency assessment, the capital adequacy of the Company exceeds risk appetite also in comparison with the own assessment of capital requirements over the entire business planning period. According to projections from the own assessment, the Company's capital adequacy is expected to continue to grow up to 2020.

7.2 TYPES OF RISKS

7.2.1 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 underwriting risk (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 insurance risks, the following risks can occur as well: the risk of insufficient technical provisions, claim 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 contract surrendrs and of claims enforced.

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 line of business, 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 underwriting process. The Company controls this risk by means of instructions on underwriting process, stricter criteria and procedures for underwriting, 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 undewritted risk. Reinsurance is an important mean of insurance risk management and will be described in further detail below.

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 2016

(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	56,449	0.26%	161,480	0.75%
Unit-linked insurance	578,810	1.56%	2,124,987	5.73%
Health insurance	284,674	0.28%	546,332	0.54%
Non-life insurance	12,080,594	8.78%	23,225,905	16.88%
Total	**13,000,528**	**4.30%**	**26,058,704**	**8.61%**

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%	149,412	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%
Total	**12,090,768**	**4.10%**	**24,663,287**	**8.37%**

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, a conclusion can be drawn that the concentration of large policyholders does not expose the Company to high risk.

Non-life insurance contracts

As regards non-life insurance, the 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 maximum 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 2016

Sum insured (in EUR)	Up to EUR 300,000		Over EUR 300,000 up to EUR 1,000,000		Over EUR 1.000.000	
		With reinsurance	Net of reinsurance		Net of reinsurance	With reinsurance
Construction risks	4,343,676	3,701,181	12,094,758	4,080,000	96,197,603	2,640,000
Manufacturing risks	275,734,592	261,434,925	386,896,684	270,322,517	3,209,377,341	254,040,000
Commercial risks	4,332,794,522	4,326,280,526	1,647,836,494	1,593,514,816	5,742,523,039	658,740,000
Household risks	5,446,273,713	5,443,989,123	412,485,395	398,408,704	288,521,286	34,500,000
Total	**10,059,146,502**	**10,035,405,755**	**2,459,313,330**	**2,266,326,037**	**9,336,619,269**	**949,920,000**

Concentration of liabilities from non-life insurance by industry as at 31 December 2015

Sum insured	Up to EUR 300,000		Over EUR 300,000 up to EUR 1,000,000		Over EUR 1.000.000	
(in EUR)	Net of reinsurance	With reinsurance	Net of 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
Total	**9,997,502,786**	**9,980,009,929**	**2,475,582,790**	**2,260,215,692**	**9,690,123,374**	**930,960,000**

To provide a realistic insight into the exposures, the concentration of liabilities arising from non-life insurance contracts presents only total sum insured for main coverage, since, as a rule, they represent the highest exposure to potential losses on a policy. Since the coverage of earthquake risk is additional insurance, it has not been included in the table above. In 2016 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 2016	With reinsurance 2016	Net of reinsurance 2015	With reinsurance 2015
EUR 0–9,999	317,404,960	298,339,705	343,552,104	318,779,365
EUR 10,000–29,999	871,281,338	788,915,129	935,815,219	796,241,162
EUR 30,000–59,999	899,924,105	649,140,322	867,284,675	605,357,395
EUR 60,000–99,999	541,092,874	276,996,430	485,691,455	230,057,052
Over EUR 100,000	285,269,397	93,324,677	235,028,662	72,659,611
Total	**2,914,972,674**	**2,106,716,263**	**2,867,372,114**	**2,023,094,584**

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 as at 31 Dec 2016		TOTAL ANNUAL ANNUITY PAYMENTS as at 31 Dec 2015	
Annual annuity payments to the insured person as at 31 December	amount	%	amount	%
EUR 0–9,999	608,086	15.45%	656,089	16.02%
EUR 10,000–29,999	1,182,728	30.05%	1,242,353	30.34%
EUR 30,000–59,999	694,587	17.65%	725,821	17.72%
EUR 60,000–99,999	488,856	12.42%	507,687	12.40%
Over EUR 100,000	961,124	24.42%	963,019	23.52%
Total	**3,935,380**	**100%**	**4,094,968**	**100%**

Concentrations of insurance risk with respect to the company's annuity business remains at the same level as in 2015 and the highest number of annuity payments made on a yearly basis falling in the EUR 1,000 to EUR 2,000 bracket.

Liability adequacy test for insurance contracts

The 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 risk 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, claim handling costs);
- any other expected cash flows from insurance contracts.

With regard to individual cash flows, the following assumptions have been taken into account:

- provisions in individual insurance policies (amount of the premium, the schedule of premium payments, the sum insured for death and maturity, amount of annuities);
- technical bases of the relevant products (mortality/morbidity tables, interest rate, costs of front-end fees, other administrative expenses);
- assumptions (mortality rates, lapse 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" as of 2 January 2017.

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 insurance company's own life insurance portfolio. However, for annuity insurance, the Slovene population's mortality ratio has been considered, namely the Slovene annuity tables 2010.

Lapse rates

The relevant lapse rates are based on the analysis of surrenders 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 2016

The liability adequacy test (LAT) results of 31 December 2016, showed no deficiencies in any group 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 Company in 2016 applied the claims ratio of final claims occurred in 2016, 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 item other technical provisions.

Results of the non-life insurance liability adequacy test for the financial year 2016

As at 31 December 2016, the Company formed provisions for unexpired risks for health insurance, land motor vehicle insurance, aircraft insurance and credit insurance in the total amount of EUR 572,035. In this way, the 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 (for insurance contracts)	impact of a change in interest rates by a 1% increase or decrease
Costs/expenses	The impact of an increase/reduction in all expenses other than acquisition expenses by 5%
Mortality – life insurance	The impact of an increase in mortality rates by 5%
Mortality of annuity insurance	The impact of a reduction in mortality rates by 5%
Loss ratio in relation to premium	The impact of an increase in loss ratios by 5%

Individual calculations presented in the tables below have been made so as to take into account the modification to a particular sensitivity factor while other assumptions are left unchanged.

Impact on net profit before tax generated by the Company

(in EUR)	31 Dec 2016	31 Dec 2015
Factor		
Costs/expenses +5%	(3,624,243)	(3,528,340)
Costs/expenses -5%	3,624,243	3,528,340
Interest rates +1%	17,972,309	18,053,723
Interest rates -1%	(15,798,773)	(17,927,561)
Mortality +5%	92,396	177,454
Mortality of annuity insurance-5%	(107,977)	(199,261)
Loss ratio +5%	(14,640,919)	(14,366,763)
Loss ratio -5%	14,640,919	14,366,763

The Company 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.

7.2.2 Insurance risk management through reinsurance protection

Purpose and objectives of reinsurance protection

Insurance risks are managed through reinsurance protection programme, ensuring solvency and liquidity of operations, stability of operating results and financial soundness. During conclusion reinsurance contracts, we collaborate with reinsurers with the highest credit ratings.

The type, form, scope and structure of the reinsurance programme is planned on the basis of the amount of the maximum retention of the Company and the volume, homogenity, quality and types of the insurance portfolio, considering the characteristics and specifics of individual line of business. 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 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 limits of contractual reinsurance protection, the Company ensures facultative 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, the Company integrated the control mechanisms in the information system that prevent concluding insurance contract with sum insured that exceed reinsurance contract limits without prior approval of the Reinsurance Team, that the facultative reinsurance treaty has been provided or that the facultative reinsurance treaty is not needed.

Analysis of the Company's portfolio from the aspect of reinsurance risk

Earthquake risk presents the highest concentration of the Company's insurance risk. The reinsurance protection for catastrophic perils is therefore formed considering the millennial return period, based on the results from modelling our exposure to earthquake risk as per the AIR model, which is performed by the Company's reinsurance intermediary. 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.

The reporting year saw four major events relating to storms, resulting in damage which exceeded the priority of annual reinsurance retention connected to the annual aggregate of claims. As at the reporting date, provisions in the amount of EUR 1,049,610 were allocated to the mentioned reinsurance.

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 Group's maximum retention; hence it is covered with a proportional, and in the event of mass losses, with an additional (extra) non-proportional contractual reinsurance protection.

The structure of the reinsurance programme is comparable with 2015 since in the past years, it has responded adequately to loss events exceeding retention, calculated for lines of business.

Reinsurance concentration in the financial year 2016

Type of reinsurance in EUR	Reinsurance premium	Structure of reinsurance premium	Reinsurance fees	Claims ceded to reinsurance	Change in unearned premiums ceded to reinsurance	Change in claims provisions ceded to reinsurance	Impact of reinsurance result on profit
Motor QS	-	0.00%	448,998	2,350,318	-	(2,523,382)	275,934
Quota share reinsurance of earthquake risk	(1,715,031)	15.80%	480,209	185	1,643	(2,236)	(1,235,229)
Non-life Gross Risk XL reinsurance	(1,325,557)	12.21%	23,625	-	-	-	(1,301,932)
Technical risk XL reinsurance	(144,045)	1.33%	1,278	-	-	5,955	(136,812)
Non-life Cat XL reinsurance	(1,548,035)	14.26%	27,018	-	-	-	(1,521,017)
Non-life, i.e. annual aggregate Cat XL losses	(791,774)	7.30%	14,987	-	-	1,049,611	272,824
XL reinsurance motor vehicle liability insurance and green cards	(636,479)	5.86%	10,776	1,492,498	-	1,691,022	2,557,817
XL reinsurance of comprehensive automobile insurance (casco)	(37,747)	0.35%	711	-	-	(4,449)	(41,485)
Other non-life insurance	**(2,856,842)**	**26.32%**	**290,321**	**513,116**	**5,003**	**(117,596)**	**(2,165,999)**
Health insurance	**-**	**0.00%**	**-**	**-**	**-**	**-**	**-**
Life insurance	**(1,797,592)**	**16.56%**	**501,789**	**571,512**	**(28,421)**	**81,364**	**(671,348)**
Total reinsurance in the financial year	**(10,853,101)**	**100.00%**	**1,799,712**	**4,927,629**	**(21,774)**	**180,288**	**(3,967,247)**
Co-insurance provided	**(215,927)**	**0.00%**	**30,373**	**-**	**2,145**	**23,610**	**(159,800)**
Co-insurance received	**995,856**	**0.00%**	**(148,977)**	**(49,186)**	**(4,517)**	**(254,380)**	**538,796**
Reinsurance received	**4,898**	**0.00%**	**(955)**	**(681)**	**(961)**	**-**	**2,301**
Total Re(co)insurance	**(10,068,278)**	**0.00%**	**1,680,153**	**4,877,762**	**(25,107)**	**(50,482)**	**(3,585,952)**

Reinsurance concentration in the financial year 2015

Type of reinsurance in EUR	Reinsurance premium	Structure of reinsurance premium	Reinsurancefees	Claims ceded to reinsurance	Change in unearned premiums ceded to reinsurance	Change in claims provisions ceded to 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)
Technical 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)
Health insurance		-					
Life insurance	(1,586,492)	15.26%	432,683	429,788	(4,408)	59,855	(665,183)
Total reinsurance in the financial year	**(10,376,822)**	**100.00%**	**4,190,499**	**9,727,835**	**(217,398)**	**(11,638,605)**	**(8,311,101)**
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
Total Re(co)insurance	**(10,104,053)**	**0.00%**	**4,150,714**	**9,693,470**	**(238,644)**	**(11,582,355)**	**(8,077,479)**

The above table shows the reinsurance concentration for all contracts.

In 2016, the reinsurance premium of EUR 10,853,101 was otaled or by 4.6% more compared to the previous year. The largest growth was experienced by the facultative reinsurance premium, mostly because of the increased risk sharing between Slovene insurance companies in the form of co-insurance and reinsurance. The co-insurance premium therefore went up by 194%, which is why total expenses arising from reinsurance and co-insurance premiums remained at the 2015 level.

In 2016, the reinsurers' share in claims otaled EUR 4,927,629 (EUR 9,727,835 in 2015), of which EUR 2,350,318 came from car insurance quota (EUR 7,589,399 in 2015). The year 2016 was marked by several loss events due to storms, which did not exceed the threshold for enforcement of reinsurance protection for individual catastrophic claims, but claims provisions, ceded to reinsurance was accounted from aggregate reinsurance coverage amounting to EUR 1,049,610. With regard to green card reinsurance, one of the largest claims in the history of Adriatic Slovenica from 2001 was settled in 2016. Reinsurance commissions increased dramaticly for green card claims from 2011 , which became the largest claim of this sort up till now, with a reinsurers' share of EUR 2,216,553.

7.2.3 Financial risks

The Company is exposed to financial risks through its asset and liability management, reinsurance assets and liabilities arising from its insurance and financial 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 financial liabilities of counterparties will not be covered, which could potentially lead to a situation when the inflows from financial investments will not be sufficient to cover the outflows, arising from insurance and financial contracts.

In line with analyses of situations in financial markets, risk assessment and stress testing with regard to the changed circumstances in the financial market as well as by taking into consideration the general investment strategy of the Company, the Risk Management Team proposes limits for risk measures, exposures to individual investment grades, issuers and their rating as well as individual markets. They are addressed by the Risk Management Committee and then approved by the Assets and Liabilities Management Committee.

Strategic and tactical implementation of the investment activity is performed by the Investment Committee. Its competences and responsibilities as well as all other provisions relating to its operation are laid down in the Rules on the Performance of Investment Activity. The Treasury Team is responsible for operational implementation of the investment activity.

When designing individual investment policies, the Company takes into consideration the characteristics of obligations and the assumed risk appetite. The Company actively manages and controls all risks to which it is exposed with its assets and liabilities by constantly monitoring 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.

The most important components of financial risks, including market risks, are:

- liquidity risk,
- credit risk,
- risk of change in prices of equity securities,
- interest risk,
- currency risk.

In the disclosures related to the presentation of financial risk management, the assets and liabilities arising from life insurance contracts where the policyholder bears the investment risk are not included since the financial risks are entirely assumed by the policyholders. In 2016, these assets otaled EUR 291,405,231 (2015: EUR 266,863,192), out of which, EUR 287,601,433 (2015: EUR 263,760,340) of assets from the balance sheet are related to the category of assets of policyholders who bear investment risk, and EUR 3,805,789 (2014: EUR 3,102,853) to other balance sheet categories of funds, where policyholders bear investment risk.

The following tables show how the Company manages and controls financial risks. All the risks are monitored by the Company at the level of individual fund, while the analysis of assets and liabilities (ALM – asset liability management) is for financial risk management is presented at the insurance contract level.

The first table presents the all assets and liabilities by individual items and how the amount of particular financial assets and all assets aggregated by individual insurance and financial contract matches the amount of liabilities. The tables containing the results of the asset and liability analysis for financial risk management for 2016 and 2015 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 aggregate level.

Analysis of assets and liabilities for financial risk management as at 31 December 2016

(in EUR)	Non-life insurance contracts, excluding health insurance	Health insurance contracts	Life insurance contracts	Financial contracts – pension savings	Total
ASSETS					
Financial assets at fair value through profit or loss	**5,211,412**	**3,110**	**1,790,523**	**-**	**7,005,045**
- listed	3,712,469	(0)	1,635,671	-	5,348,140
Government bonds	1,498,943	3,110	154,852	-	1,656,905
Held-to-maturity financial assets	**12,021,748**	**617,177**	**25,369,306**	**-**	**38,008,230**
- listed	12,021,748	617,177	13,587,600	-	26,226,525
Government bonds	-	-	11,781,706	-	11,781,706
Available-for-sale financial assets	**69,615,807**	**3,726,221**	**88,904,258**	**573,183**	**162,819,469**
- listed	18,899,476	(0)	13,015,956	-	31,915,432
- non-listed	138,363	-	-	-	138,363
Government bonds	50,577,968	3,726,221	75,888,302	573,183	130,765,675
Total debt financial instruments	**86,848,966**	**4,346,508**	**116,064,087**	**573,183**	**207,832,744**
Financial assets at fair value through profit or loss	-	-	834,986	-	834,986
- listed	-	-	834,986	-	834,986
Available-for-sale financial assets	13,199,202	1,212,780	4,271,620	3,000,875	21,684,477
- listed	10,251,187	542,083	3,208,329	3,000,875	17,002,473
- non-listed	2,948,016	670,697	1,063,291	-	4,682,004
Total equity financial instruments	**13,199,202**	**1,212,780**	**5,106,607**	**3,000,875**	**22,519,464**
Loans, deposits and financial receivables	26,937,730	2,254,034	2,110,112	789	31,302,665
Investments in subsidiaries and associates	24,058,838	3,180,261	30,921,980	-	58,161,079
Total financial investments	**151,044,737**	**10,993,584**	**154,202,785**	**3,574,846**	**319,815,952**
Amount (technical provisions) ceded to reinsurers	17,068,949	-	330,371	-	17,399,320
Receivables from insurance business and other receivables	29,511,447	9,076,077	1,900,593	2,589	27,708,768
Cash and cash equivalents	1,537,823	692,579	1,741,464	1,178,300	5,150,166
Other assets	63,606,010	620,671	7,686,939	-	71,735,139
Total assets	**262,768,966**	**21,382,911**	**165,862,152**	**4,755,736**	**441,809,345**
Liabilities from insurance contracts	**144,508,570**	**13,413,092**	**-**	**-**	**157,921,662**
- non-current liabilities	56,982,048	100,969	-	-	57,083,017
- current liabilities	87,526,522	13,312,123	-	-	100,838,645
Liabilities from insurance contracts with DPF	**-**	**-**	**112,137,256**	**-**	**112,137,256**
- non-current liabilities	-	-	100,858,635	-	100,858,635
- current liabilities	-	-	11,278,621	-	11,278,621
Liabilities from financial contracts	**-**	**-**	**-**	**4,735,916**	**4,735,916**
- non-current liabilities	-	-	-	4,735,916	4,735,916
Equity capital	**70,684,157**	**5,284,620**	**20,229,613**	**0**	**96,198,390**
Subordinated liabilities	**22,748,526**	**-**	**26,704,791**	**-**	**49,453,317**
Other liabilities	**24,827,714**	**2,685,199**	**6,790,492**	**19,819**	**21,362,804**
- non-current liabilities	5,063,931	23,221	5,152,569	-	3,744,187
- current liabilities	19,763,782	2,661,978	1,637,924	19,819	17,618,618
Total liabilities	**262,768,967**	**21,382,911**	**165,862,152**	**4,755,736**	**441,809,345**

This table should be read together with the note in Section 7.2.3., paragraph 6.

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
ASSETS				
Financial assets at fair value through profit or loss	**9,210,369**	**1,059,643**	**3,410,520**	**13,680,532**
- 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
Held-to-maturity financial assets	**12,021,702**	**617,172**	**26,832,652**	**39,471,526**
- listed	12,021,702	617,172	14,408,378	27,047,252
- non-listed	-	-	0	-
Government bonds	-	(0)	12,424,274	12,424,274
Available-for-sale financial assets	**33,928,906**	**4,182,992**	**79,868,018**	**117,979,917**
- listed	7,247,980	514,749	11,393,084	19,155,813
- non-listed	(0)	-	0	(0)
Government bonds	26,680,926	3,668,244	68,474,935	98,824,105
Total debt financial instruments	**55,160,977**	**5,859,808**	**110,111,190**	**171,131,975**
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
Total equity financial instruments	**24,866,185**	**4,740,454**	**5,617,742**	**35,224,381**
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
Total financial investments	**129,306,464**	**14,350,064**	**121,725,583**	**265,382,111**
Amount (technical provisions) ceded to reinsurers	16,937,623	-	277,726	17,215,350
Receivables from insurance business and other receivables	34,444,117	9,122,741	8,319,741	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
Total assets	**247,209,704**	**27,729,998**	**144,181,404**	**398,550,655**
Liabilities from insurance contracts	**147,012,711**	**13,374,157**	**-**	**160,386,869**
- non-current liabilities	57,278,266	215,912	-	57,494,178
- current liabilities	89,734,445	13,158,245	-	102,892,690
Liabilities from insurance contracts with DPF	**-**	**-**	**108,228,896**	**108,228,896**
- non-current liabilities	-	-	98,138,136	98,138,136
- current liabilities	-	-	10,090,760	10,090,760
Equity capital	**72,824,777**	**6,481,065**	**22,026,399**	**101,332,241**
Other liabilities	**27,372,217**	**7,874,775**	**13,926,109**	**28,602,649**
- non-current liabilities	4,922,055	11,956	9,886,864	5,308,854
- current liabilities	22,450,162	7,862,819	4,039,245	23,293,795
Total liabilities	**247,209,705**	**27,729,998**	**144,181,404**	**398,550,655**

This table should be read together with the note in Section 7.2.3., paragraph 6.

In the tables showing the classification of assets by maturity into non-current and current assets for 2016 and for 2015, the sum of receivables and liabilities is not equal to the sum of individual amounts of insurance groups as the receivables and liabilities were offset at the aggregate level.

Classification of assets by maturity into non-current and current assets as at 31 December 2016

(in EUR)	Non-life insurance contracts, excluding health insurance	Health insurance contracts	Life insurance contracts	Financial contracts – pension savings	Total
Non-current assets					
Debt securities	**81,637,555**	**4,343,398**	**115,154,810**	**573,183**	**201,708,945**
At fair value through profit or loss	-	-	881,246	-	881,246
- listed	-	-	881,246	-	881,246
Available for sale	69,615,807	3,726,221	88,904,258	573,183	162,819,469
- listed	69,477,444	3,726,221	88,904,258	573,183	162,681,106
- non-listed	138,363	-	-	-	138,363
Held to maturity	12,021,748	617,177	25,369,306	-	38,008,230
- listed	12,021,748	617,177	25,369,306	-	38,008,230
Equity securities	**13,199,202**	**1,212,780**	**4,271,620**	**3,000,875**	**21,684,477**
At fair value through profit or loss	-	-	0	-	0
- listed	-	-	0	-	0
Available for sale	13,199,202	1,212,780	4,271,620	3,000,875	21,684,477
- listed	10,251,187	542,083	3,208,329	3,000,875	17,002,473
- non-listed	2,948,016	670,697	1,063,291	-	4,682,004
Investments in subsidiary and associates	24,058,838	3,180,261	30,921,980	-	58,161,079
Loans, deposits and financial receivables	12,976,571	1,813,034	1,185,056	-	15,974,662
Total financial investments	**131,872,166**	**10,549,474**	**151,533,466**	**3,574,058**	**297,529,163**
Amount (technical provisions), ceded to reinsurers	9,827,177	-	-	-	9,827,177
Receivables from insurance business and other receivables	11,169,733	1,115,465	325,106	-	6,114,771
Other assets	35,180,633	360,197	1,451,709	-	36,992,539
Total assets	**188,049,709**	**12,025,136**	**153,310,282**	**3,574,058**	**350,463,650**
Current assets					
Debt securities	**5,211,412**	**3,110**	**909,277**	**-**	**6,123,799**
At fair value through profit or loss	5,211,412	3,110	909,277	-	6,123,799
- listed	5,211,412	3,110	909,277	-	6,123,799
Equity securities	-	-	834,986	-	834,986
At fair value through profit or loss	-	-	834,986	-	834,986
- listed	-	-	834,986	-	834,986
Loans, deposits and financial receivables	13,961,159	441,000	925,056	789	15,328,003
Total financial investments	**19,172,571**	**444,110**	**2,669,319**	**789**	**22,286,788**
Amount (technical provisions), ceded to reinsurers	7,241,773	-	330,371	-	7,572,144
Receivables from insurance business and other operating receivables	18,341,714	7,960,612	1,575,486	2,589	21,593,997
Cash and cash equivalents	1,537,823	692,579	1,741,464	1,178,300	5,150,166
Other assets	28,425,377	260,475	6,235,230	-	34,742,600
Total assets	**74,719,257**	**9,357,776**	**12,551,870**	**1,181,678**	**91,345,695**

This table should be read together with the note in Section 7.2.3., paragraph 6.

As at the 2016 year-end, the non-current assets prevailed with a 79% share, and current assets accounting for 21% of total assets.

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
Non-current assets				
Debt securities	**45,950,609**	**4,800,165**	**108,167,447**	**158,918,220**
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
- non-listed	(0)	-	0	(0)
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
- non-listed	-	-	0	0
Equity securities	**24,866,186**	**4,740,454**	**4,920,505**	**34,527,145**
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 subsidiaries 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
Total financial investments	**88,767,659**	**11,697,773**	**118,085,983**	**218,551,414**
Amount (technical provisions), ceded to reinsurers	9,726,721	-	-	9,726,721
Receivables from insurance business and other receivables	11,770,970	457,530	148,084	12,376,584
Other assets	25,955,530	1,673,756	8,410,314	36,039,600
Total assets	**136,220,879**	**13,829,058**	**126,644,381**	**276,694,318**
Current assets				
Debt securities	**9,210,369**	**1,059,643**	**1,943,744**	**12,213,755**
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
Total financial investments	**40,538,805**	**2,652,291**	**3,639,601**	**46,830,697**
Amount (technical provisions), ceded to reinsurers	7,210,902	-	277,726	7,488,629
Receivables from insurance business and other operating receivables	22,673,147	8,665,211	8,171,657	19,121,249
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
Total assets	**110,988,825**	**13,900,939**	**17,537,024**	**121,856,336**

This table should be read together with the note in Section 7.2.3., paragraph 6.

As at the 2015 year-end, the non-current assets prevailed with a 69% share, and current assets amounts to 31% of total assets.

Liquidity risk

Liquidity risk is the risk of liquidity-related difficulty and inability of the Company to fulfil current obligations from in-force insurance contracts and other current operating liabilities of the Company, due to mismatch between maturity of assets and liabilities. Liquidity risk also includes the risk of the 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 through measurmen of duration match between assets and liabilities. 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 is balanced with available short-term investments without maturity.

Overview of maturity of assets in 2016 – undiscounted cash flows

(in EUR)	Carrying amount	Withoutmaturity	Up to 1 year	1-5 years	5-10 years	10-15 years	over 15 years	Total
Debt financial instruments	**207,259,561**	**-**	**42,804,988**	**65,118,628**	**72,843,249**	**18,519,201**	**47,000,295**	**246,286,362**
Financial assets at fair value through profit and loss	7,005,045	-	2,329,825	1,126,188	4,310,095	804,701	-	8,570,809
Financial assets held to maturity	38,008,230	-	9,035,417	26,547,027	10,190,017	1,026,631	3,547,978	50,347,070
Financial assets available for sale	162,246,286	-	31,439,746	37,445,413	58,343,138	16,687,869	43,452,318	187,368,483
Equity financial instruments	**19,518,591**	**19,518,591**	**-**	**-**	**-**	**-**	**-**	**19,518,591**
Financial assets at fair value through profit and loss	834,989	834,989	-	-	-	-	-	834,989
Financial assets available for sale	18,683,603	18,683,603	-	-	-	-	-	18,683,603
Derivatives	**32,352,930**	**3,555,496**	**9,952,675**	**20,002,968**	**324,682**	**114,293**	**682,680**	**34,632,795**
Investments in subsidiaries and associates	**58,161,079**	**58,161,079**	**-**	**-**	**-**	**-**	**-**	**58,161,079**
Assets of policyholders who bear investment risk	**287,601,433**	**223,071,713**	**4,686,840**	**-**	**36,858,177**	**6,200,541**	**-**	**270,817,270**
Investment properties	**29,566,583**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Assets from financial contracts	**4,753,188**	**4,179,175**	**9,000**	**36,000**	**527,000**	**-**	**-**	**4,751,175**
Investment properties	**639,213,365**	**308,486,054**	**57,453,503**	**85,157,596**	**110,553,108**	**24,834,035**	**47,682,975**	**634,167,272**
Total financial investments	17,399,320	-	7,572,143	6,343,952	2,371,737	972,552	138,936	17,399,320
Receivables from insurance business and other receivables	28,849,995	-	22,735,224	6,114,771	-	-	-	28,849,995
Operating and other receivables	5,538,551	-	5,538,551	-	-	-	-	5,538,551
Cash and cash equivalents	42,213,344	-	42,213,344	-	-	-	-	42,213,344
Other assets	**733,214,576**	**308,486,054**	**135,512,767**	**97,616,319**	**112,924,845**	**25,806,587**	**47,821,911**	**728,168,483**
Subordinated liabilities	49,453,317	-	3,953,500	15,825,000	67,785,500	-	-	87,564,000
Non-life and health insurance	157,921,662	-	100,895,505	37,516,838	13,492,278	5,164,713	852,328	157,921,662
Unit-linked life insurance	284,456,325	-	17,988,421	43,759,070	67,883,330	39,863,154	114,962,350	284,456,325
Life insurance	112,137,256	-	11,703,458	11,289,122	28,475,117	24,802,246	61,136,525	137,406,468
Financial contracts	4,753,190	-	13,260	115,211	709,559	1,009,790	2,888,097	4,735,916
Other liabilities	28,577,654	-	24,833,468	3,744,187	-	-	-	28,577,654
Total Liabilities	**637,299,405**	**-**	**159,387,612**	**112,249,427**	**178,345,784**	**70,839,903**	**179,839,300**	**700,662,026**

Overview of maturity of assets and liabilities in 2015 – undiscounted cash flows

(in EUR)	Carrying amount	Withouth maturity	Up to 1 year	1-5 years	5-10 years	10-15 years	over 15 years	Total
Debt financial instruments	**171,131,975**	**-**	**36,607,872**	**73,008,695**	**110,011,380**	**36,109,255**	**81,511,960**	**337,249,162**
Financial assets at fair value through profit and loss	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
Equity financial instruments	**35,224,381**	**35,224,381**	**-**	**-**	**-**	**-**	**-**	**35,224,381**
Financial assets at fair value through profit and loss	1,640,042	1,640,042	-	-	-	-	-	1,640,042
Financial assets available for sale	33,584,339	33,584,339	-	-	-	-	-	33,584,339
Derivatives	**39,617,921**	**3,996,382**	**31,146,927**	**4,829,095**	**478,455**	**131,281**	**726,262**	**41,308,401**
Investments in subsidiaries and associates	**20,189,796**	**20,189,796**	**-**	**-**	**-**	**-**	**-**	**20,189,796**
Assets of policyholders who bear investment risk	**263,760,339**	**207,627,225**	**5,818,000**	**4,322,500**	**609,000**	**-**	**-**	**218,376,725**
Investment properties	**30,835,438**	**30,835,438**	**-**	**-**	**-**	**-**	**-**	**30,835,438**
Investment properties	**560,759,850**	**297,873,222**	**73,572,799**	**82,160,290**	**111,098,835**	**36,240,535**	**82,238,222**	**683,183,903**
Total financial investments	17,215,350	-	17,644,199	6,714,065	2,298,696	713,628	333	27,370,920
Receivables from insurance business and other receivables	32,618,796	-	32,618,796	-	-	-	-	32,618,796
Operating and other receivables	12,901,762	-	12,901,762	-	-	-	-	12,901,762
Cash and cash equivalents	41,858,843	-	41,858,843	-	-	-	-	41,858,843
Other assets	**665,354,600**	**297,873,222**	**178,596,398**	**88,874,355**	**113,397,531**	**36,954,163**	**82,238,555**	**797,934,223**
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	-	30,373,266	5,308,854	-	-	-	35,682,120
Total Liabilities	**564,424,445**	**-**	**153,511,506**	**105,478,709**	**95,025,119**	**68,527,100**	**176,043,645**	**598,586,077**

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 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.

In reinsurance, as with respect to financial assets, the credit risk management procedures involve checking the reinsurer's credit rating. 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 financial asset class as at 31 December 2016[1]

(in EUR)	AAA-A	BBB-B	CCC-C	Not rated	Total 2016
Financial assets at fair value through profit or loss	2,197,012	3,157,152	507	1,650,374	7,005,045
Debt securities	2,197,012	3,157,152	507	1,650,374	7,005,045
Held-to-maturity financial assets	10,265,631	21,155,168	-	6,587,431	38,008,230
Debt securities	10,265,631	21,155,168	-	6,587,422	38,008,221
Available- for-sale financial assets	30,642,377	116,850,104	-	14,753,805	162,246,286
Debt securities	30,642,377	116,850,104	-	14,753,813	162,246,294
Loans, deposits and financial receivables	-	6,518,471	-	24,784,194	31,302,665
Assets from financial contracts	-	573,183	-	-	573,183
Debt securities	-	573,183	-	-	573,183
Total financial investments	**43,105,020**	**148,254,079**	**507**	**47,775,803**	**239,135,409**
Receivables from insurance business and other receivables	1,621,963	23,836	-	15,761,698	17,407,497
Reinsurers' share of technical provisions	17,276,655	96,810	-	25,856	17,399,320
Cash and cash equivalents	-	4,410,857	-	739,276	5,150,166
Total assets exposed to credit risk	**62,003,637**	**152,785,582**	**507**	**64,302,632**	**279,092,392**

The non-rated bond investment portfolio in 2016 includes debt securities of important Slovene state-owned or private companies which issued non-rated securities. Given loans without a credit rating accounted for 74% of all loans, deposits and financial receivables, the issuer of which is not rated. A share of 20% of loans without a rating are collateralized by pladgeof property or securities, 62% of loans without a rating are collateralized by bills of exchange and other types of collateral, and the remaining 18% are secured by other types of collateral. The total maximum exposure to individual issuers without rating relating to given loans is represented by loans to KD Kapital d. o. o. and KD d. d. accounting for 59% of all given loans without a rating.

[1] This table should be read together with the note in Section 7.2.3, paragraph 6. In the tables Maximum exposure to credit risk by financial asset class for the observed years, 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 2015

(in EUR)	AAA-A	BBB-B	CCC-C	Not rated	Total 2015
Financial assets at fair value through profit or loss	3,561,467	6,582,283	833	3,535,948	13,680,532
Debt securities	3,561,467	6,582,283	833	3,535,948	13,680,532
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	29,382,387	38,835,960
Total financial investments	**9,590,872**	**149,492,493**	**523,809**	**50,360,761**	**209,967,935**
Receivables from insurance business and other receivables	1,443,699	45,650	78,579	29,929,905	31,497,833
Reinsurers' share of technical provisions	13,302,095	3,557,065	356,189	-	17,215,350
Cash and cash equivalents	-	8,583,826	815,460	2,395,259	11,794,544
Total assets exposed to credit risk	**24,336,666**	**161,679,034**	**1,774,037**	**82,685,924**	**270,475,661**

Bond investments portfolio without credit rating in 2015 relates to debt securities of important Slovene companies and banks, partially or completely owned by the state. Given loans accounted for EUR 32,992,286 or 85% of loans, deposits and financial receivables. The share of loans, where the issuer 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 total maximum exposure to individual issuers relating to given loans is represented by loans to KD Kapital d. o. o. accounting for 35% of all given loans.

Investment exposure

Exposure of investments to Slovenia (in %)	2016	2015
EXPOSURE TO THE REPUBLIC OF SLOVENIA	7.93%	11.23%
investments in bonds issued by the RS	6.58%	7.76%
investments in Slovene bonds of banks	0.89%	1.52%
investments in shares of Slovene banks	0.00%	0.35%
deposits with Slovene banks	0.46%	1.60%

According to macroeconomic data from 2016, Slovenia maintained the trend of economic growth, which was, together with the recovery of EMU area, mainly driven by growth of exports and private consumption.

Slovenia's credit ratings were upgraded by all major rating agencies in the past year. The credit spread on the return on the Slovene 10-year government bond dropped again by over 40 basis points, which contributed to the reduction in its total return by more than 80 basis points, along with a similar fall in return on the German 10-year government bond. The 10-year return on the Slovene government bond therefore fell from 1.6% to 0.8%, resulting in more than 8% nominal growth of the bond. After a slight market slump in 2015, the Slovene SBITOP stock index was still fairly volatile in 2016 due to unfulfilled expectations of investors about the privatisation of Telekom Slovenije and partially as the result of corrective measures in foreign markets. Nevertheless, the index exceeded 7% at the end of the year. Throughout the year, the Company reduced the share of investments exposed to the state (due to maturity of deposits in Slovene banks, Slovene government bonds and bonds of Slovene banks).

Credit risk: Past-due and not past-due financial instruments as at 31 December 2016

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)	207,259,561	-	-	-	-	-	-	-	-	-	-	207,259,561
Assets from investment contracts	573,183	-	-	-	-	-	-	-	-	-	-	573,183
Loans and financial receivables	26,757,102	44,940	-	23,202	1,640,384	1,708,525	1,427,003	(919,438)	(27,146)	480,419	480,419	28,946,046
Amount (technical provisions) ceded to reinsurers	17,399,320	-	-	-	-	-	-	-	-	-	-	17,399,320
Receivables from insurance business and other receivables	19,180,463	2	-	-	289,021	289,023	19,435,025	(6,926,838)	(4,268,949)	8,239,238	8,239,238	27,708,724
Insurance receivables	12,936,139	2			273,131	273,133	14,332,268	(4,718,966)	(3,248,429)	6,364,873	6,364,873	19,574,145
Recourse receivables	-				0	0	3,018,150	(1,744,522)	(677,917)	595,711	595,711	595,711
Other receivables	6,244,324	0			15,890	15,890	2,084,607	(463,350)	(342,604)	1,278,654	1,278,654	7,538,868
Total	271,169,629	44,941	-	23,202	1,929,405	1,997,548	20,862,029	(7,846,276)	(4,296,095)	8,719,658	8,719,658	281,886,834

This table should be read together with the note in Section 7.2.3. paragraph 6.

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 reinsu	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
Total	245,716,397	1,250	3,550	-	1,640,384	1,645,184	19,272,816	(6,085,679)	(4,645,447)	8,541,690	8,541,690	255,903,270

This table should be read together with the note in Section 7.2.3. paragraph 6.

Risk of changes in prices of equity securities

This risk is defined as the risk of fluctuation in the price of equity 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 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 Company 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[2]

	Fixed interest rate		Variable interest rate		Total	
in euros	31. 12. 2016	31. 12. 2015	31. 12. 2016	31. 12. 2015	31. 12. 2016	31. 12. 2015
ASSETS						
Debt securities	160,715,262	134,610,670	46,544,299	36,521,305	207,259,561	171,131,975
Loans and deposits	23,392,063	32,985,414	3,696,845	2,784,719	27,088,909	35,770,133
Cash and cash equivalents	3,971,866	11,794,544	-	-	3,971,866	11,794,544
Assets from financial contracts	1,178,300	-	573,183	-	1,751,483	-
Total	**189,257,492**	**179,390,628**	**50,814,328**	**39,306,024**	**240,071,819**	**218,696,652**
LIABILITIES						
Bonds issued (Subordinated liabilities)	49,453,316	-	-	-	49,453,316	-
Total	**49,453,316**	**-**	**-**	**-**	**49,453,316**	**-**

This table should be read together with the note in Section 7.2.3. paragraph 6.

[2] Including receivables from long-term insurance fund of investment risk.

Risk of guaranteed return

In 2016, the Company managed the risk of guaranteed return in the period of record-low interest rates, especially by selectively allocating investment portfolios to corporate bonds and shares with a higher return.

In 2016, the bond market experienced growth and volatility. The latter was stronger towards the end of the year after the election of the new US president, when the expectations of promised fiscal incentives greatly heightened inflationary expectations and credit spread both in the US and the EU. Since stronger volatility in the bond markets was expected by the manager for a long time, the Group's investment portfolio was conservatively positioned throughout the year, particularly in terms of investment maturity. The Company ensured prudent management of portfolios to achieve adequate return in relation to interest rate and credit risks of debt security investments. Throughout the year, the Company invested a part of the assets received from the issued subordinated debt mostly in government bonds of European countries in line with the existing investment portfolio structure. As at the year-end, the investment portfolio structure was therefore similar to the one at the beginning of the year. With regard to government bonds, the Company increased its exposure—to a greater extent—to Portuguese, German and Romanian bonds and reduced its exposure to Spanish bonds.

With regard to life insurance funds, the largest changes were made in the allocation of government bonds category, whose total share went up by 2% in 2016, from 72% to 74%. In this segment, exposure to Spanish bonds was most significantly reduced in relative terms, while the largest increase in exposure was seen relating to countries such as Italy, Portugal, Germany and Romania. To achieve a higher return on equity, the Company transferred two investment properties with a total value of EUR 4.3 million and expected annual return of over 5% to the life insurance fund. In 2016, the fund achieved a return that exceeded the guaranteed return.

With respect to the fund with a guaranteed return under the PN-A01 pension scheme, the Company maintained the investment structure from the previous period, as the fund was closed for new payments in May 2016. In 2016, the fund achieved a return that exceeded the guaranteed return. The new fund with a guaranteed return "Zajamčeni od 60" (Guaranteed over 60) was marked mostly by setting up a new portfolio, as it started operating only in February. This is why this fund achieved only the guaranteed return.

Actual exposure to risk of guaranteed return

Pension insurance scheme / plan	2016	2015
LIFE INSURANCE		
Traditional life insurance		
Average return on investment for the period	6.85%	7.50%
Average guaranteed return	3.36%	3.48%
Difference in interest rates	3.49%	4.02%
PENSION INSURANCE		
Pension saving AS Zajamčeni od 60		
Average return on investment for the period	1.11%	0.00%
Required (guaranteed) return	1.11%	0.00%
Difference in interest rates		
Pension insurance PN-A01		
Average return on investment for the period	5.03%	4.48%
Required (guaranteed) return	1.30%	2.30%
Difference in interest rates	3.73%	2.18%

Currency risk

Currency risk is the risk that the exchange rate between the domestic currency in which assets are measured and the currency in which the value of individual assets is denominated will fluctuate and, consequently, negatively affect the value of assets.

Currency risk

	EUR	RSD	HRK	Other	Total 2016
ASSETS					
Financial assets measured at fair value through profit or loss	7,404,896	-	435,137	-	7,840,034
Equity securities	399,851	-	435,137	-	834,989
Debt securities	7,005,045	-	-	-	7,005,045
Derivatives	-	-	-	-	-
Held-to-maturity financial assets	37,873,586	-	134,644	-	38,008,230
Debt securities	37,873,586	-	134,644	-	38,008,230
Derivatives	-	-	-	-	-
Available-for-sale financial assets	179,694,377	-	683,514	552,005	180,929,896
Equity securities	18,131,598	-	-	552,005	18,683,603
Debt securities	161,562,780	-	683,514	-	162,246,294
Loans, deposits and financial receivables	31,301,876	-	-	-	31,301,876
Investments in subsidiaries and associates	58,161,079	-	-	-	58,161,079
Assets from financial contracts	4,438,416	-	-	317,320	4,755,736
Total financial investment	**318,874,231**	**-**	**1,253,296**	**869,324**	**320,996,851**
Receivables from insurance business and other receivables	25,427,415	-	2,276,483	4,826	27,708,724
Amount (technical provisions) ceded to reinsurers	17,390,669	-	417	8,235	17,399,320
Cash and cash equivalents	3,911,342	-	57,240	3,284	3,971,866
Other assets	71,573,318	-	161,821	-	71,735,139
Total assets exposed to currency risk	**437,176,976**	**-**	**3,749,257**	**885,669**	**441,811,901**
LIABILITIES	-	-	-	-	-
Subordinate liabilities	49,453,316	-	-	-	49,453,316
Liabilities arising from insurance contracts	269,308,826	-	750,092	-	270,058,918
Liabilities from insurance contracts with DPF	-	-	-	-	-
Liabilities from financial contracts	4,753,190	-	-	-	4,753,190
Other liabilities	15,697,190	-	5,648,340	-	21,345,531
Total liabilities exposed to currency risk	**339,212,523**	**-**	**6,398,432**	**-**	**345,610,955**

This table should be read together with the note in Section 7.2.3. paragraph 6.

Currency risk

	EUR	RSD	HRK	Other	Total 2015
ASSETS					
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 in subsidiaries and associates	20,106,836	-	82,960	-	20,189,796
Total financial investment	**263,007,800**	**-**	**1,406,006**	**968,305**	**265,382,111**
Receivables from insurance business and other receivables	38,476,889	-	859,483	-	39,336,372
Amount (technical provisions) ceded 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
Total assets exposed to currency risk	**403,996,119**	**-**	**2,627,109**	**968,305**	**407,591,533**
LIABILITIES					
Liabilities arising from insurance contracts	268,112,887	-	502,878	-	268,615,765
Total liabilities exposed to currency risk	**268,112,887**	**-**	**502,878**	**-**	**268,615,765**

This table should be read together with the note in Section 7.2.3. paragraph 6.

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 2016. 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 Company is exposed, are presented in the table below.

Sensitivity factor	Description of the sensitivity factor
Interest rates	The effect of a ±50 bp (basic points) change in market interest rates (i.e. the effect on profit and on equity if the market interest rate changes by 50 bp).
Exchange rates	Effect of the ±5% change in exchange rates as at 31 December 2016.
Changes in prices of equity securities	The effect on changes of market prices of equity securities is reflected in the ±15% changes of share prices, prices of ID-shares, prices of structured securities and prices of mutual funds as at 31 December 2016.

Sensitivity analyses

Analysis of sensitivity to change in the interest rate

(in EUR)	Effect on profit	Effect on equity
31 December 2015		
Interest rate change of +50 bp	**(113,601)**	**(5,319,346)**
Interest rate change of -50 bp	**126,261**	**5,050,748**
31 December 2016		
Interest rate change of +50 bp	(33,811)	(5,961,131)
Interest rate change of -50 bp	24,857	6,134,946

Analysis of sensitivity to change in exchange rates

The majority of investments made by the Company is denominated in euros since its liabilities which arise out of insurance contracts are also euro-denominated. The Insurance Act (ZZavar) stipulates that the Company must match its investments of the long-term fund (assets covering mathematical provisions) with long-term guarantees against its liabilities arising under insurance contracts whose amount depends on the fluctuations in exchange rates to at least 80%. Since the liabilities incurred by the Company are denominated in euros, it can be concluded that the majority of its investments have been made in euro-denominated securities; hence its exposure to currency risk is very low.

Analysis of sensitivity to changes in prices of equity securities

(in EUR)	Effect on profit	Effect on equity
31 December 2015		
Change in prices of equities +15%	**246,006**	**5,037,651**
Change in prices of equities -15%	**(246,006)**	**(5,037,651)**
31 December 2016		
Change in prices of equities +15%	125,248	3,252,672
Change in prices of equities -15%	(125,248)	(3,252,672)

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.

7.2.4 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 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 Company adopted the business continuity strategy aimed at a quick recovery of business processes critical for its operations.

Strategic risk

Strategic risks can occur in the early stages of strategy planning, strategy execution, management and strategic decision-making and supervision of the 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, 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.

8. 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 an orderly transaction. The fair value assessment of financial investments depends on the availability of market data serving as a basis for fair value assessment by the Company. The Company is generally establishing fair value of financial instruments as described in the policies in Section 5.5. for the purpose of fair value measurement of financial assets and their organisation into hierarchy.

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.

Financial assets categorised in the fair value hierarchy in 2016

(in EUR) 31 Dec 2015	Carrying amount	Fair value	Level 1	Level 2	Level 3
Financial assets measured at fair value through profit or loss, held for sale	**3,852,678**	**3,852,681**	**545,403**	**3,307,279**	**-**
Debt securities	3,307,276	3,307,279	-	3,307,279	-
Investment coupons of mutual funds	545,403	545,403	545,403	-	-
Financial assets measured at fair value through profit or loss, at initial recognition	**3,987,352**	**3,987,352**	**289,586**	**3,697,766**	**-**
Debt securities	3,697,766	3,697,766	-	3,697,766	-
Investment coupons of mutual funds	289,586	289,586	289,586	-	-
Available-for-sale financial assets	**174,929,578**	**174,929,586**	**16,222,737**	**155,689,755**	**3,017,094**
Equity securities	2,090,238	2,090,238	2,090,238	-	-
Debt securities	162,246,294	162,246,294	3,539,445	155,689,755	3,017,094
Investment coupons of mutual funds	10,593,046	10,593,054	10,593,054	-	-
Unit-linked investments of policyholders	**287,601,433**	**287,601,449**	**222,437,530**	**47,745,557**	**17,418,362**
Assets from financial contracts	**3,574,058**	**3,574,058**	**3,000,875**	**573,183**	**-**
Total financial assets measured at fair value	**473,945,098**	**473,945,125**	**242,496,130**	**211,013,540**	**20,435,455**
Held-to-maturity financial assets	**38,008,230**	**44,416,628**	**411,950**	**26,688,540**	**17,316,138**
Debt financial instruments	38,008,230	44,416,628	411,950	26,688,540	17,316,138
Available-for-sale financial assets	**6,000,311**	**-**	**-**	**-**	**-**
Equity securities	6,000,311	-	-	-	-
Deposits and loans	**27,088,909**	**27,088,909**	**-**	**-**	**27,088,909**
Investments in subsidiaries and associates	**58,161,079**	**-**	**-**	**-**	**-**
Investment property	**29,566,583**	**30,727,917**	**-**	**-**	**30,727,917**
Total financial assets for which the fair value is disclosed	**158,825,112**	**102,233,454**	**411,950**	**26,688,540**	**75,132,964**
TOTAL ASSETS	**632,770,211**	**576,178,579**	**242,908,080**	**237,702,080**	**95,568,420**
Loans	60,650	60,650	-	-	60,650
Subordinated liabilities	49,453,317	49,264,950	-	49,264,950	-
Total liabilities for which the fair value is disclosed	**49,513,967**	**49,325,600**	**-**	**49,264,950**	**60,650**
TOTAL LIABILITIES	**49,513,967**	**49,325,600**	**-**	**49,264,950**	**60,650**

Financial assets categorised in the fair value hierarchy in 2015

(in EUR) 31 Dec 2015	Carrying amount	Fair value	Level 1	Level 2	Level 3
Financial assets measured at fair value through profit or loss, held for sale	**7,560,982**	**7,673,729**	**697,236**	**6,976,493**	**-**
Debt securities	6,863,745	6,976,493	-	6,976,493	-
Investment coupons of mutual funds	697,236	697,236	697,236	-	-
Financial assets measured at fair value through profit or loss, at initial recognition	**7,759,592**	**7,759,592**	**942,806**	**6,816,786**	**-**
Debt securities	6,816,786	6,816,786	-	6,816,786	-
Investment coupons of mutual funds	942,806	942,806	942,806	-	-
Available-for-sale financial assets	**144,433,722**	**144,557,479**	**28,681,844**	**115,875,635**	**-**
Equity securities	8,789,672	8,789,672	8,789,672	-	-
Debt securities	117,979,917	118,103,674	2,228,038	115,875,635	-
Investment coupons of mutual funds	17,664,133	17,664,133	17,664,133	-	-
Unit-linked investments of policyholders	**263,760,339**	**263,760,339**	**207,627,225**	**40,013,656**	**16,119,458**
Total financial assets measured at fair value	**423,514,636**	**423,751,139**	**237,949,111**	**169,682,570**	**16,119,458**
Held-to-maturity financial assets	**39,471,526**	**45,743,396**	**537,278**	**45,206,118**	**-**
Debt financial instruments	39,471,526	45,743,396	537,278	45,206,118	-
Available-for-sale financial assets	**7,130,533**	**-**	**-**	**-**	**-**
Equity securities	7,130,533	-	-	-	-
Deposits and loans	**35,770,133**	**35,770,133**	**-**	**-**	**35,770,133**
Investments in subsidiaries and associates	**20,189,796**	**-**	**-**	**-**	**-**
Investment property	**30,835,438**	**31,268,505**	**-**	**-**	**31,268,505**
Total financial assets for which the fair value is disclosed	**133,397,426**	**112,782,034**	**537,278**	**45,206,118**	**67,038,638**
TOTAL ASSETS	**556,912,062**	**536,533,173**	**238,486,389**	**214,888,688**	**83,158,096**
Loans	15,355	15,355	-	-	15,355
Total liabilities for which the fair value is disclosed	**15,355**	**15,355**	**-**	**-**	**15,355**
TOTAL LIABILITIES	**15,355**	**15,355**	**-**	**-**	**15,355**

Level 3 assets and liabilities

Financial assets and liabilities categorised in the fair value hierarchy – Level 3 movement in 2016

(in EUR)	1 Jan 2016	Total profit/loss in profit or loss	Total profit/loss in comprehensive income	Purchase	Sale	Transfers (to) from Level 3	31 Dec 2016
Assets measured at fair value							
Debt securities	-	-	-	-	-	-	-
Available-for-sale financial assets	**-**	**-**	**-**	**-**	**-**	**3,017,094**	**3,017,094**
Debt securities	-	-	-	-	-	3,017,094	3,017,094
Total assets	**-**	**-**	**-**	**-**	**-**	**3,017,094**	**3,017,094**

Financial assets and liabilities categorised in the fair value hierarchy – Level 3 movement in 2015

(in EUR)	1 Jan 2015	Total profit/loss in profit or loss	Total profit/loss in comprehensive income	Purchase	Sale	Transfers (to) from Level 3	31 Dec 2015
Assets measured at fair value Level 3							
Financial assets measured at fair value through profit or loss, held for sale	**15,267,162**	**-**	**-**	**-**	**-**	**(15,267,162)**	**-**
Debt securities	15,267,162	-	-	-	-	(15,267,162)	-
Available-for-sale financial assets	**68,134,961**	**89,741**	**(21)**	**-**	**(1,205,755)**	**(67,018,927)**	**-**
Debt securities	68,134,961	89,741	(21)	-	(1,205,755)	(67,018,927)	-
Total assets	**83,402,123**	**89,741**	**(21)**	**-**	**(1,205,755)**	**(82,286,089)**	**-**

Until 31 December 2016, the Company did not reclassify financial asset groups due to the change in their intended use, but it did move financial assets measured at fair value between levels due to the change in capital market conditions as follows:

- Debt securities amounting to EUR 908,621, of which EUR 773,325.06 of available-for-sale assets and EUR 135,295.48 of held-to-maturity assets, were moved from level 1 to level 2.
- Equity securities amounting to EUR 1,318,307 in the available-for-sale group were moved from level 1 to level 3.
- Debt securities amounting to EUR 20,333,232, of which EUR 3,017,094 of available-for-sale assets and EUR 17,316,138 of held-to-maturity assets, were moved from level 2 to level 3.

Among level 3 movements, only financial assets measured at fair value are shown. The movements and reclassifications into level 3 are not shown for the financial assets whose fair value is measured at cost.

9. REPORTING BY SEGMENT

The Company reports by business segment in separate financial statements (Accounting Report) of the parent Company in accordance with the requirement of the Insurance Supervision Agency and the implementing regulation "Decision on Annual Reports and Quarterly Financial Statements of Insurance Undertakings" (Official Gazette of the Republic of Slovenia No. 1/2016). In line with IFRS 8, segment reporting is presented in consolidated financial statements (Accounting Report).

The core activity of Adriatic Slovenica is insurance business, which provides services in the non-life, life and health insurance segments, therefore these business segments are further divided into insurance segments where similar insurance products are grouped by insurance group. These groups are subject to different rates of profitability, opportunities for growth, future prospects and risks. The management periodically reviews the business results by these segments in order to not only take decisions on the basis thereof regarding the resources to be allocated to a particular segment but also to assess the performance of individual segments and the entire Company.

The non-life insurance includes:

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

The life insurance includes:

- mixed and term life insurance,
- unit-linked life insurance,
- supplemental voluntary pension insurance PN-A01,
- voluntary supplemental pension insurance "Pokojninsko varčevanje AS" (AS Pension Saving).

Health insurance:

- complementary health insurance,
- parallel supplementary health insurance.

Assets, liabilities, revenue, expenses and profit or loss are monitored separately for individual insurance groups;

- non-life insurance,
- life insurance and
- health insurance, which is managed separately for complementary health insurance and other supplementary health insurance.

Assets and liabilities by insurance group include the assets and liabilities of the Company which can be directly attributed to a particular insurance group, as well as those which can be indirectly allocated to an insurance group. Due to the transactions between individual groups the balance of assets and liabilities in the Total column is not equal to the sum of individual insurance groups, because final offset between assets and liabilities is performed at the level of total balance.

Revenue and expenses of a particular insurance group arise from the operation of a business segment and can be directly attributed to a particular business segment; moreover, the relevant portion of revenue and expenses can be reasonably allocated to a business segment.

The accounting policies of segments are identical to the accounting policies of the Company.

9.1 BALANCE SHEET BY SEGMENT

Balance sheet as at 31 December 2016 by segment in accordance with the Decision on the Annual Reports of Insurance Undertakings

(in EUR)	Life insurance	Non-life insurance	Complementary health insurance	Supplementary health insurance	Total
Assets	462,023,119	262,768,966	20,086,732	1,296,180	733,214,576
Intangible assets	**1,342,157**	**4,170,537**	**-**	**-**	**5,512,694**
Property, plant and equipment	**(0)**	**29,340,310**	**-**	**-**	**29,340,310**
Non-current assets held for sale	**-**	**1,669,786**	**360,197**	**-**	**2,029,983**
Deferred tax assets	**319,162**	**4,649,219**	**1,098,932**	**16,534**	**6,083,846**
Investment properties	**5,013,987**	**24,521,275**	**-**	**31,321**	**29,566,583**
Financial investments in subsidiaries and associates	**30,921,980**	**24,058,838**	**3,180,261**	**-**	**58,161,079**
Financial investments	**124,331,859**	**126,985,899**	**7,351,503**	**461,820**	**259,131,080**
In loans and deposits	3,161,165	26,937,730	2,253,583	451	32,352,930
In held-to-maturity financial assets	25,369,306	12,021,748	617,177	-	38,008,230
In available-for-sale financial assets	93,175,878	82,815,009	4,480,743	458,258	180,929,889
In financial assets measured at fair value	2,625,510	5,211,412	(0)	3,110	7,840,031
Unit-linked investments of policyholders	**287,601,433**	**-**	**-**	**-**	**287,601,433**
Amounts of technical provisions ceded to reinsurers	**330,371**	**17,068,949**	**-**	**-**	**17,399,320**
Assets from financial contracts	**4,755,736**	**-**	**-**	**-**	**4,753,190**
Receivables	**2,722,702**	**24,862,229**	**7,196,765**	**763,847**	**22,766,149**
Receivables from direct insurance business	918,617	8,997,219	6,810,402	681,258	17,407,497
Receivables from reinsurance and coinsurance	408,196	1,364,803	-	-	1,772,999
Income tax receivables	483,299	29,741	98,884	12,979	(0)
Other receivables	912,590	14,470,466	287,479	69,610	3,585,653
Other assets	**1,375,583**	**3,904,102**	**223,430**	**5,723**	**5,330,357**
Cash and cash equivalents	**3,308,150**	**1,537,823**	**675,644**	**16,936**	**5,538,551**
Off-balance sheet items	**2,542,152**	**18,376,126**	**3,802,731**	**3,730**	**24,724,739**
Equity and liabilities	462,023,119	262,768,966	20,086,732	1,296,180	733,214,576
Equity	**19,946,395**	**70,684,157**	**4,854,966**	**429,655**	**95,915,172**
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	-	4,348,056	4,782,443	93,438	9,223,936
Reserve due to fair value measurement (Revaluation surplus)	(280,834)	240,502	72,523	26,470	58,661
Retained net earnings	1,964,233	22,229,801	-	309,746	26,467,638
Net profit or loss for the financial year	4,591,703	10,325,780	-	-	12,953,626
Subordinated liabilities	**26,704,791**	**22,748,526**	**-**	**-**	**49,453,317**
Technical provisions	**113,974,143**	**144,508,570**	**12,673,230**	**739,862**	**271,895,805**
Unearned premium provisions	380,444	41,972,462	6,667,831	362,134	49,382,871
Mathematical provisions	107,124,136	118,305	-	8,082	107,250,524
Claims provisions	6,458,257	101,444,787	5,993,941	200,139	114,097,124
Other technical provisions	11,307	973,016	11,458	169,507	1,165,287
Insurance technical provisions for unit-linked insurance	**282,619,438**	**-**	**-**	**-**	**282,619,438**
Other provisions	**4,468**	**3,810,681**	**-**	**-**	**3,815,150**
Deferred tax liabilities	**19,007**	**56,414**	**17,012**	**6,209**	**98,641**
Liabilities from financial contracts	**4,755,736**	**-**	**-**	**-**	**4,753,190**
Other financial liabilities	**343**	**1,046,040**	**-**	**-**	**1,046,383**
Operating liabilities	**2,173,090**	**3,301,423**	**1,496,390**	**71,669**	**6,417,671**
Liabilities from direct insurance contracts	756,414	1,538,138	1,496,390	71,669	3,862,611
Liabilities from reinsurance and coinsurance contracts	882,472	1,072,571	-	-	1,955,043
Income tax liabilities	534,205	690,714	-	-	600,017
Other liabilities	**11,825,707**	**16,613,155**	**1,045,135**	**48,785**	**17,199,809**
Off-balance sheet items	**2,542,152**	**18,376,126**	**3,802,731**	**3,730**	**24,724,739**

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 EUR 12,960,420.16 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 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	Supplementary health insurance	Total
Assets	**410,985,350**	**247,209,704**	**26,043,591**	**1,686,407**	**665,354,600**
Intangible assets	**2,204,855**	**3,860,308**	**-**	**-**	**6,065,163**
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**
Financial investments	**118,811,311**	**112,812,902**	**13,420,096**	**929,968**	**245,974,277**
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**
Receivables	**9,300,174**	**32,210,148**	**7,988,844**	**676,367**	**29,786,767**
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
Other assets	**1,510,476**	**4,050,649**	**553,730**	**7,234**	**5,940,403**
Cash and cash equivalents	**5,175,359**	**5,735,713**	**1,964,011**	**26,679**	**12,901,762**
Off-balance sheet items	**3,120,249**	**21,488,737**	**3,761,260**	**2,543**	**28,372,790**
Equity and liabilities	**410,985,350**	**247,209,704**	**26,043,591**	**1,686,407**	**665,354,600**
Equity	**21,624,315**	**72,824,777**	**5,873,917**	**607,148**	**100,930,157**
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
Reserve due to fair value measurement (Revaluation surplus)	1,814,939	1,666,786	34,498	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
Technical provisions	**108,657,746**	**147,012,711**	**12,587,571**	**786,587**	**269,044,614**
Unearned premium provisions	439,459	42,051,836	6,923,288	347,678	49,762,262
Mathematical provisions	102,710,827	54,247	-	68	102,765,143
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	**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**
Operating liabilities	**2,938,913**	**2,478,291**	**1,432,257**	**43,770**	**6,893,232**
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
Other liabilities	**17,691,673**	**18,987,754**	**6,142,780**	**243,989**	**22,495,744**
Off-balance sheet items	**3,120,249**	**21,488,737**	**3,761,260**	**2,543**	**28,372,790**

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 EUR 20,570,452 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 2016 to 31 December 2016 by segment, in accordance with the Decision on Annual Reports of Insurance Undertakings

(in EUR)	Life insurance	Non-life insurance	Complementary health insurance	Supplementary health insurance	Total
NET PREMIUM INCOME	**57,709,311**	**129,376,625**	**98,013,734**	**3,011,093**	**288,110,763**
Gross written premiums	59,476,307	138,559,897	97,758,276	3,025,549	298,820,030
Premiums ceded to reinsurers and coinsurers	(1,797,590)	(9,271,439)	-	-	(11,069,029)
Change in unearned premium provisions	30,594	88,167	255,457	(14,456)	359,762
INCOME FROM INVESTMENTS	**35,472,975**	**7,898,184**	**379,269**	**26,676**	**43,777,104**
OTHER INCOME FROM INSURANCE OPERATIONS, of which	**561,244**	**1,179,766**	**-**	**-**	**1,741,010**
- fee and commission income	561,244	1,179,766	-	-	1,741,010
OTHER INCOME	**2,554,104**	**4,127,630**	**155,538**	**20,052**	**6,857,324**
NET EXPENSES FOR CLAIMS AND BENEFITS PAID	**(42,831,158)**	**(78,930,352)**	**(88,349,710)**	**(2,298,805)**	**(212,410,024)**
Gross amounts of claims and benefits paid	(42,385,200)	(86,072,629)	(88,018,831)	(2,224,627)	(218,701,287)
Reinsurers'/coinsurers' shares	571,512	4,306,251	-	-	4,877,763
Change in claims provisions	(1,017,470)	2,836,026	(330,879)	(74,178)	1,413,499
CHANGE IN OTHER TECHNICAL PROVISIONS	**(3,946,080)**	**(388,999)**	**(10,669)**	**135,340**	**(4,210,408)**
CHANGE IN TECHNICAL PROVISIONS FOR THE BENEFIT OF UNIT-LINKED INSURANCE POLICYHOLDERS	**(22,921,728)**	**-**	**-**	**-**	**(22,921,728)**
EXPENSES FOR BONUSES AND DISCOUNTS	**-**	**100,273**	**431**	**18**	**100,722**
OPERATING EXPENSES, of which	**(19,698,559)**	**(41,102,563)**	**(11,239,127)**	**(1,104,763)**	**(73,145,012)**
- acquisition costs	(7,858,848)	(16,695,863)	(2,077,164)	(103,600)	(26,735,474)
EXPENSES FROM INVESTMENTS IN ASSOCIATES, of which	**(83,819)**	**-**	**-**	**-**	**(83,819)**
INVESTMENT EXPENSES, of which	**(781,391)**	**(1,409,451)**	**(308,509)**	**(921)**	**(2,500,272)**
- impairment losses of financial assets not measured at fair value through profit or loss	(176,299)	(923,180)	(273,340)	(696)	(1,373,515)
OTHER INSURANCE EXPENSES	**(193,728)**	**(3,536,137)**	**(186,965)**	**(5,404)**	**(3,922,235)**
OTHER EXPENSES	**(2,938,722)**	**(6,954,377)**	**(532,992)**	**(13,602)**	**(10,439,693)**
PROFIT/(LOSS) BEFORE TAX	**2,902,449**	**10,360,598**	**(2,078,999)**	**(230,315)**	**10,953,732**
CORPORATE INCOME TAX	**(94,517)**	**(34,817)**	**1,022,024**	**50,228**	**942,917**
NET PROFIT FOR THE REPORTING PERIOD	**2,807,932**	**10,325,780**	**(1,056,976)**	**(180,088)**	**11,896,650**

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	Supplementary health insurance	Total
NET PREMIUM INCOME	**58,670,183**	**127,280,761**	**98,788,483**	**2,595,836**	**287,335,263**
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 premium provisions	42,577	345,568	713,435	27,175	1,128,755
REVENUES FROM INVESTMENTS IN ASSOCIATES, of which	**34,953**	**-**	**-**	**-**	**34,953**
INCOME FROM INVESTMENTS	**14,098,530**	**7,610,619**	**1,055,824**	**76,846**	**22,841,819**
OTHER INCOME FROM INSURANCE OPERATIONS, of which	**446,794**	**3,718,031**	**-**	**-**	**4,164,825**
- fee and commission income	446,794	3,718,031	-	-	4,164,825
OTHER INCOME	**1,934,564**	**4,801,328**	**439,788**	**20,375**	**7,118,090**
NET EXPENSES FOR CLAIMS AND BENEFITS PAID	**(38,631,342)**	**(79,323,335)**	**(86,770,259)**	**(1,924,027)**	**(206,648,963)**
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)
CHANGE IN OTHER TECHNICAL PROVISIONS	**(4,729,847)**	**47,225**	**-**	**163,486**	**(4,519,135)**
CHANGE IN TECHNICAL PROVISIONS FOR THE BENEFIT OF UNIT-LINKED INSURANCE POLICYHOLDERS	**(1,826,453)**	**-**	**-**	**-**	**(1,826,453)**
EXPENSES FOR BONUSES AND DISCOUNTS	**-**	**(286,129)**	**(625)**	**(32)**	**(286,786)**
OPERATING EXPENSES, of which	**(18,946,580)**	**(38,964,126)**	**(13,174,985)**	**(1,174,941)**	**(72,195,291)**
- acquisition costs	(8,300,423)	(16,253,032)	(2,497,462)	(48,392)	(27,099,309)
EXPENSES FROM INVESTMENTS IN ASSOCIATES, of which	**-**	**(389,169)**	**-**	**-**	**(389,169)**
INVESTMENT EXPENSE, of which	**(4,003,724)**	**(2,275,027)**	**(338,708)**	**(4,785)**	**(6,622,244)**
- impairment losses of financial assets not measured at fair value through profit or loss	(85,911)	(270,623)	(23,172)	(447)	(380,153)
OTHER INSURANCE EXPENSES	**(275,941)**	**(4,020,226)**	**(339,756)**	**(6,207)**	**(4,642,130)**
OTHER EXPENSES	**(1,841,582)**	**(5,220,014)**	**(483,335)**	**(17,131)**	**(7,549,436)**
PROFIT/(LOSS) BEFORE TAX	**4,929,556**	**12,979,938**	**(823,572)**	**(270,579)**	**16,815,342**
CORPORATE INCOME TAX	**(718,160)**	**(2,023,598)**	**146,717**	**43,929**	**(2,551,113)**
NET PROFIT FOR THE REPORTING PERIOD	**4,211,395**	**10,956,340**	**(676,855)**	**(226,651)**	**14,264,229**

Income statement for the period from 1 January 2016 to 31 December 2016 – Adriatic Slovenica d.d., Podružnica Zagreb za osiguranje (the Zagreb branch)

in EUR	31. 12. 2016	31. 12. 2015
NET PREMIUM INCOME	**2,520,624**	**1,701,345**
Gross written premiums	2,662,705	1,707,298
Premiums ceded to reinsurers and coinsurers	(8,851)	(3,860)
Change in unearned premiums	(133,231)	(2,093)
INCOME FROM INVESTMENTS	**1,102,024**	**143,612**
OTHER INCOME FROM INSURANCE OPERATIONS, of which	**754,695**	**711,207**
- fee and commission income	754,695	711,207
OTHER INCOME	**151,674**	**22,637**
NET EXPENSES FOR CLAIMS AND BENEFITS PAID	**(933,672)**	**(411,327)**
Gross amounts of claims and benefits paid	(920,096)	(453,261)
Change in claims provisions	(13,576)	41,934
CHANGE IN OTHER TECHNICAL PROVISIONS	**(99,835)**	**(22,578)**
CHANGE IN TECHNICAL PROVISIONS FOR THE BENEFIT OF UNIT-LINKED INSURANCE POLICYHOLDERS	**(1,795,926)**	**(311,596)**
EXPENSES FOR BONUSES AND DISCOUNTS	**(684)**	**(7)**
OPERATING EXPENSES, of which	**(2,119,696)**	**(1,120,490)**
- acquisition costs	(822,717)	(535,229)
EXPENSES FROM INVESTMENTS IN ASSOCIATES, of which	**(83,819)**	**-**
EXPENSES INVESTMENTS, of which	**(17,783)**	**(560,916)**
- impairment losses of financial assets not measured at fair value through profit or loss	(2,570,731)	(674,396)
OTHER INSURANCE EXPENSES	**(805,729)**	**(722,036)**
OTHER EXPENSES	**(123,414)**	**(60,909)**
PROFIT/(LOSS) BEFORE TAX	**(1,451,542)**	**(631,057)**
CORPORATE INCOME TAX	**298,417**	**109,653**
NET PROFIT FOR THE REPORTING PERIOD	**(1,153,125)**	**(521,404)**

In the income statement above, there is the operating result, generated by the Zagreb branch in 2016.

9.3 STATEMENT OF COMPREHENSIVE INCOME BY SEGMENT

Statement of comprehensive income for the period from 1 January 2016 to 31 December 2016 by insurance segment, in accordance with the Decision on Annual Reports of Insurance Undertakings

(in EUR)	Life insurance	Non-life insurance	Complementary health insurance	Supplementary health insurance	Total
NET PROFIT OR LOSS FOR THE FINANCIAL YEAR AFTER TAXATION	**2,807,932**	**10,325,780**	**(1,056,976)**	**(180,088)**	**11,896,650**
OTHER COMPREHENSIVE INCOME AFTER TAXATION	**(2,094,836)**	**(1,604,008)**	**38,024**	**2,594**	**(3,658,226)**
Items not to be allocated to profit or loss in subsequent periods	**(501)**	**(142,031)**	**-**	**-**	**(142,532)**
Net gain/loss, recognised in revaluation surplus of property, plant and equipment	-	(141)	-	-	(141)
Actuarial net gain/loss for pension programmes	(501)	(141,889)	-	-	(142,391)
Items that may be allocated to profit or loss in subsequent periods	**(2,094,335)**	**(1,461,977)**	**38,024**	**2,594**	**(3,515,694)**
Net gain/loss from re-measurement of available-for-sale financial assets	(2,531,649)	(1,754,264)	47,970	3,913	(4,234,030)
Gain/loss, recognised in revaluation surplus	1,986,345	2,485,945	56,668	14,945	4,543,903
Transfer of gain/loss from revaluation surplus to income statement	(4,517,994)	(4,240,209)	(8,698)	(11,032)	(8,777,934)
Tax on items that may be allocated to profit or loss in subsequent periods	437,315	292,287	(9,946)	(1,319)	718,337
TOTAL COMPREHENSIVE INCOME FOR THE YEAR, AFTER TAXATION	**713,097**	**8,721,772**	**(1,018,951)**	**(177,493)**	**8,238,424**

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	Supplementary health insurance	Total
NET PROFIT OR LOSS FOR THE FINANCIAL YEAR AFTER TAXATION	**4,211,395**	**10,956,340**	**(676,855)**	**(226,651)**	**14,264,229**
OTHER COMPREHENSIVE INCOME AFTER TAXATION	**(1,431,987)**	**(981,542)**	**69,835**	**17,666**	**(2,326,028)**
Items not to be allocated to profit or loss in subsequent periods	**1,439**	**(35,835)**	**-**	**-**	**(34,396)**
Actuarial net gain/loss for pension programmes	1,439	(35,835)	-	-	(34,396)
Items that may be allocated to profit or loss in subsequent periods	**(1,433,426)**	**(945,707)**	**69,835**	**17,666**	**(2,291,633)**
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
TOTAL COMPREHENSIVE INCOME FOR THE YEAR, AFTER TAXATION	**2,779,409**	**9,974,798**	**(607,021)**	**(208,985)**	**11,938,201**

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
AT COST				
Balance as at 1 Jan 2015	**3,126,306**	**16,019,576**	**4,768**	**19,150,650**
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)
Other changes	-	200	-	200
Balance as at 31 Dec 2015	4,229,223	16,483,724	0	20,712,947
New balance as at 1 Jan	4,229,223	16,483,724	0	20,712,947
Direct increases - investments	-	1,867,993	-	1,867,993
Decreases during the year	-	(312,590)	-	(312,590)
Transfers between intangible assets, investment property, and property, plant and equipment	-	(51,441)	-	(51,441)
Other changes	-	1,546	-	1,546
Balance as at 31 Dec 2016	4,229,223	17,989,233	0	22,218,456
VALUE ADJUSTMENT				
Balance as at 1 Jan 2015 adjusted	**1,250,522**	**12,502,085**	**-**	**13,752,607**
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
Balance as at 31 Dec 2015	2,041,222	12,606,562	-	14,647,784
New balance as at 1 Jan	2,041,222	12,606,562	-	14,647,784
Depreciation during the year	-	1,565,335	-	1,565,335
Decreases during the year	-	(303,039)	-	(303,039)
Revaluation owing to impairment of assets	845,844	-	-	845,844
Transfers between intangible assets, investment property, and property, plant and equipment	-	(51,683)	-	(51,683)
Other changes	-	1,521	-	1,521
Balance as at 31 Dec 2016	2,887,065	13,818,697	-	16,705,762
BOOK VALUE				
Balance as at 31 Dec 2015	2,188,001	3,877,162	0	6,065,163
Balance as at 31 Dec 2016	1,342,157	4,170,536	0	5,512,694

As at 31 December 2016, the operating liabilities to suppliers of intangible assets amounted to EUR 211,620, 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 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 2016 it did not change the amortisation rates. Amortisation of intangible assets is posted in the income statement among operating costs.

Major changes affecting the movement of other non-current intangible assets are investments in computer infrastructure in the amount of EUR 1,030,424 (of which high value investments related to the AS portal in the amount of EUR 432,337, INIS upgrade of EUR 246,816, e-life project in the amount of EUR 162,042 and Solvency II implementation of EUR 108,354; the rest was accounted for by low value investments) and investments in software in the amount of EUR 811,786. These assets were lower in 2016 mainly due to write-offs of software of EUR 271,891.

The Company determined that as at 31 December 2016, apart from property rights (which are not amortised), there was no need for impairment of other 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
AT COST					
Balance as at 1 Jan 2015	**26,479,115**	**15,930,809**	**781,321**	**12,274**	**43,203,519**
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
Balance as at 31 Dec 2015	**26,414,543**	**16,861,007**	**525,364**	**17,471**	**43,818,384**
New balance as at 1 Jan	**26,414,543**	**16,861,007**	**525,364**	**17,471**	**43,818,384**
Direct increases - investments	10,646	2,146,173	850,294	547	3,007,660
Direct increases – advance payments	592,197	147,502	-	-	739,698
Activated assets in the process of acquisition	-	-	(982,012)	-	(982,012)
Decreases during the year	-	(1,768,069)	-	-	(1,768,069)
Transfers between intangible assets, investment property, and property, plant and equipment	242,313	51,441	-	-	293,754
Other changes	-	1,239	-	178	1,417
Balance as at 31 Dec 2016	**27,259,698**	**17,439,293**	**393,647**	**18,196**	**45,110,833**
Balance as at 1 Jan 2015	**4,077,256**	**11,797,561**	**-**	**11,948**	**15,886,766**
Increases due to acquisition of companies	-	105,683	-	11,296	116,978
Depreciation during the year	254,573	1,036,142	-	920	1,311,855
Decreases during the year	-	(1,296,855)	-	(12,274)	(1,320,601)
Other changes	-	82	-	12	93
Balance as at 31 Dec 2015	**4,340,579**	**11,642,611**	**-**	**11,901**	**15,995,091**
New balance as at 1 Jan 2015	**4,340,579**	**11,642,611**	**-**	**11,901**	**15,995,091**
Depreciation during the year	262,435	1,157,051	-	1,703	1,421,189
Decreases during the year	-	(1,713,312)	-	-	(1,713,312)
Revaluation owing to impairment of assets	(7,862)	-	-	-	(7,862)
Transfers between intangible assets, investment property, and property, plant and equipment	22,833	51,683	-	-	74,515
Other changes	-	788	-	115	903
Balance as at 31 Dec 2016	**4,617,985**	**11,138,820**	**-**	**13,719**	**15,770,523**
Balance as at 31 Dec 2015	**22,073,964**	**5,218,396**	**525,364**	**5,570**	**27,823,293**
Balance as at 31 Dec 2016	**22,641,714**	**6,300,472**	**393,647**	**4,477**	**29,340,310**

As at 31 December 2016, the operating liabilities to suppliers of property, plant and equipment amounted to EUR 504,390, which are disclosed under Company's other liabilities. The Company has no financial liabilities arising from the purchase of property, plant and equipment, no property, plant and equipment pledged as security, no legal restrictions were put on property, plant and equipment 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 Company 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 2016 it did not change the depreciation rates. Depreciation 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 2016 compared to the 2015 year-end grew by EUR 1,517,016. This was mainly caused by purchases of computer equipment in the amount of EUR 954,305, other equipment of EUR 779,325 and to a smaller extent the purchase of cars in the amount of EUR 217,314. Taking into account the depreciation which reduces the balance of property, plant and equipment, the latter were reduced particularly due to the elimination of computer equipment in the amount of EUR 1,246,541, cars in the amount of EUR 231,104 and equipment (furniture) in the amount of EUR 125,893.

In 2016, the management assessed whether there were grounds for impairment of the real property needed for the performance of Company's activities in such a way as described in the guidelines given in Section 5.2. As at 31 December 2016, the measured fair value of real property (buildings and land) for the performance of activities – in accordance with the techniques for measuring the fair value (as defined in Section 5.5) – was EUR 20,757,844, which is lower than the carrying amount of EUR 22,641,715. On the basis of the assessment, it was established that as at the 2016 year-end there were no signs indicating that the real property needed for the performance of activities would have to be impaired.

10.3 INVESTMENT PROPERTIES

Movements in investments in land and buildings

(in EUR)	2016	2015
COST VALUE		
Balance as at 1 Jan	**33,470,397**	**31,671,745**
Direct increases - investments	540,891	434,445
Direct increases - advance payments	-	961,307
Decreases during the year	(394,650)	(150,380)
Transfer from/to property, plant and equipment	-	553,280
Other changes	(266,121)	-
As at 31 Dec	**33,350,518**	**33,470,397**
VALUE ADJUSTMENT		
Balance as at 1 Jan	2,634,958	2,296,022
Depreciation in the financial year	371,990	347,584
Decreases during the year	(106,007)	(8,648)
Impairment	905,824	-
Transfer from/to property, plant and equipment	(22,831)	(0)
As at 31 Dec	**3,783,934**	**2,634,958**
BOOK VALUE		
As at 31 Dec	**29,566,584**	**30,835,439**

The Company leases all 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. In 2025, the last agreement concluded for a fixed period of time will expire. The lowest rent which the Group charges is approximately 1.43 EUR/m².

The balance of investment property as at 31 December 2016 decreased by EUR 1,268,855, primarily due to real property impairment. In 2016, the management assessed whether there were grounds for impairment of investment property in such a way as described in the guidelines given in Section 6.3. The investment properties which showed signs of impairment were appraised by an external certified appraiser. In assessing the recoverable amount, the market approach (the direct sales comparison method) and the income approach (the direct yield capitalisation method) were applied.

In the **direct sales comparison method**, the recoverable amount was assessed under the cost model by using the higher of an asset's fair value less costs to sell and its value in use as the valuation basis.

In the (the **income approach** direct yield capitalisation method), the recoverable amount was assessed using the following assumptions:

- the capitalisation rate (discount rate) between 6.54% and 8.24% by applying:
- the real risk-free rate of return between 0.62% and 1.34%,
- liquidity premium between 1.50% and 2.20%,
- risk premium between 3.10% and 3.50%,
- capital recovery premium between 0.71% and 1.02%.

The sensitivity analysis of the appraised real property on Loška 13, Maribor (Kolosej Maribor)

	% change
Lowering of rent from cinema activities from EUR 5.9/m2 to EUR 5.0/m2	-7%
Lowering of rent for the catering establishments from EUR 4.0/m2 to EUR 10.0/m2[2]	-9.2%
Reduction of occupancy of premises to 80%	-22.4%
Increase in required return from 6.54% to +2 p.p.	-23.4%

As at 31 December 2016, the carrying amount of investment property on Loška 13, Maribor was EUR 14,858,000. Details on the valuation and assessment of the recoverable amount of the investment property on the Loška 13, Maribor are presented in Section 6.3.

On the basis of valuation and sensitivity analysis, as at the 2016 year-end the management assessed that impairments of two investment properties must be made in the total amount of EUR 905,825.

The fair value of investment property as at 31 December 2016 was EUR 30,727,917, exceeding the carrying amount of EUR 29,566,584.

In addition to impairment, the decrease in the value of investment property was influenced by the sale of investment property in the amount of EUR 285,000. The loss of EUR 16,409 (of which EUR 12,779 was accounted for by costs of selling and the tax paid) was generated by the sale.

Despite the decrease as at 31 December 2016, in the reporting period EUR 190,891 were invested in the adaptation of the investment property and EUR 350,000 in the acquisition of real property. As at 31 December 2016, the Company had outstanding liabilities toward the sellers of the investment property in the amount of EUR 799,740, EUR 90,223 of which are outstanding for purchases in 2016 and EUR 709,517 for a purchase of real property in 2012, as a consequence of a contractual obligation of the seller. The liabilities for the purchase of investment property in 2016 were fully settled.

The Company uses straight-line amortisation for investment property; in 2016 no changes were made to amortisation rates. Amortisation of investment property is recognised in the income statement under other operating expenses as investment property expenses.

The Company has no investment properties pledged as security, no legal restrictions were put on them nor were they pledged as collateral for debt.

Income and expenses from investment properties

(in EUR)	2016	2015
Revenues from investment properties	**1,950,485**	**2,417,555**
Other revenues arising from rents charged on investment properties	1,909,617	1,582,730
Gains on the disposal of investment properties	-	67,744
Revenues from reversal of impairment of receivables	40,868	767,081
Expenses for investment properties	**(3,055,735)**	**(2,655,099)**
Depreciation	(541,436)	(425,241)
Direct operating expenses for investment properties that generate rental income	(1,570,286)	(1,523,157)
Direct operating expenses for investment properties that do not generate rental income	(21,162)	(15,176)
Expenses from disposal of investment properties	(16,409)	(36,066)
Expenses from impairment of receivables from investment properties	(618)	(655,459)
Expenses from impairment of investment properties.	(905,825)	-

The depreciation expenses in the income statement included depreciation expenses for the buildings of investment property in the amount of EUR 371,990 and depreciation expenses for equipment located in the investment property in the amount of EUR 169,446.

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 2016, controlling of all subsidiaries was based on the majority or 100% share of voting rights. The only exception were indirect subsidiaries in which the Company held less than a 100% stake.

Direct subsidiary	Equity stake (%) 31.12..2016	Equity stake (%) 31.12.2015	Change (in %)	Note
PROSPERA družba za izterjavo d.o.o.	100.00	100.00	-	
VIZ zavarovalno zastopništvo d.o.o.	100.00	100.00	-	
Permanens d.o.o.	100.00	100.00	-	
ZDRAVJE AS zdravstvene storitve d. o. o.	100.00	-	100.00	Acquisition of Atis inženiring d.o.o. and renaming it ZDRAVJE AS d. o. o.
KD IT, informacijske storitve, d. o. o.	100.00	9.90	90.10	Acquisition
KD Skladi, družba za upravljanje d. o. o.	100.00	-	100.00	Acquisition
Indirect subsidiary **				
KD Fondovi AD Skopje	94.6	-	94.60	Indirectly acquired via the subsidiary KD Skladi d. o. o.
KD Locusta Fondovi d. o. o.	70	-	70.00	Indirectly acquired via the subsidiary KD Skladi d. o. o.
Associate				
Nama trgovsko podjetje d.d., Slovenija	48.51	48.51	-	

*The share of voting rights is equal to equity stake.

**With regard to indirect subsidiaries, the stake of KD Skladi in indirect subsidiaries is shown.

Investments in the Group subsidiaries and in the associate

Company	Book value in EUR	
Subsidiary	**2016**	**2015**
PROSPERA družba za izterjavo d.o.o.	6,970,934	7,970,934
VIZ zavarovalno zastopništvo d.o.o.	530,000	430,000
KD IT, informacijske storitve, d. o. o.	9,078,236	955,200
ZDRAVJE AS zdravstvene storitve d. o. o.	550,000	-
KD Skladi, družba za upravljanje d. o. o.	29,326,008	-
Permanens d.o.o.	-	82,960
Indirect subsidiary		
KD Fondovi AD Skopje	-	-
KD Locusta Fondovi d. o. o.	-	-
Total subsidiaries	**46,455,178**	**9,439,094**
Associate		
Nama trgovsko podjetje d. d., Slovenia	11,705,901	11,705,901

The carrying amount of investments in subsidiaries changed in 2016, primarily as a result of the acquisition of new subsidiaries. Investments in the acquired subsidiaries are recognised at cost in separate financial statements for 2016. As at the end of the year, the management assesses the need for impairment based on internal assessement and, with the help of external appraisers. For this purpose, as at the 2016 year-end the Company performed a sensitivity analysis in relation to the growth rate – g and the weighted average cost of capital – WACC for two acquired subsidiaries – KD Skladi d. o. o. and KD IT d. o. o.

The annual assessment of impairment for material investments in subsidiaries was performed on the basis of the valuation of certified business valuation appraisers and assessed that impairments were not necessary.

In assessing the market value of the subsidiary KD Skladi, the present value of expected cash flows was applied using the following assumptions:

- Growth rate 5.5 %;
- WACC 14.5 %.

Sensitivity analysis of subsidiary KD Skladi d. o. o.

in %	weighted average cost of capital - WACC		
growth rate - g	**-1%**	**0%**	**1%**
-1%	2.4%	-6.3%	-13.5%
0%	10.6%	0.0%	-8.5%
1%	21.1%	7.9%	-2.3%

In assessing the market value of the subsidiary KD IT d.o.o., the present value of expected cash flows and the net asset value method was applied using the following assumptions:

- Growth rate 12.2 %
- WACC 11.5 %.

Sensitivity analysis of subsidiary KD IT d.o.o.

in %	weighted average cost of capital - WACC		
growth rate - g	-1%	0%	1%
-1%	0.9%	-1.5%	-3.5%
0%	2.8%	0.0%	-2.3%
1%	5.2%	1.9%	-0.9%

Movements in subsidiaries, indirect subsidiaries and associates in 2016

Movements in investments in subsidiaries and associate

in EUR	2016	2015
Subsidiaries		
As at 1 Jan	**8,483,894**	**15,712,691**
Acquisition or establishment	38,509,253	436,069
Capital increase	544,990	123,383
Decreases during the year	(1,000,000)	(5,758,265)
Transfer to non-current assets held for sale	-	(2,029,983)
Impairments	(82,960)	-
As at 31 Dec	**46,455,178**	**8,483,894**
Associates		
As at 1 Jan	11,705,901	11,705,901
As at 31 Dec	**11,705,901**	**11,705,901**

Changes in relationships of Adriatic Slovenica with subsidiaries and in equity stakes

Prospera d. o. o.

In the first half of 2016, Adriatic Slovenica received dividends in the amount of EUR 73,208 from its subsidiary Prospera. The dividends were fully paid on 9 June 2016.

VIZ d.o.o.

In January 2016, the parent company paid EUR 100,000 of equity into the subsidiary VIZ d.o.o. With that, the share capital of VIZ increased to EUR 530,000. In August 2016, the parent company paid EUR 100,000 of equity into the subsidiary KD Skladi.

Permanens d. o. o.

The subsidiary Permanens d. o. o., Zagreb is disclosed at cost less impairment in the financial statements. In 2016, Permanens d.o.o. entered into liquidation proceedings, which is why at the end of 2016, in accordance with the guidelines, the management performed a value measurement of the investment into the subsidiary. Based on the findings, an impairment of the investment in Permanens in the amount of EUR 82,960 was performed on 31 December 2016, up to the determined recoverable value, which was zero. The impairment loss was recognized in revaluation financial expenses in profit or loss.

Acquisitions of subsidiaries in 2016

ZDRAVJE AS zdravstvene storitve d.o.o.

In January 2016, Adriatic Slovenica purchased Atis inženiring d.o.o. and renamed it ZDRAVJE AS zdravstvene storitve d.o.o. On 5 February 2016, the company was renamed and entered into the companies registry in Koper based on the adopted decision on the changed entry. The principal activity of the company is specialist medical practice activity. The vision of the new company is to "provide high-quality health services to policyholders with other Adriatic Slovenica health insurance when they need them". By acquiring the stake, the parent company became the 100% owner of ZDRAVJE AS.

About the company

Registered company name: ZDRAVJE AS zdravstvene storitve d. o. o.
Abbreviated company name: ZDRAVJE AS d. o. o.
Head office and address: Koper, Ljubljanska cesta 3A, 6000 Koper – Capodistria, Slovenia
Company registration number: 6332846000
VAT identification number: SI 22745866
Share capital: EUR 352,490
The reporting period is equal to the calendar year.
Corporate tax rate: 17%.

KD IT, informacijske storitve d. o. o.

On 7 July 2016, Adriatic Slovenica acquired a 90.10% stake in KD IT d.o.o. Before that, the parent company had a 9.9% stake in the company. The acquisition of the entire company was viable due to the nature of the investment and the activities of Adriatic Slovenica. By acquiring the stake, the parent company became the 100% owner of KD IT and KD IT became a subsidiary of the Adriatic Slovenica Group.

About the company

Registered company name: KD IT, informacijske storitve d.o.o.
Abbreviated company name: KD IT d. o. o.
Head office and address: Celovška cesta 206, 1000 Ljubljana, Slovenia
Company registration number: 1964780000
VAT identification number: SI 15923363
Share capital: EUR 8,140,081
The reporting period is equal to the calendar year.
Corporate tax rate: 17%.

KD Skladi, družba za upravljanje d. o. o.

On 29 August 2016, Adriatic Slovenica purchased a 100% stake in KD Skladi d.o.o. The company provides financial services, while its principal activity is asset management. The acquisition of the entire company was viable due to the nature of the investment and the insurance activities of the parent company. By acquiring the stake, Adriatic Slovenica became the sole owner of KD Skladi and KD Skladi became a subsidiary of the Adriatic Slovenica Group.

About the company

Registered company name: KD Skladi, družba za upravljanje, d. o. o.
Abbreviated company name: KD Skladi, d. o. o.
Head office and address: Dunajska cesta 63, Ljubljana, Slovenia
Company registration number: 5834457000
VAT identification number: SI56687036
Share capital: EUR 1,767,668
The reporting period is equal to the calendar year.
Corporate tax rate: 17%

In August 2016, the parent company provided additional capital of EUR 100,000 to the subsidiary KD Skladi d.o.o.

Subsidiaries of the Adriatic Slovenica d.d. – via subsidiaries

At the time of acquisition, the subsidiary KD Skladi had a 94.60% stake in the subsidiary KD Fondovi AD Skopje and a 70% stake in the subsidiary KD Locusta Fondovi, which means that the Company became an indirect parent company to both subsidiaries.

About the indirect subsidiaries

KD Fondovi AD Skopje (company in 94.60% ownership of KD Skladi)

Head office: Ul. Makedonija 13b (bul. Partizanski odredi br. 14A/1-2),
1000 Skopje, Macedonia
Company registration number: 6364578
Activity: Investment fund management
The reporting period is equal to the calendar year.
Corporate tax rate: 10%.

KD Locusta Fondovi d.o.o. (company in 70% ownership of KD Skladi)

Head office: Ljudevita Gaja 28, 10000 Zagreb, Croatia
Company registration number: 80649778
VAT identification number: 61865183767
Activity: Investment fund management
The reporting period is equal to the calendar year.
Corporate tax rate: 20%.

Associate of Adriatic Slovenica d.d.

Nama trgovsko podjetje d. d. (associate)

The investment in the associate Nama d. d. is recognised in the financial statements at cost. For the purpose of financial reporting and potential impairments of investment in associate, the Company measures the recoverable amount of the investment based on appraisals performed by external appraisers. Assessment of the recoverable amount is made using the net asset value method. The recoverable amount of real property owned by Nama d. d. was assessed on the basis of the market approach and the income approach using the discount rate of 8.466–8.966%. In line with its strategy, Nama may also lease and sell its real property, in addition to performing its principal activity. In 2015, the majority owners initiated sales activities. The sales value of the company is significantly affected by the value of assets or real property owned by Nama.

To this end, as at the 2016 year-end a sensitivity analysis of the recoverable amount was performed for the associate Nama d. d.

Sensitivity analysis of the associate Nama d. d.

	% change
Change in rent by –10%	-9%
Change in rent by +10%	8.8%
An increase in the required return by –2 p.p.	23.5%
An increase in the required return by +2 p.p.	-14.8%

In 2016, Adriatic Slovenica received EUR 77,157 of dividends from Nama d. d. They were reimbursed in full on 20 December 2016.

Information on the assets and financial position of the Group's subsidiaries

Company in EUR	Assets		Capital		Revenues		Profit or loss for the year	
Subsidiary	**2016**	**2015**	**2016**	**2015**	**2016**	**2015**	**2016**	**2015**
PROSPERA družba za izterjavo d.o.o.	7,391,735	8,497,990	7,035,994	8,079,549	2,165,156	2,583,232	26,265	83,208
VIZ zavarovalno zastopništvo d.o.o.	77,064	32,329	62,501	9,983	113,846	102,105	(47,482)	(106,980)
Permanens d.o.o., Hrvaška	5,549	45,985	3,334	38,331	48,495	69,412	(35,518)	20,598
ZDRAVJE AS d. o. o.	435,432	-	418,131	-	18,147	-	(134,526)	-
KD IT d. o. o.	9,249,799	-	9,177,405	-	451,108	-	99,946	-
KD Skladi, d. o. o.	10,536,380	-	9,292,708	-	2,713,896	-	883,030	-
Indirect subsidiary	**2016**	**2015**	**2016**	**2015**	**2016**	**2015**	**2016**	**2015**
KD Fondovi	147,767	-	145,702	-	44,735	-	11,906	-
KD Locusta Fondovi d.o.o.	1,560,101	-	1,006,676	-	723,824	-	23,526	-
Associate	**2016**	**2015**	**2016**	**2015**	**2016**	**2015**	**2016**	**2015**
Nama trgovsko podjetje d.d.	12,878,976	12,335,818	10,422,889	10,282,653	15,581,981	12,852,827	390,120	102,959

Note: The information on the assets and financial position of the subsidiaries and associates is taken from the financial statements prepared by the companies themselves and are unaudited for the current year. The revenues and profit or loss of the companies which became members of the AS Group in 2016 are shown from the date of their acquisition to 31 December 2016.

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 2016 was applied to convert the balance sheet items from Croatian kuna to euros, i.e. 7.5597 (31 December 2015: 7.638), and the average annual rate of 7.5333 (2015: 7.614) for the conversion of the income statement items. For the reporting purposes, the balance sheet data of the subsidiary KD Fondovi AD Skopje are converted at the reference exchange rate of the Bank of Slovenia. The balance sheet items are converted from Macedonian denar (MKD) into euros at the EUR/MKD exchange rate of 61.8 as at 31 December 2016, while the income statement items were converted by using the average annual EUR/MKD exchange rate of 61.616.

10.5 NON-CURRENT ASSETS FOR SALE

In the last quarter of 2015, the Management Board of the company initiated the winding up proceedings of AS neživotno osiguranje a. d. o., Belgrade. The planned winding up had not yet been legally completed in 2016; the final winding up is foreseen in 2017.

The liquidation proceedings of an insurance undertaking in the Republic of Serbia are complex, which is why the exact winding up date and thus a different accounting treatment of these assets as at the balance sheet date may not be precisely determined.

As at 31 December 2016, the assets of the said company in liquidation were disclosed under non-current assets held for sale in the amount of EUR 2,029,983.

10.6 FINANCIAL INVESTMENTS

In 2016, global financial markets were marked by high uncertainty and surprises for both bond and stock markets. This was the result of two key political events in particular, i.e. Brexit and the election of Donald Trump as the new President of the United States. The financial markets therefore focused more on the political risk than on the movement of economic indicators, which gradually improved over the year. The global political insecurity also reflected in the domestic capital market, however the improved credit rating of Slovenia, which was assigned by renowned credit rating agencies, contributed to higher growth in the domestic capital market.

In 2016, growth in the fair value of financial assets was primarily affected by interest revenue from interest coupon bonds, because throughout the year the Company had, on average, over 50% of the portfolio assets invested in debt instruments, which experienced more diverse movements than in the year before. In the first three quarters, growth in the value of financial assets was affected by a lower required return on European bonds, which slightly increased in the last quarter, especially after the US presidential elections in the USA. In the first three quarters, growth in the value of financial assets was affected by a lower required return on European bonds, which slightly increased in the last quarter, especially after the US presidential elections in the USA. In the first half of 2016, growth in the fair value of financial investments was mainly influenced by deflationary expectations, primarily due to the uncertainty before and after the outcome of the Brexit referendum. This growth further strengthened in the third quarter as is the UK central bank quickly intervened in the market by boosting its QE programme and expanding bond buying so as to ward off the possible recession. Consequently, the relatively high bond growth in the first three quarters experienced correction and normalisation of the required return or a higher yield curve in the last quarter. Contrary to expectations, Trump's election as the President of the United States resulted in worldwide negative consequences for bonds and positive for equity investments. Immediately after being elected, Trump promised new investments in infrastructure, tax relief and deregulation of markets, which quickly raised not only inflationary and interest expectations but also investors' expectations on the growth of corporate profits.

With regard to bond investments, growth in the value of financial assets was most affected by Slovene government bonds, whose credit rating was raised from BBB– to A– by Fitch rating agency in the second half of 2016. The economic situation in Slovenia gradually improved throughout the reporting year. Among the important government bonds, growth was recorded by Spanish bonds, ending the year with a lower required return than at the beginning of the year. The negative impact on the growth of the Group's financial assets was primarily caused by Italian and Portuguese bonds, whose required return increased over the reporting period; the required return on Italian bonds was affected by the uncertainty before and after the constitutional referendum in Italy and the resignation of Prime Minister Renzi, while the required return on Portuguese bonds was influenced by the uncertainty surrounding the credit rating due to violation of EU rules and the precarious future situation.

In the following text, we are presenting the position of investments as at 31 December 2016 per groups and compared to 2015 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 2016	31 Dec 2015
Equity securities	**289,585**	**942,806**
Listed securities	289,585	942,806
Debt securities	**3,697,766**	**6,816,786**
Listed securities	3,697,766	6,816,786
Total	**3,987,351**	**7,759,592**

Financial assets measured at fair value through profit or loss – held for trading

(in EUR)	31 Dec 2016	31 Dec 2015
Equity securities	**545,401**	**697,236**
Listed securities	545,401	697,236
Debt securities	**3,307,279**	**6,863,746**
Listed securities	1,650,374	3,061,854
Government bonds	1,656,905	3,801,891
Total	**3,852,680**	**7,560,982**

The value of financial assets measured at fair value through profit or loss was in 2016 decreased due to assets maturity, as well as due to sales of equity securities and debt securities.

Available-for-sale financial assets

In 2016, the Company carried out an annual assessment of impairment needs for financial investments allocated to available-for-sale financial assets, 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 EUR 29,350,312. Based on the expert assessment and internal accounting policies, permanent impairment was made for the investment into non-negotiable shares of Elektro Celje d. d. and Elektro Ljubljana d. d. and impairments were made for investments into negotiable shares of Gea Tovarna olja d. d. and the mutual fund “KD MM, sklad denarnega trga – EUR” (KD MM, money market fund – EUR). The fair value of these investments was 30% lower than the carrying value. Losses due to impairment of these investments in the amount of EUR 1,373,515 were 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 2016	31 Dec 2015
Equity securities	**23,659,234**	**37,386,887**
Listed securities	15,107,906	27,556,023
Non-listed securities	8,551,328	9,830,863
Debt securities	**162,364,484**	**118,102,257**
Listed securities	32,037,771	19,278,152
Non-listed securities	138,363	(0)
Government bonds	130,188,350	98,824,105
Impairment/reversal of impairment of the value of securities	**(5,093,829)**	**(3,924,888)**
Total	**180,929,889**	**151,564,256**

As at 31 December 2016, available-for-sale assets were higher compared to the year before, mostly because of increased investment of the Company in government bonds and other debt securities at the expense of the received fresh money from the issue of subordinated debt. With regard to equity securities, both listed and non-listed securities decreased due to disposals and impairments. Subordinated financial instruments accounted for 0.06% of available-for-sale financial assets.

Held-to-maturity financial assets

Held-to-maturity financial assets

(in EUR)	31 Dec 2016	31 Dec 2015
Debt securities	**38,008,230**	**39,471,526**
Listed securities	26,226,525	27,047,252
Government bonds	11,781,706	12,424,274
Total	**38,008,230**	**39,471,526**

The balance of debt securities of financial assets held to maturity decreased in 2016, mostly because of maturity of these financial assets. Subordinated financial instruments accounted for 3.22% of held-to-maturity financial assets.

Effective interest rates (in %) for debt instruments not measured at fair value

As at 31 Dec	31 Dec 2016	31 Dec 2015
Debt securitiesi		
– held-to-maturity	5.65%	5.74%

For the market value of the held-to maturity assets see Section 8, Table: Financial assets by fair value hierarchy.

Loans, deposits and financial receivables

Loans, deposits and financial receivables

(in EUR)	31 Dec 2016	31 Dec 2015
Loans	**24,733,078**	**32,992,286**
Long-term	14,931,726	3,979,283
Short-term	9,801,352	29,013,003
Deposits placed with banks	**2,355,831**	**2,777,847**
Long-term	1,042,935	936,971
Short-term	1,312,895	1,840,876
Financial receivables	**5,264,021**	**3,847,788**
Total	**32,352,930**	**39,617,921**

Compared to the year before, in 2016 the Company decreased the volume of loans by 25%, primarily due to the decline in loans to the companies in the KD Group. 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.

Effective interest rates on loans and deposits

in %	31 Dec 2016	31 Dec 2015
Long-term loans in		-
- foreign currency	5.00%	0.00%
- local currency	4.98%	5.10%
Short-term loans in		-
- foreign currency	0.00%	0.00%
- local currency	4.23%	4.85%
Deposits placed with banks		-
Short-term deposits	1.72%	1.32%
Long-term deposits	1.98%	2.18%

Financial receivables

(in EUR)	31 Dec 2016	31 Dec 2015
Financial receivables arising from investment properties	1,486,214	1,549,140
Other financial receivables	3,777,808	2,298,648
Total	**5,264,021**	**3,847,788**

Movements in financial assets[3]

(in EUR)	Fair value through profit or loss - at initial recognition	Fair value through profit or loss - held for sale	Held to maturity	Available for sale	Loans, deposits and financial receivables	Total
Balance as at 1 Jan 2015	**8,398,046**	**22,446,596**	**33,163,813**	**135,405,268**	**52,005,422**	**251,419,145**
Exchange rate differences	(258)	112,942	241	72,738	105	185,768
Increases due to acquisition of companies	1,460,126	1,018,905	498,812	1,689,176	477,796	5,144,815
Increase	4,577,912	8,039,508	16,823,552	151,856,825	66,876,390	248,174,187
Change of fair value (+/-) through profit or loss (market price)	(200,550)	(37,953)	(34)	380,153	-	141,617
Change of fair value (+/-) through other comprehensive income (market price)	-	-	-	(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)	(81,481,644)	(262,691,053)
Impairment to lower (fair) value – through profit or loss	-	-	-	(380,153)	-	(380,153)
Balance as at 31 Dec 2015	**7,759,592**	**7,560,982**	**39,471,526**	**151,564,256**	**39,617,921**	**245,974,277**
	-	-	-	-	-	-
Balance as at 1 Jan 2016	**7,759,592**	**7,560,982**	**39,471,526**	**151,564,256**	**39,617,921**	**245,974,277**
Exchange rate differences	662	2,841	5,122	36,353	406	45,383
Increase	4,610,667	11,348,439	1,171,146	209,702,295	105,664,239	332,496,786
Change of fair value (+/-) through profit or loss (market price)	101,593	(5,369)	(3,965)	1,373,515	-	1,465,774
Change of fair value (+/-) through other comprehensive income (market price)	-	-	-	(4,765,614)	-	(4,765,614)
Increase due to interest	161,023	211,598	2,154,572	2,741,869	1,275,824	6,544,887
Decrease	(8,646,186)	(15,265,812)	(4,790,172)	(178,349,270)	(114,205,460)	(321,256,899)
Impairment to lower (fair) value – through profit or loss	-	-	-	(1,373,515)	-	(1,373,515)
Balance as at 31 Dec 2016	**3,987,351**	**3,852,680**	**38,008,230**	**180,929,889**	**32,352,930**	**259,131,080**

[3] The disclosure of movement in financial assets (excluding unit-linked insurance assets, financial assets from financial contracts and investments in subsidiaries and associates) includes daily transactions of investments, therefore the disclosure cannot be compared with the cash flow from financial investments in the cash flow statement.

10.7 UNIT-LINKED LIFE INSURANCE ASSETS

The movement of the value of unit-linked insurance assets was predominantly tied to the movement of equity investments or equity investment funds. In early 2016, this investment grade was extremely volatile, primarily due to the fear of recession and uncertainty about the Chinese economy, which rapidly reduced the expectations of analysts, even though the anxieties later proved to be exaggerated. Following a deep correction at the beginning of the year, the stock markets slowly but surely gradually recovered throughout the year, which was not interrupted by the key political events of the year, i.e. the Brexit and the election of Donald Trump. The levels and global growth of stock markets continued to be supported by the extremely lax monetary policy of central banks and persistent expectations of analysts on the growth of corporate profits. Despite a poor beginning of 2016, unit-linked insurance assets ended the year with a positive return of 9.6%.

Structure of unit-linked life insurance assets

(in EUR)	31 Dec 2016	31 Dec 2015
Financial assets measured at fair value through profit or loss - at initial recognition	**270,183,073**	**247,640,881**
Equity securities	222,437,516	207,627,225
Listed securities	222,437,516	207,627,225
Debt securities	47,745,557	40,013,656
Listed securities	45,845,557	40,013,656
Government bonds	1,900,000	-
Loans and deposits with banks	**16,784,178**	**14,325,212**
Loans	16,784,178	14,325,212
Monetary assets - deposits redeemable at notice	**634,182**	**1,794,246**
Skupaj	**287,601,433**	**263,760,340**

The investments made for the benefit of unit-linked life insurance policyholders amounted to EUR 287,601,433. These are units of mutual funds, market ETFS funds, cover internal funds KD Dirigent, Aktivni naložbeni paket, KD Vrhunski, Aktivni AS 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 EUR 4,899,230 and assets invested in BNP Paribas products totalled EUR 40,946,327. 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.

Movements in unit-linked life insurance financial assets

(in EUR)	1 Jan – 31 Dec 2016	1 Jan – 31 Dec 2015
Balance as at 1 Jan	**263,760,340**	**257,518,981**
Acquisition of subsidiary - increase	-	3,695,936
Increase	56,182,706	59,025,689
Decrease	(59,760,083)	(55,125,362)
Change of fair value (+/-) through profit or loss (market price)	26,121,278	(2,854,344)
Deposit placement	68,724,340	62,732,959
Deposit withdrawal	(67,427,141)	(61,237,358)
Accrued interest	(6)	3,841
Balance as at 31 Dec	**287,601,433**	**263,760,340**

10.8 AMOUNT OF INSURANCE TECHNICAL PROVISIONS TRANSFERRED TO REINSURERS

Reisurers'/co-insurers' share in insurance technical provisions

(in EUR)	1 Jan – 31 Dec 2016	1 Jan – 31 Dec 2015
- from insurance contracts for incurred and reported claims	7,757,980	6,652,798
- from insurance contracts for incurred, but not reported claims	2,069,197	3,073,923
Total non-current part	**9,827,177**	**9,726,721**
- unearned premium reserves	640,562	660,191
- from insurance contracts for incurred and reported claims	5,906,588	5,213,249
- from insurance contracts for incurred, but not reported claims	1,024,994	1,615,190
Total current part	**7,572,144**	**7,488,629**
Total	**17,399,320**	**17,215,350**

10.9 ASSETS FROM FINANCIAL CONTRACTS

Assets from financial contracts

(in EUR)	31 Dec 2016	31 Dec 2015
Financial investments	3,574,846	-
Cash and cash equivalents	1,178,300	-
Other assets	44	-
Total assets from financial contracts	**4,753,190**	**-**

The assets from financial contracts represent all investments classified as available-for-sale financial assets as at 31 December 2016. The remaining assets represent financial receivables.

Assets from financial contracts – assets structure

(in EUR)	31 Dec 2016	31 Dec 2015
Available-for-sale financial assets	**3,574,058**	-
Equity securities	3,000,875	-
Listed securities	3,000,875	-
Debt securities	573,183	-
Government bonds	573,183	-
Financial receivables	**789**	-
Total assets	**3,574,846**	-

Movement of assets from financial contracts

(in EUR)	Available for sale	Loans and deposits	Total
Balance as at 1 Jan	-	-	-
Increase	4,957,902	3,072	4,960,974
Change of fair value (+/-) through other comprehensive income (market price)	63,467	-	63,467
Decrease	(1,447,311)	(2,283)	(1,449,595)
Balance as at 31 Dec 2016	**3,574,058**	**789**	**3,574,846**

10.10 RECEIVABLES

Balance of receivables

(in EUR)	As at 31.12.2016	As at 31.12.2015
Receivables from direct insurance operations	**17,407,497**	**18,446,651**
gross value	25,142,258	25,951,127
value adjustment	(7,734,761)	(7,504,476)
Receivables from reinsurance and coinsurance	**1,772,999**	**1,567,876**
gross value	1,931,184	1,693,085
value adjustment	(158,184)	(125,209)
Income tax receivables	**(0)**	**3,483,865**
OTHER RECEIVABLES	**3,585,653**	**6,288,375**
Other current receivables from insurance operations	**896,860**	**3,539,952**
gross value	971,309	3,586,153
value adjustment	(74,449)	(46,201)
Subrogation receivables	**595,711**	**861,526**
gross value	3,018,150	3,029,141
value adjustment	(2,422,439)	(2,167,616)
Operating receivables from the state	**454,724**	**192,720**
gross value	454,724	192,720
Operating receivables for advances given	**182,868**	**29,316**
gross value	203,946	63,878
value adjustment	(21,078)	(34,562)
Other current operating receivables	**1,424,564**	**1,632,327**
gross value	2,209,440	2,471,808
value adjustment	(784,876)	(839,482)
Long-term receivables	**30,925**	**32,535**
Total receivables	**22,766,149**	**29,786,767**

Compared to the year before, the balance of receivables as at 31 December 2016 was lower by EUR 7,020,618, mainly due to a decrease in other current receivables from insurance operations by EUR 2,643,092. These receivables were lower compared to the previous year primarily as a result of lower liabilities for reinsurance commission advances from previous years. In past years, the Company formed liabilities (provisions) for reinsurance commission advances with maturity in future years based on the then current loss ratio in relation to the expected total claims, both reported and not reported. In 2015, loss ratios improved and the liabilities for the repayment of advances began to decrease. To account for the difference, in 2015 the Company thus formed receivables in the amount of EUR 2,687,515. As at the 2016 year-end, the loss ratio somewhat improved, resulting in closing receivables in the amount of EUR 2,687,515 and at the same time obligations in the same amount (see Section 10.20.).

In the structure of receivables as at 31 December 2016, receivables from direct insurance operations prevail with a 65% share. These are receivables from policyholders due to contractual insurance premium. As at the end of 2016, these receivables dropped by EUR 1,039,154 compared to the previous year.

Every reporting period, the Company checks the adequacy of fair value assessments – collectible value of receivables by preparing an estimate of the recoverable amount for an individual type of receivables based on actual realised cash flows in the last observed period (it applies to receivables from insurance premiums and subrogation receivables). If such data is not available, a projection is made based on other credible sources (see Section 5.8.).

Movements in value adjustments of receivables

(in EUR)	Receivables from insurance operations	Subrogations	Other receivables	Total
Balance as at 1 Jan 2015	**8,259,115**	**2,017,676**	**1,291,530**	**11,568,320**
Changes during the year	(629,429)	149,940	(371,285)	(850,775)
Balance as at 31 Dec 2015	**7,629,685**	**2,167,616**	**920,244**	**10,717,545**
Balance as at 1 Jan 2016	**7,629,685**	**2,167,616**	**920,244**	**10,717,545**
Changes during the year	263,260	254,823	(39,842)	478,241
Balance as at 31 Dec 2016	**7,892,946**	**2,422,439**	**880,403**	**11,195,787**

10.11 OTHER ASSETS

Other assets – total balance

(in EUR)	31 Dec 2016	31 Dec 2015
Inventories	8,804	10,458
Deferred acquisition costs	4,683,852	4,928,113
Deferred expenses and accrued revenues	637,701	1,001,831
Total	**5,330,357**	**5,940,403**

10.11.1 Deferred acquisition costs

Movements in deferred acquisition costs

(in EUR)	Long-term deferred acquisition costs	Short-term deferred acquisition costs
Balance as at 1 Jan 2015	**109,311**	**4,511,771**
Utilised in 2015	119,899	4,653,861
Formed in 2015	131,748	4,949,043
Balance as at 31 Dec 2015	**121,160**	**4,806,954**
Balance as at 1 Jan 2016	**121,160**	**4,806,954**
Utilised in 2016	13,962	3,590,202
Formed in 2016	2,354	3,357,548
Balance as at 31 Dec 2016	**109,552**	**4,574,300**

10.12 CASH AND CASH EQUIVALENTS

Cash and cash equivalents

(in EUR)	31 Dec 2016	31 Dec 2015
Balances on accounts	3,227,300	2,460,734
Short-term deposits redeemable on demand	-	26
Short-term deposits placed (maturity date up to 3 months)	2,114,796	10,350,933
Other cash	196,455	90,069
Total	**5,538,551**	**12,901,762**

The effective interest rate in 2016 on call deposits was between 0.09% and 0.78% (2015: from 0.00% to 0.45%).

10.13 EQUITY

Balance of equity

(in EUR)	31 Dec 2016	31 Dec 2015
Share capital	**42,999,530**	**42,999,530**
Capital reserves	**4,211,782**	**4,211,782**
Reserves from profit	**9,223,936**	**15,543,287**
Legal reserves	1,519,600	1,519,600
Other reserves from profit	7,704,336	14,023,686
Provisions for equalisation of credit risk	-	1,014,505
Provisions for equalisation of catastrophic claims	-	4,247,869
Other reserves from profit	7,704,336	8,761,311
Reserve due to fair value measurement (Revaluation surplus)	**58,661**	**3,540,100**
Retained net profit	**26,467,638**	**19,916,770**
Net profit for the financial year	**12,953,626**	**14,718,688**
TOTAL	95,915,172	100,930,157

Share capital

As at 31 December 2016, the subscribed and fully paid in share capital of the parent company amounted to EUR 42,999,530. The share capital is divided into 10,304,407 ordinary no-par value shares. All shares are registered shares. The share capital did not change in 2016.

Distribution of accumulated profits

The Company transfers the net profit for the year to accumulated profits to be used for dividend payments together with the remaining part of the accumulated profits.

At the General Meeting of Shareholders held on 8 April 2016, the direct owner of Adriatic Slovenica and the sole shareholder decided on the distribution of accumulated profits for 2015. A part of the accumulated profits in the amount of EUR 13,246,820 was used for dividend payments. The rest of accumulated profits in the amount of EUR 21,382,035 remained unallocated and was transferred to the accumulated profits for 2016. Dividends were paid in full by 8 April 2016.

Ownership structure

As at 31 December 2016, KD Group d.d. held 10,304,407 shares, i.e. 100% of Adriatic Slovenica. The ownership structure remained unchanged in 2016.

Distribution of accumulated profit and loss coverage

Adriatic Slovenica ended 2016 with a profit before tax totalling EUR 10,953,732 and a net profit for the year amounting to EUR 11,896,650. After the balance sheet date, 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 Company can decide on covering the loss for the year. The Management Board of the Company also decides on the distribution of net profit by life, non-life and health insurance segments, and therefore on covering the loss relating to individual segments.

Other reserves from profit

The loss from complementary health insurance in the amount of EUR 1,056,976 was covered entirely from the reserve from half of the profit generated by complementary insurance in the previous years, which was formed for this purpose in line with the Health Care and Health Insurance Act and the Decision on detailed instructions for accounting monitoring and disclosure of business events as regards offsets in supplemental health insurance.

Accumulated profits

After covering the loss from complementary health insurance for the year, the final balance of net profit for the year was EUR 12,953,626. Together with the unallocated profit brought forward from previous years plus the transfer of the provisions for catastrophic claims in the total amount of EUR 26,467,638, the balance sheet profit as at 31 December 2016 to be distributed at the General Meeting of Shareholders amounted to EUR 39,421,263.

Other changes

Other changes in in 2016 include foreign exchange in the profit/loss carried forward of the Zagreb Branch in the amount of EUR 6,603.

Reserves from profit

The Company forms reserves from profit in line with the provisions of the Companies Act (ZGD-1) relating to statutory reserves and on the basis of the decision passed by the Management Board, with the approval of the Supervisory Board, regarding the requirements to achieve and maintain the appropriate capital adequacy level in accordance with the Solvency II requirements (other reserves from profit).

After 2016, the Company did not change or form additional reserves from profit. Provisions for equalisation for credit risk and catastrophic claims formed by the Company in previous years were transferred to retained profits in 2016, because in previous years these reserves were created from retained earnings. Under the amendment to the Insurance Act (ZZavar-1) and the introduction of the new Solvency II regime, the Company no longer forms these provisions (see note in Section 5.13).

Capital reserves

As at 31 December 2016, the capital reserves of the Company were 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 EUR 1,724,217, and the reversal of the general equity revaluation adjustment in the amount of EUR 2,487,565.

Treasury shares

In 2016, neither the Company nor any third party for the account of the companies within the Company accepted any new treasury shares as security. Moreover, as at 31 December 2016 neither the Company nor any third party for the account of the companies within the Company held any treasury shares as security.

Revaluation surplus

Revaluation surplus refers to changes in fair value of available-for-sale financial assets disclosed in other comprehensive income. Within equity, the revaluation surplus is decreased by deferred taxes.

As at the 2016 year-end, the revaluation surplus from pension insurance amounting to EUR 394,263 (31 December 2015: EUR 158,730) was recognised as an increase in mathematical provisions.

Revaluation surplus

(in EUR)	31 Dec 2016	31 Dec 2015
Specific revaluation of equity	58,661	3,540,100
from reinforcement of property, plant and equipment	-	141
from reinforcement/impairment of available-for-sale financial assets	72,421	4,306,451
from net actuarial gains / losses for pension programs	-	(34,396)
from adjustment for deferred taxes	(13,760)	(732,097)
Total revaluation surplus	**58,661**	**3,540,100**

Movements in revaluation surplus from available-for-sale financial assets with profit

(in EUR)	2016	2015
Balance as at 1 Jan	**3,540,100**	**5,797,420**
Increases due to acquisition of companies	-	68,709
Change in revaluation surplus from net actuarial gains / losses for pension programs	**34,396**	**(34,396)**
Effect due to change in tax rate	**(86,129)**	**-**
Profits (losses) recognised in revaluation surplus	3,680,447	2,083,085
Net change due to revaluation	4,543,762	2,509,741
Change in deferred taxes due to revaluation	**(863,315)**	**(426,656)**
Transfer of profits (losses) from revaluation surplus to profit or loss	**(7,110,153)**	**(4,374,718)**
Change in revaluation surplus transferred on disposal to profit or loss	(8,782,022)	(5,650,898)
Change in deferred taxes on realisation of revaluation surplus	1,668,557	960,653
Transfer of negative revaluation surplus to profit or loss on impairment	4,089	380,153
The change deferred taxes from impairments through profit or loss	(777)	(64,626)
Balance as at 31 Dec	**58,661**	**3,540,100**

10.14 SUBORDINATED LIABILITIES

On 24 May 2016, Adriatic Slovenica issued the subordinated bond Floating Rate Subordinated Notes due in 2026 (abbreviated: ADRIS Float 05/24/2026) at a nominal value of EUR 50,000,000.

The bond has the status of subordinated debt with the following features:

- The release date is 24 May 2016.
- The maturity date of the last coupon and the principal is 24 May 2026.
- The nominal value of the issue is EUR 50,000,000.
- The total bond issue comprises 50,000 lots, the value of one lot is EUR 1,000.
- All bonds were sold in full.
- The interest rate equals the 3-month EURIBOR + 7.800% fixed margin.
- In accordance with the amortisation plan, the payment frequency of interest (coupons) is on a quarterly basis, specifically on 24 February, 24 May, 24 August and 24 November.
- The principal will be paid in full at maturity.

The issued bonds are disclosed at the amortised value. Subordinated liabilities as at 31 December 2016 amounted to EUR 49,453,316. Bonds are recorded among non-life insurance in the amount of EUR 22,748,526 and life insurance in the amount of EUR 26,704,791. By 24 November 2016, the Company paid interest to the creditors in the amount of EUR 1,993,000 for the two quarters.

Movements in issued bonds

(in EUR)	2016	2015
Issued bond	**50,000,000**	-
Costs related to the issue of bond	(947,772)	-
Accrued interest	2,394,088	-
Paid interest	(1,993,000)	-
As at 31 Dec	**49,453,316**	-

At their issue the bonds were listed on the Irish Stock Exchange. In the case of bankruptcy or liquidation of the parent company, the liabilities arising from the issue of these bonds are subordinated to net debt instruments and are only paid to creditors after all non-subordinated debt liabilities arising from insurance contracts and other business relationships are paid. Issued bonds do not contain the holder's rights to recover a collectable receivable before the maturity set by the amortisation plan. The bond cannot be exchanged for other types of securities or be converted into any other liability.

10.15 INSURANCE TECHNICAL PROVISIONS

Insurance technical provisions (liabilities arising from insurance contracts) – gross and net

(in EUR)	Gross + received co-insurance as at 31.12.2016	Reinsurance + ceded co-insurance as at 31.12.2016	Net as at 31.12.2016	Gross + received co-insurance as at 31.12.2015	Reinsurance + ceded co-insurance as at 31.12.2015	Net as at 31.12.2015
Unearned premium reserves	41,972,462	599,336	41,373,126	42,051,837	590,544	41,461,293
Claims provisions for	101,444,787	16,469,614	84,975,174	104,158,280	16,347,079	87,811,200
- reported claims	51,890,008	13,375,839	38,514,169	50,068,198	11,658,682	38,409,516
- not reported claims	49,554,779	3,093,774	46,461,005	54,090,082	4,688,397	49,401,685
Provisions for bonuses and discounts	581,113	-	581,113	681,386	-	681,386
Mathematical provisions	118,305	-	118,305	54,247	-	54,247
Other insurance technical provisions	391,903	-	391,903	66,962	-	66,962
Total non-life insurance	**144,508,570**	**17,068,949**	**127,439,621**	**147,012,711**	**16,937,623**	**130,075,088**
Unearned premium reserves	7,029,965	-	7,029,965	7,270,967	-	7,270,967
Claims provisions for	6,194,080	-	6,194,080	5,789,024	-	5,789,024
- reported claims	576,358	-	576,358	1,002,820	-	1,002,820
- not reported claims	5,617,722	-	5,617,722	4,786,204	-	4,786,204
Provisions for bonuses and discounts	832	-	832	1,281	-	1,281
Mathematical provisions	8,082	-	8,082	68	-	68
Other insurance technical provisions	180,132	-	180,132	312,817	-	312,817
Total health insurance	**13,413,092**	**-**	**13,413,092**	**13,374,157**	**-**	**13,374,157**
Unearned premium reserves	380,444	41,226	339,218	439,459	69,647	369,812
Claims provisions for	4,621,369	289,145	4,332,224	4,930,872	208,080	4,722,792
- reported claims	1,716,578	288,728	1,427,850	1,540,491	207,364	1,333,126
- not reported claims	2,904,791	417	2,904,374	3,390,381	715	3,389,665
Mathematical provisions	107,124,136	-	107,124,136	102,710,827	-	102,710,827
Other insurance technical provisions	11,307	-	11,307	147,739	-	147,739
Total life insurance with DPF	**112,137,256**	**330,371**	**111,806,885**	**108,228,896**	**277,726**	**107,951,170**
Total liabilities arising from insurance contracts	**270,058,918**	**17,399,320**	**252,659,598**	**268,615,765**	**17,215,350**	**251,400,415**

The disclosure of insurance technical provisions does not include claims provisions for unit-linked life insurance in the amount of EUR 1,836,888. These claims provisions are included separately in disclosures of insurance technical provisions for unit-linked life insurance in the next section (see Section 10.16).

Movements in insurance technical provisions

(in EUR)	Gross 2016	Reinsurance 2016	Net 2016	Gross 2015	Reinsurance 2015	Net 2015
Movements in unearned premium reserves	-	-	-	-	-	-
Balance as at 1 Jan	**49,762,262**	**660,190**	**49,102,071**	**51,105,883**	**879,285**	**50,226,598**
Increases due to acquisition of companies	-	-	-	4,219	-	4,219
Increase in liabilities	48,503,241	640,561	47,862,679	48,593,194	660,190	47,933,003
Decrease in liabilities	48,882,632	660,190	48,222,442	49,941,035	879,285	49,061,749
Balance as at 31 Dec	**49,382,871**	**640,561**	**48,742,309**	**49,762,262**	**660,190**	**49,102,071**
Movements in mathematical provisions	-	-	-	-	-	-
Balance as at 1 Jan	102,765,143	-	102,765,143	97,254,558	-	97,254,558
Increases due to acquisition of companies	**-**	**-**	**-**	**399,578**	**-**	**399,578**
Increase in the period	**16,054,294**	**-**	**16,054,294**	**18,570,573**	**-**	**18,570,573**
Decrease in the period	12,299,640	-	12,299,640	14,636,132	-	14,636,132
Change of current-year DPF part	730,727	-	730,727	1,176,567	-	1,176,567
Balance as at 31 Dec	**107,250,524**	**-**	**107,250,524**	**102,765,143**	**-**	**102,765,143**
Movements in claims outstanding	-	-	-	-	-	-
Reported claims	**52,611,509**	**11,866,047**	**40,745,462**	**54,881,359**	**17,580,856**	**37,300,504**
Not reported claims	**62,266,667**	**4,689,112**	**57,577,554**	**68,687,886**	**10,621,303**	**58,066,582**
Balance as at 1 Jan	**114,878,175**	**16,555,159**	**98,323,016**	**123,569,245**	**28,202,159**	**95,367,086**
Increases due to acquisition of companies	-	-	-	116,265	490	115,776
Decrease in provisions due to payments	38,486,707	4,225,503	34,261,204	38,946,199	9,309,776	29,636,423
Change in provisions from preceding years +/-	(9,914,043)	2,650,090	(12,564,133)	(15,055,139)	(2,625,815)	(12,429,325)
Increase in provisions in the current year	45,782,813	1,779,013	44,003,799	45,194,003	288,101	44,905,902
Reported claims	**54,182,944**	**13,664,568**	**40,518,376**	**52,611,509**	**11,866,047**	**40,745,462**
Not reported claims	**58,077,294**	**3,094,191**	**54,983,102**	**62,266,667**	**4,689,112**	**57,577,554**
Balance as at 31 Dec	**112,260,238**	**16,758,759**	**95,501,479**	**114,878,175**	**16,555,159**	**98,323,016**
Movements in other insurance technical provisions	-	-	-	-	-	-
Balance as at 1 Jan	**1,210,185**	**-**	**1,210,185**	**1,358,380**	**-**	**1,358,380**
Increase in the period	968,350	-	968,350	732,383	-	732,383
Decrease in the period	1,013,248	-	1,013,248	880,578	-	880,578
Balance as 31 Dec	**1,165,286**	**-**	**1,165,286**	**1,210,185**	**-**	**1,210,185**

10.16 INSURANCE TECHNICAL PROVISIONS FOR UNIT-LINKED LIFE INSURANCE

Insurance technical provisions for unit-linked life insurance

(in EUR)	Gross + received co-insurance as at 31 Dec 2016	Reinsurance + ceded co-insurance as at 31 Dec 2016	Net as at 31 Dec 2016	Gross + received co-insurance as at 31 Dec 2015	Reinsurance + ceded co-insurance as at 31 Dec 2015	Net as at 31 Dec 2015
Claims provisions	1,836,888	-	1,836,888	428,850	-	428,850
- reported claims	1,836,888	-	1,836,888	428,850	-	428,850
Provisions for unit-linked life insurance policyholders	282,619,438	-	282,619,438	259,697,710	-	259,697,710
Total unit-linked life insurance	**284,456,325**	**-**	**284,456,325**	**260,126,559**	**-**	**260,126,559**

Movements in insurance technical provisions for unit-linked life insurance

(in EUR)	Gross 2016	Reinsurance 2016	Net 2016	Gross 2015	Reinsurance 2015	Net 2015
Movements in claims outstanding	**-**	**-**	**-**	**-**	**-**	**-**
Reported claims	**428,850**	**-**	**428,850**	**326,627**	**-**	**326,627**
Balance as at 1 Jan	**428,850**	**-**	**428,850**	**326,627**	**-**	**326,627**
Decreased provisions due to payments	181,932	-	181,932	241,910	-	241,910
Change in provisions from preceding years +/-	(48,559)	-	(48,559)	6,880	-	6,880
Increase in provisions in the current year	1,638,529	-	1,638,529	337,252	-	337,252
Reported claims	**1,836,888**	**-**	**1,836,888**	**428,850**	**-**	**428,850**
Balance as at 31 Dec	**1,836,888**	**-**	**1,836,888**	**428,850**	**-**	**428,850**
Movements in claims outstanding for reported and non-reported claims for unit-linked life insurance policyholder	**-**	**-**	**-**	**-**	**-**	**-**
Balance as at 1 Jan	**259,697,710**	**-**	**259,697,710**	**254,229,875**	**-**	**254,229,875**
Increases due to acquisition of companies	-	-	-	3,634,539	-	3,634,539
Increase in the period	57,909,316	-	57,909,316	31,022,617	-	31,022,617
Decrease in the period	34,987,588	-	34,987,588	29,189,321	-	29,189,321
Balance as at 31 Dec	**282,619,438**	**-**	**282,619,438**	**259,697,710**	**-**	**259,697,710**

10.17 LIABILITIES ARISING FROM FINANCIAL CONTRACTS

Liabilities arising from financial contracts

(in EUR)	31 Dec 2016	31 Dec 2015
Liabilities to pension savers (policyholders)	4,735,916	-
Liabilities from financial contracts for payments	4,695,351	-
Liabilities from financial contracts for fund return	40,565	-
Other liabilities	17,274	-
Total liabilities from financial contracts	**4,753,190**	**-**

As at 31 December 2016, savers' payments amounted to EUR 4,695,351 and represented the net premium (gross premium payments reduced by the entry/exit charges and asset management fees). These costs/expenses charged to the saver's account represent other insurance revenues from fees and commissions for the manager of guarantee funds for AS pension insurance. In the period from the beginning of conclusion and management of financial contracts, EUR 13,369 of entry/exit charges and EUR 28,884 of management fees were charged.

The gain that increases the liability is calculated from net gain (capital gains and losses), which was generated with asset management and reduced by management costs. Short-term operating liabilities are recorded under other liabilities.

Movements in financial contracts liabilities

(in EUR)	2016	2015
Increase in the period	**4,767,687**	**-**
for payments	4,727,130	-
for achieved return	40,557	-
Decrease in the period	**31,770**	**-**
for payouts (surrender)	31,770	-
As at 31 December	**4,735,916**	**-**

Annual gain of savers for which the liability of the Company increases varied in 2016 depending on the type of AS pension savings:

5.41% for the guarantee fund Pokojninsko varčevanje AS Drzni do 50 (pension fund),
- 1.48% for the guarantee fund Pokojninsko varčevanje AS Umirjeni med 50 do 60 (pension fund),
- 1.11% for the guarantee fund Pokojninsko varčevanje AS Zajamčeni od 60 (pension fund).

Gain was reached with the management of equity securities of available-for-sale financial assets, that is why the change in gain determined due to the revaluation at fair value is treated as an increase or decrease in liabilities from financial contracts.

Each month, at the end of the accounting period, the Company calculates the guaranteed value of assets and compares it with the guaranteed return of 60% of the average annual interest rate on government securities. As at the end of 2016, the guaranteed return was 1.11%. Since the guaranteed return was not achieved in 2016, the Company (as a pension insurance manager) formed provisions or long-term liabilities of EUR 9,861 charged to own fund life insurance assets, in line with the Pension and Disability Insurance Act (ZPIZ-2) due to the failure to achieve the guaranteed return.

10.18 OTHER PROVISIONS

10.18.1 Other provisions

(in EUR)	31 Dec 2016	31 Dec 2015
Provisions for employee benefits	3,813,150	3,376,135
Other non-current provisions	2,000	1,200,623
Total	**3,815,150**	**4,576,757**

10.18.2 Provisions for employee benefits

Provisions for employee benefits

(in EUR)	31 Dec 2016	31 Dec 2015
Provisions for termination benefits	1,281,331	1,105,993
Provisions for jubilee benefits	2,531,818	2,270,141
Total	**3,813,150**	**3,376,134**

Movements in provisions for employee benefits

(in EUR)	2016	2015
As at 1 Jan	**3,376,135**	**3,125,961**
Increase at acquisition of subsidiary	-	5,385
Increase in current period	328,943	312,098
Decrease due to paid provisions for termination and jubilee benefits	(272,215)	(286,626)
Actuarial gains and losses	380,286	219,317
Adjustments arising from past experience	200,402	120,133
Effect of change of assumptions	179,883	99,184
As at 31 Dec	**3,813,150**	**3,376,135**

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.

The calculation for 2016 used different assumptions about the discount rate and expected increase in salaries than in the calculation for 2015, which however did not significantly affect the total values.

The main assumptions applied in the calculation of provisions for termination and jubilee benefits:

- the discount rate of 0.747% (31 December 2015: 1.337%),
- the expected increase in salaries in the Company, including the expected increase in salaries due to promotions of 2.2% (31 December 2015: 2.2%),
- the expected mortality is determined based on Slovene mortality tables from 2007 (the same as at 31 December 2015),
- 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 as at 31 December 2015).

The provision amounts in 2016 include taxes and contributions. The effect of changes in assumptions amounted to EUR 179,883.

Analysis of sensitivity to changes in parameters

Parameters	Parameter changes	2016	2015
Discount rate	Change in discount rate curve by +0.25%	(84,965)	(75,071)
	Change in discount rate curve by -0.25%	88,256	77,930
Salary increase	change in annual salary increase by +0.5%	161,787	141,421
	change in annual salary increase by -0.5%	(146,777)	(129,330)
Mortality	permanent increase in mortality by +20%	(33,842)	(29,404)
	permanent increase in mortality by -20%	34,465	29,934
Early termination of employment	Change in expense curve by +20%	(354,273)	(316,922)

10.18.3 Other long-term provision

Movements in other long-term provisions

(in EUR)	2016	2015
As at 1 Jan	**1,200,623**	**785**
Increase in current period (formation)	2,000	1,200,000
Decrease	(1,200,000)	(162)
Decrease (reversal)	(623)	-
As at 31 Dec	**2,000**	**1,200,623**

In 2016, the Company allocated EUR 1,200,000 to long-term provisions based on the received first instance court judgement for the lawsuit filed by Pozavarovalnica Sava in 2012 against Adriatic Slovenica (see Section 12 for more details). At the end of 2016, these liabilities were recorded as short-term deferred expenses, because the settlement is expected to be realised within one year.

10.19 OTHER FINANCIAL LIABILITIES

Movements in loans and other current financial liabilities

(in EUR)	2016	2015
Balance as at 1 Jan	**984,291**	**755,781**
Increase	24,673,227	258,765
Decrease	(24,611,134)	(30,256)
Balance as at 31 Dec	**1,046,383**	**984,291**

The balance of loans and other current financial liabilities as at 31 December 2016 amounted to EUR 1,046,383, of which, there were EUR 60,650 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.

10.20 OPERATING LIABILITIES

Adriatic Slovenica has no secured liabilities.

Operating liabilities

(in EUR)	31 Dec 2016	31 Dec 2015
Liabilities arising from direct insurance contracts	3,862,611	3,868,003
Liabilities arising from reinsurance and co-insurance	1,955,043	1,484,491
Tax liability	600,017	1,540,738
Total	**6,417,671**	**6,893,232**

Compared to 2015, the operating liabilities as at the 2016 year-end decreased by 7%, mainly as a result of lower tax liability.

For 2016, the Group accounted for the current tax liabilities at a 17% tax rate by individual 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 entire company (see notes in Section 10.28).

10.21 OTHER LIABILITIES

Other liabilities

(in EUR)	31 Dec 2016	31 Dec 2015
Other operating (trade) liabilities	11,594,022	17,925,460
Accrued costs/expenses and deferred revenues	5,605,787	4,570,283
Total	**17,199,809**	**22,495,744**

Adriatic Slovenica does not have any liabilities with a maturity date over 5 years.

10.21.1 Other operating liabilities

Other operating liabilities

(in EUR)	31 Dec 2016	31 Dec 2015
Long-term operating liabilities	**14,361**	**(0)**
Other long-term operating liabilities	14,361	(0)
Current operating liabilities	**11,579,662**	**17,925,460**
Current operating liabilities to suppliers	2,759,444	3,172,236
Current operating liabilities to employees	2,526,529	2,468,496
Other current liabilities from insurance operations	5,107,351	9,603,043
Current operating liabilities to the state (except for income tax)	710,078	657,486
Current liabilities for received advances	3,287	3,287
Other current operating liabilities	472,972	2,020,912
Total	**11,594,022**	**17,925,460**

As at the 2016 year-end, other operating liabilities decreased by 35% mainly due to a decrease in other current liabilities from insurance operations of EUR 4,495,692. These liabilities represent the majority, 44% share and mainly refer to the liabilities to the Slovene Insurance Association for contributions for coverage of claims for damage on unknown and uninsured vehicles and vessels (in the amount of EUR 1,020,000), to the liabilities for sales tax on insurance operations (in the amount of EUR 721,524) and to liabilities for the repayment of reinsurance commissions advances (in the amount of EUR 3,133,848).

The decrease at the end of 2016 was primarily a result of the reduction in liabilities for the reinsurance commissions advances with maturity in future years. These liabilities are based on the respective claims ratio in relation to the expected total claims. In the period from 1 January 2016 to 31 December 2016, the claims ratio of reinsurance (for which the liability for the advance was established in 2015) improved and the liability for the reinsurance commissions advances decreased by EUR 3,490,307.

10.21.2 Accrued costs and deferred revenue

Accrued costs and deferred revenue

(in EUR)	31 Dec 2016	31 Dec 2015
Accrued expenses - operating	324,970	763,965
Accrued expenses - for unused annual holidays	1,301,883	1,169,669
Accrued expenses – acquisition costs and unexpired commissions	711,474	705,514
Accrued expenses from equalisation scheme for complementary health insurance	904,604	963,644
Other deferred and accrued items	2,362,856	967,493
Total	**5,605,787**	**4,570,283**

10.22 REVENUE

10.22.1 Premium revenue from insurance contract

Net premium revenue from insurance contracts in 2016

(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	39,635,867	(734,918)	285,738	1,400	39,188,088
Land motor vehicle insurance	34,357,934	(1,500,720)	(82,519)	-	32,774,696
Accident insurance	17,276,547	(121,513)	(177,470)	(20,243)	16,957,321
Fire and natural forces insurance	16,743,620	(3,877,203)	(36,903)	1,363	12,830,877
Other damage to property insurance	12,493,060	(1,463,683)	(94,200)	(5,985)	10,929,191
General liability insurance	8,341,384	(957,951)	(55,975)	18,352	7,345,810
Credit insurance	(5,863)	-	300,743	-	294,879
Other non-life insurance, excluding health insurance	9,717,348	(615,451)	(60,039)	13,905	9,055,763
Insurance contracts for non-life insurance, excluding health insurance	**138,559,897**	**(9,271,439)**	**79,375**	**8,792**	**129,376,625**
	-	-	-	-	-
Health insurance contracts	**100,783,826**	**-**	**241,002**	**-**	**101,024,827**
Life insurance	21,471,815	(1,794,191)	59,015	(28,421)	19,708,218
Unit-linked insurance contracts	37,080,206	(3,399)	-	-	37,076,807
Additional pension insurance	924,286	-	-	-	924,286
Life insurance contracts	**59,476,307**	**(1,797,590)**	**59,015**	**(28,421)**	**57,709,311**
Total	**298,820,030**	**(11,069,029)**	**379,391**	**(19,629)**	**288,110,763**

Net premium revenue 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**
Total	**296,648,952**	**(10,442,444)**	**1,347,850**	**(219,095)**	**287,335,263**

10.22.2 Financial revenue and expenses from investments and investments in associates

Financial revenue and expenses from investments

(in EUR)	2016	2015
Income from financial investments measured at FVTPL	**26,998,772**	**4,829,383**
Held for sale	412,740	752,276
Dividends	1,452	34,601
Interest and net exchange differences	223,499	463,673
Net sales income	185,057	248,514
Revaluation income	2,731	5,488
At initial recognition	26,586,032	4,077,107
Dividends	88,397	107,928
Interest and net exchange differences	243,869	282,126
Net sales income	505	3,687,053
Revaluation income	26,253,261	-
Income from financial investments held to maturity (HTM)	**2,159,694**	**2,622,691**
Interest and net exchange differences	2,159,694	2,328,466
Sales income	-	293,683
Reversal of impairment	-	543
Income from financial investments available-for-sale (AFS)	**12,320,582**	**12,368,842**
Dividends	322,491	1,124,938
Interest and net exchange differences	2,779,625	2,625,345
Sales income	9,218,466	8,618,559
Income - derivatives	**45,700**	**93,801**
Income from loans and receivables	**2,252,357**	**2,927,101**
Interes	1,595,101	2,249,029
Net exchange differences	29,880	12,335
Other income	627,376	665,737
INCOME FROM INVESTMENTS	**43,777,104**	**22,841,819**
Income from investments - subsidiaries	-	34,953
INCOME FROM INVESTMENTS IN SUBSIDIARIES AND ASSOCIATES	**-**	**34,953**
Expenses for financial investments measured at FVTPL	**(643,472)**	**(3,102,001)**
Held for sale	(8,100)	(42,728)
Revaluation expenses	(8,100)	(42,728)
At initial recognition	(635,372)	(3,059,273)
Net sales expenses	(604,982)	(2,390)
Revaluation expenses	(30,390)	(3,056,883)
Expenses for financial investments held to maturity (HTM)	**-**	**(47)**
Realised losses	-	(47)
Expenses for financial investments available-for-sale (AFS)	**(1,814,800)**	**(3,347,815)**
Realised losses	(441,285)	(2,967,661)
Impairment	(1,373,515)	(380,153)
Expenses - derivatives	**(42,000)**	**(172,381)**
EXPENSES FOR INVESTMENTS	**(2,500,272)**	**(6,622,244)**
Expenses for investments - subsidiaries	(83,819)	(389,169)
EXPENSES FOR INVESTMENTS IN SUBSIDIARIES AND ASSOCIATES	**(83,819)**	**(389,169)**
Net financial result - investments measured at FVTPL	**26,355,300**	**1,727,383**
Net financial result - investments held to maturity (HTM)	**2,159,694**	**2,622,644**
Net financial result - available-for-sale investments (AFS)	**10,505,781**	**9,021,027**
Net financial result - derivatives	**3,700**	**(78,580)**
Net financial result from loans and receivables	**2,252,357**	**2,927,101**
Net financial result - investments in subsidiaries and associates	**(83,819)**	**(354,216)**
NET FINANCIAL RESULT FROM INVESTMENTS	**41,193,013**	**15,865,359**

Financial revenue and expenses also include net financial revenue/expenses for unit-linked insurance. In 2016, the net financial result of these investments was EUR 25,803,575. In the same period, the insurance technical provisions for these funds increased, therefore it is important to take into account the insurance technical provisions which contribute to a realistic display of results of profit or loss in funds for unit-linked life insurance. The change in these insurance technical provisions (See Section 10.16) in 2016 totalled EUR 22,921,727 and therefore decreased the final result in this amount.

Net gains/losses on held-for-trading financial assets

(in EUR)	2016	2015
Realised profits	330,184	1,380,643
Unrealised profits	68,099	328,989
Realised losses	(145,127)	(1,132,129)
Unrealised losses	(73,468)	(366,229)
Total	**179,688**	211,274

Net gains/losses on financial assets at initial recognition through profit or loss, excluding investment risk

(in EUR)	2016	2015
Realised profits	2,625,336	5,505,835
Unrealised profits	26,360,505	1,063,595
Realised losses	(3,229,814)	(1,822,442)
Unrealised losses	(137,634)	(4,119,207)
Total	**25,618,393**	627,780

Net gains/losses on financial assets at initial recognition through profit or loss pertaining to unit-linked life insurance amounted to EUR 25,643,613 (2015: EUR 785,708).

For 2016 the effects of revaluation of available-for-sale financial assets are recognised in the statement of other comprehensive income and are presented in Section 10.13.

Impairment of securities of available-for-sale financial assets

(in EUR)	2016	2015
Equity securities	1,373,515	380,153
Total	**1,373,515**	**380,153**

Within the available-for-sale financial assets, permanent impairment was made for the investment into non-negotiable shares of and impairment for investments into negotiable shares of Gea Tovarna olja d.d.and the mutual fund “KD MM, sklad denarnega trga – EUR” (money market fund – EUR), which totalled EUR 1,373,515. Losses due to permanent impairment of these investmenst were recognised in full under investment expenses in the income statement within the expenses from impairment of financial assets not measured at fair value through profit or loss.

Within the held-to-maturity financial assets, there were no permanent impairments of investments made in 2016.

10.22.3 Other insurance revenue

Other insurance revenue

(in EUR)	2016	2015
Revenue from insurance contracts	**1,698,758**	4,164,825
Revenues from reinsurance fees/commissions and from shares in positive technical result	1,680,153	4,150,714
Other fee income for management of insurance contracts	18,605	14,111
Revenue from financial contracts	**42,252**	-
Revenue from investments contracts for administration (entry fees)	13,369	-
Other fee income for management of financial contracts	28,884	-
Total fee and commission revenue	**1,741,010**	4,164,825

Other insurance revenue consists mainly of revenue from reinsurance commissions from participation in the positive technical result from individual reinsurance contracts. Revenue from reinsurance contracts decreased in 2016 by EUR

2,470,561, mostly due to the termination of quota reinsurance of car insurance. In 2015, there were EUR 2,687,515 of reinsurance commission revenue, while in the reporting year there was no such revenue.

The second portion of other insurance revenue includes fees for concluding and managing financial contracts arising from Pokojninsko varčevanje AS (pension saving).

10.22.4 Other revenue

Other revenue

(in EUR)	2016	2015
Other net insurance revenues	1,771,172	2,486,341
Revaluation operating revenues	410,292	2,301,507
Other financial and other revenues	4,675,860	2,330,243
Total	**6,857,324**	7,118,090

Other net revenue from insurance operations is shown in a separate table below.

Other net insurance revenue

(in EUR)	2016	2015
Revenue for management of insurance contracts	47,062	539,683
Revenue from other services provided to KD Funds	495,696	850,722
Revenue from insurance services provided to foreign insurance companies	351,391	319,920
Revenue from rent on parking lot and cars	183,126	193,807
Revenue from Green Card sales	445,237	463,550
Revenue from other services	248,661	118,659
Total	**1,771,172**	**2,486,341**

Revaluation operating revenue

Revaluation operating revenue mostly originate from the reversal of impairment of receivables (of premium receivables, subrogation receivables, other receivables and financial receivables) in the amount of EUR 224,393 and from the write-off of liabilities from previous years in the amount of EUR 185,899. In 2016, this revenue was lower by EUR 1,891,215 primarily due to lower revenue from reversals of impairment of premium receivables and impairment of financial receivables.

Other operating (financial and other) revenue includes:

- received penalties and damages, which compared to the previous year most affected the increase in the reporting period and totalled EUR 1.063,226 (in 2015: EUR 14,555). This is the result of the increase in damages to be paid for breaching the sales agreement for the purchase of real property;
- rental revenue from investment property amounted to EUR 1,909,617 (in 2015: EUR 1,582,730);
- other financial revenue in the amount of EUR 1,336,146 (in 2015: EUR 224,042), arising from revaluation of loans given to Fondpolica policyholders due to changes in rates;
- recovered written-off receivables in the amount of EUR 848 (in 2015: EUR 3,023);
- other extraordinary revenue in the amount of EUR 366,024 (in 2015: 410,093).

10.23 NET CLAIMS INCURRED

Net claims incurred in 2016

(in EUR)	Gross claims settled	Revenues from subrogation receivables	Share of reinsurance/ coinsurance in claims/ benefits paid	Change in gross claims provisions	Change in claims provisions ceded to reinsurance/ coinsurance	Expenses from equalisation scheme	Net expenses for claims/ benefits paid
Motor vehicle liability insurance	30,229,087	(851,742)	(3,416,849)	126,508	339,744	-	26,426,748
Land motor vehicles insurance	28,247,174	(648,370)	(222,673)	(204,985)	(74,033)	-	27,097,113
Accident insurance	7,996,080	(700)	(203,293)	(986,812)	180,353	-	6,985,628
Fire and natural disasters insurance	6,103,044	(118,352)	(55,013)	1,073,807	(674,471)	-	6,329,015
Other damage to property insurance	8,203,237	(26,103)	(395,401)	(589,834)	9,299	-	7,201,198
General liability insurance	2,845,714	(9,623)	(4,669)	(1,787,057)	19,243	-	1,063,607
Credit insurance	142,145	(101,508)	-	(14,385)	-	-	26,253
Other non-life insurance, excluding health insurance operations	4,165,021	(52,610)	(58,219)	(330,734)	77,332	-	3,800,791
Non-life insurance contracts, excluding health insurance contracts	**87,931,503**	**(1,809,008)**	**(4,356,118)**	**(2,713,492)**	**(122,534)**	**-**	**78,930,352**
Health insurance contracts	**86,893,046**	**(144,840)**	**-**	**405,057**	**-**	**3,495,251**	**90,648,514**
Life insurance	14,811,312	-	(571,512)	(309,502)	(81,066)	-	13,849,232
Unit-linked insurance contracts	27,141,438	-	-	1,408,038	-	-	28,549,476
Additional pension insurance PN-A01	432,450	-	-	-	-	-	432,450
Life insurance	**42,385,200**	**-**	**(571,512)**	**1,098,536**	**(81,066)**	**-**	**42,831,158**
Total	**217,209,749**	**(1,953,848)**	**(4,927,630)**	**(1,209,899)**	**(203,600)**	**3,495,251**	**212,410,024**

Net claims incurred in 2015

(in EUR)	Gross claims settled	Revenues from subrogation receivables	Share of reinsurance/ coinsurance in claims/ benefits paid	Change in gross claims provisions	Change in claims provisions ceded to reinsurance/ coinsurance	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
Non-life insurance contracts, excluding health insurance contracts	**86,894,817**	**(1,732,739)**	**(9,298,614)**	**(8,247,233)**	**11,707,103**	**-**	**79,323,335**
Health insurance contracts	**84,846,307**	**(8,435)**	**-**	**224,512**	**-**	**3,631,901**	**88,694,286**
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 PN-A01	851,188	-	-	-	-	-	851,188
Life insurance	**39,803,535**	**-**	**(429,788)**	**(682,551)**	**(59,855)**	**-**	**38,631,342**
Total	**211,544,660**	**(1,741,174)**	**(9,728,402)**	**(8,705,271)**	**11,647,248**	**3,631,901**	**206,648,963**

Net claims incurred classified into expenses for the current year and expenses for previous years

(in EUR)	Gross 2016	Reinsurance 2016	Net 2016	Gross 2015	Reinsurance 2015	Net 2015
Expenses for claims and benefits paid for current year	**226,718,866**	**2,481,139**	**224,237,727**	**218,962,621**	**706,968**	**218,255,652**
Claims and benefits paid	175,802,273	702,126	175,100,147	169,799,623	418,626	169,380,997
Change in claim provisions	47,421,342	1,779,013	45,642,329	45,531,097	288,343	45,242,754
Expenses from equalisation scheme	3,495,251	-	3,495,251	3,631,901	-	3,631,901
Expenses for claims and benefits paid for previous years	**(9,177,613)**	**2,650,090**	**(11,827,703)**	**(14,232,504)**	**(2,625,815)**	**(11,606,690)**
Claims and benefits paid	39,453,628	4,225,503	35,228,125	40,003,864	9,309,776	30,694,087
Change in claim provisions	(48,631,241)	(1,575,413)	(47,055,828)	(54,236,527)	(11,935,591)	(42,300,777)
Total	**217,541,253**	**5,131,230**	**212,410,024**	**204,730,116**	**(1,918,846)**	**206,648,962**

10.24 COSTS

10.24.1 Costs by natural group

(in EUR)	2016	2015
Operating costs for material	985,795	1,116,762
Acquisition costs	26,735,474	27,099,309
Operating costs for services	19,691,072	19,251,466
Depreciation/amortisation	2,809,213	2,987,999
Labour costs	**29,121,138**	**27,725,407**
Payroll – wages and salaries	20,840,441	20,125,755
Social security costs	1,643,055	1,638,582
Pension insurance costs	1,895,410	1,751,158
Other labour cost	4,065,503	3,805,293
Provisions for termination benefits and jubilee benefits	676,729	404,619
Total	**79,342,693**	**78,180,943**

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.

10.24.2 Costs by functional group

(in EUR)	2016	2015
Costs related to acquisition of insurance and financial contracts	26,220,239	26,789,027
Costs related to financial asset management	2,965,818	2,554,973
Costs related to PPE management	642,811	671,229
Other costs for management fees	3,201,450	2,582,181
Costs of sale	21,252,361	21,180,739
Other costs/expenses	18,862,333	18,417,141
Total costs/expenses by functional groups	**73,145,012**	**72,195,291**

The costs by functional groups differ from costs by natural groups due to claim handling costs, accounted for by the Company among gross claims incurred. In 2016, these costs totalled EUR 6,197,681 (2015: EUR 5,985,653). Together with the transfer of a part of other expenses relating to direct claims handling costs in the amount of EUR 39,004 (2015: EUR 30,857), there were EUR 6,236,685 transferred to gross claims incurred (2015: EUR 6,016,510).

10.24.3 Labour costs of own agents

(in EUR)	2016	2015
Labour costs	8,154,716	7,394,015
Wages and salaries	6,135,404	5,378,524
Social security costs	402,093	388,188
Pension insurance costs	578,995	549,727
Other labour cost	1,038,224	1,077,576
Costs of services provided by private individuals	310,279	348,755
Total	**8,464,995**	**7,742,771**

10.24.4 Auditor's remuneration

The audit of the annual financial statements of Adriatic Slovenica for 2016 and 2015 was performed by the audit firm KPMG Slovenija d.o.o. The audit of the Zagreb Branch was performed by the audit firm Antares revizija d.o.o.

Fees paid for auditor's services

(in EUR)	2016	2015
Statutory audit of the annual report	85,503	105,154
Other audit services	45,770	-
Tax counselling services	-	-
Other non-audit services	-	-
Total fees for independent auditor's services	131,273	105,154

10.25 OTHER INSURANCE EXPENSES

Other insurance expenses

(in EUR)	2016	2015
Expenses for preventive activities	841,329	830,423
Contribution for covering losses caused by uninsured and unknown vehicles	(2,993)	-
Other net insurance expenses	3,083,899	3,811,707
Total	**3,922,235**	**4,642,130**

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 insurance company Adriatic Slovenica pays the fire fees in the amount depending on the market share and premium written from fire insurance. In 2016, 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.

Other net insurance expenses are in volume the largest part of other insurance expenses and are generated from:

- recievables write-offs from insurance premiums in the amount of EUR 283,405 (2015: EUR 1,065,875),
- subrogation receivables write-offs in the amount of EUR 342,131 (2015: EUR 203,961),
- write-offs of other receivables in the amount of EUR 128,022 (2015: EUR 239,006),
- insurance expenses for car assistance in the amount of EUR 1,700,673 (2015: EUR 1,708,327),
- expenses of supervisory bodies in the amount of EUR 451,740 (2015: EUR 411,413),
- expenses of fund manager due to the failure to achieve the guaranteed return in the amount of EUR 9,892,
- expenses of pension savings in the amount of EUR 19,902 and
- other net insurance expenses in the amount of EUR 148,133 (2015: EUR 183,126).

Annually, the 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 2016, compared to 2015, the amount of write-offs of receivables from insurance cases and subrogation receivables is significantly lower, mostly because of decrease of the structure of older and non-past due receivables.

10.26 OTHER EXPENSES

Other expenses

(in EUR)	2016	2015
Revaluation operating expenses	**1,577,347**	**1,198,888**
Expenses for investment properties	**3,055,117**	**1,999,640**
Depreciation of investment properties	541,436	425,241
Impairment - investment properties	905,825	-
Losses-upon disposal of investment properties	16,409	36,066
Other expenses for investment properties	1,591,447	1,538,332
Other operating expenses	**1,645,344**	**3,425,982**
Financal expenses	**4,161,884**	**924,926**
Total	**10,439,693**	**7,549,436**

Revaluation operating expenses were mostly generated by revaluation and impairment of receivables (from premiums, subrogations, other receivables and financial receivables) and expenses for impairment of intangible assets (long-term accrued expenses). In comparison to 2015, these expenses remain within the range of last year's volume. Compared to the year before, these expenses were up mainly due to higher impairments of premium receivables (by EUR 121,695) and higher impairments of subrogation receivables (by EUR 106,368).

Compared to the year before, investment property expensess were up by EUR 1,055,477 in 2016, mainly due to expenses for impairment of investment property totalling EUR 905,825 as at the 2016 year-end (see Section 10.3).

Other expenses for investment properties include all management, maintenance and material costs incurred during the year with respect to investment property.

Other operating expenses are presented in the table below.

Other operating expenses

(in EUR)	2016	2015
Payments for charity and cultural purposes	156,520	100,750
Benefits not depending on operating profit or loss	144,614	142,884
Financial penalties and compensations	419,995	1,200,000
Other operating expenses	718,011	831,775
The rest of other operating expenses	206,204	1,150,574
Total	**1,645,344**	**3,425,982**

Financial penalties and damages are lower by EUR 780,005 in comparison to 2015 because the Company recognised in the income statement EUR 1,200,000 of expected expenses for financial penalties due to the lawsuit filed by Pozavarovalnica Sava in 2015 against Adriatic Slovenica (the bulk of the total – described in detail in Section 12). In 2016, the Company recognised a further minor part of expenses due to this lawsuit in accordance with the legal assessment of the case.

Other operating expenses include:

- administrative and court fees of EUR 309,443 (in 2015: EUR 420,682)
- membership fees for the Slovene Chamber of Commerce and associations in the amount of EUR 192,047 (in 2015: 215,125),
- expenses for benefits of EUR 5,753 (in 2015: 5,983),
- expenses for motor vehicles (registration, vignettes and parking) of EUR 26,359 (in 2015: 24,844),
- scholarships for students of EUR 20,429 (in 2015: 7,196),
- administrative fees for AZN (Insurance Supervision Agency) of EUR 14,852 (in 2015: 9,263),

- other expenses of EUR 149,128 (in 2015: 154,658).

Other operating expenses primarily include interest expenses relating to provisions for employee benefits (jubilee and post-employment benefits) and extraordinary expenses. Compared to 2015, these were significantly reduced (by EUR 944,370) due to lower interest expenses relating to provisions for jubilee benefits this year in the amount of EUR 16,481 (in 2015: EUR 989,676).

Financial expenses compared to 2015 increased significantly and are presented in more detail in the following text.

Financial expenses

(in EUR)	2016	2015
Financal expenses for interest - issued bonds	2,394,088	-
Finance costs - interest	51,860	84,781
Other financial expenses	1,715,936	840,145
Financal expenses arising from operating liabilities	1,715,936	840,145
Total	**4,161,884**	**924,926**

Financial expenses from other financial liabilities are higher compared to the previous year, mostly due to higher interest expenses regularly paid by the Company to the creditors of subordinated debt. In 2016, these amounted to EUR 2,394,088 of accrued interest.

In 2016, other financial expenses were higher by EUR 875,791 mainly due to financial expenses from operating liabilities. Within the framework of liquidation proceedings of AS Osiguranje a.d.o., Belgrade, Serbia, the subsidiary transferred its insurance portfolio to the third insurance company in Serbia; the expenses related thereto amounted to EUR 1,096,020 in 2016. The remaining financial expenses from operating liabilities were mainly connected to other investment expenses, such as purchasing commissions (EUR 395,702), other interest expenses (EUR 120,406) and negative foreign exchange difference from abroad (EUR 56,181).

10.27 REINSURANCE RESULT

Reinsurance result in the table below shows the net reinsurance result by insurance type.

Reinsurance result for non-life insurance in 2016

Insurance class in EUR	Reinsurance premiums	Reinsurance claims	Change in reinsurance unearned premium	Change in reinsurance claims provisions	Reinsurance commissions	Net reinsurance result
Accident insurance	(121,513)	203,293	(20,243)	(180,353)	44,749	(74,067)
Land motor vehicle insurance	(1,499,701)	222,673	(457)	74,033	219,687	(983,765)
Marine loss insurance	(46,958)	-	-	-	894	(46,064)
Transportation (goods in transit) insurance	(228,175)	40,637	-	(140)	17,730	(169,948)
Fire and natural disaster insurance	(3,293,197)	37,925	7,472	590,376	522,678	(2,134,747)
Other damage to property insurance	(1,266,369)	370,603	(6,083)	(119,623)	42,722	(978,751)
Motor vehicle liability insurance (MTPL)	(734,918)	3,416,849	1,400	(339,744)	217,678	2,561,266
Aircraft liability insurance	(6,359)	-	(1,033)	-	1,821	(5,571)
Ship/boat liability insurance	13,754	(7,162)	(8,721)	60,046	(11,603)	46,313
General liability insurance	(876,342)	4,633	16,925	1,461	57,410	(795,913)
Suretyship insurance	(121,086)	17,500	16,221	(140,248)	37,184	(190,429)
Miscellaneous financial loss insurance	(89,953)	(700)	(2,167)	(77,654)	14,067	(156,407)
Legal expenses insurance	133	-	-	-	784	917
Assitance insurance	-	-	-	-	12,565	12,565
Total non-life insurance	**(8,270,685)**	**4,306,251**	**3,313**	**(131,846)**	**1,178,364**	**(2,914,602)**

Reinsurance result for non-life insurance in 2015

Insurance class in EUR	Reinsurance premiums	Reinsurance claims	Change in reinsurance unearned premium	Change in reinsurance claims provisions	Reinsurance commissions	Net reinsurance result
Accident insurance	(181,166)	456,029	20,255	(511,218)	255,393	39,292
Land motor vehicle insurance	(1,605,247)	2,532,372	(125,998)	(3,082,736)	1,306,983	(974,626)
Aircraft insurance	-	-	(705)	-	-	(705)
Marine loss insurance	(62,327)	121,870	-	(119,200)	-	(59,657)
Transportation (goods in transit) insurance	(222,470)	36,525	-	(1,503)	11,994	(175,453)
Fire and natural disaster insurance	(3,416,452)	450,235	(78,528)	(608,404)	545,752	(3,107,396)
Other damage to property insurance	(1,347,806)	67,678	(11,819)	(127,786)	56,881	(1,362,852)
Motor vehicle liability insurance (MTPL)	(746,027)	5,554,612	2,195	(7,197,268)	1,357,122	(1,029,367)
Aircraft liability insurance	(9,298)	-	(1,304)	-	930	(9,673)
Ship/boat liability insurance	(59,948)	-	-	5,166	-	(54,782)
General liability insurance	(647,608)	(13,240)	(82,377)	78,031	43,167	(622,028)
Suretyship insurance	(137,078)	2,484	44,487	20,236	34,945	(34,926)
Miscellaneous financial loss insurance	(82,252)	98	(442)	(53)	13,973	(68,676)
Legal expenses insurance	115	415	-	(19,525)	5,315	(13,680)
Assistance insurance	-	54,606	-	(77,950)	85,575	62,231
Total non-life insurance	**(8,517,563)**	**9,263,683**	**(234,236)**	**(11,642,210)**	**3,718,031**	**(7,412,296)**

10.28 CORPORATE INCOME TAX

Taxes

(in EUR)	2016	2015
Corporate income tax charge	(2,224,297)	(1,767,882)
Deferred tax income/(expense)	3,167,215	(783,231)
Total	**942,918**	**(2,551,113)**

Tax base and rate for the calculation of corporate income tax

(in EUR)	2016	2015
Profit or loss before taxes	**10,953,732**	**16,815,342**
Revenue adjustment to level recognised for tax purposes	(5,777,644)	(9,718,819)
Expense adjustment to level recognised for tax purposes	8,634,464	5,349,903
Tax allowance	(726,452)	(2,047,122)
Total tax base	13,084,100	10,399,303
Rate used for income tax calculation	**17**	**17**
Income tax	**(2,224,297)**	**(1,767,882)**
Effective tax rate	**8,61**	**15,17**

Adjustment between the actual and the calculated tax expense by applying the effective tax rate

(in EUR)	2016	2015
Profit or loss before taxation	**10,953,732**	**16,815,342**
Tax calculated by using official tax rate (2016: 17%, 2015: 17%)	(1,862,134)	(2,858,608)
Income excluded from the tax base	**982,200**	**1,652,199**
Dividend income exempt from tax	54,239	196,286
Adjustment of income to the level recognised for tax purposes (decrease)	927,960	1,455,914
Expenses not recognised in the tax base	**(1,467,859)**	**(909,483)**
Increase in expenditure (not recognised for tax purposes in previous years)	78,091	600,486
Reversal of tax allowances from previous years	(2,570)	(870)
Adjustment of income to the level recognised for tax purposes	(1,543,380)	(1,509,099)
Use of tax allowance in the current year	**123,497**	**348,011**
Other changes in deferred taxes in the income statement	**3,167,215**	**(783,231)**
Corporate income tax	**942,918**	**(2,551,113)**
Effective tax rate (in %)	**8.61**	**15.17**

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 2016, 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 2016 is 8.61% (in 2015 the effective tax rate was 15.2%) – the reason for such a difference is described in detail in Section 10.29.)

The tax liability from the tax base for 2016 was calculated at a 17% tax rate, which is the same as the previous year.

10.29 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.

Slovene tax legislation prescribes an increase in the tax rate from 17% to 19% starting 1 January 2017. Based on the legal changes, the management believes that the available taxable profit, against which the deductible temporary differences could be utilised, will occur in 2017 or later, and thus recognises deductible temporary differences at a 19% tax rate and presents the effect of the transition to a higher tax rate in the dicsclosures.

Recognised deferred tax amounts

(in EUR)	31 Dec 2016	31 Dec 2015
Deferred tax assets	**6,083,846**	**2,832,029**
– receivables for deferred tax to be recovered	6,083,846	2,832,029
Deferred tax liabilities	**98,641**	**732,097**
– liabilities for deferred taxes pending payment	98,641	732,097

Deferred tax receivables

Compared to the year before, deferred tax assets went up by EUR 3,251,818 (or 115%), primarily as the result of impairment and change in the fair value of financial assets. The greatest impact on higher deferred tax assets had the deferred taxes in the amount of EUR 2,199,783 due to the impairments in previous years made by the Company for the investment in the subsidiary AS Neživotno osiguranje a.d.o., Belgrade, which is in liquidation.

Overview of bases for deferred tax receivables

(in EUR)	Base 2016	Reinsurance 2016	Base 2015	Reinsurance 2015
Due to impairment/value adjustments of receivables for premiums, for subrogation receivables and for other current receivables	12,781,508	2,172,856	11,061,025	1,880,374
Due to impairment/value adjustments of financial investments	19,525,847	3,319,394	3,929,309	667,983
Due to impairment/value adjustments of provisions and depreciation above the statutory rate	3,479,975	591,596	1,668,657	283,672
Total	**35,787,330**	**6,083,846**	**16,658,991**	**2,832,029**

Overview of bases for deferred tax liabilities

(in EUR)	Base 2016	Deferred tax liability 2016	Base 2015	Deferred tax liability 2015
Due to an increase in financial investments	580,243	98,641	4,306,452	732,097
Total	**580,243**	**98,641**	**4,306,452**	**732,097**

Deferred taxes taken to equity in a given year

(in EUR)	31 Dec 2016	31 Dec 2015
Available-for-sale financial assets	718,336	455,298
Total	**718,336**	**455,298**

Movements in deferred taxes

(in EUR)	Total
New balance as at 1 Jan 2015	**2,427,866**
Debited/credited to income statement	(783,231)
Debited/credited to equity	455,298
Net balance of assets and liabilities as at 31 Dec 2015	**2,099,932**
New balance as at 1 Jan 2016	**2,099,932**
Debited/credited to income statement	2,834,035
Debited/credited to equity	804,466
Debited/credited to income statement due to change in tax rate	333,180
Debited/credited to equity due to change in tax rate	(86,129)
Exchange rate differences	(278)
Net balance of assets and liabilities as at 31 Dec 2016	**5,985,205**

Movements in deferred tax liabilities (without offsetting)

(in EUR)	Impairment reversal to fair value	Other	Total
Balance as at 1 Jan 2015	1,194,632	-	1,194,632
Debited/credited to equity	(462,535)	-	(462,535)
Balance as at 31 Dec 2015	**732,097**	**-**	**732,097**
	-	-	-
Balance as at 1 Jan 2016	**732,097**	**-**	**732,097**
Debited/credited to equity	(719,585)	-	(719,585)
Debited/credited to equity due to change in tax rate	86,129	-	86,129
Balance as at 31 Dec 2016	**98,641**	**-**	**98,641**

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	Decrease of profit or loss brought forward due to change in life insurance methodology	Total
Balance as at 1 Jan 1. 1. 2015	**1,269,927**	**1,337,726**	**308,734**	**265,707**	**52,239**	**383,789**	**4,376**	**3,622,498**
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)
Debited/credited to income statement due to change in tax rate	-	-	-	-	-	-	-	-
Debited/credited to equity due to change in tax rate	-	-	-	-	-	-	-	-
Balance as at 31 Dec 1. 1. 2015	**1,183,276**	**667,983**	**343,393**	**283,672**	**21,294**	**332,412**	**-**	**2,832,029**
Balance as at 1 Jan 1. 1. 2016	**1,183,276**	**667,983**	**343,393**	**283,672**	**21,294**	**332,412**	**-**	**2,832,029**
Debited/credited to income statement	47,114	2,488,222	48,416	28,036	(23,369)	(899)	246,515	**2,834,035**
Debited/credited to equity	-	84,881	-	-	-	-	-	**84,881**
Debited/credited to income statement due to change in tax rate	139,209	78,586	40,399	33,373	2,505	39,107	-	**333,180**
Exchange rate differences	-	(278)	-	-	-	-	-	**(278)**
Balance as at 31 Dec 31. 12. 2016	**1,369,598**	**3,319,394**	**432,208**	**345,081**	**430**	**370,619**	**246,515**	**6,083,846**

10.30 NET EARNINGS (LOSS) PER SHARE

The 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)	2016	2015
Net profit or loss for the financial year	11,896,650	14,264,229
Weighted average number of ordinary shares outstanding	10,304,407	10,304,407
Basic and adjusted net earnings / loss per share (in EUR)	**1.15**	**1.38**

All shares issued by the parent company are ordinary registered shares; therefore, the diluted net earnings per share are equal to the basic net earnings per share.

Movements in shares

(in EUR)	2016	2015
As at 1 Jan	10,304,407	10,304,407
As at 31 Dec	**10,304,407**	**10,304,407**

10.31 ISSUES, REDEMPTIONS AND PAYOUTS OF SECURITIES AND DIVIDENDS

In 2016, the Adriatic Slovenica Group issued a subordinated bond (Floating Rate Subordinated Notes due 2026) (See Section 10.14), however it did not purchase or sell any equity securities.

Dividend per share

(in EUR)	2016	2015
Amount of dividends (in EUR)	13,246,820	17,944,000
Dividend per share (in EUR)	1.29	1.74

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 8 April 2016, the General Meeting of Shareholders of Adriatic Slovenica adopted a resolution, referring to 2015, to allocate EUR 13,246,820 for dividend payments to the shareholders. The dividends were paid in full on 8 April 2016.

10.32 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 Adriatic Slovenica discloses transactions with related legal entities, the shareholders, the subsidiaries and associates, the management of Adriatic Slovenica and the senior management of the controlling companies.

The rules on related party transactions are laid down in the 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 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 2016, 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 2016, 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 Company. In the reporting year, the Adriatic Slovenica received adequate payments and reimbursements in all transactions in 2016 made with the parent company KD Group and those transactions were carried out at arm's length. All transactions with the subsidiary were executed as transactions between knowledgeable, willing parties in an arm's length transaction.

11.1 RELATED PARTIES

Saherholders of AS d. d.

With a 100% equity stake, KD Group d.d. is the sole shareholder of Adriatic Slovenica d. d.

Subsidiaries, indirect subsidiaries and associates of AS d. d.

Company	Address	Equity stake	Tax rate	VAT identification no.	Activity	Reporting period
Subsidiary						
SLOVENIA						
PROSPERA družba za izterjavo d. o. o.	Ljubljanska cesta 3, 6000 Koper	100%	17%	SI34037616	Other financial service activities, except insurance and pension	Calendar year
VIZ zavarovalno zastopništvo d. o. o.	Ljubljanska cesta 3 a, 6000 Koper	100%	17%	SI87410206	Activities of insurance agents and brokers	Calendar year
ZDRAVJE AS zdravstvene storitve d. o. o.	Ljubljanska cesta 3 a, 6000 Koper	100%	17%	SI22745866	Specialist outpatient health care service	Calendar year
KD IT, informacijske storitve, d. o. o.	Celovška cesta 206, 1000 Ljubljana	100%	17%	SI15923363	IT services	Calendar year
KD Skladi, družba za upravljanje, d. o. o.	Dunajska cesta 63, 1000 Ljubljana	100%	17%	SI56687036	Activity of custody funds and other funds and similar financial entities	Calendar year
CROATIA						Calendar year
Permanens d.o.o.	Draškovićeva 10, 10000 Zagreb	100%	20%	56019896671	Activities of insurance agents and brokers	Calendar year
SERBIA						Calendar year
AS neživotno osiguranje a.d.o.	Bulevar Milutina Milankovića 7V, 11000 Novi Beograd	80,01%	15%	105510418	In liquidation	Calendar year
Indirect subsidiary						
CROATIA						
KD Locusta Fondovi d.o.o.	Ljudevita Gaja 28, 10000 Zagreb	70%	20%		Activities of investment fund management	
MACEDONIA						
KD Fondovi AD Skopje	Ul. Makedonija 13b (bul. Partizanski odredi br. 14A/1-2), 1000 Skopje	94.60%	10%		Activities of investment fund management	
Associate						
SLOVENIA						
Nama trgovsko podjetje d.d., Slovenija	Tomšičeva ulica 1, 1000 Ljubljana	48.51%	17%	SI22348174	Retail sale of food and non-food consumer products	Calendar year

Other associates of AS d. d.

KD d. d. and other associates are the companies which are associated with the Group through management and supervisory bodies, i.e. Management and Supervisory Board members.

11.2 RELATED PARTY TRANSACTIONS

Sale of goods and services

(in EUR)	2016	2015
Shareholder sof Adriatic Slovenica d.d	309,251	258,930
Subsidiaries of Adriatic Slovenica d.d	922,449	143,866
Associate of Adriatic Slovenica d.d.	68	68
Other associated/affiliated companies of Adriatic Slovenica d. d.	852,301	1,580,999
Total	**2,084,069**	**1,983,863**

In 2016, the Company did not sell carrying value the receivables (in 2015: EUR 4,239 of receivables were sold) to Prospera d.o.o. subsidiary and from this transaction, the Company did not generate revenues or expenses.

Purchase of goods and services

(in EUR)	2016	2015
Shareholders of Adriatic Slovenica d.d	465,016	488,482
Subsidiaries of Adriatic Slovenica d.d	2,523,566	172,344
Associate of Adriatic Slovenica d.d.	8	8
Other associated/affiliated companies of Adriatic Slovenica d. d.	2,155,466	4,481,989
Total	**5,144,056**	**5,142,823**

Receivables of Adriatic Slovenica d.d. from related parties

(in EUR)	31 Dec 2016	31 Dec 2015
Shareholders of Adriatic Slovenica d.d	5,395	3,626
Subsidiaries of Adriatic Slovenica d.d	272,679	47,289
Other associated/affiliated companies of Adriatic Slovenica d. d.	84,643	158,406
Total	**362,718**	**209,321**

Liabilities of Adriatic Slovenica d.d. from related parties

(in EUR)	31 Dec 2016	31 Dec 2015
Shareholders of Adriatic Slovenica d.d	39,234	117,075
Subsidiaries of Adriatic Slovenica d.d	124,768	63,366
Associate of Adriatic Slovenica d.d.	9	8
Other associated/affiliated companies of Adriatic Slovenica d. d.	346,723	255,671
Total	**510,733**	**436,121**

Purchase of investment properties from related parties

In 2016, the Company did not purchase or sell any investment properties to its related parties.

Puchase od securities from from related parties

(in EUR)	2016	2015
Subsidiaries of Adriatic Slovenica d.d	544,990	559,452
Other associated/affiliated companies of Adriatic Slovenica d. d.	37,559,054	-
Total	**38,104,044**	**559,452**

In January 2016, the Company recapitalised its subsidiary VIZ d.o.o. in the amount of EUR 100,000. Therefore, the share capital of VIZ d.o.o. was increased to EUR 530,000.

Bonds issued by the shareholder of Adriatic Slovenica

(in EUR)	2016	2015
At the beginning of year	**15,766,973**	**11,072,392**
Increase due to acquisition	-	105,327
Bonds purchased from the owners	-	15,131,750
Bonds purchased within the Group	-	1,004,732
Bonds sold withinin the Group	-	(12,411,512)
Interest charged	1,119,698	1,135,193
Interest received	(970,388)	(561,887)
Valuation/measurement	(135,483)	290,978
At the end of the reporting period	**15,780,799**	**15,766,973**

Bonds issued by other related parties

(in EUR)	2016	2015
At the beginning of year	**6,973,577**	**6,212,877**
Increase due to acquisition	-	775,642
Interest charged	816,218	466,073
Interest received	(821,975)	(480,077)
Valuation/measurement	47,114	(938)
At the end of the reporting period	**7,014,935**	**6,973,577**

Shares of the shareholder of Adriatic Slovenica

(in EUR)	2016	2015
At the beginning of year	**125,550**	**162,840**
Valuation/measurement	411,822	(37,290)
At the end of the reporting period	537,372	125,550

Shares of subsidiaries of Adriatic Slovenica

(in EUR)	2016	2015
At the beginning of year	**10,513,878**	**15,712,691**
Increase due to acquisition	950,200	39,701
New balance as at 1 January - after spin-off	**11,464,078**	**-**
Shares purchased from the issuer	544,990	439,876
Purchased shares in the group	37,559,054	-
Repayment of capital	(1,000,000)	(7,788,249)
Dividends paid	73,208	229,451
Dividends received	(73,208)	(229,451)
Valuation/measurement	-	(125)
Permanently impaired	(82,961)	-
At the end of the reporting period	**48,485,161**	**8,403,895**

Shares of the associate

(in EUR)	2016	2015
At the beginning of year	**11,705,901**	**11,705,901**
Dividends paid	77,175	180,446
Dividends received	(77,175)	(180,446)
At the end of the reporting period	**11,705,901**	**11,705,901**

Shares and shareholdings of other related parties

(in EUR)	2016	2015
At the beginning of year	**1,470,120**	**1,279,892**
Bonds purchased from third parties	-	131,819
Shares sold to third parties	(177,318)	-
Interest charged	-	89,411
Interest received	-	(89,411)
Valuation/measurement	5,263	58,409
Permanently impaired	(3,676)	-
At the end of the reporting period	**1,294,389**	**1,470,120**

Loans received and loans given

Loans given to the shareholder of the parent company

(in EUR)	2016	2015
At the beginning of year	**7,999,788**	**8,099,996**
Approved loans	21,400,000	9,000,000
Repaid loans	(22,919,185)	(9,100,000)
Interest accrued	359,420	401,203
Interest reduction	(359,472)	(401,411)
At the end of year	**6,480,551**	**7,999,788**
Paid interest	**363,717**	**425,096**

The new loans given are long-term and short-term; long-term loans were given at a 5% market interest rate while short-term loans were given at a 2% market interest rate. The loans are secured with blank bills of exchange.

Loans given to other related parties

(in EUR)	2016	2015
At the beginning of year	**21,563,957**	**19,751,835**
Approved loans	13,755,670	17,800,000
Repaid loans	(20,898,840)	(15,987,130)
Interest accrued	713,657	950,259
Interest reduction	(720,985)	(951,007)
At the end of year	**14,413,459**	**21,563,957**
Paid interest	747,689	1,000,855

The loans given to other related parties were given at market interest rate 8% and 2%. 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 collateralized with debt securities, bills of exchange, by pledging real property (mortgage) or with an agreement on the sale and transfer of claims.

Loans received from other related parties

(in EUR)	2016	2015
At the beginning of year	**15,355**	**43,971**
Approved loans	100,000	80,000
Repaid loans	(54,350)	(108,700)
Interest accrued	199	483
Interest reduction	(368)	(399)
At the end of year	**60,836**	**15,355**
Paid interest	(368)	399

* Note: Loans received from other related parties includes interest movements.

The loan received in 2015 was fully repaid in February 2016. In 2016, the Company received a short-term loan in the amount of EUR 100,000 from VIZ d.o.o.subsidiary. The interest rate on loans between related parties will be charged. In 2016, the Company did not enter into any transactions with banks which would be considered related parties.

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 senior management of Adriatic Slovenica

The income received by the members of the Management and Supervisory Boards of Adriatic Slovenica for the performance of their duties in the 2016 financial year.

Adriatic Slovenica made the following payments for 2016 to the members of the Management Board

in EUR		Gross salary	Variable part of remuneration	Holiday allowance	Reimbursements of costs*	Insurance premiums	Commissions, bonuses and other fringe benefits	Remuneration for work in subsidiaries
Gabrijel Škof	President of the Management Board	159,627	-	1,102	2,136	2,175	6,641	-
Varja Dolenc, MSc	Member of the Management Board (until 30 October 2016)	100,000	-	1,102	1,465	1,362	83,255	-
Matija Šenk	Member of the Management Board	120,000	-	1,102	2,452	1,181	2,294	2,310

*Including travel expenses using own vehicle and daily allowance at home and abroad.

Income of employees on individual employment agreements

The Company paid out to the employees working on the basis of the collective agreement, but who are not subject to the tariff section of the collective agreement, remuneration totalling EUR 5,493,812 for 2016, of which EUR 4,669,799 were paid for gross salaries and EUR 824,013 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 2016 to the members of the Supervisory Board

in EUR		Fees for attending Board sessions
Matjaž Gantar	Chairman	21,600
Aljoša Tomaž	Member	19,200
Tomaž Butina	Member	19,200
Aleksander Sekavčnik	Member	19,200
Borut Šuštaršič	Member, employee representative	19,200
Matjaž Pavlin	Member, employee representative	19,200

Adriatic Slovenica made in 2016 the following payments to the members of the Audit Committee

in EUR	Fees for attending meetings
Matjaž Gantar, Chairman (until 12 December 2016)	900
Milena Georgievski, member (independent expert) (until 12 December 2016)	2,160
Mojca Kek, Vice Chairman (from 12 December 2016 prior to this date Audit Committee member(independent expert))	2,556
Matjaž Pavlin, Chairman (12 December 2016, prior to this date Audit Committee member)	2,610
Jure Kvaternik, member (until 12 December 2016)	2,592
Vera Dolinar, member (independent expert) (from 12 December 2016)	360

As at the 2016 year-end, the Company carries the following current operating receivables and liabilities related to the management of the parent company within the Company:

- EUR 96 of receivables and no liabilities from the members of the Management Board. arise from the insurance business (premiums due) and from rents of parking spaces;
- EUR 36,503 of receivables and no liabilities from the members of the Supervisory Board and the Audit Committee. The receivables arise from the insurance business (premiums due) in the amount of EUR 481, and receivables from exercised subrogation receivables in the amount of EUR 36,022;
- EUR 9,447 of receivables and EUR 42 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 EUR 7,007 arises from the insurance business (premium due), while the rest 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 2017.

In 2016, the Company and its subsidiary 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 Company.

Adriatic Slovenica d.d. has EUR 1,148 of receivables and zeto euros of liabilities outstanding to the Management Board members of subsidiaries and associates. The receivables arise from insurance premiums.

As at the 2016 year-end, the Company carries receivables in the amount of EUR 131 and no liabilities related to members of management or supervision bodies of the associate. The receivables arise from insurance premiums.

Transactions with the immediate family members of the members of Management and Supervision Boards and the Audit Committee

In 2016, insurance transactions were made between the Company 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 EUR 1,208 of insurance premiums,
- the immediate family members of members of the Supervisory Board paid the aggregate amount of EUR 6,524 of insurance premiums,
- the immediate family members of members of the Audit Committee paid the aggregate amount of EUR 5,290 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 2016, based on the concluded insurance policies, the insurance company paid EUR 1,954 for claims to the immediate family members of members of the Supervisory Board and EUR 856 for claims to the immediate family members of members of the Audit Committee, whilst to the immediate family members of members of the Management Board no claims were paid.

Transactions with senior management of controlling companies of the Adriatic Slovenica d. d.

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 2016, the senior management of the controlling companies of the parent company Adriatic Slovenica, apart from reimbursements for claims arising from insurance contracts in the amount of EUR 320, received also EUR 2,367 of daily allowance for business trips.

The receivables carried in the books of account as at the 2016 year-end and arising from the senior management of the companies up to the highest parent company amounted to EUR 36,393. Outstanding receivables refer to the receivables arising from the insurance business (premiums) and rents for parking spaces in the amount of EUR 371, and receivables from exercised subrogation receivables in the amount of EUR 36,022. Receivables are paid regularly in line with the agreement on payment by instalments. As at 31 December 2016, there are no outstanding liabilities from the management board members of controlling entities by the Company.

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 EUR 11,947,676; receivables from the state in the amount of EUR 3,225,338, receivables for unrealised subrogations from insurance operations in the amount of EUR 5,930,790 and receivables for pension insurance premiums in the amount of EUR 232,291 and contingent receivables from insurance and legal disputes in the amount of EUR 235,166.

Among contingent receivables or assets, there was a significant decrease (by EUR 2,791,862 in receivables arising from insurance operations such as receivables from unrealised subrogation receivables. These receivables were lower mainly due to a court settlement for an unrealised subrogation receivable in the amount of EUR 2,066,444. Contingent receivables for pledged guarantees with securities and mortgage decreased by EUR 447,069 and receivables from pension insurance premiums by EUR 1,997,303 after the payments were allocated to the corresponding funds of new the new voluntary supplemental pension insurance – AS pension savings, which was launched in 2016. Compared to the 2015 year-end, as at 31 December 2016 new contingent receivables from litigation were formed in the amount of EUR 235,266.

Among contingent liabilities as at 31 December 2016, the Company disclosed outstanding liabilities arising from the actions filed by Pozavarovalnica Sava d. d. in the amount of EUR 291,753. Considering the fact that there is no case law for this dispute with Pozavarovalnica Sava based on which the Court's decision could be predicted, in 2015 the Company adequately formed long-term provisions (accrued expenses) of EUR 1,200,000, which represented 60% of the recognised claim at that time, by taking into account its own assessment and the precautionary principle. Based on own assessment, as at 31 December 2016 the difference in the amount of EUR 556,640 to the claimed amount (EUR 848,393) was included in accrued expenses and recognised under expenses for damages and penalties. The Company continues to record EUR 291,753 of contingent liabilities to Pozavarovalnica Sava d. d. in the off-balance sheet under contingent liabilities. Apart from that, the Company also recognises contingent liabilities arising from labor-law disputes in the amount of EUR 128,386 and insurance litigations (such as actions against pharmacies) in the amount of EUR 32,628.

In 2016, the Company recognised among contingent liabilities the liability for the guarantee provided under the Master Agreement on Portfolio Transfer agreed between subsidiaries of the contractual parties in Serbia (hereinafter: the Master Agreement), i.e. between the assignor AS neživotno osiguranje a.d.o., Belgrade, a subsidiary and the assignee of the portfolio Sava Osiguranje a.d.o., a subsidiary of Pozavarovalnica Sava. According to the Master Agreement, Adriatic Slovenica must provide a guarantee to Pozavarovalnica Sava after the transfer of the portfolio (the latter will then transfer it to Sava Osiguranje) in the cases of exceeding the expected expenses for insurance technical provisions; these cases are explicitly defined. The validity of this guarantee is 5 years from the execution of portfolio transfer (i.e. until 12 April 2021). After this period, the scope of the guarantee will be limited only to individual pending court cases, after which it will completely expire on 12 September 2021. The potential value of the guarantee as at 31 December 2016 was estimated to EUR 157,750.

Compared to the 2015 year-end, contingent liabilities arising from labour law disputes increased by EUR 90,689 and new contingent liabilities were formed from financial contracts due to the failure to achieve the guaranteed return of EUR 9,861 for Pokojninsko zavarovanje AS Zajamčeni od 60 (pension fund). To this end, the Company recognised liabilities in own life insurance assets in the balance sheet (under other non-current liabilities for ZPIZ 2) in the same amount due to the failure to achieve the guaranteed return for Pokojninsko zavarovanje AS Zajamčeni od 60 (pension fund). The Company had no liabilities from pension payments and liabilities to the Group companies, which had not been included in the balance sheet.

Contingent receivables and liabilities of option and futures contracts

As at 31 December 2016 the Company had:

- **two** put options, enabling the Company to sell a total of 21,000 bonds with the SKD1 ticker symbol (ISIN: SI0032103135) in the amount of EUR 2,100,000. The agreed price of the bond is 100% of the nominal value (100 EUR/bond), including accrued interest in accordance with the amortisation plan as at the date of payment of the purchase price by the Group. Sales option contracts are enforceable until maturity of the SKD1 bond on 7 October 2017 when the contracts will expire.
- **three** call options, which, if the conditions are met, present for the Company a potential obligation to purchase 21,650 bonds with the KDH3 ticker symbol (ISIN: SI0032103416) in the amount of EUR 433,000 excluding accrued interest. The agreed price of one bond is 100% of the nominal value (20 EUR/bond) plus accrued interest in line with the amortisation plan as at the date of payment of the purchase price by the Group. Call option contracts are enforceable from 29 September 2016 to 31 December 2016 when they will expire.

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 Company adequately formed long-term provisions in the amount of EUR 1,200,000 based on its own assessment and taking into account the prudence principle, the Company then subsequently allocated EUR 556,640 to long-term provisions, which was slightly less than the entire disputed sum. The difference between this amount and the amount under dispute EUR 291,753 is accounted for by the insurance company under off-balance potential liabilities.

13. EVENTS AFTER THE BALANCE SHEET DATE

No events occurred after the reporting period and until the approval of the financial statements for publication, which would impact the compiled financial statements and tax obligations of the Company for 2016.

Events after the balance sheet date, important for business operations in 2017

Regarding the action brought by Pozavarovalnca Sava in 2012 against the insurer Adriatic Slovenica (the parent company) (see Section 10.18.3), the Company adequately formed long-term provisions in its books of account.

After the end of the financial year (beginning of March 2017), the parent company received the Decision of the High Court, which upheld the appeal of Adriatic Slovenica; the case was remitted for retrial at the Court of First Instance.

On the basis of the information received in relation to this case, the parent company estimates that the current value of the provisions is appropriate.

AUDITED

CONSOLIDATED FINANCIAL STATEMENTS FOR 2016

The Adriatic Slovenica Group

CONTENTS

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 2016. 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 and good management. 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 2016.

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, 22 March 2017

Management Board of the parent company:

Gabrijel Škof
President of the Management Board

Matija Šenk
Member of the Management Board

2. AUDITOR'S OPINION

KPMG Slovenija, podjetje za revidiranje, d.o.o.
Železna cesta 8a
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Slovenija

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Independent Auditor's Report[i]

To the owners of Adriatic Slovenica d.d.

Opinion

We have audited the consolidated financial statements of the Adriatic Slovenica d.d. and its subsidiaries (»the Group«), which comprise the consolidated statement of financial position as of 31 December 2016, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of cash flows, and the consolidated statement of changes in equity for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying consolidated financial statements give true and fair view of the consolidated financial position of the Group as at 31 December 2016, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with the International Financial Reporting Standards as adopted by the European Union ("IFRS as adopted by the EU").

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's Responsibility for the Audit of consolidated Financial Statements* section of our report. We are independent of the Group in accordance with both the International Ethics Standards Board for Accountants Code of Ethics for Professional Accountants (IESBA Code) and the ethical requirements that are relevant to our audit of the consolidated financial statements in Slovenia and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code.

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

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

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

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Measurement of life insurance technical provisions	
Life insurance technical provisions as at 31 December 2016: EUR 107.250.524 (2015: EUR 102.765.143), increase of life insurance technical provisions in 2016: EUR 4.138.780 (2015: EUR 4.555.784). *We refer to the financial statements: Notes 5.15 and 6.6 (accounting policies), Note 10.15 (financial disclosures).*	
Key audit matter	**Our response**
Life insurance technical provisions represent a significant liability in the Group's statement of financial position. Measurement of these liabilities is associated with significant estimation uncertainty as it requires management to exercise judgment and develop complex and subjective assumptions used as inputs into the underlying valuation model based on standard actuarial methodologies. At each reporting date, the Group is required to perform a liability adequacy test (hereinafter, "LAT") with an aim to determine whether its recognized life insurance technical provisions are adequate. The test is based on the comparison of the management's best estimate of the present value of cash flows arising from the in-force insurance contracts with the stated amounts of provisions. In case the LAT test shows that the amounts of life insurance technical provisions are insufficient in light of the estimated future cash flows, the deficiency is recognized in the income statement by setting up an additional provision. The Group's key assumptions used in the cash flow model include those in respect of: expected expenses, lapse and mortality rates and discount rates used. Relatively minor changes in these assumptions can have a significant effect on the amounts of the related liabilities. In view of the above-mentioned factors, we consider measurement of life insurance technical provisions to be a key risk in our audit.	Our procedures included, among others: • Evaluating the methodology and assumptions used by the Group in measuring life insurance technical provisions against relevant regulatory and financial reporting requirements; • Testing the design and operating effectiveness of selected key controls over the Group's process for setting and updating actuarial assumptions, and also testing general IT controls associated with the related data collection, extraction and validation; • Assessing the results of the Group's experience analysis ('back-testing'), and using those historical results to challenge the key assumptions used in the measurement of the insurance liabilities as at 31 December 2016; • With the support of our own actuarial specialists, evaluating the reasonableness of the Group's estimates of future cash flows by means of: – comparing prior year's cash flow predictions with the actual outcomes; – the analysis of lapse rates used in LAT based on the comparison of Group's calculation of lapse rates to our own independent calculation based on the data extracted from the clients' databases; – the reasonableness of mortality rates extracted from the Group's experience studies; – comparing the expense assumptions with those previously used, and comparing prior year assumptions to actual outcomes; • Recalculating the movements in life insurance technical provisions for the year; • Assessing the Group's disclosures in respect of life insurance technical provisions against the requirements of the relevant financial reporting standards.

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Recoverable amounts of investment property	
The carrying amount of investment property as at 31 December 2016: EUR 27.443.818 (2015: EUR 30.835.438); related impairment loss recognized in 2016: EUR 905.825 (2015: EUR 0). *We refer to the financial statements: Notes 5.3 and 6.3 (accounting policies), Notes 10.3 and 10.26 (financial disclosures).*	
Key audit matter	**Our response**
Investment property is the property the Group holds to earn rental income. This includes primarily office space and the Kolosej Maribor, a cultural, entertainment and business centre. Investment property is stated at cost less accumulated depreciation and accumulated impairment losses. As the property is partly unoccupied and partly generating low rental income streams, there are indications that its carrying amount may be below the recoverable amount. The determination of the recoverable amounts of the Group's investment properties is based on the assessment of their value-in-use or fair value less costs to sell, or both, as applicable. It involves significant management judgment and estimates, using the input from valuation reports produced by the external valuation experts engaged by the Group, in particular in respect of the assumptions such as discount rates applied, cash flow projections (based on expected future rental income) and comparable market transactions. The judgment involved in making the assessment is particularly high for the single most significant investment property, due to its specific nature (Kolosej Maribor, a cultural, entertainment and business centre). The recoverable amount of the investment property is highly sensitive to changes of the assumptions used, and therefore we consider determination of the recoverable amounts of investment property to be the key audit matter.	Our audit procedures included, among others: • Assessing the competence and objectivity of the external experts engaged by the Group; • With the support of valuation experts engaged by us: – critically evaluating, by reference to the relevant financial reporting standards, the appropriateness of the methodology applied by the Group and its external experts in its determination of the recoverable amounts of the investment property, and – comparing the key inputs used to past experience with these and other similar properties, and market data, mainly with regards to rental income, capitalization rates and discount rates applied; • Critically challenging the assumptions used in the sensitivity analysis of the Kolosej Maribor, a cultural, entertainment and business centre, mainly focusing on discount rate, proportion of idle space and rental income, which we corroborated with independent external sources. • Assessing the adequacy and appropriateness of the Group's disclosures related to the significant judgments and the sensitivity of the outcomes of the impairment assessment to changes in key assumptions.

Other Information

Management is responsible for other information. The other information comprises the "About Adriatic Slovenica and the Adriatic Slovenica Group", "Business Report" and "Appendix" included in the Annual report, but does not include the consolidated financial statements and our auditor's report thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

With respect to the Business Report and Appendix, we have considered whether they include the disclosures required by the Company's Act and the Insurance Act and the Decision on the Annual Report and the quarterly financial statements adopted on the basis thereof (hereafter referred to as "the applicable legal requirements").

Based solely on the work required to be undertaken in the course of the audit of the consolidated financial statements and the procedures above, in our opinion:

- the information given in the Business Report and Appendix for the financial year for which the consolidated financial statements are prepared, is consistent with the consolidated financial statements; and
- the Business Report and Appendix have been prepared in accordance with the applicable legal requirements.

In addition, in light of the knowledge and understanding of the Group and its environment in which it operates, obtained in the course of our audit, we are required to report if we have identified material misstatements in the other information. We have nothing to report in this respect.

Responsibility of Management and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with the IFRS as adopted by the 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.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using of the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

Auditor's Responsibility for the Audit of Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to

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the date of our auditors' report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.]

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

On behalf of the auditing company

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

Damjan Ahčin, FCCA
Certified auditor

Katarina Sitar Šuštar, MBA
Certified auditor
Partner

Ljubljana, 22 March 2017

KPMG Slovenija, d.o.o.
1

[i] 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 and is not to be signed. This translation is provided for reference purposes only.

3. CONSOLIDATED FINANCIAL STATEMENTS

3.1 CONSOLIDATED BALANCE SHEET

Consolidated balance sheet as at 31 December 2016

(in EUR)	Note	31 Dec 2016	31 Dec 2015
Assets		737,307,236	670,546,768
Intangible assets	10.1	**33,883,437**	**6,065,164**
Property, plant and equipment	10.2	**31,918,209**	**27,824,257**
Non-current assets held for sale	10.5	**4,270**	**24,559**
Deferred tax assets	10.26	**7,033,551**	**3,302,992**
Investment properties	10.3	**27,443,818**	**30,835,438**
Financial investments in subsidiaries and associates	10.4	**12,130,311**	**11,997,562**
Financial investments	10.6	**269,780,829**	**250,317,800**
In loans and deposits		38,507,602	39,724,586
In held-to-maturity financial assets		38,008,230	39,471,526
In available-for-sale financial assets		184,024,591	151,564,255
In financial assets measured at fair value		9,240,406	19,557,432
Unit-linked investments of policyholders	10.7	**287,601,433**	**263,760,339**
Amounts of technical provisions ceded to reinsurers	10.8	**17,399,319**	**18,018,307**
Assets from financial contracts	10.9	**4,753,190**	**-**
Receivables	10.10	**28,982,850**	**37,154,342**
Receivables from direct insurance business		18,915,810	20,787,328
Receivables from reinsurance and coinsurance		1,772,997	1,633,070
Income tax receivables		77,667	3,541,953
Other receivables		8,216,376	11,191,992
Other assets	10.11	**5,455,850**	**5,944,711**
Cash and cash equivalents	10.12	**10,920,169**	**15,301,297**
Off-balance sheet items	12	**25,398,837**	**28,372,790**
Equity and liabilities		737,307,236	670,546,768
Equity	10.13	**98,181,182**	**102,511,589**
Majority equity interest		**97,787,718**	**102,411,181**
Share capital		42,999,530	42,999,530
Capital reserves		4,211,782	4,211,782
Reserve from profit		9,223,936	15,543,286
Translation differences		(1,930,505)	(1,860,802)
Revaluation surplus		355,071	3,830,832
Retained net earnings		29,517,525	24,117,512
Net profit or loss for the financial year		13,410,378	13,569,040
Minority equity interest		**393,464**	**100,408**
Subordinated liabilities	10.14	**49,453,317**	**-**
Technical provisions	10.15	**271,895,806**	**271,663,154**
Unearned premium provisions		49,382,872	50,223,069
Mathematical provisions		107,250,524	102,765,143
Claims provisions		114,097,125	117,334,020
Other technical provisions		1,165,286	1,340,922
Technical provisions for unit-linked insurance	10.16	**282,619,438**	**259,697,710**
Other provisions	10.18	**4,076,834**	**5,134,992**
Deferred tax liabilities	10.15	**110,646**	**732,097**
Liabilities from financial contracts	10.17	**4,753,190**	**(0)**
Other financial liabilities	10.19	**985,578**	**968,936**
Operating liabilities	10.20	**6,583,521**	**6,986,458**
Liabilities from direct insurance contracts		3,862,118	3,887,670
Liabilities from reinsurance and coinsurance contracts		1,955,042	1,558,050
Income tax liabilities		766,361	1,540,738
Other liabilities	10.21	**18,647,723**	**22,851,833**
Off-balance sheet items	12	**25,398,837**	**28,372,790**

The accounting policies and notes set out on pages from 255 to 388 are an integral part of the consolidated financial statements.

3.2 CONSOLIDATED INCOME STATEMENT

Consolidated income statement for the period from 1 January 2016 to 31 December 2016

(in EUR)	Note	1 Jan – 31 Dec 2016	1 Jan – 31 Dec 2015
NET PREMIUM INCOME	**10.22**	**288,273,482**	**288,913,942**
Gross written premiums		298,820,030	298,222,281
Premiums ceded to reinsurers and coinsurers		(11,086,394)	(10,956,953)
Change in unearned premiums		539,846	1,648,614
REVENUES FROM INVESTMENTS IN ASSOCIATES, of which	**10.22**	**235,852**	**354,221**
- profit from capital investments from associates and joint ventures, calculated using the equity method		235,852	-
INCOME FROM INVESTMENTS	**10.22**	**44,972,324**	**24,065,464**
OTHER INCOME FROM INSURANCE OPERATIONS, of which	**10.22**	**1,741,010**	**4,177,894**
- fee and commission income		1,741,010	4,177,894
OTHER INCOME	**10.22**	**10,731,420**	**8,734,455**
NET EXPENSES FOR CLAIMS AND BENEFITS PAID	**10.23**	**(212,702,856)**	**(207,810,414)**
Gross amounts of claims and benefits paid		(219,116,733)	(214,868,193)
Reinsurers'/coinsurers' shares		5,113,471	9,882,872
Change in claims provisions		1,300,405	(2,825,093)
CHANGE IN OTHER TECHNICAL PROVISIONS	**10.15**	**(4,138,780)**	**(4,555,784)**
CHANGE IN TECHNICAL PROVISIONS FOR THE BENEFIT OF UNIT-LINKED INSURANCE POLICYHOLDERS	**10.16**	**(22,921,728)**	**(2,362,762)**
CHANGES IN LIABILITIES ARISING FROM FINANCIAL CONTRACTS		**0**	**-**
EXPENSES FOR BONUSES AND DISCOUNTS		**100,722**	**(286,786)**
OPERATING EXPENSES, of which	**10.24**	**(77,148,806)**	**(75,738,755)**
- acquisition costs		(26,600,421)	(27,142,123)
EXPENSES FROM INVESTMENTS IN ASSOCIATES, of which	**10.22**	**(51,963)**	**(19,330)**
-loss from capital investments in associates and joint ventures, calculated using the equity method		-	(19,330)
EXPENSES INVESTMENTS, of which	**10.22**	**(2,501,022)**	**(6,245,012)**
- impairment losses of financial assets not measured at fair value through profit or loss		(1,374,749)	(380,153)
OTHER INSURANCE EXPENSES	**10.25**	**(4,093,142)**	**(4,685,390)**
OTHER EXPENSES	**10.26**	**(11,184,868)**	**(8,896,947)**
PROFIT/(LOSS) BEFORE TAX		**11,311,646**	**15,644,795**
CORPORATE INCOME TAX	**10.28**	**1,034,488**	**(2,567,808)**
NET PROFIT FOR THE REPORTING PERIOD		**12,346,134**	**13,076,987**
MINORITY INTEREST		**(7,268)**	**(37,594)**
INTEREST OF PARENT COMPANY		**12,353,402**	**13,114,581**

The accounting policies and notes set out on pages from 255 to 388 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 2016 to 31 December 2016

(in EUR)	Note	1 Jan – 31 Dec 2016	1 Jan – 31 Dec2015
NET PROFIT OR LOSS FOR THE FINANCIAL YEAR AFTER TAXATION		**12,346,134**	**13,076,987**
OTHER COMPREHENSIVE INCOME AFTER TAXATION	**10.13**	**(3,726,852)**	**(2,258,975)**
Items not to be allocated to profit or loss in subsequent periods		**(139,130)**	**(38,989)**
Net gain/loss, recognised in revaluation surplus of property, plant and equipment		(141)	-
Actuarial net gain/loss for pension programmes		(138,988)	(38,989)
Items that may be allocated to profit or loss in subsequent periods	**10.13**	**(3,587,722)**	**(2,219,986)**
Net gain/loss from re-measurement of available-for-sale financial assets		(4,201,158)	(2,731,791)
Gain/loss, recognised in revaluation surplus		4,576,775	2,538,953
Transfer of gain/loss from revaluation surplus to income statement		(8,777,934)	(5,270,744)
Associated net gain/loss related to capital investments in associates, calculated using the equity method		(25,928)	46,097
Tax on items that may be allocated to profit or loss in subsequent periods		711,485	469,370
Gain/loss from translation of financial statements of foreign operations		(72,121)	(3,662)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR, AFTER TAXATION		**8,619,283**	**10,818,011**
- ATTRIBUTABLE TO MINORITY INTEREST		**(7,268)**	**(38,107)**
- ATTRIBUTABLE TO CONTROLLING COMPANY		**8,626,551**	**10,856,118**

The accounting policies and notes set out on pages from 255 to 388 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 2016 to 31 December 2016

in EUR	Note	I. Share capital	II. Capital reserve	III. Reserves from profit: Legal abd statutory	III. Reserves from profit: Credit risk	III. Reserves from profit: Catastrophic loss reserves	III. Reserves from profit: Other reserves	IV. Revaluation surplus	V. Retained earnings	VI. Net profit/loss	VIII. Revaluation surplus	IX. Total equity attributable to the controlling company	X. Minority equity interest	TOTAL EQUITY
Total amount at the end of previous financial year		42,999,530	4,211,782	1,519,600	1,014,505	4,247,869	8,761,311	3,830,832	24,117,512	13,569,040	(1,860,802)	102,411,181	100,408	102,511,589
OPENING BALANCE IN THE FINANCIAL PERIOD		42,999,530	4,211,782	1,519,600	1,014,505	4,247,869	8,761,311	3,830,832	24,117,512	13,569,040	(1,860,802)	102,411,181	100,408	102,511,589
Comprehensive income net of tax	10.13	-	-	-	-	-	-	(3,475,761)	(177,977)	12,353,402	(69,703)	8,629,961	(10,678)	8,619,283
Net profit/loss for the year		-	-	-	-	-	-	-	-	12,353,402	-	12,353,402	(7,268)	12,346,134
Other comprehensive income	10.13	-	-	-	-	-	-	(3,475,761)	(177,977)	-	(69,703)	(3,723,441)	(3,410)	(3,726,851)
Allocation of net profit/loss for the preceeding year to retained profit/loss		-	-	-	-	-	-	-	13,569,040	(13,569,040)	-	-	-	-
Payment (accounting) of dividends	10.31	-	-	-	-	-	-	-	(13,246,820)	-	-	(13,246,820)	-	(13,246,820)
Allocation of net profit to reserves from profit	10.13	-	-	-	-	-	(1,056,976)	-	-	1,056,976	-	-	-	-
Setting up and using reserves for credit risk and for catastrophic losses	10.13	-	-	-	(1,014,505)	(4,247,869)	-	-	5,262,375	-	-	-	-	-
Spremebe deležev v lastniškem kapitalu odvisnih podjetij		-	-	-	-	-	-	-	-	-	-	-	303,734	303,734
Other		-	-	-	-	-	-	(0)	(6,604)	-	-	(6,604)	-	(6,604)
CLOSING BALANCE AS AT 31 DECEMBER		42,999,530	4,211,782	1,519,600	-	0	7,704,336	355,071	29,517,526	13,410,378	(1,930,505)	97,787,718	393,464	98,181,182

The accounting policies and notes set out on page 352 are an integral part of the consolidated statement of changes in equity.

Consolidated 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	III. Reserves from profit: Legal abd statutory	Credit risk	Catastrophic loss reserves	Other reserves	IV. Revaluation surplus	V. Retained earnings	VI. Net profit/loss	VIII. Revaluation surplus	IX. Total equity attributable to the controlling company	X. Minority equity interest	TOTAL EQUITY
Total amount at the end of previous financial year		42,999,530	4,211,782	1,519,600	1,014,505	3,798,823	9,438,167	6,119,423	24,041,737	18,157,469	(1,857,425)	109,443,611	138,515	109,582,126
Adjustments for previous financial year		-	-	-	-	-	-	-	(338,910)	427,866	-	88,956	-	88,956
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
Comprehensive income net of tax	10.13	-	-	-	-	-	-	(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	10.13	-	-	-	-	-	-	(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	10.31	-	-	-	-	-	-	-	(17,944,000)	-	-	(17,944,000)	-	(17,944,000)
Settlement of loss incurred in preceding years	10.13	-	-	-	-	-	(676,855)	-	(226,651)	903,506	-	-	-	-
Setting up and using reserves for credit risk and for catastrophic losses	10.13	-	-	-	-	449,047	-	-	-	(449,047)	-	-	-	-
Other		-	-	-	-	-	(0)	(33,505)	-	-	-	(33,505)	-	(33,505)
CLOSING BALANCE AS AT 31 DECEMBER		42,999,530	4,211,782	1,519,600	1,014,505	4,247,869	8,761,311	3,830,832	24,117,512	13,569,040	(1,860,802)	102,411,181	100,408	102,511,589

The accounting policies and notes set out on page 352 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.

3.5 CONSOLIDATED STATEMENT OF CASH FLOWS

Consolidated statement of cash flows for the period from 1 January 2016 to 31 December 2016

(in EUR)	Note	1 Jan – 31 Dec 2016	1 Jan – 31 Dec 2015
Cash flows from operating activities		**2,969,627**	**11,769,876**
Items from the income statement		**7,281,851**	**21,670,126**
Net premiums written in the reporting period		292,621,359	287,793,548
Income from investments (other than financial income)		2,388,120	18,552,327
Other income from ordinary activities (other than income arising from revaluation and decrease in provisions) and financial income from operating receivables		10,652,234	12,138,588
Net claims and benefits paid in the reporting period		(214,255,488)	(199,155,657)
Net operating costs, other than depreciation costs and change in deferred acquisition costs		(73,388,589)	(81,363,744)
Investment charges (excluding depreciation and financial expenses)		(1,726,562)	(7,331,822)
Other operating costs excluding depreciation (other than for revaluation and without increase in provisions)		(6,876,495)	(7,178,537)
Corporate income tax and other taxes not included in operating costs		(2,132,727)	(1,784,577)
Changes in net current assets (receivables for insurance, other receivables, other assets and deferred tax assets and liabilities) of balance sheet items		**(4,312,224)**	**(9,900,250)**
Opening less closing balance of operating receivables from direct insurance business		1,757,417	2,529,701
Opening less closing balance of receivables from reinsurance		(173,789)	4,761,934
Opening less closing balance of other receivables from (re)insurance contracts		3,195,053	(274,965)
Opening less closing balance of other receivables and assets		(2,727,761)	(141,979)
Opening less closing balance of deferred tax assets		(3,645,537)	647,732
Opening less closing balance of inventories		129,339	(12,886)
Closing less opening balance of debts/liabilities from direct insurance business		(23,830)	(868,735)
Closing less opening balance of debts/liabilities from reinsurance		469,104	(9,968,620)
Closing less opening balance of other operating debts/liabilities		(3,875,606)	(156,137)
Closing less opening liabilities (other than unearned premiums)		1,294,668	(5,960,998)
Closing less opening deferred tax liabilities		(711,282)	(455,298)
Net cash from operating activities		**2,969,627**	**11,769,876**
Cash flows from investing activities		**(43,055,621)**	**9,666,793**
Cash receipts from investing activities		**124,173,411**	**128,280,697**
Cash inflows from interest received from investing activities		5,275,172	7,795,551
Cash inflows from dividends and participations in profit of others		415,130	1,072,970
Cash inflows from disposal of property, plant and equipment		2,326	-
Cash inflows from disposal of financial investments		118,480,783	119,412,176
Cash disbursements from investing activities		**(167,229,032)**	**(118,613,904)**
Cash disbursements to acquire intangible assets		(30,338,800)	(1,373,764)
Cash disbursements to acquire property, plant and equipment, financed from		(3,518,442)	(1,350,596)
Cash disbursements to acquire financial investments		(133,371,791)	(115,889,544)
Net cash from investing activities		(43,055,621)	9,666,793
Cash receipts from financing activities		**33,761,266**	**(17,943,891)**
Cash inflows from financing activities		**48,952,228**	**(0)**
Cash inflows from long-term loans and issued bonds		48,952,228	-
Cash inflows from short-term loans		(0)	-
Cash outflows from financing activities		**(15,190,962)**	**(17,943,891)**
Cash outflows for interest paid		(1,998,814)	-
Cash outflows for payments of short-term financial liabilities		54,672	109
Cash outflows to pay out dividends and other participations in profit		(13,246,820)	(17,944,000)
Net cash from/(used in) financing activities		**33,761,266**	**(17,714,440)**
Closing balance of cash and cash equivalents	10.12	**10,920,169**	**15,301,297**
Cash flow for the reporting period		**(6,324,728)**	**3,492,777**
Exchange rate differences		(28,839)	-
Increases due to acquisition of companies		1,972,437	-
Opening balance of cash and cash equivalents	10.12	**15,301,298**	**(7,072)**
Closing balance of cash and cash equivalents as at 31 December		**-**	**11,815,591**

The accounting policies and notes set out on pages from 255 to 388 are an integral part of the consolidated financial statements.

3.6 CONSOLIDATED STATEMENT OF DISTRIBUTABLE PROFIT

Consolidated statement of accumulated profit for 2016

(in EUR)	Note	Total 1 Jan – 31 Dec 2016	Total 1 Jan – 31 Dec 2015
Net profit/(loss) for the financial year		**12,353,402**	**13,114,581**
Net profit carried forward (+) / net loss carried forward (-)	**10.11**	**29,517,526**	**24,344,162**
- result for the current year under effective standards		29,517,526	24,344,162
Decrease in reserves	**10.11**	**1,056,976**	**676,855**
Increase in other reserves under the decision of the Management Board and of the Supervisory Board		**-**	**449,047**
Balance-sheet profit allocated by the Annual General Meeting as follows:		**42,927,903**	**37,686,552**
− to the shareholder		-	13,246,820

The accounting policies and notes set out on pages from 255 to 388 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 resolution on the distribution of the accumulated profit.

4. INTRODUCTION OF THE AS GROUP AND BASIS FOR THE PREPARATION OF FINANCIAL STATEMENTS

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. (in liquidation), PROSPERA družba za izterjavo d.o.o., VIZ d.o.o., Permanens d.o.o. and ZDRAVJE AS d. o. o., KD IT d. o. o. and KD Skladi d.o.o., forms the Adriatic Slovenica Group (hereinafter: "the Group" or "the Adriatic Slovenica Group").

Management and governance bodies of the Group

Management and governance bodies of the insurance company Adriatic Slovenica d.d. in 2016:

Gabrijel Škof, President of the Management Board
Varja Dolenc, MSc, Member of the Management Board (until 31 October 2016)
Matija Šenk, Member of the Management Board

Since 1 November 2016, the parent company was led by two-tier mangement. In 2016, the Supervisory Board appointed Jure Kvaternik a new Management Board member, who starts serving on the Board after he obtains the authorisation of the ISA.

Supervisory bodies of the Group

Supervisory Board of the insurance company Adriatic Slovenica d.d in 2016

Matjaž Gantar, Chairman
Aljoša Tomaž, Member
Tomaž Butina, Member
Aleksander Sekavčnik, Member
Matjaž Pavlin, Member, employee representative
Borut Šuštaršič, employee representative

Audit Committee of the insurance company Adriatic Slovenica d.d. in 2016

Matjaž Gantar, Chairman (until 12 December 2016)
Matjaž Pavlin, Chairman (since 12 December 2016, prior Audit Committee member)
Mojca Kek, Deputy Chairman (since 12 December 2016, prior member (independent expert))
Milena Georgievski, member (independent expert) (until 12 December 2016)
Jure Kvaternik, member (until 12 December 2016)
Vera Dolinar, member (independent expert) (since 12 December 2016)

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 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.

Number of employees as at the 2016 year-end

Data on the number of employees by the level of professional qualification in 2016 - Adriatic Slovenica Group

	Qualification level					
Number of employees as at	I.- IV.	V.	VI.	VII.	VIII.-IX.	Total
1 Jan 2016	40.00	457.00	185.00	549.00	41.00	1272.00
31 Dec 2016	38.00	446.00	178.00	550.00	54.00	1266.00
2016 average	39.1	462.3	182.1	550.5	47.7	1281.8

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 2016, the number of employees of Adriatic Slovenica, taking into consideration these proportion, is 1,108.24 and is different from the number of employees per person, which was 1,140 employees at the end of 2016. 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 27.8, while the number of employees per person per day is 42 as at 31 December 2016.

Data on the number of employees by the level of professional qualification in 2016 – parent company

	Qualification level					
Number of employees as at	I.- IV.	V.	VI.	VII.	VIII.-IX.	Total
1 Jan 2016	34.00	391.00	156.00	425.00	27.00	1033.00
31 Dec 2016	30.00	385.00	155.00	446.00	34.00	1050.00
1 Jan 2016 AS branch	2.00	27.00	0.00	27.00	1.00	57.00
31 Dec 2016 AS branch	5.00	42.00	0.00	38.00	5.00	90.00
2016 average	35.8	432.9	154.8	467.5	34.1	1125.2

Data on the number of employees by the level of professional qualification in 2016 – subsidiaries

	Qualification level					
Number of employees as at	I.- IV.	V.	VI.	VII.	VIII.-IX.	Total
1 Jan 2016	3.8	33.9	25.0	84.9	13.0	160.5
31 Dec 2016	2.8	14.1	19.7	54.7	14.1	105.3
2016 average	3.1	24.2	23.4	70.4	13.6	134.6

4.1 CONSOLIDATION

For 2016, the Adriatic Slovenica Group prepared consolidated financial statements and included in the consolidation the following entities: insurance company AS neživotno osiguranje a.d.o., Prospera d.o.o., VIZ d.o.o. and Permanens d.o.o. and KD IT d.o.o., KD Skladi d.o.o. and indirect subsidiaries KD Fondovi AD Skopje and KD Locusta Fondovi d. o. o.

The Adriatic Slovenica Group is fully consolidated within the controlling entity the Grooup KD Group d.d. and on the highest level within the KD Group d.d. In 2016, 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 and its indirect subsidiaries

Company	Address	Equity stake	Tax rate	VAT identification no.	Activity	Reporting period
Subsidiary						
SLOVENIA						
PROSPERA družba za izterjavo d. o. o.	Ljubljanska cesta 3, 6000 Koper	100%	17%	SI34037616	Other financial service activities, except insurance and pension funding, n.e.c.	Calendar year
VIZ zavarovalno zastopništvo d. o. o.	Ljubljanska cesta 3 a, 6000 Koper	100%	17%	SI87410206	Activities of insurance agents and brokers	Calendar year
ZDRAVJE AS zdravstvene storitve d. o. o.	Ljubljanska cesta 3 a, 6000 Koper	100%	17%	SI22745866	Specialist outpatient health care service	Calendar year
KD IT, informacijske storitve, d. o. o.	Celovška cesta 206, 1000 Ljubljana	100%	17%	SI15923363	IT services	Calendar year
KD Skladi, družba za upravljanje, d. o. o.	Dunajska cesta 63, 1000 Ljubljana	100%	17%	SI56687036	Activity of custody funds and other funds and similar financial entities	Calendar year
CROATIA						Calendar year
Permanens d.o.o.	Draškovićeva 10, 10000 Zagreb	100%	20%	56019896671	Activities of insurance agents and brokers	Calendar year
SERBIA						Calendar year
AS neživotno osiguranje a.d.o.	Bulevar Milutina Milankovića 7V, 11000 Novi Beograd	80,01%	15%	105510418	In liquidation	Calendar year
Indirect subsidiary						
CROATIA						
KD Locusta Fondovi d.o.o.	Ljudevita Gaja 28, 10000 Zagreb	70%	20%		Activities of investment fund management	
MACEDONIA						
KD Fondovi AD Skopje	Ul. Makedonija 13b (bul. Partizanski odredi br. 14A/1-2), 1000 Skopje	94.60%	10%		Activities of investment fund management	
Associate						
SLOVENIA						
Nama trgovsko podjetje d.d., Slovenija	Tomšičeva ulica 1, 1000 Ljubljana	48.51%	17%	SI22348174	Retail sale of food and non-food consumer products	Calendar year

Changes of equity stakes in subsidiaries and indirect subsidiaries

Direct subsidiary	Equity stake (%) 30 Sept 2016	Equity stake (%) 31 Dec 2015	Change (%)	Note
AS neživotno osiguranje a.d.o.	97.27	97.27	-	
PROSPERA družba za izterjavo d.o.o.	100	100	-	
VIZ zavarovalno zastopništvo d.o.o.	100	100	-	
Permanens d.o.o.	100	100	-	
ZDRAVJE AS zdravstvene storitve d. o. o.	100	-	100	Vstop Atis inženiring d.o.o. in preimenovanje v ZDRAVJE AS d. o. o.
KD IT, informacijske storitve, d. o. o.	100	9.9	90.1	Nakup
KD Skladi, družba za upravljanje d. o. o.	100	-	100	Nakup
Indirect subsidiary				
KD Fondovi AD Skopje	94.6	-	94.6	Posredno pridobljena preko odvisne družbe KD Skladi, d. o. o.
KD Locusta Fondovi d. o. o.	70	-	70	Posredno pridobljena preko odvisne družbe KD Skladi, d. o. o.

Presentation of equity stakes in subsidiaries of the parent company Adriatic Slovenica

Subsidiary	Equity stake (%)		Voting rights (%)		Carrying amount of equity stake (in EUR)	
	31/12/2016	31/12/2015	31/12/2016	31/12/2015	31/12/2016	31/12/2015
AS neživotno osiguranje a.d.o.	97	97	97	97	2,976,832	3,575,375
PROSPERA družba za izterjavo d.o.o.	100	100	100	100	7,035,994	8,079,549
VIZ zavarovalno zastopništvo d.o.o.	100	100	100	100	62,501	9,984
KD IT d.o.o.	100	9.9	100	9.9	9,177,405	882,060
ZDRAVJE AS d.o.o	100	-	100	-	418,131	-
KD Skladi, d. o. o.	100	-	100	-	9,292,708	-
Permanens d.o.o.	100	100	100	100	3,334	38,331
Indirect subsidiary						
KD Locusta Fondovi d.o.o.	70	-	70	-	704,673	-
KD Fondovi AD Skopje	94.6	-	94.6	-	137,840	-

Associated companies

Direct subsidiary	Equity stake (%) 30 Sept 2016	Equity stake (%) 31 Dec 2015	Change (%)	Note
Nama trgovsko podjetje d. d.	48.51	48.51	-	

Changes in relationships of the parent company Adriatic Slovenica with subsidiaries

Changes in equity shares

In January 2016, the parent company paid EUR 100,000 of equity into the subsidiary VIZ d.o.o. With that, the share capital of VIZ increased to EUR 530,000. In August 2016, the parent company paid EUR 100,000 of equity into the subsidiary KD Skladi.

In 2016, Permanens d.o.o. entered into liquidation proceedings, which is why at the end of 2016, in accordance with the guidelines, the management performed a value measurement of the investment into the subsidiary. Based on the findings, an impairment of the investment in Permanens in the amount of EUR 82,960 was performed on 31 December 2016, up to the determined recoverable value, which was zero. The impairment loss was recognized in revaluation financial expenses in profit or loss.

Received dividends

In the first half of 2016, Adriatic Slovenica received dividends in the amount of EUR 73,208 from its subsidiary Prospera. The dividends were fully paid on 9 June 2016.

Loans received and loans given

In January 2016, the Group returned the entire loan from 2015 to the subsidiary VIZ. The Group also received a new short-term loan in the amount of EUR 100,000 from its subsidiary VIZ. The loan was given at the current interest rate for related parties. The loan is gradual with the final repayment deadline on 26 January 2017. The received loan was not additionally secured.

The AS Group – acquisitions and disposals

ZDRAVJE AS zdravstvene storitve d.o.o.

In January 2016, Adriatic Slovenica purchased Atis inženiring d.o.o. and renamed it ZDRAVJE AS zdravstvene storitve d.o.o. On 5 February 2016, the company was renamed and entered into the companies registry in Koper based on the adopted decision on the changed entry. The principal activity of the company is specialist medical practice activity. The vision of the new company is to "provide high-quality health services to policyholders with other Adriatic Slovenica health insurance when they need them". By acquiring the stake, the parent company became the 100% owner of ZDRAVJE AS.

General information about the company

Registered company name: ZDRAVJE AS zdravstvene storitve d. o. o.
Abbreviated company name: ZDRAVJE AS d. o. o.
Head office and address: Koper, Ljubljanska cesta 3A, 6000 Koper – Capodistria, Slovenia
Company registration number: 6332846000
VAT identification number: SI 22745866
Share capital: EUR 352,490
The reporting period is equal to the calendar year.
Corporate tax rate: 17%.

KD IT, informacijske storitve d. o. o.

On 7 July 2016, Adriatic Slovenica acquired a 90.10% stake in KD IT d.o.o. Before that, the parent company had a 9.9% stake in the company. The acquisition of the entire company was viable due to the nature of the investment and the activities of Adriatic Slovenica. By acquiring the stake, the parent company became the 100% owner of KD IT and KD IT became a subsidiary of the Adriatic Slovenica Group.

About the company

Registered company name: KD IT, informacijske storitve d.o.o.
Abbreviated company name: KD IT d. o. o.
Head office and address: Celovška cesta 206, 1000 Ljubljana, Slovenia
Company registration number: 1964780000
VAT identification number: SI 15923363
Share capital: EUR 8,140,081
The reporting period is equal to the calendar year.
Corporate tax rate: 17%.

KD Skladi, družba za upravljanje d. o. o.

On 29 August 2016, Adriatic Slovenica purchased a 100% stake in KD Skladi d.o.o. The company provides financial services, while its principal activity is asset management. The acquisition of the entire company was viable due to the nature of the investment and the insurance activities of the parent company. By acquiring the stake, Adriatic Slovenica became the sole owner of KD Skladi and KD Skladi became a subsidiary of the Adriatic Slovenica Group. Upon the acquisition of the company, the Group assumed the contractual obligations from the concluded futures contract for the purchase of additional stakes in KD Locusta Fondovi d.o.o., which was already a subsidiary of KD Skladi (see Section 13 for further information).

About the company

Registered company name: KD Skladi, družba za upravljanje, d. o. o.
Abbreviated company name: KD Skladi, d. o. o.
Head office and address: Dunajska cesta 63, Ljubljana, Slovenia
Company registration number: 5834457000
VAT identification number: SI56687036
Share capital: EUR 1,767,668
The reporting period is equal to the calendar year.
Corporate tax rate: 17%.

Subsidiaries of the Adriatic Slovenica Group – via subsidiaries

At the time of acquisition, the subsidiary KD Skladi had a 94.60% stake in the subsidiary KD Fondovi AD Skopje and a 70% stake in the subsidiary KD Locusta Fondovi, which means that the Group became an indirect parent company to both subsidiaries.

About the indirect subsidiaries

KD Fondovi AD Skopje (company in 94.60% ownership of KD Skladi)

Head office: Ul. Makedonija 13b (bul. Partizanski odredi br. 14A/1-2),
1000 Skopje, Macedonia
Company registration number: 6364578
Activity: Investment fund management
The reporting period is equal to the calendar year.
Corporate tax rate: 10%.

KD Locusta Fondovi d.o.o. (company in 70% ownership of KD Skladi)

Head office: Ljudevita Gaja 28, 10000 Zagreb, Croatia
Company registration number: 80649778
VAT identification number: 61865183767
Activity: Investment fund management
The reporting period is equal to the calendar year.
Corporate tax rate: 20%.

With the acquisition of new companies, the Group acquired assets and assumed obligations in the following amounts

v EUR	ZDRAVJE AS d.o.o.	KD IT d. o. o.	KD Skladi, d. o. o.	KD Locusta Fondovi d.o.o.	KD Fondovi AD	Total
ASSETS	**210,140**	**9,201,997**	**9,392,141**	**1,125,707**	**142,470**	**20,072,455**
- intangible assets	-	3,113,107	2,774,381	424,258	8,757	6,320,503
- tangible assets	-	77,694	129,341	7,771	6,781	221,587
- investment properties	-	-	-	-	-	-
- financial investments in stake	-	-	2,085,218	-	-	2,085,218
- financial investments in the associate	-	-	-	-	-	-
- financial assets	209,865	5,848,864	2,380,538	61,533	55,012	8,555,812
- investments of unit-linked insurance policyholders	-	-	-	-	-	-
- deferred tax receivables	-	67,136	13,013	-	-	80,149
- other receivables	-	2,228	328,598	210,326	69,938	611,090
- cash and cash equivalents	275	75,815	1,477,661	417,161	1,526	1,972,438
- other assets	-	17,153	203,391	4,658	456	225,658
LIABILITIES	**2,474**	**124,534**	**1,009,476**	**137,550**	**7,426**	**1,281,460**
- liabilities from insurance contracts	-	-	-	-	-	-
- liabilities to unit-linked insurance policyholders	-	-	-	-	-	-
-druge rezervacije	-	-	95,900	-	-	95,900
- other operating liabilities	2,474	75,743	908,626	137,550	7,426	1,131,819
- deferred tax receivables	-	6,261	4,950	-	-	11,211
- other liabilities	-	42,530	-	-	-	42,530
NET value of assets (Equity)	**207,666**	**9,077,463**	**8,382,665**	**988,157**	**135,044**	**18,790,995**
Purchase value of IP	205,010	9,026,705	29,326,008	1,635,218	450,000	40,642,941
– in previous years at fair value of previously acquired assets	-	898,669	-	-	-	-
purchase value	-	950,200	-	-	-	-
Recognised expenses for the difference between the fair value	-	(51,531)	-	-	-	-
– for the current year	-	8,128,036	-	-	-	-
Equity stake (in %)	100%	100%	100%	60%	94.60%	
Fair value of the acquired stake	205,010	9,026,705	29,326,008	1,635,218	450,000	40,642,941
Value of non-controlling interest (minority interest)	-	-	-	296,447	7,287	303,734
GOODWILL/NEGATIVE GOODWILL (recognised in revenues)	**2,656**	**50,758**	**(20,943,343)**	**(943,508)**	**(322,243)**	**(22,155,680)**

The fair value of assets and liabilities upon the acquisition equalled the carrying amounts. By acquiring the subsidiaries, the principal activity of which is asset management, the Group acquired goodwill in the amount of EUR 22,209,093, which is disclosed under intangible assets. The Group immediately recognized the surplus of net assets (bad goodwill) through business combinations under revenues from business combinations in the amount of EUR 53,414.

4.2 BASIS FOR THE PREPARATION OF THE CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements and the consolidated annual report (management report and accounting report) prepared by the Adriatic Slovenica Group. For the financial year 2016 have been prepared in accordance with the International Financial Reporting Standards (IFRS), as adopted by the European Commission Regulation and in accordance with the provisions of the national legislation, the Slovene Companies Act (ZGD-1) and its amendments and the Insurance Act (ZZavar-1). Furthermore, the consolidated financial statements and annual report have been prepared in compliance with the national implementation regulation, the Decision on Annual Reports and Quarterly Financial Statements of Insurance Undertakings issued by the Insurance Supervision Agency (Official Gazette of the Republic of Slovenia No. 1/16).

The reporting period of the Group and of all companies in 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 annual 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.

4.2.1 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 2016 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 2016:

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 9 - Financial Instruments (2014)

The amended standard becomes effective for annual periods beginning on or after 1 January 2018 (postponement until 2020 has been proposed for insurance companies). Conversion of previous periods is not required, but permitted as long as the information is available and without applying recognitions. Earlier application is permitted.

This standard replaces IAS 39 Financial Instruments: Recognition and Measurement, with the exception that IAS 39 remains in force for a fair value hedge of interest rate risk of a portfolio of financial assets or financial liabilities. Companies may choose as its accounting policy to apply either hedge accounting in accordance with IFRS 9 or the existing hedge accounting under IAS 39.

Although the bases of permissible measurement of financial assets – at either amortized cost, fair value through other comprehensive income (FVOCI) or at fair value through profit or loss (FVLP) – are similar to IAS 39, the criteria for determining the appropriate measurement vary significantly.

A financial asset is measured at amortized cost when following conditions are met:

- the financial assets are held within a business model that is designed to collect contractual cash flows; and
- the contractual terms include specific dates of cash flows that are solely payments of principal and interest on the principal amount outstanding.

Furthermore, the company may present subsequent changes in fair value (including foreign exchange rate gains or losses) of an equity instrument that is not held for trading irrevocably within other comprehensive income. These subsequent changes can no longer be reclassified to profit or loss in any case.

Debt instruments measured at fair value through other comprehensive income, interest income, expected credit losses and the foreign exchange rate gains or losses are recognized in profit or loss in the same way as assets measured at amortized cost. Other gains and losses are recognized in other comprehensive income and after derecognition, reclassified to profit or loss.

Model calculation of impairment in accordance with IFRS 9 replaces the model of incurred losses, as known in IAS 39. It also includes a model of expected credit losses, which means that the impairment may be recognized even before the loss has been incurred.

IFRS 9 contains a new general hedge accounting model, which better adapts the accounting to risk management. Different types of hedging relationships - fair value, cash flow and net investments in foreign companies - remain unchanged, but further assessment is required.

The standard contains new requirements that need to be met (continuation and discontinuation of hedge accounting) and allows additional types of exposures to be treated as hedged items.

Additional extensive disclosures are required in respect of risk management and hedging activities.

The Group does not expect for this amendment to have any impact on its financial statements as of the date of initial application as presented below.

At this stage, it is not clear what proportion of debt securities will be measured through other comprehensive income (FVOCI), through profit or loss, or at amortized cost, since it depends on the result of the business model test. Considering the nature and purpose of the debt securities, which the Group records in different groups under IAS 39, it is not expected that a significant proportion of these assets would be measured differently under IFRS 9.

The possibility exists that equity instruments currently classified as available for sale will be measured at FVOCI in accordance with IFRS 9, which depends on the Group's decision as of the date of initial application of the standard. The Company has not yet decided on the classification of those instruments.

It is expected that the deposits will continue to be measured at amortized cost in accordance with IFRS 9.

Based on the preliminary estimate, the Group expects that almost all financial instruments that are classified as assets and liabilities in accordance with IAS 39 will continue to be measured at amortized cost as defined by IFRS 9.

It is further anticipated that the expected credit loss model under IFRS 9 will accelerate the recognition of impairment losses and bring higher impairment at initial application.

At this moment, the Group cannot estimate with certainty the impact of the initial application of IFRS 9 on its financial statements prepared in accordance with IFRS.

IFRS 15 - Revenue from Contracts with Customers

The new standard is effective for annual periods beginning on or after 1 January 2018. Earlier application is permitted.

Clarifications to IFRS 15, Revenue from Contracts with Customers have not yet been approved by the competent bodies of the EU; however, the EU has approved IFRS 15, Revenue from Contracts with Customers, including its effective date.
The new standard provides a framework that has replaced the existing guidance for revenue recognition under IFRS. An entity shall apply a five-step model to determine when exactly to recognize revenue and to what amount. The new model determines that revenue is recognized when the control over the goods and services has been transferred to the customer and in the amount up to which the entity expects to be entitled. Given that the criteria are met, revenue shall be recognized:

- over time and in a way that shows the operations of the entity, or
- at the moment when the control over the goods and services has been transferred to the customer.

In addition, IFRS 15 establishes principles that commit an entity to ensuring high quality and extensive disclosures to users of financial statements providing useful information about the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers.
Although the initial estimate of the potential impact of IFRS 15 on the Group's financial statements has not yet been fully completed, the Management Board assumes that on the date of the first application the standard will not significantly affect the Company's financial statements. The Group does not foresee that the timing and measurement of its revenue under IFRS 15 will change due to the nature of its operations and the types of revenue.

Annual Improvements

The plan of annual IFRS improvements 2014–2016 Cycle was published on 8 December 2016 and introduces changes to two standards and, as a consequence, amendments to other standards and interpretations, which result in accounting changes for presentation, recognition or measurement. Amendments to IFRS 12, Disclosure of Interests in Other Entities, effective for annual periods beginning on or after 1 January 2017, Amendments to IAS 28 Investments in Associates and Joint Ventures are effective for annual periods beginning on or after 1 January 2018. Earlier application is permitted.

The Group does not expect for these amendments to have any impact on its financial statements.

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

IFRS 16 - Leases

This standard is effective for annual periods beginning on or after 1 January 2019. Earlier application is permitted, but not before an entity applies IFRS 15.

IFRS 16 replaces IAS 17 Leases and the related clarifications. The standard removes the existing model of dual accounting for leases and, instead, requires the Group to account for the majority of the leases under a single on-balance sheet model without distinguishing between an operating and a finance lease.

According to IFRS 16, the contract contains a lease if it conveys the right to control the use of an identified asset for a period of time in exchange for consideration. The new model provides that, under such contract, the lessee shall recognize the right-of-use asset and lease liabilities. The right-of-use asset is depreciated, and interest is added to the liabilities. This results in a concentrated pattern of costs for most leases, even if the tenant pays a fixed annual rent.

The new standard introduces o number of restricted exceptions, including:

- leases with a lease term of 12 months or less and containing no purchase option and
- Leases where the underlying asset has a low value (low-value leases, small-ticket leases).

The introduction of the new standard will not substantially change the lease accounting for the lessor and from the lessor’s perspective, the distinction between the operating lease and finance lease remains in force.
The Group does not expect for this amendment to have any impact on its financial statements as of the date of initial application.

Amendments to IFRS 2 - Classification and Measurement of Share-based Payment Transactions

This amendment is effective for annual periods beginning on or after 1 January 2018 and shall be applied retrospectively. Earlier application is permitted.

The amendment addresses share-base payments in the following areas:

- the effects of vesting conditions on the measurement of a cash-settled share-based payment transaction;
- the classification of a share-based payment transaction with net settlement features for withholding tax obligations;
- the accounting where a modification to the terms and conditions of a share-based payment transaction changes its classification from “cash-settled” to “equity-settled”.

The Group does not expect for this amendment to have any impact on its financial statements as of the date of initial application, since the Company has no share-based payment transactions.

Amendments to IFRS 4 - Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts

This interpretation is effective for annual periods beginning on or after 1 January 2021 and shall be applied retrospectively.
The amendments address concerns arising from implementing the new financial instruments standard, IFRS 9, before implementing the new insurance contracts standard that the IASB is developing to replace IFRS 4. The amendments

introduce two options for entities issuing insurance contracts. The first one is a temporary exemption from applying IFRS 9 allowing entities to defer the application of IFRS 9 (the »deferral approach«). The second option is the »overlay approach« intended to mitigate instability deriving from applying IFRS 9 before implementing the new envisaged insurance contracts standard.

The Group as an entity issuing insurance contracts will apply the exemption from applying IFRS 9 and, consequently, foresees no significant impact in its financial statements.

Amendment to IFRS 10 and IAS 28 Sale or Contribution of Assets between an Investor and its Associate or Joint Venture

The International Accounting Standards Board (IASB) has deferred the effective date of the amendments. However, early application is permitted.

The amendment clarifies that in transactions with an associate or joint venture the extent of the gain or loss recognition depends on whether the asset sold or contributed constitute a business in which

- the entire gain or loss is recognised when the transaction is made between the investor and its associate or joint venture covering the transfer of an asset or assets constituting a business (irrespective of whether the asset is located in a subsidiary or not), while a partial gain or loss is recognised when the transaction is made between the investor and its associate or joint venture covering the transfer of an asset that does not constitute a business even if the assets are located in the subsidiary.

The Group does not expect for this amendment to have any significant impact on its financial statements as of the date of initial application.

Amendment to IAS 7

This amendment is effective for annual periods beginning on or after 1 January 2017 and shall be applied retrospectively. Earlier application is permitted.

The amendment requires additional disclosures that will help the users of financial statements evaluate the changes in financial liabilities including the changes in cash flows and non-monetary changes (e.g. the impact of exchange rate gains and losses, changes in the acquisition or loss of control over subsidiaries, changes in fair value).
The Group does not expect for this amendment to have any significant impact on its financial statements as of the date of initial application.

Amendment to IAS 12 - Recognition of Deferred Tax Assets for Unrealised Losses

This amendment is effective for annual periods beginning on or after 1 January 2017 and shall be applied retrospectively. Earlier application is permitted.

The amendment clarifies in more detail how and when to account for deferred tax assets in certain cases, and how to determine the amount of future taxable income for the purpose of assessing the recognition of deferred tax assets.

The Group does not expect for this amendment to have any significant impact on its financial statements as of the date of initial application, since the Group has already introduced the measuring of future taxable income in the way as required by this amendment.

Amendments to IAS 40 - Transfers of Investment Property

The amendments are effective for periods beginning on or after 1 January 2018 and shall be applied prospectively.

The amendments strengthen the principle set out in IAS 40 Investment Property concerning transfer to investment properties or from them, so that it now provides that such a transfer is made only if there is a change in the use of the property. In accordance with these changes, a transfer is made when and only when there is a real change in use – i.e. when an asset starts or ceases to meet the definition of investment property and there is evidence of a change in use. A mere change of the management's purpose is no reason for transfer.

The Group does not expect for this amendment to have any impact on its financial statements as of the date of initial application, since the Group transfers a property to investment properties of from them only in case of an actual change in use.

IFRIC 22 - Foreign Currency Transactions and Advance Consideration

This interpretation is effective for annual periods beginning on or after 1 January 2018.

The Interpretation clarifies how to determine the date of a transaction for the purpose of determining the exchange rate to be applied upon initial recognition of the related asset, expense or income (or part thereof) on derecognition of non-monetary assets or non-monetary obligations in relation to a made or received advance payment in foreign currency.

In such a case, the transaction date is the date on which the company first recognized a non-cash asset or a non-monetary obligation in relation to a made or received advance payment.

The Group does not expect for this amendment to have any impact on its financial statements as of the date of initial application, since the Group upon initial recognition of non-cash or non-monetary obligations in relation to advance payments made or received uses the exchange rate in effect on the transaction date.

4.2.2 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 (see Sections 5.4 and 10.4 for more details).

4.2.3 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.

4.3 INSURANCE AND FINANCIAL CONTRACTS

The Group concludes contracts, under which it accepts insurance or financial risk or both types of risk from the policyholder, which is why it classifies its products under insurance and financial contracts.

Insurance contracts include contracts with a significant insurance risk. They may also include financial risk, whereas financial contracts do not include underwriting risk.

A material underwriting risk is defined as the possibility of having to pay significant additional benefits on the occurrence of a loss event. A significant additional benefit is defined as the difference between the benefits payable on the occurrence of a loss event and the benefits payable if the loss 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 case of occurrence of loss event and the payment in the remaining cases. As a general guideline, the Group defines 10% as the benchmark for assessment of significance of insurance risk if the additional benefits payable in the case of occurrence of a loss event amount to at least 10% of benefits payable in other events.

Part of insurance contracts held by the Group as at 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 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.

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, assistance insurance, 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 the policyholder's obligation for payment occurs. Revenues contain all costs in addition to premiums, including the agency fee, except taxes. The part of the premiums from in-force 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. Written premiums less changes in unearned premium reserves are recognised as income.

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

Health insurance contracts

The Company provides three out of four types of voluntary health insurance in accordance with the provisions laid down in the Health Care and Health Insurance Act (hereinafter: the ZZVZZ), specifically complementary 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 groups offering complementary health insurance are included in equalisation schemes under the Health Care and Health Insurance Act (the ZZVZZ), which equalizes the differences in the medical costs between different structures of the insured of 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 in the event of death during the term of the insurance contract, 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 due to cancer and lifelong annuity insurance. Some types of life insurance can be concluded with additional accident insurance, additional critical illness insurance and other additional insurance. In this group, the Company also accounts for voluntary supplemental pension insurance under the PN-A01 pension plan and deferrec temporary annuity contracts. In 2016, the Group started selling new pension products: Pokojninsko varčevanje AS – individualno and Pokojninsko varčevanje AS – kolektivno. New payments (payments as of 1 February 2016) will be invested in new guarantee funds (lifecycle of funds) according to policyholders' age and their susceptibility to risk.

Premiums, claims, 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 for these contracts. 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 using the assumptions on mortality, surrenders, costs and revenues from investments as they are recognised in the products' premium calculations, or more prudent 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 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 additional accident insurance. In some products, the risk premium is calculated from tables and in others as a% of the premium paid.

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.

The amount of liabilities includes the changes in asset unit value that are reduced by management fees and risk premiums. In addition, liabilities are increased by premiums and reduced by costs. In the case of surrender, the liabilities are reduced and the surrender value equals the Group's liabilities, reduced by surrender fee in the event of surrender 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 yet converted net premiums paid. Depending on the insurance product, the liabilities are increased for any advance payments.

It is assumed that in each period risk premiums charged based on expected population mortality are sufficient to cover death claims of entitlements in excess of the unit values on individual personal accounts of insured. 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 where 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 unbundled from the main insurance contract.

Reinsurance contracts

The contracts concluded between the Group and the reinsurers that entitle the Group to reimbursement of damages arising from one or more insurance contracts issued by the Group, and meeting the criteria of definition of insurance contracts, are classified as reinsurance contracts.

Financial contracts

Financial contracts are contracts that carry financial risk without a material insurance risk.

Under financial contracts, the Group includes voluntary supplementary pension insurance concluded under the Pokojninsko varčevanje AS – individualno and Pokojninsko varčevanje AS – kolektivno pension schemes.

The AS Group is managing assets from voluntary supplementary pension insurance in the separate funds Pokojninsko varčevanje AS in accordance with the lifecycle investment policy. The funds Pokojninsko varčevanje AS, which were formed based on the legislation of the Republic of Slovenia regulating additional pension insurance (SVPI), provides financial optimization of saving for supplementary pension as well as significant tax benefits to both employees and employers.

The Pokojninsko varčevanje AS funds consists of:

- the Pokojninsko varčevanje AS Drzni up to 50 fund,
- the Pokojninsko varčevanje AS Umirjeni between 50 and 60 fund,
- the Pokojninsko varčevanje AS Zajamčeni above 60 fund.

The investment policy of each fund is designed specifically for the target age group of policyholders and in accordance with the investment goals for the age group, at which individual funds are aimed. In the Pokojninsko varčevanje AS Zajamčeni above 60, the fund manager assures a return of 60% of average annual interest rate on goverment securities, which is taking into account the legal basis prescribed by the finance minister for calculation of the minimum return.

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies used for 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 2016.

5.1 INTANGIBLE ASSETS

The Group values intangible assets at the cost value, i.e. 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 2016	Useful life in 2016 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 intangible assets is the period in which it is possible to expect economic benefits from the asset. The useful lives are determined by the Group according to the duration of contractual or other rights. Based on this, the useful life cannot be longer from the period in which the Group may use the asset; however, it may be shorter. Intangible assets may have a non-defined useful life if, based on an analysis of all relevant factors, it is determined that there is no foreseeable limit to the period in which it is expected that the asset will generate net cash inflows for the Group.

The impairment test is performed for all significant intangible assets for which carrying amount exceeds their recoverable amount. An impairment test is performed for all assets whose individual purchase price exceeds EUR 50,000. The determined impairment loss (the asset's carrying amount that exceeds its recoverable amount) is recognised in the income statement as loss due to impairment.

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 consideration or payment paid by the acquirer is identified. In the case the given consideration exceeds the fair value of the associated net assets of the subsidiary, goodwill is generated. Goodwill is therefore the calculated surplus of payment made by the acquirer expecting future benefits from assets that cannot be defined or recognised separately.

The goodwill that arises from the acquisition of subsidiaries is recognised as an intangible asset and purchase price less the potential losses due to impairment. However, goodwill that is generated from acquisition of associates is recognised in the value of investments in associates.

Goodwill is measured in the currency of the acquired entity that is as at the day of the acquisition translated into the reporting currency of the acquirer.

Impairment test of goodwill is performed annually and potential impairments are recognised in the income statement. Derecognition of goodwill impairment is not permitted. Gains or losses from the sale of subsidiaries also include the amount of goodwill related to the sold subsidiary.

5.2 PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment are classified according to their nature as property (property held for own use) 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 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 2016	Useful life in 2016 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

Property (buildings) used by the Group for the performance of its own activities are part of the whole – a cash-generating unit, i.e. the Group, which generates cash inflows by performing its principal activities. The recoverable amount is generally the amount that is larger than the value in use or fair value decreased by costs of sale.

The management believes that in normal (expected) business conditions the book value of property intended for the performance of activities is at least equal to the recoverable amount of property. Recoverable amount is normally the cost that is larger than the value in use or fair value decreased by costs of sale.

The management assesses the values of these properties in the case the business circumstances significantly change or deviate from normal (expected) business conditions or when the properties intended for own use are reclassified into investment properties.

In such cases, recoverable amount is determined based on property appraisals by external certified appraisers. The appraisals are prepared using the same methodology as used for measurement of recoverable amounts of investment property. If the recoverable amount of properties is lower than their carrying amount, such properties are impaired and the Group recognizes this difference in the income statement as an impairment loss and is considered an operating expense.

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 revenues, if any, and the carrying amount of the item, including disposal costs, are recognised in profit or loss as revaluation revenue or revaluation expense.

5.3 INVESTMENT PROPERTIES

Investment properties (land and buildings) are assets held by the Group with the purpose to earn cash flow from rent, increase the value or both. If a property is classified as an investment property, the Management Board takes into account the purpose of the property.

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 2016	Useful life in 2016 in years
Buildings	1.3 -1.8%	56-77

At least once per year, the Management Board performs an impairment test of investment properties, namely using accredited independent appraisers qualified to perform valuation of property. For new property, its purchase price is considered as fair value.

The Management Board performs an impairment test for investment properties, for which the carrying amount exceeds 5% of the materiality in terms of financial statements as a whole. The Group defines the materiality in terms of financial statements as a whole at 3% of the equity, as recorded in the balance sheet.

In of the performance of the impairment test for investment properties, the return of each property and market profitability is taken into account. If the actual return of an individual property exceeds the required return of property, the property does not show signs of impairment. Otherwise, the recoverable amount is determined for the property, using the following property valuation methods (also defined in valuation methods in the section on fair value):

- the income approach: this approach is based on the principle of present value of future returns – rent and similar revenues arising from the management of the property (value in use),
- the market approach: this approach determines the indicator value of the real property based on transactions for the same or very similar property. This approach is especially useful for real properties that are sold in large numbers on the secondary market (fair value).

The Group performs impairment of an investment property to the value of recoverable amount if the recoverable amount of the property is lower than the carrying amount, under the same conditions that apply for properties classified as property, plant and equipment.

Property, 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 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.

5.4 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.

5.5 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 financial 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.

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 rate method. Interest calculated using the effective interest rate method is recognised in the income statement.

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 rate 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 rate method is recognised in the income statement.

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, for which fair value cannot be measured, namely by performing an impairment test (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.

Financial assets measured at fair value through profit or loss

Financial assets measured at fair value through profit or loss are divided into two subcategories: the “held for trading” (TRA) subcategory and the “upon initial recognition” (FVD) subcategory:

- in the “held for trading” subcategory, the Company classifies all (short-term) financial assets that were acquired for trading or for which there is evidence of recent short-term profit and all derivatives that are not financial guarantee contracts. This subcategory also includes derivatives used by the Group to hedge against risks since the Group does not use special rules for accounting treatment of hedging;

- in the "upon initial recognition" subcategory, the Company classifies financial assets tied to long-term unit-linked insurance contracts and financial assets for the purpose of eliminating or significantly reducing inconsistencies in measurement or recognition ("accounting mismatch"), which would otherwise arise from the measurement of assets or liabilities or from the recognition of gains and losses on various bases.

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 units and valued using the value of units of related policies.

Financial assets measured at 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.

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 fair value assessment of **equity securities**, the Group continuously assesses the market activity, where the final rate of the last day of trading with the security must not be older than one month and the exchange rate used must be based on adequate liquidity, or the turnover on the trading date (regular transactions without batches) must amount to at least 20% of total value of the security position (market value of the last valuation), or at least EUR 50,000 in absolute terms. The smallest of the values is taken into account as a criterion.

In the assessment of fair value of **debt securities** traded on the regulated securities market, the Group sets an exchange rate based on the closing price published on the stock exchange on the balance sheet date. If there is no information about the closing price on the balance sheet date for an individual debt security, the closing price from the last day, on which the debt security was traded will be used, but this closing price may not be older than one month. The final price used must be based on adequate liquidity, where the total volume of concluded transactions on this day must be at least EUR 500,000. If published prices on the active market do not meet the activity criteria, fair value is calculated based on the bid rate published on the balance sheet rate in the Bloomberg system from BVAL (Bloomberg Valuation Service) or based on the internal model for the calculation of fair value of the debt security. Fair value is determined monthly using internal models, namely for corporate debt securities based on the internal model for fair value calculation of the corporate debt security and for government debt securities based on the internal model for fair value calculation of the government debt security.

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 exists at all, 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
INTERNAL / EXTERNAL APPRAISERS			
Debt securities	**Internal model**		
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 maturity date of the securities for which fair value note	
Debt securities – companies and financial institutions	Calculation of sum of required profitability for	State bonds of comparable maturity	Level 2
		Credit risk for risky industries (CDS), considering the comparable maturity and investment class rate	
		illiquidity	
Equity securities	**Internal model**		
	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
Investment properties	**Authorised external appraisers**		Level 3
	Market method	Analysis of actual real estate market transactions	
	Revenue method (direct capitalisation method)	Present value of future expected gains	
		Capitalisation rate (gains and repayment)	
		Discount rate	
		Allowance for lack of marketability (illiquidity)	
Capital investments in associates	**Authorised external appraisers**		Level 3
	Net asset value method	Change in prices of real estate	
	Discounting of cash flows	g (growth rate in period of constant growth)	
		net margin (constant growth period)	
		discount rate	
		discount for lack of marketability	
EXTERNAL APPRAISERS (market organiser)			
Debt securities - compound	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
Equity securities - compound	stochastic model	curve of EUR SWAP interest rates, credit adjustments of the issuer, credit adjustments of comparable issuers, share index volatility	Level 2
BLOOMBERG BVAL			
Debt securities			
Debt securities - state	Cash flow discounting	curve of EUR SWAP interest rates, credit adjustments of the issuer, credit adjustments of comparable issuers, indicative quotations, BVAL rate estimate of 6 - 10	Level 2
		curve of EUR SWAP interest rates, credit adjustments of the issuer, credit adjustments of comparable issuers, indicative quotations, BVAL rate estimate of 1 - 5	Level 3
Debt securities – companies and financial institutions	Cash flow discounting	curve of EUR SWAP interest rates, credit adjustments of the issuer, credit adjustments of comparable issuers, engendered, actual quotes, indicative quotations, BVAL rate estimate of 6 - 10	Level 2
		curve of EUR SWAP interest rates, credit adjustments of the issuer, credit adjustments of comparable issuers, engendered, actual quotes, indicative quotations, BVAL rate estimate of 1 - 5	Level 3

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 on the payment of interest or principal,
- loan rescheduling under more favourable conditions due to the inability to service the debt,
- bankruptcy of the debtor or financial reorganisation;
- disappearance of an active market for such financial assets due to financial difficulties.

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 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 12 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 12 months, whereas for the assessment of a significant decrease in fair value the insurance company's management considers at least a 30% decrease in fair value compared to the acquired value. 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.

5.6 UNIT-LINKED INSURANCE CONTRACT INVESTMENTS

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. Additionally, policy-based loans backed by unit-linked insurance contracts are classified as financial assets at fair value through profit or loss. The latter are treated as financial instruments, accounted for as units and measured at net asset value per unit of insurance policy funds used to back the loans.

The value of the units of financial instruments used as investments of the fund backing unit-linked insurance is calculated as at the balance sheet date by multiplying the number of units of individual financial instruments with their active market price as at that day. Financial investments for unit-linked insurance contracts are revalued on a monthly basis.

5.7 ASSETS FROM FINANCIAL CONTRACTS

Assets from financial contracts are recorded separately, because the Group uses the returns arising from such assets to cover obligations from financial contracts and losses due to financial risks, but not losses arising from insurance risk from insurance operations. Financial investments and cash assets are recorded under assets from financial contracts. The Group recognizes and values financial investments of assets from financial contracts in the same way as other financial investments (see Section 6.5).

5.8 REINSURERS’ SHARE OF INSURANCE 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 assets are derecognised when the rights from reinsurance contracts expire or are transferred to a third party.

5.9 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 for the first payment. In case the indemnity amount in an individual case exceeds EUR 30,000, it is recognised – the subrogation receivable toward the policyholder or debtor in the balance sheet evidence does not exceed the estimated indemnity amount. The subrogation receivable is in such cases estimated individually, taking into account individual adjustments of subrogation receivables. In forming subrogation receivables for car insurance, the insurance company can (based on Article 7 of ZOZP and Article 3 of the General terms) exercise the right of refund of indemnity paid, including late payment interest and expenses in the maximum amount of EUR 12,000, except if the damage is done intentionally and the Group claims the refund of the total amount.

Before the subrogation receivable is exercised, the unexercised subrogation claims are kept as off-balance sheet items and no impairment is formed. The only exception is subrogation claims under credit insurance that become exercised immediately after inception. Paid subrogation claims are recognised as decrease of claims paid.

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 which decreases the 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.

Value adjustments of **subrogation** receivables are made collectively – separately for collateralised (mortgage-backed) and uncollateralised receivables. The impairment represent a proportion of actual non-payments in the preceding financial period. Due to a higher default risk, impairments are made individually per subrogation claim above EUR 10,000. After the end of the financial year, the percentage of value adjustment per receivable may be reassessed only if their average recovery rate is substantially changed. The accrued and unpaid interest from transactions with recourse, disclosed in accounts receivable, are impaired at the same percentage as the subrogation receivables. Receivables from the subrogation procedure costs more than 30 days overdue are impaired at the same percentage as the subrogation receivables. For assessment and impairment purposes, factoring claims are treated as subrogation receivables.

5.10 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 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.

5.11 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.

5.12 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 liabilities arising from internal relationships (between individual funds or general ledgers) are separately presented in financial statements. At the end of the reporting period, the receivables and liabilities among individual funds are offset and the balance is presented as receivables or liabilities, which are offset, i.e. balanced, in the cumulative balance sheet.

5.13 EQUITY

The Group discloses the share capital and other capital components separately by insurance group. The baseline split ratio is established to ensure capital adequacy of insurance groups. In doing so, the Group separately establishes the minimum equity required for performing insurance business in the non-life insurance segment and separately for the life insurance segment. Given the equity shares of subsidiaries, the Group equity is divided into equity of majority shareholders – equity of the parent Group – and equity of minority shareholders – equity of non-controlling owners.

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 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).

In item other reserves from profit, reserves for catastrophic losses and equalisation provisions were formed in accordance with the Insurance Act (ZZavar). In accordance with IFRS, such provisions were disclosed as a separate item under reserves from profit in the Group equity. With the ZZavar-1 amendment and the implementation of the new Solvency II regime such reserves are no longer formed. The Group transferred the reserves for catastrophic losses and equalisation provisions to retained earnings.

Furthermore, within the framework of other reserves, formed in line with the previously applicable laws, the Group recognises half of the profits generated before the end of 2013 by complementary 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 complementary 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.

5.14 SUBORDINATED LIABILITIES

Under subordinate liabilities, the Group discloses liabilities arising from the issuance of subordinated bonds. Subordinated bonds are debt securities where in the event of insolvency or capital inadequacy of the issuer, the holder is entitled to payment contained in this security only after all liabilities of the issuer against unsubordinated creditors are settled. In financial statements, subordinated debt is measured at amortized cost.

5.15 INSURANCE TECHNICAL PROVISIONS

The Group must establish appropriate insurance 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. Insurance 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 insurance technical provisions, and the Rules on the formation of insurance technical provisions.

The Group recognises as liabilities gross technical provisions and insurance 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 at the end 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 sum insured is equally distributed across the term of the policy or if it is increasing or decreasing:

- equally distributed sum insured - majority of insurance classes;

- increasing isum insured - for building and construction insurance (other damage to property insurance);
- decreasing sum insured - credit insurance.

Mathematical provisions

Life insurance contracts

Mathematical provisions are established in the amount of the present value of estimated future obligations of the Group 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 sum insured with allocated surpluses in the event of maturity or payment of agreed sum insured 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 the mentioned fund of collective additional pension insurance for 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 insured 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 sum insured (additional annuity in annuity insurance), which is guaranteed. An additional sum insured is paid out in the event of 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 advance payments.

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 regardless whether the insurance event has already been reported, including all costs incurred to the Group on the basis of these contracts.

No discounting of 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 claim file:

- for claims reported but not settled by the end of the accounting period, an individual account of all relevant claim 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 paid or based on incurred 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 long-tailed or short-tailed.

The statistical method depends 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 paid or incurred 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 accident year, and the columns represent the number of years from the time the claims incurred to and the time the claim was paid or incurred. It is assumed that the pattern of claims in the future will be similar to the pattern from the past years. The prediction of ultimate claims is based on the calculation of average annual development factors which are smoothened into a decreasing pattern.

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 subrogations.

The provisions for claim settlement costs are included in the gross provisions for claims.

Other insurance technical provisions

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 unearned premium reserves of individual contracts.

Other insurance technical provisions

The Group presents provisions for unexpired risk among other insurance technical provisions.
Provisions for unexpired risk are established to cover claims and expenses associated with active insurance contracts which will incur after the accounting period and are not covered under unearned premium provision. Provisions for unexpired risks are calculated at the level of line of business. The criterion for their formation is the negative result (loss) of a line of business in the current period and the opinion that the negative result of a line of business is a result of the premium which was set too low. The provisions for unexpired risk are also formed in other special cases when the Group is aware of the accepted liabilities for which it does not have any unearned premiums formed.

5.16 INSURANCE TECHNICAL PROVISIONS FOR UNIT-LINKED 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 securities with guaranteed maturity benefit. The provisions are created for the products for which the Group bears the credit risk associated with the issuer of the security and the concentration risk. They are formed for the risk of unbundling of securities components or illiquidity of the issuer of the security to which the guarantee is bound.

5.17 LIABILITIES FROM FINANCIAL CONTRACTS

Under liabilities from financial contracts, the Group classifies obligations of the Pokojninsko varčevanje AS funds. These are formed for voluntary supplemental pension insurance concluded using the Pokojninsko varčevanje AS – individualno and Pokojninsko varčevanje AS – kolektivno pension schemes. They are calculated based on the collected net premium from policyholders by savings account and fund by multiplying the number of asset units in the fund with the value of an asset unit in the fund on the valuation date. Net premium of policyholders (savers) is gross written premium less entry costs.

In relation to the liabilities from financial contracts in the fund with a guaranteed return (Pokojninsko varčevanje AS guaranteed above 60), the guaranteed asset value is also calculated – the number of guaranteed asset units multiplied with the value of the guaranteed asset unit on the valuation date. The guaranteed return under the adopted pension scheme for the Pokojninsko varčevanje AS guaranteed above 60 provides guaranteed return of 60% of the average annual interest rate on government securities, taking into account the legal basis prescribed by the finance minister to calculate the minimum guaranteed return.

If asset value in an individual savings account is lower than the guaranteed asset value, the Group will form impairments (or reservations) due to the lack of guaranteed return.

5.18 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 value cannot be reliably assessed.

Accrued and deferred items include 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.

Employee benefits

Employee benefits include provisions for the unused part 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 item 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 Group 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.

5.19 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 are accounted for as expenses at maturity.

5.20 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.

5.21 REVENUES AND EXPENSES

Revenues include fair value of received compensation 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 is revenues from unit-linked insurance services that are accounted for 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 ceded to co-insurance and reinsurance and decreased by the change in net unearned premium reserves. 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 part of the unexpired period for which the insurance premium has been calculated. In the accounting books, gross insurance premiums and reinsurance and/or co-insurance share are recorded separately.

Revenues from insurance premiums are monitored separately by insurance group and line of business.

Revenues and expenses from investments

Revenues and expenses from investments include revenues arising from interest, realised gains/losses from the disposal of investments, dividends, gains and losses from foreign exchange differences, and revenues and expenses from 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 when previously recognised impairment 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 revenue for insurance and financial contract management are recognised as other insurance revenues.

Revenue from **fees and commissions from insurance contracts** is mostly revenue from reinsurance fees and commissions.

Revenue from fees and commissions from financial contracts is mostly revenue from entry/exit fees (for entry and exit costs) and fees for management of financial contracts. In accordance with the pension scheme of the voluntary pension insurance, the Group or the parent Group as the fund manager is entitled to the charged entry fee, which means that the gross written premium is reduced by the entry costs. For asset management within the funds, net premium is therefore used. The Group calculates the net asset value of individual funds on a monthly basis and charges a management fee, which also belongs to the fund manager and reduces the asset value of the fund. Upon termination of saving account or exit (surrender), the Group is entitled to the surrender fee, reducing the surrender value of the saver by the exit fee.

Other revenues

Under other revenues, other net insurance revenues (management of insurance contracts, sale of green cards, insurance services for foreign insurance companies, etc.) revaluation operating revenues and fee and commission revenue from fund management, assets and sale of securities 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 claims incurred

Net claims incurred are direct expenses arising from the insurance business. They are carried separately by line of business.

Net claims incurred are composed of gross calculated claims that include direct and indirect claims handling costs and are increased in the income statement by claims from received co-insurance and decreased by the claims ceded to co-insurance and reinsurance and increased by the change in net claims provisions.

Net claims incurred 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. Claims handling 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 defers expenses for the acquisition of non-life insurance contracts.

Under life insurance contracts with discretionary participation feature, acquisition costs are deferred 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.

5.22 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 corporate income tax for 2016 was 17%. The Slovene local tax legislation prescribes an increase of the tax rate from 17% to 19% as of 1 January 2017. Based on the legislative changes, the management believes that the available taxable profit, against which deductible temporary differences could be used, will occur in 2017 or later, which is why the deductible temporary differences are recognised at the 19% tax rate.

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 Group 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.

6. 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.

6.1 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 value. 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 declining, 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 value of 30% or 12 months sustained significant decline in fair value.

On the basis of an expert opinion, the Group in 2016 permanently impaired unquoted investments in shares of Elektro Celje d.d.and Elektro Ljubljana d.d. (see Section 10.5 for details) and impaired tradable investments in shares of Tovarna olja d.d. and of mutual fund “KD MM, sklad denarnega trga – EUR”. 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.

6.2 FAIR VALUE MEASUREMENT OF DEBT SECURITIES

On the day of assessment, the Group measures the fair value of debt securities which have a price on an active market by determining the main market price based on the stock exchange value, taking into account the market activity criteria assessment. If the published values on the active market do not comply with the market activity criterion, an internal model is used to calculate the market value.

The Group measures the fair value of debt securities (marketable bonds) traded on the OTC market according to Bloomberg BID spreads using the Bloomberg Valuation Service (BVAL). This is the next generation of prices for determining the fair value of investments available in Bloomberg, representing the price which is calculated on the basis of directly and indirectly observed market inputs. Moreover, BVAL rates are equipped with quality assessment on a scale from 1 to 10, where 10 means the highest possible quality of data.

As at 31 December 2016, the fair value of investments, calculated based on the internal model, is by 4.81% higher than the fair value, calculated using the prices from the active market.

6.3 MEASUREMENT OF INVESTMENT PROPERTY RECOVERABLE VALUE

Due to potential impairments, the fair value of investment properties is checked at least once a year by independent certified appraisers qualified to perform property valuation. The management also assesses impairment signs for investment properties whose value exceeds 5% of the carrying amount, which is considered material based on financial statements as a whole.

In 2016, a valuation and an impairment assessment were performed for the investment property Kolosej Maribor, a cultural, entertainment and business centre offering a range of services in Maribor. By pursuing its development strategy, a number of investment and maintenance works took place in 2016, serving as a basis for further development and rebranding set for 2017. The Center boasts the most modern movie theatre in Slovenia, which was reflected in a higher number of visitors. In 2016, a 14% growth in the number of moviegoers was achieved, which is above average considering the projected market growth of 2–3%.Some commercial premises are also available at the property, intended especially for bars and restaurants, which are attracting a growing interest. Lease agreements with existing lessees were renewed and the number of permanent parking space renters increased substantially, as set out in the annual plan. To sum up, all indicators show that the final objective, i.e. a full recovery of the centre under the new name MARIBOX, will be attained.

The income approach (direct capitalisation method) was used to assess the recoverable value of the property Kolosej Maribor, taking into account current and future growth as well as the development of the building.
Recoverable value was measured using the following assumptions:

- the capitalisation rate (discount rate) of 6.54% consisting of:
- real risk-free rate of return of 0.62%
- liquidity premium of 1.50%,
- risk premium of 3.10%,
- premium for the preservation of capital of 1.02%.

Apart from recoverable amount assessment, a sensitivity analysis was also made for the property in the case of changes in rental prices and occupancy of the premises (see Section 10.3).

6.4 IMPAIRMENT TEST OF GOODWILL

With company acquisitions, the Group generated goodwill amounting to EUR 21,905,359. In line with its accounting policies, the Group performs an impairment test once a year. If impairment signs are found during the test, goodwill impairment is reported in the income statement.
As at the 2016 year-end, the Group performed an impairment test of goodwill adequacy and found that no impairments are necessary (see Section 10.1).

6.5 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 decrease 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, determined based on past losses.

In 2016, the Group applied the same methodology for assessment of appropriateness of fair value calculation (and impairment adjustments of receivables) as in previous years (see Policies, Section 5.9.).

6.6 ESTIMATIONS OF INSURANCE 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 Group. 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 claims provisions, 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 on claims paid.

The paid claims 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 paid. The claim paid 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 each line of business. The development factor represents the relation between the paid claims for an individual year and the paid 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 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 claims 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 line of business and the premium earned. For the calculation of the IBNR provision for those years, the higher of the two amounts is taken into account.

Provisions for incurred but not reported claims (IBNR) included in outstanding claims provisions

Insurance class in EUR	Provision for incurred but not reported claims (IBNR) 31 Dec 2016	Provision for incurred but not reported claims (IBNR) 31 Dec 2015
Accident insurance	7,748,043	8,449,762
Health insurance	5,617,722	4,795,759
Land motor vehicles insurance	1,483,391	1,707,037
Marine loss insurance	45,090	73,150
Goods in transport insurance	114,069	91,203
Fire and natural forces insurance	701,895	768,240
Other damage to property insurance	1,068,398	1,223,055
Motor vehicle liability insurance	28,426,248	29,908,336
Liability for ship/boat insurance	28,722	12,722
General liability insurance	9,663,454	11,751,355
Credit insurance	3,875	14,320
Suretyship insurance	6,690	203,076
Miscellaneous financial loss insurance	36,477	41,354
Legal expenses insurance	662	1,808
Travel assistance insurance	227,764	279,640
Life insurance	2,904,791	3,390,381
Total	**58,077,294**	**62,711,198**

Estimations of individual claims are regularly reviewed and adjusted if needed due to new information. Provisions for incurred but not reported claims (IBNR) have a higher level of estimation uncertainty arising from estimation of liabilities, which will be settled from already incurred claims. 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

in EUR					Accident/loss year						
Cumulative claim payment	pred 2007	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
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	88,231,654
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	81,956,952	-
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	83,397,478	-	-
3 years after loss year	-	105,349,656	117,524,811	107,637,944	95,301,074	89,085,735	94,028,156	83,827,339	-	-	-
4 years after loss year	-	105,958,430	115,587,514	105,953,158	93,622,460	86,234,853	94,315,327	-	-	-	-
5 years after loss year	-	104,800,746	114,800,364	104,876,792	93,138,216	87,113,178	-	-	-	-	-
6 years after loss year	-	103,746,421	113,669,023	104,466,465	92,620,067	-	-	-	-	-	-
7 years after loss year	-	103,449,456	113,329,522	104,972,611	-	-	-	-	-	-	-
8 years after loss year	-	103,455,029	113,291,067	-	-	-	-	-	-	-	-
9 years after loss year	-	103,406,827	-	-	-	-	-	-	-	-	-
Cumulative loss estimate	-	103,406,827	113,291,067	104,972,611	92,620,067	87,113,178	94,315,327	83,827,339	83,397,478	81,956,952	88,231,654
Total losses paid until 31 Dec. 2016	-	101,119,994	110,695,998	101,399,266	89,681,287	82,744,766	90,441,096	78,983,392	75,774,176	69,186,295	51,237,836
Claim provisionss - balance 31 Dec. 2016	13,743,522	2,286,833	2,595,070	3,573,345	2,938,781	4,368,412	3,874,232	4,843,947	7,623,303	12,770,657	36,993,817

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 Dec 2015	98,714,315	5,443,965	104,158,280
Provisions as at 31 Dec 2016	95,611,918	5,776,132	101,388,049

Life insurance contracts

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 amount required by regulation.

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 7.2.1).

In 2016, the Group did not modify the assumptions used for the calculation of liabilities arising from life insurance contracts.

6.7 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, lapse rate, 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 each 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.

6.8 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 based on 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.

7. 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, the Group is 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 level of risk usually bears higher return. The optimum balance between risk and return 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 is responsible for the promotion of transparent and clear decisions and processes, which represent important building blocks of the risk awareness culture in the Group. With constant optimisation and expansion of the risk management function, the Group remains prepared for all the risks in its future business operations.

7.1 CAPITAL ADEQUACY REQUIREMENTS AND CAPITAL MANAGEMENT

One of the Group's most important missions, which is also required by law, is ensuring an adequate capital level (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 not only ensures protection against unpredictable adverse events but also guarantees continued operation and coverage for potential losses from current operations, while maintaining adequate return on capital. Ensuring a suitable surplus of capital above the required level represents—apart from profitability of operations— one of the two most significant accepted risk appetites. In addition to ensuring capital adequacy, the Group determines risk appetites also for profitability of operations.

Disclosure of capital adequacy in accordance with the Solvency II Directive and the new Insurance Act (ZZavar-1) became binding for the parent company Adriatic Slovenica as of the beginning of 2016. Adriatic Slovenica is the only insurance company in the Group. On Day 1 when the new regime came into effect in Slovenia, it recorded a surplus of available capital above the required level (SCR). The capital under the Solvency II regime differs from the carrying amount as it is calculated as the difference between the fair value of assets and liabilities, while all balance sheet items, which have not been measured in this way so far need to be revalued at fair value for the purposes of Solvency II. A major difference is seen especially in technical provisions, which are considered as the best estimate increased by risk margin in accordance with the Solvency II principles.

In the first half of the year, the parent company issued a subordinated bond deemed to belong to own funds pursuant to the Delegated Regulation, which further improved its capital adequacy. During the preparatory and transitional period before Solvency II came into effect, the Company already calculated capital adequacy by applying the standard formula, which is still used. All informative capital adequacy calculations showed capital adequacy of the parent company.

In 2016, the parent company performed the own risk and solvency assessment (ORSA) as an additional verification of capital surplus adequacy, bringing a new perspective on the assessment of the Company's capital adequacy by comparing the own assessment of the Company's risk profile with the assumptions used in the calculation of regulatory capital requirements to check if the regulatory SCR calculation method (standard formula) covers the entire risk profile of the Company correctly. As part of own assessment, the impact of planned activities in terms of their effect on the Company's capital adequacy in its future operations was also tested.

The parent company confirms that as at 30 September 2016, the day of the last assessment and report to the regulator on capital adequacy in line with Solvency II, it achieved capital adequacy showing capital surplus above the required SCR level and the accepted risk appetite.

The management and supervisory bodies of the parent company need to be aware of and clearly understand the implications of strategic decisions for the above-mentioned capital aspects of the Company, as well as consider whether these implications are desired, feasible or if the Company can even afford them considering the amount and quality of own funds. Therefore, in line with the applicable policies, all major strategic decisions that could affect the capital requirements and the Company's available capital are examined in terms of their impact on the Company's capital adequacy.

According to the results of the own risk and solvency assessment, the capital adequacy of the parent company exceeds risk appetite. The risk appetite was fixed at 120%, also in comparison with the own assessment of capital requirements over the entire business planning period. According to projections from the own assessment, the Company's capital adequacy is expected to continue to grow up to 2020.

Capital adequacy is calculated by the Company on a quarterly basis. The solvency and financial condition report of the Company is prepared annually and published on its website according to disclosure deadlines set out in the ZZavar-1.

7.2 2.2 TYPES OF RISKS

7.2.1 2.2.1 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 underwriting risk (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, claim 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 contract surrenders and of claims enforced.

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 line of business, 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 underwriting process. The company controls this risk by means of instructions on the underwriting process, stricter criteria and procedures for underwriting, 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 underwritten risk. Reinsurance 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 2016

(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	56,449	0.26%	161,480	0.75%
Unit-linked insurance	578,810	1.56%	2,124,987	5.73%
Health insurance	284,674	0.28%	546,332	0.54%
Non-life insurance	12,080,594	8.78%	23,225,905	16.88%
Total	**13,000,528**	**4.30%**	**26,058,704**	**8.61%**

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%	149,412	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%
Total	**12,490,989**	**4.24%**	**25,524,279**	**8.66%**

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 2016

Sum insured	Up to EUR 300,000		Over EUR 300,000 up to EUR 1,000,000		Over EUR 1.000.000	
in EUR	Net of reinsurance	With reinsurance	Net of reinsurance	With reinsurance	Net of reinsurance	With reinsurance
Construction risks	4,343,676	3,701,181	12,094,758	4,080,000	96,197,603	2,640,000
Manufacturing risks	275,734,592	261,434,925	386,896,684	270,322,517	3,209,377,341	254,040,000
Commercial risks	4,332,794,522	4,326,280,526	1,647,836,494	1,593,514,816	5,742,523,039	658,740,000
Household risks	5,446,273,713	5,443,989,123	412,485,395	398,408,704	288,521,286	34,500,000
Total	**10,059,146,502**	**10,035,405,755**	**2,459,313,330**	**2,266,326,037**	**9,336,619,269**	**949,920,000**

Concentration of liabilities from non-life insurance by industry as at 31 December 2015

Sum insured	Up to EUR 300,000		Over EUR 300,000 up to EUR 1,000,000		Over EUR 1.000.000	
in EUR	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
Total	**9,997,502,786**	**9,980,009,929**	**2,475,582,790**	**2,260,215,692**	**9,690,123,374**	**930,960,000**

To provide a realistic insight into the exposures, the concentration of liabilities arising from non-life insurance contracts presents only total sum insured for main coverage, since, as a rule, they represent the highest exposure to potential losses on a policy. Since the coverage of earthquake risk is additional insurance, it has not been included in the table above. In 2016 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 2016	With reinsurance 2016	Net of reinsurance 2015	With reinsurance 2015
EUR 0–9,999	317,404,960	298,339,705	343,552,104	318,779,365
EUR 10,000–29,999	871,281,338	788,915,129	935,815,219	796,241,162
EUR 30,000–59,999	899,924,105	649,140,322	867,284,675	605,357,395
EUR 60,000–99,999	541,092,874	276,996,430	485,691,455	230,057,052
Over EUR 100,000	285,269,397	93,324,677	235,028,662	72,659,611
Total	**2,914,972,674**	**2,106,716,263**	**2,867,372,114**	**2,023,094,584**

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 2016		TOTAL ANNUAL ANNUITY PAYMENTS IN 2015	
Annual annuity payments to the insured person as at 31 December	amount	%	amount	%
EUR 0–9,999	608,086	15.45%	656,089	16.02%
EUR 10,000–29,999	1,182,728	30.05%	1,242,353	30.34%
EUR 30,000–59,999	694,587	17.65%	725,821	17.72%
EUR 60,000–99,999	488,856	12.42%	507,687	12.40%
Over EUR 100,000	961,124	24.42%	963,019	23.52%
Total	**3,935,380**	**100%**	**4,094,968**	**100%**

Concentrations of insurance risk with respect to the company's annuity business remains at the same level as in 2015 and the highest number of annuity payments made on a yearly basis falling in the EUR 1,000 to EUR 2,000 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 risk 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, claim handling costs).
- any other expected cash flows from insurance contracts.

With regard to individual cash flows, the following assumptions have been taken into account:

- provisions in individual insurance policies (amount of the premium, the schedule of premium payments, the sum insured for death and maturity, amount of annuities),
- technical bases of the relevant products (mortality/morbidity tables, interest rate, costs of front-end fees, other administrative expenses),
- assumptions (mortality rates, lapse 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" as of 2 January 2017.

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 Group'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.

Lapse rates

The relevant lapse rates are based on the analysis of surrenders 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 2016

The liability adequacy test (LAT) results of 31 December 2016, showed no deficiencies in any group 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 2016 applied the claims ratio of final claims occurred in 2016, 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 item other technical provisions.

Results of the non-life insurance liability adequacy test for the financial year 2016

As at 31 December 2016, the Group formed provisions for unexpired risks for health insurance, land motor vehicle insurance, aircraft insurance and credit insurance in the total amount of EUR 572,035. 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

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.

Sensitivity factor	Description of sensitivity factor applied
Interest rate (for insurance 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%
Mortality – life insurance	The impact of an increase in mortality/morbidity rates by 5%
Mortality of annuity insurance	The impact of a reduction in mortality rates by 5%
Loss ratio in relation to premium	The impact of an increase in loss ratios by 5

Impact on net profit before tax generated by the Group

(in EUR)	31 Dec 2016	31 Dec 2015
Fctor		
Costs/expenses +5%	(3,624,243)	(3,151,454)
Costs/expenses -5%	3,624,243	3,151,454
Interest rates +1%	17,972,309	18,053,723
Interest rates -1%	(15,798,773)	(17,927,561)
Mortality +5%	92,396	177,454
Mortality of annuity insurance -5%	(107,977)	(199,261)
Loss ratio +5%	(14,640,919)	(14,445,697)
Loss ratio -5%	14,640,919	14,445,697

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.

7.2.2 Insurance risk management through reinsurance protection

Purpose and objectives of reinsurance protection

Insurance risks are managed through reinsurance protection programme, ensuring solvency and liquidity of operations, stability of operating results and financial soundness. During the conclusion of reinsurance contracts, we collaborate with reinsurers with the highest credit ratings.

The type, form, scope and structure of the reinsurance programme is planned on the basis of the amount of the maximum retention of the Group and the volume, homogenity, quality and types of the insurance portfolio, considering the characteristics and specifics of individual line of business. 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 limits of contractual reinsurance protection, the Group ensures facultative 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, the Group integrated the control mechanisms in the information system that prevent concluding insurance contract with sum insured that exceed reinsurance contract limits without prior approval of the Reinsurance Team, that the facultative reinsurance treaty has been provided or that the facultative reinsurance treaty is not needed.

Analysis of the Company's portfolio from the aspect of reinsurance risk

Earthquake risk presents the highest concentration of the prent company's insurance risk. The reinsurance protection for catastrophic perils is therefore formed considering the millennial return period, based on the results from modelling our exposure to earthquake risk as per the AIR model, which is performed by our reinsurance intermediary. 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.

The reporting year saw four major events relating to storms, resulting in damage which exceeded the priority of annual reinsurance retention connected to the annual aggregate of claims. As at the reporting date, provisions in the amount of EUR 1,049,610 were allocated to the mentioned reinsurance.

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 Group's maximum retention; hence it is covered with a proportional, and in the event of mass losses, with an additional (extra) non-proportional contractual reinsurance protection.

The structure of the reinsurance programme is comparable with 2015 since in the past years, it has responded adequately to loss events exceeding retention, calculated for lines of business.

Reinsurance concentration in the financial year 2016

Type of reinsurance in EUR	Reinsurance premium	Structure of reinsurance premium	Reinsurance fees	Claims ceded to reinsurance	Change in unearned premiums ceded to reinsurance	Change inclaims provisions ceded to reinsurance	Impact of reinsurance result on profit
Motor QS	-	0.00%	448,998	2,350,318	-	(2,523,382)	275,934
Quota share reinsurance of earthquake risk	(1,715,031)	15.80%	480,209	185	1,643	(2,236)	(1,235,229)
Non-life Gross Risk XL reinsurance	(1,325,557)	12.21%	23,625	-	-	-	(1,301,932)
Technical risk XL reinsurance	(144,045)	1.33%	1,278	-	-	5,955	(136,812)
Non-life Cat XL reinsurance	(1,548,035)	14.26%	27,018	-	-	-	(1,521,017)
Non-life, i.e. annual aggregate Cat XL losses	(791,774)	7.30%	14,987	-	-	1,049,611	272,824
XL reinsurance motor vehicle liability insurance and green cards	(636,479)	5.86%	10,776	1,492,498	-	1,691,022	2,557,817
XL reinsurance of comprehensive automobile insurance (casco)	(37,747)	0.35%	711	-	-	(4,449)	(41,485)
Other non-life insurance	**(2,856,842)**	**26.32%**	**290,321**	**513,116**	**5,003**	**(117,596)**	**(2,165,999)**
Health insurance	**-**	**0.00%**	**-**	**-**	**-**	**-**	**-**
Life insurance	**(1,797,592)**	**16.56%**	**501,789**	**571,512**	**(28,421)**	**81,364**	**(671,348)**
Total reinsurance in the financial year	**(10,853,101)**	**100%**	**1,799,712**	**4,927,629**	**(21,774)**	**180,288**	**(3,967,247)**
Co-insurance provided	**(215,927)**	**0.00%**	**30,373**	**-**	**2,145**	**23,610**	**(159,800)**
Co-insurance received	**995,856**	**0.00%**	**(148,977)**	**(49,186)**	**(4,517)**	**(254,380)**	**538,796**
Reinsurance received							
Total Re(co)insurance	**(10,068,278)**		**1,680,153**	**4,877,762**	**(25,107)**	**(50,482)**	**(3,585,952)**

Reinsurance concentration in the financial year 2015

Type of reinsurance in EUR	Reinsurance premium	Structure of reinsurance premium	Reinsurance fees	Claims ceded to reinsurance	Change in unearned premiums ceded to reinsurance	Change in claims provisions ceded to 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)
Technical 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)
Health insurance							
Life insurance	(1,586,492)	15.26%	432,683	429,788	(4,408)	59,855	(665,183)
Total reinsurance in the financial year	**(10,376,822)**	**100.00%**	**4,190,499**	**9,727,835**	**(217,398)**	**(11,638,605)**	**(8,311,101)**
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
Total Re(co)insurance	**(10,104,053)**	**0.00%**	**4,150,714**	**9,693,470**	**(238,644)**	**(11,582,355)**	**(8,077,479)**

The above table shows the reinsurance concentration for all contracts.

In 2016, the reinsurance premium of EUR 10,853,101 was totaled or by 4.6% more compared to the previous year. The largest growth was experienced by the facultative reinsurance premium, mostly because of the increased risk sharing between Slovene insurance companies in the form of co-insurance and reinsurance.The co-insurance premium therefore went up by 194%, which is why total expenses arising from reinsurance and co-insurance premiums remained at the 2015 level.

In 2016, the reinsurers' share in claims totaled EUR 4,927,629 (EUR 9,727,835 in 2015), of which EUR 2,350,318 came from car insurance quota (EUR 7,589,399 in 2015). The year 2016 was marked by several loss events due to storms, which did not exceed the threshold for enforcement of reinsurance protection for individual catastrophic claims, but claims provisions ceded to reinsurance was accounted for from aggregate coverage amounting to EUR 1,049,610. With regard to green card reinsurance, one of the largest claims in the history of Adriatic Slovenica from 2001 was settled in 2016. Reinsurance commissions increased dramatically for green card claims from 2011, which became the largest claim of this sort until now with a reinsurers' share of EUR 2,216,553.

7.2.3 Financial risks

The Group is exposed to financial risks through its asset and liability management, reinsurance assets and liabilities arising from its insurance and financial 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 Group's financial assets, meaning that the financial liabilities of counterparties will not be covered, 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.

In line with analyses of situations in financial markets, risk assessment and stress testing with regard to the changed circumstances in the financial market as well as by taking into consideration the general investment strategy of the Company, the Risk Management Team proposes limits for risk measures, exposures to individual investment grades, issuers and their rating as well as individual markets. They are addressed by the Risk Management Committee and then approved by the Assets and Liabilities Management Committee.

Strategic and tactical implementation of the investment activity is performed by the Investment Committee. Its competences and responsibilities as well as all other provisions relating to its operation are laid down in the Rules on the Performance of Investment Activity. The Treasury Team is responsible for operational implementation of the investment activity.

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.

The most important components of market risk are:

- liquidity risk,
- credit risk,
- risk of change in prices of equity securities,
- interest risk,
- currency risk.

In the disclosures related to the presentation of financial risk management, the assets and liabilities arising from life insurance contracts where the policyholder bears the investment risk are not included since the financial risks are entirely assumed by the policyholders. In 2016, these assets totaled EUR 291,405,231 (2015: EUR 266,863,192), out of which, EUR 287,601,433 (2015: EUR 263,760,340) of assets from the balance sheet are related to the category of assets of policyholders who bear investment risk, and EUR 3,805,789 (2015: EUR 3,102,853) to other balance sheet categories of funds, where policyholders 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 funds, while the analysis of assets and liabilities (ALM – asset liability management) for financial risk management is presented at the insurance contract level.

The first table presents all assets and liabilities by individual items and how the amount of particular financial assets and assets aggregated by individual insurance and financial contract matches the amount of liabilities. The tables containing the results of the asset and liability analysis for financial risk management for 2016 and 2015 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 aggregate level.

Analysis of assets and liabilities for financial risk management as at 31 December 2016

(in EUR)	Non-life insurance contracts, excluding health insurance	Health insurance contracts	Life insurance contracts	Financial contracts – pension savings	Other assets and liabilities	Total
ASSETS						
Financial assets at fair value through profit or loss	**6,611,786**	**3,110**	**1,790,523**	**-**	**-**	**8,405,419**
- listed	3,712,468	(0)	1,635,671		-	5,348,139
Government bonds	2,899,318	3,110	154,852		-	3,057,280
Held-to-maturity financial assets	**12,021,748**	**617,177**	**25,369,306**	**-**	**-**	**38,008,230**
- listed	12,021,748	617,177	13,587,600		-	26,226,525
Government bonds	0	-	11,781,706		-	11,781,706
Available-for-sale financial assets	**69,615,807**	**3,726,221**	**88,904,258**	**573,183**	**1,900,130**	**164,719,600**
- listed	18,899,476	(0)	13,015,956	-	1,900,130	33,815,562
- non-listed	138,363	-	-	-	-	138,363
Government bonds	50,577,968	3,726,221	75,888,302	573,183	-	130,765,675
Total debt financial instruments	**88,249,341**	**4,346,508**	**116,064,087**	**573,183**	**1,900,130**	**211,133,249**
Financial assets at fair value through profit or loss	0	-	834,986	-	-	834,987
- listed	0	-	834,986	-	-	834,987
Available-for-sale financial assets	13,199,202	1,212,780	4,271,620	3,000,875	1,194,573	22,879,050
- listed	10,251,186	542,083	3,208,329	3,000,875	1,194,573	18,197,046
- non-listed	2,948,016	670,697	1,063,291	-	-	4,682,004
Total equity financial instruments	**13,199,202**	**1,212,780**	**5,106,607**	**3,000,875**	**1,194,573**	**23,714,036**
Loans, deposits and financial receivables	26,937,733	2,254,034	7,801,494	789	463,287	37,457,336
Investments in subsidiaries and associates	8,440,686	3,180,261	509,364	-	-	12,130,311
Total financial investments	**136,826,962**	**10,993,584**	**129,481,551**	**3,574,846**	**3,557,990**	**284,434,933**
Amount (technical provisions) transferred to reinsurers	17,068,948	-	330,371	-	-	17,399,319
Receivables from insurance business and other operating receivables	44,008,408	9,141,479	32,608,510	2,589	1,018,305	34,877,719
Cash and cash equivalents	4,554,657	774,641	2,001,170	1,178,300	2,023,017	10,531,784
Other assets	61,962,517	908,403	10,686,906	-	25,641,645	98,658,250
Total assets	**264,421,493**	**21,818,107**	**175,108,508**	**4,755,736**	**32,240,957**	**445,902,005**
Liabilities from insurance contracts	**144,508,570**	**13,413,092**	**-**	**-**		**157,921,662**
- non-current liabilities	56,982,048	100,969	-	-		57,083,017
- current liabilities	87,526,522	13,312,123	-	-		100,838,645
Liabilities from insurance contracts with DPF	**-**	**-**	**112,137,256**	**-**	**-**	**112,137,256**
- non-current liabilities	-	-	100,858,635	-		100,858,635
- current liabilities	-	-	11,278,621	-		**11,278,621**
Liabilities from investment contracts	-	-		**4,735,916**	-	**4,735,916**
- non-current liabilities	-	-		4,735,916	-	4,735,916
Equity capital	**72,102,612**	**5,152,751**	**20,326,281**	**0**	**1,242,952**	**98,464,400**
Bonds issued (Subordinated liabilities)	**22,748,526**	**-**	**26,704,791**	**-**	**-**	**49,453,317**
Other liabilities	**25,061,784**	**3,252,265**	**15,940,180**	**19,819**	**30,998,005**	**23,189,454**
- non-current liabilities	5,232,905	23,221	5,152,569	-	124,038	4,037,198
- current liabilities	19,828,880	3,229,044	10,787,611	19,819	30,873,967	19,152,256
Total liabilities	**264,421,493**	**21,818,107**	**175,108,508**	**4,755,736**	**32,240,957**	**445,902,005**

This table should be read together with the note in Section 7.2.3., paragraph 6.

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
ASSETS				
Financial assets at fair value through profit or loss	**13,447,226**	**1,059,643**	**3,410,520**	**17,917,389**
- 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
Held-to-maturity financial assets	**12,021,702**	**617,172**	**26,832,652**	**39,471,526**
- listed	12,021,702	617,172	14,408,378	27,047,252
Government bonds	-	-	12,424,274	12,424,274
Available-for-sale financial assets	**33,928,907**	**4,182,992**	**79,868,018**	**117,979,917**
- 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
Total debt financial instruments	**59,397,835**	**5,859,808**	**110,111,190**	**175,368,833**
Financial assets at fair value through profit or loss	-	-	1,640,042	1,640,043
- listed	-	-	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
Total equity financial instruments	**24,866,185**	**4,740,454**	**5,617,742**	**35,224,381**
Loans, deposits and financial receivables	32,892,405	3,749,803	2,300,418	38,942,625
Investments in associates	8,349,853	-	3,647,708	11,997,562
Total financial investments	**125,506,278**	**14,350,064**	**121,677,058**	**261,533,401**
Amount (technical provisions) ceded to reinsurers	17,740,580		277,726	18,018,307
Receivables from insurance business and other 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
Total assets	**252,860,423**	**27,729,998**	**144,166,011**	**403,742,823**
Liabilities from insurance contracts	**149,631,250**	**13,374,157**	**-**	**163,005,408**
- non-current liabilities	54,686,132	215,912	-	54,902,045
- current liabilities	94,945,118	13,158,245	-	108,103,363
Liabilities from insurance contracts with DPF	**-**	**-**	**108,228,896**	**108,228,896**
- non-current liabilities	-	-	98,138,136	98,138,136
- current liabilities	-	-	10,090,760	10,090,760
Equity capital	**74,859,560**	**6,481,065**	**21,933,245**	**102,913,673**
Other liabilities	**28,369,612**	**7,874,775**	**14,003,870**	**29,594,846**
- non-current liabilities	5,504,356	11,956	9,886,864	5,891,156
- current liabilities	22,865,256	7,862,819	4,117,006	23,703,689
Total liabilities	**252,860,423**	**27,729,998**	**144,166,011**	**403,742,823**

This table should be read together with the note in Section 7.2.3., paragraph 6.

In the tables showing the classification of assets by maturity into non-current and current assets for 2016 and for 2015, the sum of assets and liabilities is not equal to the sum of individual amounts of insurance groups (funds), since the receivables and liabilities have been offset between the funds at the aggregate level.

Classification of assets by maturity into non-current and current assets as at 31 December 2016

(in EUR)	Non-life insurance contracts, excluding health insurance	Health insurance contracts	Life insurance contracts	Financial contracts – pension savings	Other assets and liabilities	Total
Non-current assets						
Debt securities	**81,633,413**	**4,343,398**	**115,154,810**	**573,183**	**-**	**201,704,804**
At fair value through profit or loss	-	-	881,246	-	-	881,246
- listed	-	-	881,246	-	-	881,246
Available for sale	69,611,665	3,726,221	88,904,258	573,183	-	162,815,327
- listed	69,473,302	3,726,221	88,904,258	573,183	-	162,103,782
- non-listed	138,363	-	-	-	-	138,363
Held to maturity	12,021,748	617,177	25,369,306	-	-	38,008,230
- listed	12,021,748	617,177	25,369,306	-	-	38,008,230
Equity securities	**13,203,344**	**1,212,780**	**4,850,196**	**3,000,875**	**(0)**	**21,688,619**
Available for sale	13,203,344	1,212,780	4,850,196	3,000,875	-	21,688,619
- listed	10,255,328	542,083	3,266,626	3,000,875	-	17,006,615
- non-listed	2,948,016	670,697	1,583,570	-	-	4,682,004
Investments in subsidiary and associates	8,440,686	3,180,261	(69,212)	-	-	12,130,311
Loans, deposits and financial receivables	12,976,571	1,813,034	1,185,056	-	64,351	16,039,012
Total financial investments	**116,254,014**	**10,549,474**	**121,120,850**	**3,574,058**	**64,351**	**251,562,746**
Amount (technical provisions), transferred to reinsurers	9,827,176	-	-	-	-	9,827,176
Receivables from insurance business and other operating receivables	11,756,835	1,169,500	419,295	-	217,581	7,067,676
Other assets	35,657,171	646,707	4,447,283	-	25,546,757	65,937,722
Total assets	**173,495,196**	**12,365,681**	**125,987,428**	**3,574,058**	**25,828,689**	**334,395,320**
Current assets						
Debt securities	**6,611,786**	**3,110**	**909,277**	**-**	**1,900,130**	**9,424,303**
At fair value through profit or loss	6,611,786	3,110	909,277	-	-	7,524,173
- listed	6,611,786	3,110	909,277		-	7,524,173
Available for sale	-	-	-	-	1,900,130	1,900,130
- listed	-	-	-		1,900,130	1,900,130
Equity securities	**0**	**-**	**834,986**	**-**	**1,194,573**	**2,029,560**
At fair value through profit or loss	0	-	834,986	-	-	834,987
- listed	0	-	834,986		-	834,987
Available for sale	-	-	-	-	1,194,573	1,194,573
- listed	-	-	-		1,194,573	1,194,573
Loans, deposits and financial receivables	13,961,162	441,000	6,616,438	789	398,936	21,418,324
Total financial investments	**20,572,948**	**444,110**	**8,360,701**	**789**	**3,493,639**	**32,872,187**
Amount (technical provisions), transferred to reinsurers	7,241,772	-	330,371	-	-	7,572,143
Receivables from insurance business and other operating receivables	32,251,573	7,971,979	32,189,215	2,589	800,725	27,807,498
Cash and cash equivalents	4,554,657	774,641	2,001,170	1,178,300	2,023,017	10,531,784
Other assets	26,305,347	261,697	6,239,623	-	94,888	32,723,074
Total assets	**90,926,297**	**9,452,427**	**49,121,080**	**1,181,678**	**6,412,268**	**111,506,686**

As at the 2016 year-end, the non-current assets prevailed with a 75% share, leaving behind the Group's current assets accounting for 25% of total assets.

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
Non-current assets				
Debt securities	**45,950,609**	**4,800,165**	**108,167,447**	**158,918,220**
At fair value through profit or loss	-	-	1,466,777	1,466,777
- listed	-	-	1,466,777	1,466,777
Available for sale	33,928,907	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
Equity securities	**24,866,185**	**4,740,454**	**4,920,505**	**34,527,144**
At fair value through profit or loss	-	-	942,806	942,806
- listed	-	-	942,806	942,806
- non-listed	-	-		
Available for sale	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
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
Total financial investments	**80,730,604**	**11,697,773**	**118,037,457**	**210,465,834**
Amount (technical provisions) ceded to reinsurers	9,726,720	-	-	9,726,720
Receivables from insurance business and other receivables	12,231,806	457,530	158,413	3,335,728
Other assets	24,311,266	1,673,756	8,410,314	34,035,139
Total assets	**127,000,396**	**13,829,058**	**126,606,184**	**257,563,421**
Current assets				
Debt securities	**13,447,226**	**1,059,643**	**1,943,744**	**16,450,613**
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
Equity securities	-	-	697,236	697,237
At fair value through profit or loss	-	-	697,236	697,237
- listed	-	-	697,236	697,237
Loans, deposits and financial receivables	31,328,449	1,592,648	998,621	33,919,718
Total financial investments	**44,775,675**	**2,652,291**	**3,639,601**	**51,067,567**
Amount (technical provisions) ceded to reinsurers	8,013,860	-	277,726	8,291,587
Receivables from insurance business and other operating receivables	30,123,420	8,665,211	8,171,718	36,000,644
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
Total assets	**125,860,027**	**13,900,939**	**17,559,826**	**146,179,402**

This table should be read together with the note in Section 7.2.3., paragraph 6.

As at the 2015 year-end, the non-current assets prevailed with a 64% share and the Group's current assets amounted to 36% of total assets.

Liquidity risk

Liquidity risk is the risk of liquidity-related difficulty and inability of the Group to fulfil current obligations from in-force insurance contracts and other current operating liabilities of the Group, due to mismatch between maturity of 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.

Disclosure includes unit-linked liabilities.

Overview of maturity of liabilities in 2016 – undiscounted cash flows

(in EUR)	Carrying amount	Without maturity	Up to 1 year	1-5 years	5-10 years	10-15 years	over 15 years	Total 2016
Debt financial instruments	**210,560,066**	**-**	**42,804,988**	**65,118,628**	**72,843,249**	**18,519,201**	**47,000,295**	**246,286,362**
Financial assets at fair value through profit and loss	8,405,420	-	3,730,200	1,126,188	4,310,095	804,701	-	9,971,184
Financial assets held to maturity	38,008,230	-	9,035,417	26,547,027	10,190,017	1,026,631	3,547,978	50,347,070
Financial assets available for sale	164,146,416	-	33,339,876	37,445,413	58,343,138	16,687,869	43,452,318	189,268,613
Equity financial instruments	**20,713,164**	**19,518,591**	**-**	**-**	**-**	**-**	**-**	**19,518,591**
Financial assets at fair value through profit and loss	834,989	834,989	-	-	-	-	-	834,989
Financial assets available for sale	19,878,176	19,878,176	-	-	-	-	-	19,878,176
Derivatives	**38,507,602**	**3,283,817**	**10,013,511**	**20,057,486**	**324,682**	**114,293**	**682,680**	**34,476,470**
Investments in associates	**12,130,311**	**12,130,311**	**-**	**-**	**-**	**-**	**-**	**-**
Assets of policyholders who bear investment risk	**287,601,433**	**223,071,713**	**4,686,840**	**-**	**36,858,177**	**6,200,541**	**-**	**270,817,270**
Investment properties	**27,443,818**	**27,443,818**	**-**	**-**	**-**	**-**	**-**	**27,443,818**
Assets from financial contracts	**4,753,190**	**4,179,175**	**9,000**	**36,000**	**527,000**	**-**	**-**	**4,751,175**
Investment properties	601,709,584	289,627,425	57,514,340	85,212,114	110,553,108	24,834,035	47,682,975	603,293,686
Total financial investments	17,399,319	-	17,644,199	6,714,065	2,298,696	713,628	333	27,370,920
Receivables from insurance business and other receivables	36,016,402	-	36,016,402	-	-	-	-	36,016,402
Operating and other receivables	10,920,169	3,408,915	7,511,254	-	-	-	-	10,920,169
Cash and cash equivalents	71,261,763	7,033,429	64,204,090	24,244	-	-	-	71,261,763
TOTAL ASSETS	737,307,237	300,069,769	182,890,284	91,950,423	112,851,804	25,547,663	47,683,308	748,862,940
Subordinated liabilities	49,453,317	-	3,953,500	15,825,000	67,785,500	-	-	87,564,000
Non-life and health insurance	157,921,662	-	100,895,505	37,516,838	13,492,278	5,164,713	852,328	157,921,662
Unit-linked life insurance	284,456,325	-	17,988,421	43,759,070	67,883,330	39,863,154	114,962,350	284,456,325
Life insurance	112,137,256	-	11,703,458	11,289,122	28,475,117	24,802,246	61,136,525	137,406,468
Financial contracts	4,753,190	-	13,260	115,211	709,559	1,009,790	2,888,097	4,735,916
Other liabilities	30,404,304	-	26,367,106	4,037,198	-	-	-	30,404,304
TOTAL LIABILITIES	639,126,054	-	160,921,250	112,542,438	178,345,784	70,839,903	179,839,300	702,488,675

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.

Overview of maturity of liabilities in 2015 – undiscounted cash flows

(in EUR)	Carrying amount	Without maturity	Up to 1 year	1-5 years	5-10 years	10-15 years	over 15 years	Total 2015
Debt financial instruments	**175,368,833**	**-**	**40,844,730**	**73,008,695**	**110,011,380**	**36,109,255**	**81,511,960**	**341,486,020**
Financial assets at fair value through profit and loss	17,917,390	-	11,318,605	5,296,726	3,545,128	-	441,000	20,601,460
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
Equity financial instruments	**35,224,381**	**35,224,381**	**-**	**-**	**-**	**-**	**-**	**35,224,381**
Financial assets at fair value through profit and loss	1,640,042	1,640,042	-	-	-	-	-	1,640,042
Financial assets available for sale	33,584,339	33,584,339	-	-	-	-	-	33,584,339
Derivatives	**39,724,586**	**3,996,382**	**31,253,592**	**4,829,095**	**478,455**	**131,281**	**726,262**	**41,415,067**
Investments in associates	**11,997,562**	**11,997,562**	**-**	**-**	**-**	**-**	**-**	**11,997,562**
Assets of policyholders who bear investment risk	**263,760,339**	**207,627,225**	**5,818,000**	**4,322,500**	**609,000**	**-**	**-**	**218,376,725**
Investment properties	**556,911,139**	**289,680,988**	**77,916,322**	**82,160,290**	**111,098,835**	**36,240,535**	**82,238,222**	**679,335,192**
Total financial investments	18,018,307	-	18,447,156	6,714,065	2,298,696	713,628	333	28,173,877
Receivables from insurance business and other receivables	40,457,335	-	40,457,335	-	-	-	-	40,457,335
Operating and other receivables	15,301,297	-	12,901,762	-	-	-	-	12,901,762
Cash and cash equivalents	39,858,690	-	41,858,843	-	-	-	-	41,858,843
TOTAL ASSETS	**670,546,768**	**289,680,988**	**191,581,417**	**88,874,355**	**113,397,531**	**36,954,163**	**82,238,555**	**802,727,008**
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
TOTAL LIABILITIES	**568,035,180**	**-**	**162,431,095**	**100,169,855**	**95,025,119**	**68,527,100**	**176,043,645**	**602,196,812**

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.

In reinsurance, as with respect to financial assets, the credit risk management procedures involve checking the reinsurer's credit rating. 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 financial asset class as at 31 December 2016[1]

(in EUR)	AAA-A	BBB-B	CCC-C	Not rated	Total 2016
Financial assets at fair value through profit or loss	**2,197,012**	**4,557,527**	**507**	**1,650,373**	**8,405,419**
Debt securities	2,197,012	4,557,527	507	1,650,373	8,405,419
Held-to-maturity financial assets	**10,265,631**	**21,155,168**	**-**	**6,587,431**	**38,008,230**
Debt securities	10,265,631	21,155,168	-	6,587,431	38,008,230
Available- for-sale financial assets	**30,642,377**	**116,850,104**	**-**	**16,653,943**	**164,146,424**
Debt securities	30,642,377	116,850,104	-	16,653,943	164,146,424
Loans, deposits and financial receivables	**-**	**6,518,471**	**-**	**30,938,865**	**37,457,336**
Assets from financial contracts	**-**	**573,183**	**-**	**-**	**573,183**
Debt securities	-	573,183	-	-	573,183
Total financial investments	**43,105,020**	**150,227,637**	**507**	**55,830,612**	**249,163,776**
Receivables from insurance business and other receivables	1,621,963	23,836	-	33,231,920	34,877,719
Reinsurers' share of technical provisions	17,276,655	96,810	-	25,856	17,399,320
Cash and cash equivalents	-	4,410,857	-	6,120,927	10,531,784
Total assets exposed to credit risk	**62,003,637**	**154,759,140**	**507**	**95,209,315**	**311,972,599**

The non-rated bond investment portfolio in 2016 includes debt securities of important Slovene state-owned or private companies which issued non-rated securities. Given loans without a credit rating accounted for 74% of all loans, deposits and financial receivables, the issuer of which is not rated. A share of 20% of loans without a rating are collateralized by pledge ofl property or securities, 62% of loans without a rating are collateralized by bills of exchange and other types of collateral, and the remaining 18% are secured by other types of collateral. The total maximum exposure to individual issuers without rating relating to given loans is represented by loans to KD Kapital d. o. o. and KD d. d. accounting for 59% of all given loans without a rating.

[1] This table should be read together with the note in Section 7.2.3, paragraph 6. In the tables Maximum exposure to credit risk by financial asset class for the observed years, 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 2015

(in EUR)	AAA-A	BBB-B	CCC-C	Not rated	Total 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**
Total financial investments	**9,590,872**	**149,492,493**	**523,809**	**54,704,284**	**214,311,457**
Receivables from insurance business and other 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
Total assets exposed to credit risk	**24,336,666**	**161,679,034**	**1,774,037**	**82,685,925**	**270,475,662**

Bond investments portfolio without credit rating in 2015 relates to debt securities of important Slovene companies and banks, partially or completely owned by the state. Given loans accounted for EUR 32,992,286 or 85% of loans, deposits and financial receivables. The share of loans, where the issuer 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 total maximum exposure to individual issuers relating to given loans is represented by loans to KD Kapital d. o. o. accounting for 35% of all given loans.

Exposure of investments

Exposure of investments to Slovenia (in%)	1 Jan – 31 Dec 2016	1 Jan – 31 Dec 2015
EXPOSURE TO THE REPUBLIC OF SLOVENIA	7.93%	11.23%
investments in bonds issued by the RS	6.58%	7.76%
investments in Slovene bonds of banks	0.89%	1.52%
investments in shares of Slovene banks	0.00%	0.35%
deposits with Slovene banks	0.46%	1.60%

According to macroeconomic data from 2016 Slovenia maintained the trend of economic growth, which was, together with the recovery of EMU area, mainly driven by growth of exports and private consumption.

Slovenia's credit ratings were upgraded by all major rating agencies in the past year. The credit spread on the return on the Slovene 10-year government bond dropped again by over 40 basis points, which contributed to the reduction in its total return by more than 80 basis points, along with a similar fall in return on the German 10-year government bond. The 10-year return on the Slovene government bond therefore fell from 1.6% to 0.8%, resulting in more than 8% nominal growth of the bond. After a slight market slump in 2015, the Slovene SBITOP stock index was still fairly volatile in 2016 due to unfulfilled expectations of investors about the privatisation of Telekom Slovenije and parrtially as the result of corrective measures in foreign markets. Nevertheless, the index exceeded 7% at the end of the year. Throughout the year, the Group reduced the share of investments exposed to the state, primarily due to maturity of deposits in Slovene banks, Slovene government bonds and bonds of Slovene banks.

Credit risk: Past-due and not past-due financial instruments as at 31 December 2016

In EUR	Neither past due nor impaired	Total past due and not impaired: Up to 30 days	From 31 to 90 days	From 91 to 270 days	Over 270 days	Total past-due date and not impaired	Total past due and impaired: Gross value	Value adjustment – individual impairment	Value adjustment – group impairment	Net value	Total past due date and impaired	Total
Financial investments (debt securities)	209,986,891											209,986,891
Assets from financial contracts	573,183											573,183
Loans and financial receivables	35,257,769	44,940		23,202	1,650,217	1,718,358	1,427,003	(919,438)	(27,146)	480,419	480,419	37,456,547
Amount (technical provisions) ceded to reinsu	17,399,320	-	-	-	-	-	-	-	-	-	-	17,399,320
Receivables from Insurance contracts and other receivables	20,361,781	523,679	-	-	289,021	812,700	65,269,551	(6,928,935)	(44,637,377)	13,703,239	13,703,239	34,877,720
Insurance receivables	12,933,623	2			273,131	273,133	32,854,787	(4,718,966)	(20,260,120)	7,875,700	7,875,700	21,082,456
Recourse receivables					0	0	30,141,454	(1,744,522)	(23,982,430)	4,414,503	4,414,503	4,414,503
Other receivables	7,428,158	523,677			15,890	539,567	2,273,309	(465,447)	(394,826)	1,413,036	1,413,036	9,380,761
Total	283,578,944	568,618	-	23,202	1,939,238	2,531,058	66,696,554	(7,848,373)	(44,664,522)	14,183,658	14,183,658	300,293,660

This table should be read together with the note in Section 7.2.3. paragraph 6.

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: Up to 30 days	From 31 to 90 days	From 91 to 270 days	Over 270 days	Total past-due date and not impaired	Total past due and impaired: Gross value	Value adjustment – individual impairment	Value adjustment – group impairment	Net value	Total past due date and impaired	Total
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 reinsu	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
Total	251,473,995	40,937	26,656	29,278	1,670,930	1,767,802	58,044,067	(6,085,679)	(36,387,862)	15,570,527	15,570,527	268,796,979

This table should be read together with the note in Section 7.2.3. paragraph 6.

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 2016

	EUR	RSD	HRK	Impairment reversal to fair value	Total 2016
ASSETS					
Financial assets measured at fair value through profit or loss	7,800,359	1,004,909	435,137	-	9,240,406
Equity securities	399,851	-	435,137	-	834,989
Debt securities	7,400,508	1,004,909	-	-	8,405,417
Derivatives	-	-	-	-	-
Held-to-maturity financial assets	37,873,586	-	134,644	-	38,008,230
Debt securities	37,873,586	-	134,644	-	38,008,230
Derivatives	-	-	-	-	-
Available-for-sale financial assets	182,789,081	-	683,514	552,005	184,024,600
Equity securities	19,326,171	-	-	552,005	19,878,176
Debt securities	163,462,910	-	683,514	-	164,146,424
Loans, deposits and financial receivables	38,443,251	-	9,833	54,518	38,507,602
Investments into associates	12,130,311	-	-	-	12,130,311
Assets from financial contracts	4,438,416	-	-	317,320	4,755,736
Total financial investment	**283,475,004**	**1,004,909**	**1,263,129**	**923,842**	**286,666,884**
Receivables from insurance business and other receivables	31,956,252	31,625	2,804,574	82,679	34,875,130
Amount (technical provisions) ceded to reinsurers	17,390,669	-	417	8,235	17,399,320
Cash and cash equivalents	8,692,487	-	656,822	4,175	9,353,484
Other assets	98,496,429	-	161,821	-	98,658,250
Total assets exposed to currency risk	**440,010,840**	**1,036,534**	**4,886,763**	**1,018,931**	**446,953,068**
LIABILITIES	-	-	-	-	-
Subordinate liabilities	49,453,316	-	-	-	49,453,316
Liabilities arising from insurance contracts	269,308,826	-	750,092	-	270,058,918
Liabilities from insurance contracts with DPF	-	-	-	-	-
Liabilities from financial contracts	4,753,190	-	-	-	4,753,190
Other liabilities	17,541,113	-	5,648,340	-	23,189,454
Total liabilities exposed to currency risk	**341,056,446**	**-**	**6,398,432**	**-**	**347,454,878**

This table should be read together with the note in Section 7.2.3. paragraph 6.

Exposure to currency risk in 2015

	EUR	RSD	HRK	Other	Total 2016
ASSETS					
Financial assets measured at fair value through profit or loss	15,625,905	2,548,737	1,191,416	191,375	19,557,432
Equity securities	257,252	-	1,191,416	191,375	1,640,042
Debt securities	15,368,653	2,548,737	-	-	17,917,389
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	38,939,815	-	-	2,810	38,942,625
Investments into associates	11,914,602	-	82,960	-	11,997,562
Total financial investment	256,610,353	2,548,737	1,406,006	968,305	261,533,400
Amount (technical provisions) ceded 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
Total assets exposed to currency risk	286,700,975	4,618,063	1,458,445	968,305	293,745,788
Liabilities arising from insurance contracts	268,112,887	-	502,878	-	268,615,765
Total liabilities exposed to currency risk	268,112,887	-	502,878	-	268,615,765

This table should be read together with the note in Section 7.2.3. paragraph 6.

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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 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[2]

	Fixed interest rate		Variable interest rate		Total	
in euros	2016	2015	2016	2015	2016	2015
ASSETS						
Debt securities	164,015,767	138,847,528	46,544,299	36,521,305	210,560,066	175,368,833
Loans and deposits	29,756,020	33,092,068	3,696,845	2,784,719	33,452,865	35,876,787
Cash and cash equivalents	9,353,484	14,194,080	-	-	9,353,484	14,194,080
Assets from financial contracts	1,178,300	-	573,183	-	1,751,483	-
Total	**204,303,571**	**186,133,676**	**50,814,328**	**39,306,024**	**255,117,898**	**225,439,700**
LIABILITIES						
Debt securities	49,453,316	-	-	-	49,453,316	-
Total	**49,453,316**	**-**	**-**	**-**	**49,453,316**	**-**

This table should be read together with the note in Section 7.2.3. paragraph 6.

Risk of guaranteed return

In 2016, the Group managed the risk of guaranteed return in the period of record-low interest rates, especially by selectively allocating investment portfolios to corporate bonds and shares with a higher return.

In 2016, the bond market experienced growth and volatility. The latter was stronger towards the end of the year after the election of the new US president, when the expectations of promised fiscal incentives greatly heightened inflationary expectations and credit spread both in the US and the EU. Since stronger volatility in the bond markets was expected by the manager for a long time, the Group's investment portfolio was conservatively positioned throughout the year, particularly in terms of investment maturity. The Group ensured prudent management of portfolios to achieve adequate return in relation to interest rate and credit risks of debt security investments. Throughout the year, the Group invested a part of the assets received from the issued subordinated debt mostly in government bonds of European countries in line with the existing investment portfolio structure. As at the year-end, the investment portfolio structure was therefore similar to the one at the beginning of the year. With regard to government bonds, the Group increased its exposure—to a greater extent—to Portuguese, German and Romanian bonds and reduced its exposure to Spanish bonds.

With regard to life insurance funds, the largest changes were made in the allocation of government bonds category, whose total share went up by 2% in 2016, from 72% to 74%. In this segment, exposure to Spanish bonds was most significantly reduced in relative terms, while the largest increase in exposure was seen relating to countries such as Italy, Portugal, Germany and Romania. To achieve a higher return on equity, the Group transferred two investment properties with a total value of EUR 4.3 million and expected annual return of over 5% to the life insurance fund. In 2016, the fund achieved a return that exceeded the guaranteed return.

With respect to the fund with a guaranteed return under the PN-A01 pension scheme, the Group maintained the investment structure from the previous period, as the fund was closed for new payments in May 2016. In 2016, the fund achieved a return that exceeded the guaranteed return. The new fund with a guaranteed return "Zajamčeni od 60" (Guaranteed over 60) was marked mostly by setting up a new portfolio, as it started operating only in February. This is why this fund achieved only the guaranteed return.

[2] Including receivables from long-term insurance fund of investment risk.

Actual exposure to risk of guaranteed return

Pension insurance scheme/plan	1 Jan – 31 Dec 2016	1 Jan – 31 Dec 2015
LIFE INSURANCE		
Traditional life insurance		
Average return on investment for the period	6.85%	7.50%
Average guaranteed return	3.36%	3.48%
Difference in interest rates	**3.49%**	**4.02%**
PENSION INSURANCE		
Pension saving AS Zajamčeni od 60		
Average return on investment for the period	1.11%	-
Required (guaranteed) return	1.11%	-
Difference in interest rates	**-**	**-**
Pension insurance PN-A01		
Average return on investment for the period	5.03%	4.48%
Required (guaranteed) return	1.30%	2.30%
Difference in interest rates	**3.73%**	**2.18%**

Market risk sensitivity analysis

Factors

The methods and assumptions used in the preparation of the sensitivity analysis for the types of market risks to which the Group is exposed, are presented in the table below.

Sensitivity factor	Description of the sensitivity factor
Interest rates	The effect of a ±50 bp (basic points) change in market interest rates (i.e. the effect on profit and on equity if the market interest rate changes by 50 bp).
Foreign currency rates	Effect of the ±5% change in foreign currency rates as at 31 December 2016.
Changes in prices of equity securities	The effect on changes of market prices of equity securities is reflected in the ±15% changes of share prices, prices of ID-shares, prices of structured securities and prices of mutual funds as at 31 December 2016.

Sensitivity analyses

Analysis of sensitivity to change in the interest rate

(in EUR)	Effect on profit	Effect on equity
31 December 2015		
Interest rate change of +50 bp	**(137,465)**	**(5,319,346)**
Interest rate change of -50 bp	**150,125**	**5,050,748**
31 December 2016		
Interest rate change of +50 bp	(33,811)	(5,961,131)
Interest rate change of -50 bp	24,857	6,134,946

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 fund (assets covering mathematical provisions) with long-term guarantees against its liabilities arising under insurance contracts whose amount depends on the fluctuations in the exchange rates of foreign currencies to at least 80%. Since the liabilities incurred by the Group are denominated in euros, it can be concluded that the majority of its investments have been made in euro-denominated securities; hence its exposure to currency risk is very low.

Analysis of sensitivity to changes in prices of equity securities

(in EUR)	Effect on profit	Effect on equity
31 December 2015		
Change in prices of equities +15%	**246,006**	**5,037,651**
Change in prices of equities -15%	**(246,006)**	**(5,037,651)**
31 December 2016		
Change in prices of equities +15%	125,248	3,252,672
Change in prices of equities -15%	(125,248)	(3,252,672)

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.

7.2.4 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 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 Group adopted the business continuity strategy aimed at a quick recovery of business processes critical for its operations.

Strategic risk

Strategic risks can occur in the early stages of strategy planning, strategy execution, management and strategic decision-making and supervision of 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, 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.

8. 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 fair value assessment of financial investments depends on the availability of market data serving as a basis for fair value assessment by the Group. The Group is generally establishing fair value of financial instruments as described in the policies in Section 5.5 for the purpose of fair value measurement of financial assets and their organisation into hierarchy.

Financial assets categorised in the fair value hierarchy in 2016

v EUR as at 2016	Carrying amount	Fair value	Level 1	Level 2	Level 3
Financial assets measured at fair value through profit or loss, held for sale	**5,253,053**	**5,253,056**	**545,403**	**4,707,654**	**-**
Debt securities	4,707,651	4,707,654	-	4,707,654	-
Investment coupons of mutual funds	545,403	545,403	545,403	-	-
Financial assets measured at fair value through profit or loss, at initial recognition	**3,987,352**	**3,987,352**	**289,586**	**3,697,766**	**-**
Debt securities	3,697,766	3,697,766	-	3,697,766	-
Investment coupons of mutual funds	289,586	289,586	289,586	-	-
Available-for-sale financial assets	**178,024,281**	**178,024,289**	**19,317,441**	**155,689,755**	**3,017,094**
Equity securities	3,284,811	3,284,811	3,284,811	-	-
Debt securities	164,146,424	164,146,424	5,439,576	155,689,755	3,017,094
Investment coupons of mutual funds	10,593,046	10,593,054	10,593,054	-	-
Unit-linked investments of policyholders	**287,601,433**	**287,601,449**	**222,437,530**	**47,745,557**	**17,418,362**
Assets from financial contracts	**4,755,736**	**3,574,058**	**3,000,875**	**573,183**	**-**
Total financial assets measured at fair value	**474,866,119**	**474,866,146**	**242,589,959**	**211,840,732**	**20,435,455**
Held-to-maturity financial assets	**38,008,230**	**44,416,628**	**411,950**	**26,688,540**	**17,316,138**
Debt financial instruments	38,008,230	44,416,628	411,950	26,688,540	17,316,138
Available-for-sale financial assets	**6,000,311**	**-**	**-**	**-**	**-**
Equity securities	6,000,311	-	-	-	-
Deposits and loans	**33,452,865**	**33,452,865**	**-**	**-**	**33,452,865**
Financial investments in associates	**12,130,311**	**-**	**-**	**-**	**-**
Investment property	**27,443,818**	**28,765,463**	**-**	**-**	**28,765,463**
Total financial assets for which the fair value is disclosed	**117,035,535**	**106,634,956**	**411,950**	**26,688,540**	**79,534,466**
TOTAL ASSETS	**591,901,654**	**581,501,102**	**243,001,909**	**238,529,272**	**99,969,921**
Subordinated liabilities	49,453,317	49,453,317	-	49,453,317	-
Total liabilities for which the fair value is disclosed	**49,453,317**	**49,453,317**	**-**	**49,453,317**	**-**
TOTAL LIABILITIES	**49,453,317**	**49,453,317**	**-**	**49,453,317**	**-**

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.

Financial assets categorised in the fair value hierarchy in 2015

in EUR as at 31 Dec 2015	Carrying amount	Fair value	Level 1	Level 2	Level 3
Financial assets measured at fair value through profit or loss, held for sale	**11,797,840**	**11,910,586**	**2,211,448**	**9,699,138**	**-**
Debt securities	11,100,603	11,213,350	1,514,212	9,699,138	-
Investment coupons of mutual funds	697,236	697,236	697,236	-	-
Financial assets measured at fair value through profit or loss, at initial recognition	**7,759,592**	**7,759,592**	**942,806**	**6,816,786**	**-**
Debt securities	6,816,786	6,816,786	-	6,816,786	-
Investment coupons of mutual funds	942,806	942,806	942,806	-	-
Available-for-sale financial assets	**144,433,722**	**151,811,769**	**28,681,844**	**115,875,635**	**7,254,290**
Equity securities	8,789,672	16,043,963	8,789,672	-	7,254,290
Debt securities	117,979,917	118,103,674	2,228,038	115,875,635	-
Investment coupons of mutual funds	17,664,133	17,664,133	17,664,133	-	-
Unit-linked investments of policyholders	**263,760,339**	**263,760,339**	**207,627,225**	**40,013,656**	**16,119,458**
Total financial assets measured at fair value	427,751,494	435,242,286	239,463,323	172,405,215	23,373,748
Held-to-maturity financial assets	**39,471,526**	**45,743,396**	**537,278**	**45,206,118**	**-**
Debt financial instruments	39,471,526	45,743,396	537,278	45,206,118	-
Available-for-sale financial assets	**7,130,533**	**-**	**-**	**-**	**-**
Equity securities	7,130,533	-	-	-	-
Deposits and loans	**35,876,788**	**35,876,788**	**-**	**-**	**35,876,788**
Financial investments in associates	**11,997,562**	**-**	**-**	**-**	**-**
Investment property	**30,835,438**	**31,268,505**	**-**	**-**	**31,268,505**
Total financial assets for which the fair value is disclosed	125,311,847	112,888,689	537,278	45,206,118	67,145,293
TOTAL ASSETS	553,063,341	548,130,975	240,000,601	217,611,333	90,519,041

Level 3 assets and liabilities

Financial assets and liabilities categorised in the fair value hierarchy – Level 3 movement in 2016

(in EUR)	1 Jan 2016	Total profit/loss in profit or loss	Total profit/loss in comprehensive income	Purchase	Sale	Transfers (to) from Level 3	31 Dec 2016
Assets measured at fair value							
Debt securities	-	-	-	-	(1,270,064)	-	-
Available-for-sale financial assets	**-**	**-**	**-**	**-**	**-**	**3,017,094**	**3,017,094**
Debt securities	-	-	-	-	-	3,017,094	3,017,094
Total assets	**-**	**-**	**-**	**-**	**(1,270,064)**	**3,017,094**	**3,017,094**

Financial assets and liabilities categorised in the fair value hierarchy – Level 3 movement in 2015

(in EUR)	1 Jan 2015	Total profit/loss in profit or loss	Total profit/loss in comprehensive income	Purchase	Sale	Transfers (to) from Level 3	31 Dec 2015
Assets measured at fair value Level 3							
Financial assets measured at fair value through profit or loss, held for sale	**15,267,162**	**-**	**-**	**-**	**-**	**(15,267,162)**	**-**
Debt securities	15,267,162	-	-	-	-	(15,267,162)	-
Available-for-sale financial assets	**68,134,961**	**89,741**	**(21)**	**-**	**(1,205,755)**	**(67,018,927)**	**-**
Debt securities	68,134,961	89,741	(21)	-	(1,205,755)	(67,018,927)	-
Total assets	**83,402,123**	**89,741**	**(21)**	**-**	**(1,205,755)**	**(82,286,089)**	**-**

Until 31 December 2016, the Group did not reclassify financial asset groups due to the change in their intended use, but it did move financial assets measured at fair value between levels due to the change in capital market conditions as follows:

- Debt securities amounting to EUR 908,621, of which EUR 773,325.06 of available-for-sale assets and EUR 135,295.48 of held-to-maturity assets, were moved from level 1 to level 2.
- Equity securities amounting to EUR 1,318,307 in the available-for-sale group were moved from level 1 to level 3.
- Debt securities amounting to EUR 20,333,232, of which EUR 3,017,094 of available-for-sale assets and EUR 17,316,138 of held-to-maturity assets, were moved from level 2 to level 3.
- Among level 3 movements, only financial assets measured at fair value are shown. Financial assets whose fair value shows movements to level 3 are not indicated.

9. REPORTING BY SEGMENT

The Adriatic Slovenica Group monitors its operations by business and geographical segment. Business and geographical segments are part of the Group's operations that are subject to different rates of profitability, opportunities for growth, future prospects and risks. The management periodically reviews the business results by these segments in order to not only take decisions on the basis thereof regarding the resources to be allocated to a particular segment but also to assess the performance of individual segments and the entire Group.

Business segments

A business segment is a distinguishable component of the Group that is engaged in providing a group of related products or services and that is subject to risks and returns that are different from those of the other business segments

The Group's core activity is insurance business, which provides services in the life, non-life and health insurance segments. These business segments are further divided into insurance segments where similar insurance products are grouped as well as the corresponding support activities, such as insurance agency business, other activities auxiliary to insurance and pension funding and the activities of insurance agents. In addition to insurance business, the Group also provides asset management services.

The business segments of the Group include:

- non-life insurance,
- life insurance,
- health insurance,
- asset management,
- other.

The non-life insurance segment includes:

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

The **life insurance** business segment includes traditional life insurance, annuity life insurance, unit-linked life insurance and voluntary pension insurance (voluntary supplemental pension insurance under the previous PN-A01 pension scheme and the new pension schemes which entered into force in 2016, as well as Pokojninsko varčevanje AS (AS Pension Saving)).

The health insurance business segment includes complementary health insurance and other supplementary health insurance.

In addition to taking out insurance, this segment includes specialist outpatient health services in connection with supplementary (above-standard) health insurance.

The asset management business segment includes the activity of trust and other funds and similar financial entities which manage investment funds and provide management services for financial instruments.

As at 31 December 2016, the following three management companies in the AS Group provided asset management services: KD Skladi Ljubljana, which is one of the leading management companies, and its two subsidiaries – KD Lokusta Fondovi d. o. o. and KD Fondovi AD.

Assets and liabilities by segment include the assets and liabilities of the Group which can be directly attributed to a particular business segment, as well as those which can be indirectly allocated to a business segment.

The revenue and expenses of a business segment arise from the operations of individual segments and can be directly attributed to a particular business segment; moreover, the relevant portion of revenue and expenses can be reasonably allocated to a business segment.

Geographical segments

A geographical segment is a distinguishable component of the Group that is engaged in providing products or services within a particular economic environment and is subject to risks and returns that are different from those of the segments operating in other economic environments.

The Group operates in three main geographical segments: in Slovenia, EU Member States and other countries of South-East Europe. The main geographical segment of the Group is Slovenia.

Presentation of operations by business segment

The accounting policies of segments (business and geographical segments) are identical to the accounting policies of the Group.

Business segments

The balance sheet and income statement are presented below by business segments.

Balance sheet of the AS Group as at 31 December 2016

in EUR	Life insurance	Non-life insurance	Health insurance	Asset management	Intersegment eliminations on consolidation	Total
Assets	471,269,474	264,421,493	21,818,108	32,240,957	(52,442,795)	737,307,236
Intangible assets	4,277,529	4,188,778	21,350	25,395,781	-	33,883,437
Property, plant and equipment	60,203	31,464,123	265,160	128,723	-	31,918,209
Non-current assets held for sale	-	4,270	360,197	-	(360,197)	4,270
Deferred tax assets	413,350	5,236,321	1,166,300	217,581	-	7,033,551
Investment properties	5,013,987	22,398,509	31,321	-	-	27,443,818
Financial investments in subsidiaries and associates	509,364	8,440,686	3,180,261	-	-	12,130,311
Financial investments	130,023,241	128,386,276	7,813,323	3,557,990	-	269,780,829
In loans and deposits	8,852,548	26,937,733	2,254,034	463,287	-	38,507,602
In held-to-maturity financial assets	25,369,306	12,021,748	617,177	-	-	38,008,230
In available-for-sale financial assets	93,175,878	82,815,008	4,939,001	3,094,703	-	184,024,591
In financial assets measured at fair value	2,625,510	6,611,787	3,110	-	-	9,240,406
Unit-linked investments of policyholders	287,601,433	-	-	-	-	287,601,433
Amounts of technical provisions ceded to reinsurers	330,371	17,068,948	-	-	-	17,399,319
Assets from financial contracts	4,755,736	-	-	-	(2,546)	4,753,190
Receivables	33,336,431	38,772,087	7,975,179	800,725	(51,901,572)	28,982,850
Receivables from direct insurance business	916,407	10,507,743	7,491,660	-	-	18,915,810
Receivables from reinsurance and coinsurance	408,196	1,364,801	-	-	-	1,772,997
Income tax receivables	483,299	105,578	111,862	1,830	(624,902)	77,667
Other receivables	31,528,529	26,793,966	371,657	798,895	(51,276,670)	8,216,376
Other assets	1,379,976	3,906,838	230,376	117,141	(178,481)	5,455,850
Cash and cash equivalents	3,567,855	4,554,657	774,641	2,023,017	-	10,920,169
Off-balance sheet items	2,542,152	18,376,126	3,806,461	674,098	-	25,398,837
Equity and liabilities	471,269,474	264,421,493	21,818,108	32,240,957	(52,442,795)	737,307,236
Equity	20,043,063	72,102,612	5,152,751	1,242,952	(360,197)	98,181,182
Majority equity interest	20,043,063	72,019,013	5,152,751	933,087	(360,197)	97,787,718
Share capital	11,973,787	34,193,760	-	-	(3,168,017)	42,999,530
Capital reserves	1,697,506	2,514,276	0	-	-	4,211,782
Reserve from profit	-	4,348,055	4,875,881	-	-	9,223,936
Translation differences	558	(1,926,376)	-	(4,687)	-	(1,930,505)
Reserve due to fair value measurement (Revaluation surplus)	(274,466)	503,531	98,993	27,013	-	355,071
Retained net earnings	1,856,487	22,579,613	309,746	-	4,771,678	29,517,525
Net profit or loss for the financial year	4,789,191	9,806,153	(131,869)	910,762	(1,963,858)	13,410,378
Minority equity interest	-	83,599	-	309,865	-	393,464
Subordinated liabilities	26,704,791	22,748,526	-	-	-	49,453,317
Technical provisions	113,974,143	144,508,571	13,413,092	-	-	271,895,806
Unearned premiums	380,444	41,972,463	7,029,965	-	-	49,382,872
Mathematical provisions	107,124,136	118,305	8,082	-	-	107,250,524
Outstanding claims provisions	6,458,257	101,444,788	6,194,080	-	-	114,097,125
Other technical provisions	11,307	973,015	180,965	-	-	1,165,286
Insurance technical provisions for unit-linked insurance	282,619,438	-	-	-	-	282,619,438
Other provisions	4,468	3,969,815	-	102,550	-	4,076,834
Deferred tax liabilities	19,007	56,414	23,221	12,005	-	110,646
Liabilities from financial contracts	4,755,736	(0)	-	-	(2,546)	4,753,190
Other financial liabilities	343	985,204	0	31	-	985,578
Operating liabilities	2,201,228	3,300,931	1,568,058	138,205	(624,902)	6,583,521
Liabilities from direct insurance contracts	756,413	1,537,646	1,568,058	-	-	3,862,118
Liabilities from reinsurance and coinsurance contracts	882,472	1,072,570	-	-	-	1,955,042
Income tax liabilities	562,343	690,714	-	138,205	(624,902)	766,361
Other liabilities	20,947,257	16,749,420	1,660,985	30,745,213	(51,455,152)	18,647,723
Off-balance sheet items	2,542,152	18,376,126	3,806,461	674,098	-	25,398,837

Balance sheet of the AS Group as at 31 December 2015

in EUR	Life insurance	Non-life insurance	Health insurance	Asset management	Intersegment eliminations on consolidation	Total
Assets	410,969,957	252,860,422	27,729,998	-	(21,013,608)	670,546,768
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**	**457,530**	**-**	**-**	**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**
Financial investments	**118,811,311**	**117,156,425**	**14,350,064**	**-**	**-**	**250,317,800**
In loans and deposits	3,082,379	32,892,405	3,749,803	-	-	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	8,923,446	-	-	151,564,255
In financial assets measured at fair value	5,050,563	13,447,226	1,059,643	-	-	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**
Receivables	**9,300,436**	**39,660,421**	**8,665,211**	**-**	**(20,471,726)**	**37,154,342**
Receivables from direct insurance business	1,364,708	11,676,536	7,746,084	-	-	20,787,328
Receivables from reinsurance and coinsurance	153,762	1,479,308	-	-	-	1,633,070
Income tax receivables	2,623,703	64,336	853,914	-	-	3,541,953
Other receivables	5,158,264	26,440,240	65,213	-	(20,471,726)	11,191,992
Other assets	**1,510,476**	**4,054,957**	**560,964**	**-**	**(181,686)**	**5,944,711**
Cash and cash equivalents	**5,198,101**	**8,112,506**	**1,990,690**	**-**	**-**	**15,301,297**
Off-balance sheet items	**3,120,249**	**21,488,737**	**3,763,803**	**-**		**28,372,790**
Equity and liabilities	410,969,957	252,860,422	27,729,998	-	(21,013,608)	670,546,768
Equity	**21,531,160**	**74,859,560**	**6,481,065**	**-**	**(360,197)**	**102,511,589**
Majority equity interest	**21,531,160**	**74,759,152**	**6,481,065**	**-**	**(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	5,932,856	-	-	15,543,286
Translation differences	36	(1,860,838)	-	-	-	(1,860,802)
Reserve due to fair value measurement (Revaluation surplus)	1,829,495	1,942,963	58,375	-	-	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
Technical provisions	**108,657,746**	**149,631,250**	**13,374,158**	**-**	**-**	**271,663,154**
Unearned premiums	439,459	42,512,643	7,270,967	-	-	50,223,069
Mathematical provisions	102,710,827	54,247	68	-	-	102,765,143
Outstanding claims provisions	5,359,721	106,185,275	5,789,024	-	-	117,334,020
Other technical provisions	147,739	879,085	314,099	-	-	1,340,922
Insurance technical provisions for unit-linked insurance	**259,697,710**	**-**	**-**	**-**	**-**	**259,697,710**
Other provisions	**3,403**	**5,131,588**	**-**	**-**	**-**	**5,134,992**
Deferred tax liabilities	**371,440**	**348,701**	**11,956**	**-**	**-**	**732,097**
Other financial liabilities	**151**	**968,762**	**22**	**-**	**-**	**968,936**
Operating liabilities	**2,938,912**	**2,571,519**	**1,476,028**	**-**	**-**	**6,986,458**
Liabilities from direct insurance contracts	1,091,665	1,319,977	1,476,028	-	-	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
Other liabilities	**17,769,434**	**19,349,042**	**6,386,769**	**-**	**(20,653,412)**	**22,851,833**
Off-balance sheet items	**3,120,249**	**21,488,737**	**3,763,803**	**-**		**28,372,790**

Income statement of the AS Group for the period from 1 January 2016 to 31 December 2016

in EUR	Life insurance	Non-life insurance	Health insurance	Asset management	Intersegment eliminations on consolidation	Total
NET PREMIUM INCOME	**57,709,311**	**129,539,344**	**101,024,827**	**-**	**-**	**288,273,482**
Gross written premiums	59,476,307	138,559,897	100,783,826	-	-	298,820,030
Premiums ceded to reinsurers and coinsurers	(1,797,590)	(9,288,804)	-	-	-	(11,086,394)
Change in unearned premiums	30,594	268,251	241,002	-	-	539,846
REVENUES FROM INVESTMENTS IN ASSOCIATES, of which	**74,472**	**161,380**	**-**	**-**	**-**	**235,852**
- profit from capital investments from associates and joint ventures, calculated using the equity method	74,472	161,380	-	-	-	235,852
INCOME FROM INVESTMENTS	**35,499,567**	**9,063,634**	**405,479**	**3,644**	**-**	**44,972,324**
OTHER INCOME FROM INSURANCE OPERATIONS, of which	**561,244**	**1,179,766**	**-**	**-**	**-**	**1,741,010**
- fee and commission income	561,244	1,179,766	-	-	-	1,741,010
OTHER INCOME	**2,953,580**	**5,309,151**	**196,355**	**3,478,380**	**(1,206,045)**	**10,731,420**
NET EXPENSES FOR CLAIMS AND BENEFITS PAID	**(42,831,158)**	**(79,223,184)**	**(90,648,514)**	**-**	**-**	**(212,702,856)**
Gross amounts of claims and benefits paid	(42,385,200)	(86,488,075)	(90,243,458)	-	-	(219,116,733)
Reinsurers'/coinsurers' shares	571,512	4,541,959	-	-	-	5,113,471
Change in claims provisions	(1,017,470)	2,722,932	(405,057)	-	-	1,300,405
CHANGE IN OTHER TECHNICAL PROVISIONS	**(3,946,080)**	**(317,371)**	**124,671**	**-**	**-**	**(4,138,780)**
CHANGE IN TECHNICAL PROVISIONS FOR THE BENEFIT OF UNIT-LINKED INSURANCE POLICYHOLDERS	**(22,921,728)**	**-**	**-**	**-**	**-**	**(22,921,728)**
EXPENSES FOR BONUSES AND DISCOUNTS	**-**	**100,273**	**449**	**-**	**-**	**100,722**
OPERATING EXPENSES, of which	**(20,067,280)**	**(43,206,296)**	**(12,547,393)**	**(2,533,882)**	**1,206,045**	**(77,148,806)**
- acquisition costs	(7,812,279)	(16,608,018)	(2,180,764)	-	640	(26,600,421)
EXPENSES FROM INVESTMENTS IN ASSOCIATES, of which	**-**	**(51,531)**	**-**	**(432)**	**-**	**(51,963)**
EXPENSES INVESTMENTS, of which	**(781,391)**	**(1,409,451)**	**(308,926)**	**(1,255)**	**-**	**(2,501,022)**
- impairment losses of financial assets not measured at fair value through profit or loss	(176,299)	(923,180)	(274,036)	(1,235)	-	(1,374,749)
OTHER INSURANCE EXPENSES	**(193,728)**	**(3,707,044)**	**(192,369)**	**-**	**-**	**(4,093,142)**
OTHER EXPENSES	**(2,938,725)**	**(7,681,337)**	**(546,597)**	**(18,209)**	**-**	**(11,184,868)**
PROFIT/(LOSS) BEFORE TAX	**3,118,084**	**9,757,333**	**(2,492,019)**	**928,248**	**(0)**	**11,311,646**
CORPORATE INCOME TAX	**(112,664)**	**33,852**	**1,123,086**	**(9,786)**	**-**	**1,034,488**
NET PROFIT FOR THE REPORTING PERIOD	**3,005,420**	**9,791,185**	**(1,368,932)**	**918,462**	**(0)**	**12,346,134**
MINORITY INTEREST	**-**	**(14,968)**	**-**	**7,700**	**-**	**(7,268)**
INTEREST OF PARENT COMPANY	**3,005,420**	**9,806,153**	**(1,368,932)**	**910,762**	**-**	**12,353,402**

Income statement of the AS Group for the period from 1 January 2015 to 31 December 2015

in EUR	Life insurance	Non-life insurance	Health insurance	Asset management	Intersegment eliminations on consolidation	Total
NET PREMIUM INCOME	**59,178,547**	**128,351,076**	**101,384,319**	**-**	**-**	**288,913,942**
Gross written premiums	60,723,448	136,855,124	100,643,709	-	-	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	740,610	-	-	1,648,614
REVENUES FROM INVESTMENTS IN ASSOCIATES, of which	**354,221**	**-**	**-**	**-**	**-**	**354,221**
INCOME FROM INVESTMENTS	**14,078,709**	**8,854,085**	**1,132,669**	**-**	**-**	**24,065,464**
OTHER INCOME FROM INSURANCE OPERATIONS, of which	**459,863**	**3,718,031**	**-**	**-**	**-**	**4,177,894**
- fee and commission income	459,863	3,718,031	-	-	-	4,177,894
OTHER INCOME	**2,001,893**	**6,350,364**	**460,164**	**-**	**(77,966)**	**8,734,455**
NET EXPENSES FOR CLAIMS AND BENEFITS PAID	**(38,695,893)**	**(80,420,235)**	**(88,694,286)**	**-**	**-**	**(207,810,414)**
Gross amounts of claims and benefits paid	(39,860,188)	(86,538,231)	(88,469,773)	-	-	(214,868,193)
Reinsurers'/coinsurers' shares	429,788	9,453,085	-	-	-	9,882,872
Change in claims provisions	734,508	(3,335,088)	(224,512)	-	-	(2,825,093)
CHANGE IN OTHER TECHNICAL PROVISIONS	**(4,763,725)**	**44,454**	**163,486**	**-**	**-**	**(4,555,784)**
CHANGE IN TECHNICAL PROVISIONS FOR THE BENEFIT OF UNIT-LINKED INSURANCE POLICYHOLDERS	**(2,362,762)**	**-**	**-**	**-**	**-**	**(2,362,762)**
EXPENSES FOR BONUSES AND DISCOUNTS	**-**	**(286,129)**	**(657)**	**-**	**-**	**(286,786)**
OPERATING EXPENSES, of which	**(19,357,702)**	**(42,096,469)**	**(14,349,926)**	**-**	**65,342**	**(75,738,755)**
- acquisition costs	(8,394,871)	(16,201,399)	(2,545,854)		-	(27,142,123)
EXPENSES FROM INVESTMENTS IN ASSOCIATES, of which	**(6,104)**	**(13,226)**	**-**	**-**	**-**	**(19,330)**
-loss from capital investments in associates and joint ventures, calculated using the equity method	(6,104)	(13,226)	-	-	-	(19,330)
EXPENSES INVESTMENTS, of which	**(3,637,457)**	**(2,264,062)**	**(343,493)**	**-**	**-**	**(6,245,012)**
- impairment losses of financial assets not measured at fair value through profit or loss	(85,911)	(270,623)	(23,619)	-	-	(380,153)
OTHER INSURANCE EXPENSES	**(276,247)**	**(4,063,180)**	**(345,964)**	**-**	**-**	**(4,685,390)**
OTHER EXPENSES	**(1,854,006)**	**(6,555,100)**	**(500,465)**	**-**	**12,624**	**(8,896,947)**
PROFIT/(LOSS) BEFORE TAX	**5,119,338**	**11,619,609**	**(1,094,152)**		**-**	**15,644,795**
CORPORATE INCOME TAX	**(718,160)**	**(2,040,294)**	**190,646**	**-**	**-**	**(2,567,808)**
NET PROFIT FOR THE REPORTING PERIOD	**4,401,177**	**9,579,315**	**(903,506)**	**-**	**-**	**13,076,987**
MINORITY INTEREST	**-**	**(37,594)**	**-**	**-**	**-**	**(37,594)**
INTEREST OF PARENT COMPANY	**4,401,177**	**9,616,909**	**(903,506)**	**-**	**-**	**13,114,581**

Statement of comprehensive income of the AS Group for the period from 1 January 2016 to 31 December 2016

in EUR	Life insurance	Non-life insurance	Health insurance	Asset management	Intersegment eliminations on consolidation	Total
NET PROFIT OR LOSS FOR THE FINANCIAL YEAR AFTER TAXATION	3,005,420	9,791,185	(1,368,932)	918,462	-	12,346,134
OTHER COMPREHENSIVE INCOME AFTER TAXATION	(2,112,040)	(1,676,187)	40,618	20,757	-	(3,726,852)
Items not to be allocated to profit or loss in subsequent periods	(486)	(138,643)	-	-	-	(139,130)
Net gain/loss, recognised in revaluation surplus of property, plant and equipment	-	(141)	-	-	-	(141)
Actuarial net gain/loss for pension programmes	(486)	(138,502)	-	-	-	(138,988)
Tax on items not to be allocated to profit or loss	-	-	-	-	-	-
Items that may be allocated to profit or loss in subsequent periods	(2,111,554)	(1,537,543)	40,618	20,757	-	(3,587,722)
Net gain/loss from re-measurement of available-for-sale financial assets	(2,533,013)	(1,754,095)	51,883	34,068	-	(4,201,158)
Gain/loss, recognised in revaluation surplus	1,984,980	2,486,114	71,613	34,068	-	4,576,775
Transfer of gain/loss from revaluation surplus to income statement	(4,517,994)	(4,240,209)	(19,730)	-	-	(8,777,934)
Associated net gain/loss related to capital investments in associates and joint ventures, calculated using the equity method	(17,741)	(8,187)	-	-	-	(25,928)
Other items that may be allocated to profit or loss in subsequent periods	-	-	-	-	-	-
Tax on items that may be allocated to profit or loss in subsequent periods	437,547	292,258	(11,264)	(7,055)	-	711,485
Gain/loss from translation of financial statements of foreign operations	1,654	(67,519)	-	(6,256)	-	(72,121)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR, AFTER TAXATION	893,380	8,114,998	(1,328,314)	939,218	-	8,619,283
- ATTRIBUTABLE TO MINORITY INTEREST	-	(14,968)	-	7,700	-	(7,268)
- ATTRIBUTABLE TO CONTROLLING COMPANY	893,380	8,129,966	(1,328,314)	931,518	-	8,626,551

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

v EUR	Life insurance	Non-life insurance	Health insurance	Asset management	Intersegment eliminations on consolidation	Total
NET PROFIT OR LOSS FOR THE FINANCIAL YEAR AFTER TAXATION	4,401,177	9,579,315	(903,506)			13,076,987
OTHER COMPREHENSIVE INCOME AFTER TAXATION	(1,373,135)	(973,340)	87,500	-	-	(2,258,975)
Items not to be allocated to profit or loss in subsequent periods	1,439	(40,428)	-	-	-	(38,989)
Actuarial net gain/loss for pension programmes	1,439	(40,428)	-	-	-	(38,989)
Items that may be allocated to profit or loss in subsequent periods	(1,374,574)	(932,912)	87,500	-	-	(2,219,986)
Net gain/loss from re-measurement of available-for-sale financial assets	(1,697,807)	(1,139,406)	105,422	-	-	(2,731,791)
Gain/loss, recognised in revaluation surplus	2,390,257	(305,221)	453,918	-	-	2,538,953
Transfer of gain/loss from revaluation surplus to income statement	(4,088,064)	(834,185)	(348,495)	-	-	(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	(17,922)	-	-	469,370
Gain/loss from translation of financial statements of foreign operations	15,084	(18,746)	-	-	-	(3,662)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR, AFTER TAXATION	3,028,042	8,605,975	(816,006)	-	-	10,818,011
- ATTRIBUTABLE TO MINORITY INTEREST	-	(38,107)	-	-	-	(38,107)
- ATTRIBUTABLE TO CONTROLLING COMPANY	3,028,042	8,644,082	(816,006)	-	-	10,856,118

Geographical segments

As at the reporting date, the Group operated in Slovenia, Croatia, Macedonia and Serbia.

Sales revenue

(in EUR)	1 Jan – 31 Dec 2016	1 Jan – 31 Dec2015
Slovenia	302,935,177	302,581,452
EU	3,780,027	3,424,985
Other countries	224,159	1,064,163
Total	**306,939,363**	307,070,600

Total assets

(in EUR)	31 Dec 2016	31 Dec 2015
Slovenia	510,677,558	498,145,655
EU	218,241,116	158,774,552
Other countries	8,388,563	13,626,562
Total	**737,307,236**	670,546,768
Slovenia	12,130,311	11,997,561
Total	**12,130,311**	11,997,561

Investments

(in EUR)	31 Dec 2016	31 Dec 2015
Slovenia	5,162,780	4,475,666
EU	63,927	21,072
Other countries	1,208	13,063
Total	**5,227,915**	4,509,801

10. NOTES TO INDIVIDUAL ITEMS OF FINANCIAL STATEMENTS

10.1 INTANGIBLE ASSETS

(in EUR)	Goodwill	Material in rights and licences	Software	Intangible assets in the process of acquisition	Total
AT COST					
Balance as at 1 Jan 2015	**829,201**	**3,137,414**	**16,426,341**	**4,768**	**20,397,724**
Acquisition of subsidiary	-	1,102,917	166,402	-	1,269,319
Decreases due to the disposal 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)
Other changes	-	19	263	-	282
Balance as at 31 Dec 2015	**-**	**4,229,242**	**16,483,705**	**-**	**20,712,947**
New balance as at 1 Jan	**-**	**4,229,242**	**16,483,705**	**-**	**20,712,947**
Acquisition of subsidiary	22,307,937	2,967,558	6,844,306	-	32,119,801
Direct increases - investments	-	-	1,930,195	-	1,930,195
Decreases during the year	-	-	(440,790)	-	(440,790)
Transfers between intangible assets, investment property, and property, plant and equipment	-	-	(51,441)	-	(51,441)
Other changes	(493)	(1,811)	1,212	-	(1,092)
Balance as at 31 Dec 2016	**22,307,444**	**7,194,989**	**24,767,187**	**-**	**54,269,620**
VALUE ADJUSTMENT					
Balance as at 1 Jan 2015	**-**	**1,261,632**	**12,712,635**	**-**	**13,974,268**
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 due to impairment	-	625,261	83,017	-	708,278
Other changes	-	19	119	-	138
Balance as at 31 Dec 2015	**-**	**2,041,243**	**12,606,541**	**-**	**14,647,783**
New balance as at 1 Jan	**-**	**2,041,243**	**12,606,541**	**-**	**14,647,783**
Acquisition of subsidiary	32,801	12,347	3,545,057	-	3,590,205
Depreciation during the year	-	5,958	1,777,952	-	1,783,910
Decreases during the year	-	-	(431,240)	-	(431,240)
Revaluation due to impairment	294	845,845	-	-	846,139
Transfers between intangible assets, investment property, and property, plant and equipment	-	-	(51,683)	-	(51,683)
Other changes	(165)	(81)	1,314	-	1,068
Balance as at 31 Dec 2016	**32,930**	**2,905,311**	**17,447,942**	**-**	**20,386,183**
BOOK VALUE					
Balance as at 31 Dec 2015	**-**	**2,187,999**	**3,877,164**	**-**	**6,065,164**
Balance as at 31 Dec 2016	**22,274,514**	**4,289,678**	**7,319,245**	**-**	**33,883,437**

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 2016 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 by EUR 27,818,273, particularly through the acquisition of subsidiaries and goodwill, which is determined as the difference between the fair value and the purchase value of the acquirer, in this case the parent company of the AS Group.

Other important changes affecting the movement of other non-current intangible assets are investments in computer infrastructure in the amount of EUR 1,030,424 (of which high value investments related to the AS portal in the amount of EUR 432,337, INIS upgrade of EUR 246,816, e-life project in the amount of EUR 162,042 and Solvency II implementation of EUR 108,354; the rest was accounted for by low value investments) and investments in software in the amount of EUR 811,786. These assets were lower in 2016 mainly due to write-offs of software of EUR 271,891.

Goodwill

In accordance with the accounting policies, as at the 2016 year-end the Group checked whether the goodwill acquired by starting to provide asset management services would have to be impaired.
To this end, an impairment test was performed for the acquired goodwill as at the end of 2016.

The assumptions used in 2016 for the valuation of goodwill relating to the asset management segment were:

- the present value of future free cash flows including indebtedness;
- the valuation method based on market comparisons of similar companies;
- the estimate was based on an analysis of past operations and future business opportunities;
- return on free cash flows was discounted with the appropriate weighted arithmetic average of return rate on debt and equity capital;
- for the calculation of the required rate of return on equity, the CAPM model was used, which was adapted to the country in which the company operates;
- the CAPM assumptions: a 3.5% normalised return on risk-free investments, a 5.5% premium for capital risk, a 3.74–3.87% premium for investment in small enterprises, a 3.13–5.40% political risk factor, a 0.63–0.69 beta excluding debt;
- the required rate of return of equity capital varies between 13.8% and 15.8%;
- the required rate of return of debt varies between 2.0% and 5.0%;
- the discount for the lack of marketability of 5.0–20.0%,
- the planned profitability of individual funds in the explicit forecast period varies between 0.0% and 20.0%;
- growth in net cash flows after the explicit forecast period varies between 2.0% and 6.5% (depending on the saturation of an individual market);
- the estimated cash flows for the 2017–2021 period.

The most important part of goodwill derives from the investment in KD Skladi. Therefore, for that part of the goodwill the management discloses the sensitivity of goodwill in relation to the growth rate – g and the weighted average cost of capital (WACC).

In assessing the market value of the subsidiary KD Skladi, the present value of expected cash flows was applied using the following assumptions:

- Growth rate: 5.5%
- WACC: 14.5%

Sensitivity analysis of subsidiary KD Skladi d. o. o.

in %	weighted average cost of capital - WACC		
growth rate - g	-1%	0%	1%
-1%	2.4%	-6.3%	-13.5%
0%	10.6%	0.0%	-8.5%
1%	21.1%	7.9%	-2.3%

Based on the performed goodwill impairment test under the assumption that the impairment of goodwill arising from the subsidiary KD Skladi is not necessary, it was established that goodwill impairment would have been required if one of the sensitivity analysis scenarios were realised.

Part of goodwill in the net value of EUR 66,043 resulted from indirect subsidiary KD Locusta Fondovi and refers to the client list obtained upon the acquisition of the ICF Balance fund in 2010. The client list constitutes immaterial assets or the right that does not have a specific useful life and is therefore not amortised, but its value is checked on a quarterly basis in terms of the number of investors, after which it is assessed whether there are any objective signs of impairment. If the recoverable amount exceeds the carrying value, the goodwill is not impaired. After checking the value, the need for impairment of EUR 294 was determined.

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
AT COST					
Balance as at 1 Jan 2015	**26,472,134**	**16,606,455**	**781,320**	**112,578**	**43,972,487**
Acquisition of subsidiary	-	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
Balance as at 31 Dec 2015	**26,407,562**	**16,877,890**	**525,363**	**17,472**	**43,828,286**
New balance as at 1 Jan	**26,407,562**	**16,877,890**	**525,363**	**17,472**	**43,828,286**
Acquisition of subsidiary	-	1,124,410	-	-	1,124,410
Direct increases - investments	10,646	2,343,721	850,294	93,058	3,297,719
Direct increases – advance payments	592,197	147,502	-	-	739,698
Activated assets in the process of acquisition	-	-	(982,012)	-	(982,012)
Decreases during the year	-	(1,867,344)	-	-	(1,867,344)
Transfers between intangible assets, investment property, and property, plant and equipment	2,702,846	51,441	-	-	2,754,287
Transfers between categories within intangible fixed assets	6,981	(6,979)	-	-	2
Other changes	-	976	-	178	1,154
Balance as at 31 Dec 2016	**29,720,231**	**18,671,618**	**393,646**	**110,708**	**48,896,202**
VALUE ADJUSTMENT					
Balance as at 1 Jan 2015	**4,119,657**	**12,253,813**	**-**	**101,625**	**16,475,096**
Acquisition of subsidiary	-	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
Balance as at 31 Dec 2015	**4,050,226**	**11,941,917**	**-**	**11,886**	**16,004,029**
New balance as at 1 Jan	**4,050,226**	**11,941,917**	**-**	**11,886**	**16,004,029**
Acquisition of subsidiary	-	902,823	-	-	902,823
Depreciation during the year	290,552	1,206,701	-	7,099	1,504,352
Decreases during the year	-	(1,810,261)	-	-	(1,810,261)
Revaluation owing to impairment of assets	(7,862)	-	-	-	(7,862)
Transfers between intangible assets, investment property, and property, plant and equipment	332,483	51,683	-	-	384,166
Transfers between categories within intangible fixed assets	290,353	(290,353)	-	-	0
Other changes	-	616	-	130	746
Balance as at 31 Dec 2016	**4,955,752**	**12,003,126**	**-**	**19,115**	**16,977,993**
BOOK VALUE					
Balance as at 31 Dec 2015	**22,357,336**	**4,935,972**	**525,363**	**5,586**	**27,824,257**
Balance as at 31 Dec 2016	**24,764,479**	**6,668,492**	**393,646**	**91,593**	**31,918,209**

The Group has no financial liabilities arising from the purchase of property, plant and equipment, no property, plant and equipment pledged as security, no legal restrictions were put on property, plant and equipment 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 2016 it did not change the depreciation rates. Depreciation 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 2016 compared to the 2015 year-end grew by EUR 4,093,952. This was mainly caused by purchases of computer equipment in the amount of EUR 954,305, other equipment of EUR 779,325 and to a smaller extent the purchase of cars in the amount of EUR 217,314. Taking into account the depreciation which reduces the balance of property, plant and equipment, the latter were reduced particularly due to the elimination of computer equipment in the amount of EUR 1,246,541, cars in the amount of EUR 231,104 and equipment (furniture) in the amount of EUR 125,893.

In 2016, the management assessed whether there were grounds for impairment of the real property needed for the performance of Company's activities in such a way as described in the guidelines given in Section 5.2. As at 31 December 2016, the measured fair value of real property (buildings and land) for the performance of activities – in accordance with the techniques for measuring the fair value (as defined in Section 5.5) – was EUR 22,720,299 , which is lower than the carrying amount of EUR 24,764,479. On the basis of the assessment, it was established that as at the 2016 year-end there were no signs indicating that the real property needed for the performance of activities would have to be impaired.

10.3 INVESTMENT PROPERTIES

Movements in investments in land and buildings

(in EUR)	1. 1. - 31. 12. 2016	1. 1. - 31. 12. 2015
COST VALUE		
Balance as at 1 Jan	**33,470,397**	**31,671,745**
Direct increases - investments	540,891	434,445
Direct increases - advance payments	-	961,307
Decreases during the year	(394,650)	(150,380)
Transfer from/to property, plant and equipment	(2,460,534)	553,280
Other changes	(266,121)	-
As at 31 Dec	**30,889,984**	**33,470,397**
VALUE ADJUSTMENT		
Balance as at 1 Jan	2,634,958	2,296,022
Depreciation in the financial year	343,873	347,584
Decreases during the year	(106,007)	(8,648)
Impairment	905,824	-
Transfer from/to property, plant and equipment	(332,481)	(0)
As at 31 Dec	**3,446,167**	**2,634,958**
BOOK VALUE		
As at 31 Dec	**27,443,817**	**30,835,439**

The Group leases all 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. In 2025, the last agreement concluded for a fixed period of time will expire. The lowest rent which the Group charges is approximately 1.43 EUR/m².

The balance of investment property as at 31 December 2016 decreased by EUR 3,391,621, primarily due to real property impairment and the transfer of part of investment property to the real properties used for the performance of activities. In 2016, the management assessed whether there were grounds for impairment of investment property in such a way as described in the guidelines given in Section 6.3. The investment properties which showed signs of impairment were appraised by an external certified appraiser. In assessing the recoverable amount, the market approach (the direct sales comparison method) and the income approach (the direct yield capitalisation method) were applied.

In the **direct sales comparison method**, the recoverable amount was assessed under the cost model by using the higher of an asset's fair value less costs to sell and its value in use as the valuation basis.

In the (the **income approach** direct yield capitalisation method), the recoverable amount was assessed using the following assumptions:

- the capitalisation rate (discount rate) between 6.54% and 8.24% by applying:
  - the real risk-free rate of return between 0.62% and 1.34%,
  - liquidity premium between 1.50% and 2.20%,
  - risk premium between 3.10% and 3.50%,
  - capital recovery premium between 0.71% and 1.02%.

The sensitivity analysis of the appraised real property on Loška 13, Maribor (Kolosej Maribor)

	% change
Lowering of rent from cinema activities from EUR 5.9/m2 to EUR 5.0/m2	-7%
Lowering of rent for the catering establishments from EUR 4.0/m2 to EUR 10.0/m2[2]	-9.2%
Reduction of occupancy of premises to 80%	-22.4%
Increase in required return from 6.54% to +2 p.p.	-23.4%

As at 31 December 2016, the carrying amount of investment property on Loška 13, Maribor was EUR 14,858,000. Details on the valuation and assessment of the recoverable amount of the investment property on the Loška 13, Maribor are presented in Section 6.3.

On the basis of valuation and sensitivity analysis, as at the 2016 year-end the management assessed that impairments of two investment properties must be made in the total amount of EUR 905,825.

The fair value of investment property as at 31 December 2016 was EUR 28,765,463, exceeding the carrying amount of EUR 27.443,818 .

In addition to impairment, the decrease in the value of investment property was influenced by the sale of investment property in the amount of EUR 285,000. The loss of EUR 16,409 (of which EUR 12,779 was accounted for by costs of selling and the tax paid) was generated by the sale.

Despite the decrease as at 31 December 2016, in the reporting period EUR 190,891 were invested in the adaptation of the investment property and EUR 350,000 in the acquisition of real property. As at 31 December 2016, the Group had outstanding liabilities toward the sellers of the investment property in the amount of EUR 799,740, EUR 90,223 of which are outstanding for purchases in 2016 and EUR 709,517 for a purchase of real property in 2012, as a consequence of a contractual obligation of the seller. The liabilities for the purchase of investment property in 2016 were fully settled.

The Group uses straight-line amortisation for investment property; in 2016 no changes were made to amortisation rates. Amortisation of investment property is recognised in the income statement under other operating expenses as investment property expenses.

The Group has no investment properties pledged as security, no legal restrictions were put on them nor were they pledged as collateral for debt.

Income and expenses from investment properties

v EUR	2016	2015
Revenues from investment properties	**1,912,487**	**2,417,556**
Other revenues arising from rents charged on investment properties	1,871,619	1,582,730
Gains on the disposal of investment properties	-	67,744
Revenues from reversal of impairment of receivables	40,868	767,081
Expenses for investment properties	**(2,921,263)**	**(2,655,099)**
Depreciation	(513,319)	(425,241)
Direct operating expenses for investment properties that generate rental income	(1,485,093)	(1,523,157)
Direct operating expenses for investment properties that do not generate rental income	-	(15,176)
Expenses from impairment of receivables from investment properties	(618)	(655,459)
Expenses from impairment of investment properties.	(905,825)	-
Expenses from disposal of investment properties	(16,409)	**(36,066)**

The depreciation expenses in the income statement included depreciation expenses for the buildings of investment property in the amount of EUR 343,873 and depreciation expenses for equipment located in the investment property in the amount of EUR 169,446.

10.4 FINANCIAL INVESTMENTS IN ASSOCIATE

Investments in the associate

Company name	Ownership interest*	Balance in the books of account in EUR
Nama trgovsko podjetje d.d., Slovenia		
As at 31 Dec 2015	48.51	11,705,901
As at 31 Dec 2016	48.51	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 at cost. For the purpose of financial reporting and potential impairments of investment in associate, the Group measures the recoverable amount of the investment based on appraisals performed by external appraisers. Assessment of the recoverable amount is made using the net asset value method. The recoverable amount of real property owned by Nama d. d. was assessed on the basis of the market approach and the income approach using the discount rate of 8.466–8.966%. In line with its strategy, Nama may also lease and sell its real property, in addition to performing its principal activity. In 2015, the majority owners initiated sales activities. The sales value of the company is significantly affected by the value of assets or real property owned by Nama.

To this end, as at the 2016 year-end a sensitivity analysis of the recoverable amount was performed for the associate Nama d. d.

Sensitivity analysis of the associate Nama d. d.

	% change
Change in rent by –10%	-9%
Change in rent by +10%	8.8%
An increase in the required return by –2 p.p.	23.5%
An increase in the required return by +2 p.p.	-14.8%

In 2016, the parent company Adriatic Slovenica received EUR 77,157 of dividends from Nama d. d. They were reimbursed in full on 20 December 2016.

Movements in investments in the associate

(in EUR)	1 Jan – 31 Dec 2016	1 Jan – 31 Dec 2015
Associates		
As at 1 Jan	**11,997,562**	**12,151,241**
Interest (dividend) received	(77,175)	(180,446)
Impairments	235,852	(19,330)
Change in revaluation surplus	(25,928)	46,097
As at 31 Dec	**12,130,311**	**11,997,562**

In 2016, Adriatic Slovenica received EUR 77,157 of dividends from Nama d. d. They were reimbursed in full on 20 December 2016.

Information on property and financial position of the associate

Company name in EUR	Assets		Capital		Revenues		Profit or loss for the	
Associates	2016	2015	2016	2015	2016	2015	2016	2015
Nama trgovsko podjetje d.d.	12,878,976	12,335,818	10,422,889	10,282,653	15,581,981	12,852,827	390,120	102,959

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 NON-CURRENT ASSETS FOR SALE

As at 31 December 2016, property, plant and equipment of EUR 4,720 of the subsidiary AS neživotno osiguranje a. d. o., Belgrade, which is in the winding down process, were disclosed among non-current assets for sale.

10.6 FINANCIAL INVESTMENTS

In 2016, global financial markets were marked by high uncertainty and surprises for both bond and stock markets. This was the result of two key political events in particular, i.e. Brexit and the election of Donald Trump as the new President of the United States. The financial markets therefore focused more on the political risk than on the movement of economic indicators, which gradually improved over the year. The global political insecurity also reflected in the domestic capital market, however the improved credit rating of Slovenia, which was assigned by renowned credit rating agencies, contributed to higher growth in the domestic capital market.

In 2016, growth in the fair value of financial assets was primarily affected by interest revenue from interest coupon bonds, because throughout the year the Company had, on average, over 50% of the portfolio assets invested in debt instruments, which experienced more diverse movements than in the year before. In the first three quarters, growth in the value of financial assets was affected by a lower required return on European bonds, which slightly increased in the last quarter, especially after the US presidential elections in the USA. In the first three quarters, growth in the value of financial assets was affected by a lower required return on European bonds, which slightly increased in the last quarter, especially after the US presidential elections in the USA. In the first half of 2016, growth in the fair value of financial investments was mainly influenced by deflationary expectations, primarily due to the uncertainty before and after the outcome of the Brexit referendum. This growth further strengthened in the third quarter as is the UK central bank quickly intervened in the market by boosting its QE programme and expanding bond buying so as to ward off the possible recession. Consequently, the relatively high bond growth in the first three quarters experienced correction and normalisation of the required return or a higher yield curve in the last quarter. Contrary to expectations, Trump's election as the President of the United States resulted in worldwide negative consequences for bonds and positive for equity investments. Immediately after being elected, Trump promised new investments in infrastructure, tax relief and deregulation of markets, which quickly raised not only inflationary and interest expectations but also investors' expectations on the growth of corporate profits.

With regard to bond investments, growth in the value of financial assets was most affected by Slovene government bonds, whose credit rating was raised from BBB– to A– by Fitch rating agency in the second half of 2016. The economic situation in Slovenia gradually improved throughout the reporting year. Among the important government bonds, growth was recorded by1 Spanish bonds, ending the year with a lower required return than at the beginning of the year. The negative impact on the growth of the Group's financial assets was primarily caused by Italian and Portuguese bonds, whose required return increased over the reporting period; the required return on Italian bonds was affected by the uncertainty before and after the constitutional referendum in Italy and the resignation of Prime Minister Renzi, while the required return on Portuguese bonds was influenced by the uncertainty surrounding the credit rating due to violation of EU rules and the precarious future situation.

In the following text, we are presenting the position of investments as at 31 December 2016 per groups and compared to 2015 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 2016	31 Dec 2015
Equity securities	**289,585**	**942,806**
Listed securities	289,585	942,806
Debt securities	**3,697,766**	**6,816,786**
Listed securities	3,697,766	6,816,786
Total	**3,987,351**	**7,759,592**

Financial assets measured at fair value through profit or loss – held for trading

(in EUR)	31 Dec 2016	31 Dec 2015
Equity securities	**545,402**	**697,237**
Listed securities	545,402	697,237
Debt securities	**4,707,653**	**11,100,603**
Listed securities	1,650,373	3,061,854
Government bonds	3,057,280	8,038,749
Total	**5,253,055**	**11,797,840**

The value of financial assets measured at fair value through profit or loss was in 2016 decreased due to assets maturity, as well as due to sales of equity securities and debt securities.

Available-for-sale financial assets

In 2016, the Group carried out an annual assessment of impairment needs for financial investments allocated to available-for-sale financial assets, 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 EUR 29,350,312. Based on the expert assessment and internal accounting policies, permanent impairment was made for the investment into non-negotiable shares of Elektro Celje d. d. and Elektro Ljubljana d. d. and impairments were made for investments into negotiable shares of Gea Tovarna olja d. d. and the mutual fund “KD MM, sklad denarnega trga – EUR” (KD MM, money market fund – EUR). The fair value of these investments was 30% lower than the carrying value. Losses due to impairment of these investments and minor losses (in the amount of EUR 1,235) due to impairments of investments in other subsidiaries, amounting to EUR 1,374,749, were 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 2016	31 Dec 2015
Equity securities	**24,907,365**	**37,386,886**
Listed securities	16,356,037	27,556,023
Non-listed securities	8,551,328	9,830,863
Debt securities	**164,264,615**	**118,102,257**
Listed securities	33,937,902	19,278,153
Non-listed securities	138,363	(0)
Government bonds	130,188,350	98,824,105
Impairment of the value of securities	**(5,147,388)**	**(3,924,888)**
Total	**184,024,591**	**151,564,255**

As at 31 December 2016, available-for-sale assets were higher compared to the year before, mostly because of increased investment of the parent company in government bonds and other debt securities at the expense of the received fresh money from the issue of subordinated debt. With regard to equity securities, both listed and non-listed securities decreased due to disposals and impairments. Subordinated financial instruments accounted for 0.06% of available-for-sale financial assets.

Held-to-maturity financial assets

Held-to-maturity financial assets

(in EUR)	31 Dec 2016	31 Dec 2015
Debt securities	**38,008,230**	**39,471,526**
Listed securities	26,226,525	27,047,252
Non-listed securities	(0)	(0)
Government bonds	11,781,706	12,424,274
Total	**38,008,230**	**39,471,526**

The balance of debt securities of financial assets held to maturity decreased in 2016, mostly because of maturity of these financial assets. Subordinated financial instruments accounted for 3.22% of held-to-maturity financial assets.

Effective interest rates (in %) for debt instruments not measured at fair value

As at 31 Dec	31 Dec 2016	31 Dec 2015
Debt securitiesi		
– held-to-maturity	5.65	5.74

For the market value of held-to maturity assets see Section 8, Table: Financial assets by fair value hierarchy.

Loans, deposits and financial receivables

Loans, deposits and financial receivables

(in EUR)	31 Dec 2016	31 Dec 2015
Loans	**31,032,684**	**32,992,287**
Long-term	14,931,727	3,979,283
Short-term	16,100,957	29,013,004
Deposits placed with banks	**2,420,182**	**2,884,501**
Long-term	1,107,286	1,043,624
Short-term	1,312,896	1,840,877
Financial receivables	**5,054,736**	**3,847,798**
Total	**38,507,602**	**39,724,586**

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.

Effective interest rates on loans and deposits

in %	31 Dec 2016	31 Dec 2015
Long-term loans in		
- local currency	5.00%	5.10%
- local currency	4.98%	0.00%
Short-term loans in		
- foreignl currency	0.00%	0.00%
- local currency	4.23%	4.85%
Deposits placed with banks		
Short-term deposits	1.72%	1.32%
Long-term deposits	1.98%	2.18%

Financial receivables

(in EUR)	31 Dec 2016	31 Dec 2015
Financial receivables arising from investment properties	1,486,213	1,549,140
Other financial receivables	3,568,523	2,298,659
Total	**5,054,736**	**3,847,798**

Movements in financial assets[3]

(in EUR)	Fair value through profit or loss - at initial recognition	Fair value through profit or loss - held for sale	Held to maturity	Available for sale	Loans, deposits and financial receivables	Total
Balance as at 1 Jan 2015	**10,411,113**	**28,821,944**	**33,665,744**	**137,118,199**	**52,187,397**	**262,204,397**
Acquisition of subsidiary	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 price)	(200,550)	(26,988)	(34)	380,153	-	152,582
Change of fair value (+/-) through other comprehensive income (market price)	-	-	-	(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)
Balance as at 31 Dec 2015	**7,759,592**	**11,797,840**	**39,471,526**	**151,564,255**	**39,724,586**	**250,317,800**
Balance as at 1 Jan 2016	**7,759,592**	**11,797,840**	**39,471,526**	**151,564,255**	**39,724,586**	**250,317,800**
Acquisition of subsidiary	-	50,329	-	1,911,808	6,593,675	8,555,813
Exchange rate differences	662	(45,620)	5,122	36,353	(1,701)	(5,185)
Increase	4,610,667	11,357,176	1,171,146	210,852,381	120,879,652	348,871,022
Change of fair value (+/-) through profit or loss (market price)	101,593	20,617	(3,965)	1,374,749	-	1,492,995
Change of fair value (+/-) through other comprehensive income price)	-	-	-	(4,732,780)	-	(4,732,780)
Increase due to interest	161,023	335,679	2,154,572	2,741,844	1,330,803	6,723,922
Decrease	(8,646,186)	(18,262,967)	(4,790,172)	(178,349,270)	(130,019,414)	(340,068,008)
Impairment to lower (fair) value – through profit or loss	-	-	-	(1,374,749)	-	(1,374,749)
Balance as at 31 Dec 2016	**3,987,351**	**5,253,055**	**38,008,230**	**184,024,591**	**38,507,602**	**269,780,829**

[3] The disclosure of movement in financial assets (excluding unit-linked insurance assets, financial assets from financial contracts and investments in subsidiaries and associates) includes daily transactions of investments, therefore the disclosure cannot be compared with the cash flow from financial investments in the cash flow statement.

10.7 UNIT-LINKED LIFE INSURANCE ASSETS

The movement of the value of unit-linked insurance assets was predominantly tied to the movement of equity investments or equity investment funds. In early 2016, this investment grade was extremely volatile, primarily due to the fear of recession and uncertainty about the Chinese economy, which rapidly reduced the expectations of analysts, even though the anxieties later proved to be exaggerated. Following a deep correction at the beginning of the year, the stock markets slowly but surely gradually recovered throughout the year, which was not interrupted by the key political events of the year, i.e. the Brexit and the election of Donald Trump. The levels and global growth of stock markets continued to be supported by the extremely lax monetary policy of central banks and persistent expectations of analysts on the growth of corporate profits. Despite a poor beginning of 2016, unit-linked insurance assets ended the year with a positive return of 9.6%.

Structure of unit-linked life insurance assets

(in EUR)	31 Dec 2016	31 Dec 2015
Financial assets measured at fair value through profit or loss - at initial recognition	**270,183,073**	**247,640,881**
Equity securities	222,437,516	207,627,225
Listed securities	222,437,516	207,627,225
Debt securities	47,745,557	40,013,656
Listed securities	45,845,557	40,013,656
Government bonds	1,900,000	-
Loans and deposits with banks	**16,784,178**	**14,325,212**
Loans	16,784,178	14,325,212
Monetary assets - deposits redeemable at notice	**634,182**	**1,794,246**
Skupaj	**287,601,433**	**263,760,340**

The investments made for the benefit of unit-linked life insurance policyholders amounted to EUR 287,601,433. These are units of mutual funds, market ETFS funds, cover internal funds KD Dirigent, Aktivni naložbeni paket, KD Vrhunski, Aktivni AS 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 EUR 4,899,230 and assets invested in BNP Paribas products totalled EUR 40,946,327. 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.

Movements in unit-linked life insurance financial assets

(in EUR)	1 Jan – 31 Dec 2016	1 Jan – 31 Dec 2015
Balance as at 1 Jan	**263,760,340**	**257,518,980**
Acquisition of subsidiary	-	3,695,936
Decreases due to the withdrawal of the subsidiary	-	(3,591,312)
Increase	56,182,706	62,280,045
Decrease	(59,760,083)	(55,155,065)
Change of fair value (+/-) through profit or loss (market price)	26,121,278	(2,487,685)
Deposit placement	68,724,340	62,732,959
Deposit withdrawal	(67,427,141)	(61,237,358)
Accrued interest	(6)	3,841
Balance as at 31 Dec	**287,601,433**	**263,760,340**

10.8 AMOUNT OF INSURANCE TECHNICAL PROVISIONS TRANSFERRED TO REINSURERS

Reinsurers'/co-insurers' share in insurance technical provisions

(in EUR)	1 Jan – 31 Dec 2016	1 Jan – 31 Dec 2015
- from insurance contracts for incurred and reported claims	7,757,979	6,652,797
- from insurance contracts for incurred, but not reported claims	2,069,197	3,073,923
Total non-current part	**9,827,176**	**9,726,720**
- unearned premium reserves	640,562	812,371
- from insurance contracts for incurred and reported claims	5,906,588	5,864,026
- from insurance contracts for incurred, but not reported claims	1,024,994	1,615,189
Total current part	**7,572,143**	**8,291,587**
Total	**17,399,319**	**18,018,307**

10.9 ASSETS FROM FINANCIAL CONTRACTS

Assets from financial contracts

(in EUR)	31 Dec 2016	31 Dec 2015
Financial investments	3,574,846	-
Cash and cash equivalents	1,178,300	-
Other assets	44	-
Total assets from financial contracts	**4,753,190**	**-**

The assets from financial contracts represent all investments classified as available-for-sale financial assets as at 31 December 2016. The remaining assets represent financial receivables.

Assets from financial contracts – assets structure

(in EUR)	31 Dec 2016	31 Dec 2015
Available-for-sale financial assets	**3,574,058**	**-**
Equity securities	3,000,875	-
Listed securities	3,000,875	-
Debt securities	573,183	-
Government bonds	573,183	-
Financial receivables	**789**	**-**
Total assets	**3,574,846**	**-**

Movement of assets from financial contracts

(in EUR)	Available for sale	Loans and deposits	Total
Balance as at 1 Jan	**-**	**-**	**-**
Increase	4,957,902	3,072	4,960,974
Change of fair value (+/-) through other comprehensive income (market price	63,467	-	63,467
Decrease	(1,447,311)	(2,283)	(1,449,595)
Balance as at 31 Dec 2016	**3,574,058**	**789**	**3,574,846**

10.10 RECEIVABLES

Balance of receivables

(in EUR)	As at 31 Dec 2016	As at 31 Dec 2015
Receivables from direct insurance operations	**18,915,810**	**20,787,328**
gross value	43,662,264	45,385,385
value adjustment	(24,746,454)	(24,598,057)
Receivables from reinsurance and coinsurance	**1,772,997**	**1,633,070**
gross value	1,931,182	1,758,280
value adjustment	(158,185)	(125,210)
Income tax receivables	**77,667**	**3,541,953**
OTHER RECEIVABLES	**8,216,376**	**11,191,992**
Other current receivables from insurance operations	**896,860**	**3,539,952**
gross value	971,308	3,586,152
value adjustment	(74,448)	(46,200)
Subrogation receivables	**4,414,503**	**5,810,693**
gross value	30,141,454	31,053,765
value adjustment	(25,726,952)	(25,243,072)
Operating receivables from the state	**519,119**	**206,142**
gross value	519,881	223,205
value adjustment	(762)	(17,063)
Operating receivables for advances given	**239,509**	**48,781**
gross value	263,625	117,987
value adjustment	(24,116)	(69,205)
Other current operating receivables	**2,112,261**	**1,553,687**
gross value	2,947,657	2,451,246
value adjustment	(835,395)	(897,559)
Long-term receivables	**34,125**	**32,736**
Total receivables	**28,982,850**	**37,154,342**

Compared to the year before, the balance of receivables as at 31 December 2016 was lower by EUR 8,171,492, mainly due to a decrease in other current receivables from insurance operations by EUR 2,643,092. These receivables were lower compared to the previous year primarily as a result of lower liabilities for reinsurance commission advances from previous years. In past years, the Group formed liabilities (provisions) for reinsurance commission advances with maturity in future years based on the then current loss ratio in relation to the expected total claims, both reported and not reported. In 2015, loss ratios improved and the liabilities for the repayment of advances began to decrease. To account for the difference, in 2015 the Group thus formed receivables in the amount of EUR 2,687,515. As at the 2016 year-end, the loss ratio somewhat improved, resulting in closing receivables in the amount of EUR 2,687,515 and at the same time obligations in the same amount (see Section 10.20.).

In the structure of receivables as at 31 December 2016, receivables from direct insurance operations prevail with a 65% share. These are receivables from policyholders due to contractual insurance premium. As at the end of 2016, these receivables dropped by EUR 1,039,154 compared to the previous year.

Every reporting period, the Group checks the adequacy of fair value assessments – collectible value of receivables by preparing an estimate of the recoverable amount for an individual type of receivables based on actual realised cash flows in the last observed period (it applies to receivables from insurance premiums and subrogation receivables). If such data is not available, a projection is made based on other credible sources (see Section 5.8.).

Movements in value adjustments of receivables

(in EUR)	Receivables from insurance operations	Subrogations	Other receivables	Total
Balance as at 1 Jan 2015	**26,436,507**	**23,174,106**	**1,403,681**	**51,014,294**
Changes during the year	(1,713,240)	2,068,966	(373,654)	(17,928)
Balance as at 31 Dec 2015	**24,723,267**	**25,243,072**	**1,030,027**	**50,996,366**
Balance as at 1 Jan 2016	**24,723,267**	**25,243,072**	**1,030,027**	**50,996,366**
Acquisition of subsidiary	-	-	2,097	-
Changes during the year	255,820	483,879	(171,851)	569,946
Balance as at 31 Dec 2016	**24,979,087**	**25,726,952**	**860,274**	**51,566,312**

10.11 OTHER ASSETS

Other assets – total balance

(in EUR)	31 Dec 2016	31 Dec 2015
Inventories	8,804	10,459
Deferred acquisition costs	4,709,121	4,928,114
Deferred expenses and accrued revenues	737,924	1,006,138
Total	**5,455,850**	**5,944,711**

10.11.1 Deferred acquisition costs

Movements in deferred acquisition costs

(in EUR)	Long-term deferred acquisition costs	Short-term deferred acquisition costs
Balance as at 1 Jan 2015	**109,310**	**4,539,672**
Utilised in 2015	119,899	4,665,738
Formed in 2015	131,748	4,933,020
Balance as at 31 Dec 2015	**121,160**	**4,806,954**
Balance as at 1 Jan 2016	**121,160**	**4,806,954**
Utilised in 2016	13,962	3,590,202
Formed in 2016	24,608	3,360,564
Balance as at 31 Dec 2016	**131,805**	**4,577,316**

10.12 CASH AND CASH EQUIVALENTS

Cash and cash equivalents

(in EUR)	31 Dec 2016	31 Dec 2015
Cash on hand and cheques received	221	0
Balances on accounts	6,003,452	3,758,223
Short-term deposits redeemable on demand	750,046	26
Short-term deposits placed (maturity date up to 3 months)	3,969,995	11,452,980
Other cash	196,455	90,069
Total	**10,920,169**	**15,301,297**

The effective interest rate in 2016 on call deposits was between 0.09% and 0.78% (2015: from 0.00% to 0.45%)

10.13 EQUITY

Balance of equity

(in EUR)	31 Dec 2016	31 Dec 2015
Share capital	**42,999,530**	**42,999,530**
Capital reserves	**4,211,782**	**4,211,782**
Reserves from profit	**9,223,936**	**15,543,286**
Legal reserves	1,519,600	1,519,600
Other reserves from profit	7,704,336	14,023,686
Provisions for equalisation of credit risk	(0)	1,014,505
Provisions for equalisation of catastrophic claims	(0)	4,247,869
Other reserves from profit	7,704,336	8,761,311
Translation differences	**(1,930,505)**	**(1,860,802)**
Reserve due to fair value measurement (Revaluation surplus)	**355,071**	**3,830,832**
Retained net profit	**29,517,525**	**24,117,512**
Net profit for the financial year	**13,410,378**	**13,569,040**
TOTAL	**97,787,718**	**102,411,181**
Minority interest	393,464	100,408

Minority interest

Minority interest is the share capital of minority stakeholders of AS neživotno osiguranje a.d.o., Serbia. in the amount of EUR 83,598 and of indirect subsidiaries in the amount of EUR 309,865, of which EUR 7,862 was accounted for by KD Fondovi and EUR 302,003 by AD KD Fondovi Locust d.o.o.

Share capital

As at 31 December 2016, the subscribed and fully paid in share capital of the parent company amounted to EUR 42,999,530. The share capital is divided into 10,304,407 ordinary no-par value shares. All shares are registered shares. The share capital did not change in 2016.

Distribution of accumulated profits

Adriatic Slovenica d.d. (the parent company) transfers the net profit for the year to accumulated profits to be used for dividend payments together with the remaining part of the accumulated profits.

At the General Meeting of Shareholders held on 8 April 2016, the direct owner of Adriatic Slovenica and the sole shareholder decided on the distribution of accumulated profits for 2015. A part of the accumulated profits in the amount of EUR 13,246,820 was used for dividend payments. The rest of accumulated profits in the amount of EUR 24,255,151 remained unallocated and was transferred to the accumulated profits for 2016. Dividends were paid in full by the date of the General Meeting of Shareholders.

Ownership structure

As at 31 December 2016, KD Group d.d. held 10,304,407 shares, i.e. 100%. The ownership structure remained unchanged in 2016.

Distribution of accumulated profit and loss coverage

The Adriatic Slovenica Group ended 2016 with a profit before tax totalling EUR 11,311,646 and a net profit for the year amounting to EUR 12,346,134. After the balance sheet date, 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 for the year. The Management Board of the parent company also decides on the distribution of net profit by life, non-life and health insurance segments, and therefore on covering the loss relating to individual segments.

Other reserves from profit

The loss from complementary health insurance in the amount of EUR 1,056,976 was covered entirely from the reserve from half of the profit generated by complementary insurance, which was formed for this purpose in line with the Health Care and Health Insurance Act and the Decision on detailed instructions for accounting monitoring and disclosure of business events as regards offsets in complementary health insurance.

Accumulated profits

After covering the loss from complementary health insurance for the year, the final balance of net profit for the year was EUR 13,410,378. Together with the unallocated profit brought forward from previous years plus the transfer of the provisions for catastrophic claims in the total amount of EUR 29,517,525, the balance sheet profit as at 31 December 2016 to be distributed at the General Assembly amounted to EUR 42,927,903.

Other changes

Other changes in the parent company in 2016 include foreign exchange in the profit/loss carried forward of the Zagreb Branch in the amount of EUR 6,603.

Reserves from profit

The parent company forms reserves from profit in line with the provisions of the Companies Act (ZGD-1) relating to statutory reserves and on the basis of the decision passed by the Management Board, with the approval of the Supervisory Board, regarding the requirements to achieve and maintain the appropriate capital adequacy level in accordance with the Solvency II requirements (other reserves from profit).

After 2016, the Group did not change or form additional reserves from profit. Provisions for equalisation for credit risk and catastrophic claims formed by the Group in previous years were transferred to retained profits in 2016, because in previous years these reserves were created from retained earnings. Under the amendment to the Insurance Act (ZZavar-1) and the introduction of the new Solvency II regime, the parent company no longer forms these provisions (see note in Section 5.13).

Capital reserves

As at 31 December 2016, the capital reserves of the Group were 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 EUR 1,724,217, and the reversal of the general equity revaluation adjustment in the amount of EUR 2,487,565.

Treasury shares

In 2016, 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 2016 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 available-for-sale financial assets disclosed in other comprehensive income. Within equity, the revaluation surplus is decreased by deferred taxes.

As at the 2016 year-end, the revaluation surplus from pension insurance amounting to EUR 394,263 (31 December 2015: EUR 158,730) was recognised as an increase in mathematical provisions.

Revaluation surplus

(in EUR)	31 Dec 2016	31 Dec 2015
Specific revaluation of equity	355,071	3,830,832
exchange rate differences in associated companies	269,398	295,326
from reinforcement of property, plant and equipment	(0)	141
from reinforcement/impairment of available-for-sale financial assets	106,489	4,306,451
from net actuarial gains / losses for pension programs	-	(38,989)
from adjustment for deferred taxes	(20,815)	(732,097)
Total revaluation surplus	**355,071**	**3,830,832**

Movements in revaluation surplus from available-for-sale financial assets with profit

(in EUR)	1 Jan – 31 Dec 2016	1 Jan – 31 Dec 2015
Balance as at 1 Jan	**3,830,832**	**6,119,422**
Acquisition of subsidiary	-	68,709
Decreases due to the withdrawal of the subsidiary	-	(101,986)
Change in revaluation surplus from net actuarial gains / losses for pension programs	**38,989**	**(38,989)**
Effect due to change in tax rate	**(86,129)**	**-**
Profits (losses) recognised in revaluation surplus	**3,966,267**	**2,158,394**
Net change due to revaluation	4,543,762	2,539,182
Change in deferred taxes due to revaluation	(603,124)	(426,656)
Change of a surplus arising from the revaluation of associated company	25,927	46,097
Gain/loss from translation of financial statements of foreign operations	(298)	(228)
Transfer of profits (losses) from revaluation surplus to profit or loss	**(7,394,887)**	**(4,374,718)**
Change in revaluation surplus transferred on disposal to profit or loss	(8,807,800)	(5,650,898)
Change in deferred taxes on realisation of revaluation surplus	1,668,557	960,653
Transfer of negative revaluation surplus to profit or loss on impairment	5,323	380,153
The change deferred taxes from impairments through profit or loss	(260,968)	(64,626)
Balance as at 31 Dec	**355,071**	**3,830,832**

10.14 SUBORIDNATED LIABILITIES

On 24 May 2016, the parent company Adriatic Slovenica in the AS Group issued the subordinated bond Floating Rate Subordinated Notes due in 2026 (abbreviated: ADRIS Float 05/24/2026) at a nominal value of EUR 50,000,000.

The bond has the status of subordinated debt with the following features:

- The release date is 24 May 2016.
- The maturity date of the last coupon and the principal is 24 May 2026.
- The nominal value of the issue is EUR 50,000,000.
- The total bond issue comprises 50,000 lots, the value of one lot is EUR 1,000.
- All bonds were sold in full.
- The interest rate equals the 3-month EURIBOR + 7.800% fixed margin.
- In accordance with the amortisation plan, the payment frequency of interest (coupons) is on a quarterly basis, specifically on 24 February, 24 May, 24 August and 24 November.
- The principal will be paid in full at maturity.

The issued bonds are disclosed at the amortised value. Subordinated liabilities as at 31 December 2016 amounted to EUR 49,453,316. Bonds are recorded among non-life insurance in the amount of EUR 22,748,526 and life insurance in the amount of EUR 26,704,791. By 24 November 2016, the Group paid interest to the creditors in the amount of EUR 1,993,000 for the two quarters.

Movements in issued bonds

(in EUR)	1 Jan – 31 Dec 2016	1 Jan – 31 Dec 2015
Issued bond	**50,000,000**	-
Costs related to the issue of bond	(947,772)	-
Accrued interest	2,394,088	-
Paid interest	(1,993,000)	-
As at 31 Dec	**49,453,316**	-

At their issue the bonds were listed on the Irish Stock Exchange. In the case of bankruptcy or liquidation of the parent company, the liabilities arising from the issue of these bonds are subordinated to net debt instruments and are only paid to creditors after all non-subordinated debt liabilities arising from insurance contracts and other business relationships are paid. Issued bonds do not contain the holder's rights to recover a collectable receivable before the maturity set by the amortisation plan. The bond cannot be exchanged for other types of securities or be converted into any other liability.

10.15 INSURANCE TECHNICAL PROVISIONS

Insurance technical provisions (liabilities arising from insurance contracts) – gross and net

(in EUR)	Gross + received co-insurance as at 31 Dec 2016	Reinsurance + ceded co-insurance as at 31 Dec 2016	Net as at 31 Dec 2016	Gross + received co-insurance as at 31 Dec 2015	Reinsurance + ceded co-insurance as at 31 Dec 2015	Net as at 31 Dec 2015
Unearned premium reserves	41,972,462	599,336	41,373,126	42,512,644	742,725	41,769,919
Claims provisions for	101,444,787	16,469,614	84,975,174	106,185,275	16,997,856	89,187,419
- reported claims	51,890,008	13,375,839	38,514,169	51,650,662	12,309,459	39,341,203
- not reported claims	49,554,779	3,093,774	46,461,005	54,534,613	4,688,397	49,846,216
Provisions for bonuses and discounts	581,113	-	581,113	681,386	-	681,386
Mathematical provisions	118,305	-	118,305	54,247	-	54,247
Other insurance technical provisions	391,903	-	391,903	197,699	-	197,699
Total non-life insurance	**144,508,570**	**17,068,949**	**127,439,621**	**149,631,250**	**17,740,581**	**131,890,670**
Unearned premium reserves	7,029,965	-	7,029,965	7,270,967	-	7,270,967
Claims provisions for	6,194,080	-	6,194,080	5,789,024	-	5,789,024
- reported claims	576,358	-	576,358	1,002,820	-	1,002,820
- not reported claims	5,617,722	-	5,617,722	4,786,204	-	4,786,204
Provisions for bonuses and discounts	832	-	832	1,281	-	1,281
Mathematical provisions	8,082	-	8,082	68	-	68
Other insurance technical provisions	180,132	-	180,132	312,817	-	312,817
Total health insurance	**13,413,092**	**-**	**13,413,092**	**13,374,157**	**-**	**13,374,157**
Unearned premium reserves	380,444	41,226	339,218	439,459	69,647	369,812
Claims provisions for	4,621,369	289,145	4,332,224	4,930,872	208,080	4,722,792
- reported claims	1,716,578	288,728	1,427,850	1,540,491	207,364	1,333,126
- not reported claims	2,904,791	417	2,904,374	3,390,381	715	3,389,665
Mathematical provisions	107,124,136	-	107,124,136	102,710,827	-	102,710,827
Other insurance technical provisions	11,307	-	11,307	147,739	-	147,739
Total life insurance with DPF	**112,137,256**	**330,371**	**111,806,885**	**108,228,896**	**277,726**	**107,951,170**
Total liabilities arising from insurance contracts	**270,058,918**	**17,399,320**	**252,659,598**	**271,234,304**	**18,018,307**	**253,215,997**

The disclosure of insurance technical provisions does not include claims provisions for unit-linked life insurance in the amount of EUR 1,836,888. These claims provisions are included separately in disclosures of insurance technical provisions for unit-linked life insurance in the next section (see Section 10.16).

Movements in insurance technical provisions

(in EUR)	Gross 1 Jan - 31 Dec 2016	Reinsurance 1 Jan - 31 Dec 2016	Net 1 Jan - 31 Dec 2016	Gross 1 Jan - 31 Dec 2015	Reinsurance 1 Jan - 31 Dec 2015	Net 1 Jan - 31 Dec 2015
Movements in unearned premium reserves						
Balance as at 1 Jan	**50,223,068**	**812,370**	**49,410,697**	**51,934,276**	**879,285**	**51,054,991**
Acquisition of subsidiary	-	-	-	4,219	-	4,219
Decreases due to the withdrawal of the subsidiary	**-**	**-**	**-**	**2,779**	**-**	**2,779**
Increase in liabilities	48,503,919	783,218	47,720,701	48,597,954	812,370	47,785,583
Decrease in liabilities	49,344,116	955,027	48,389,089	50,310,602	879,285	49,431,317
Balance as at 31 Dec	**49,382,871**	**640,560**	**48,742,310**	**50,223,068**	**812,370**	**49,410,697**
Movements in mathematical provisions						
Balance as at 1 Jan	102,765,143	-	102,765,143	97,617,625	-	97,617,625
Increases due to acquisition of companies	**-**	**-**	**-**	**399,578**	**-**	**399,578**
Decreases due to the withdrawal of the subsidiary	-	-	-	397,105	-	397,105
Increase in the period	**16,054,294**	**-**	**16,054,294**	**18,611,693**	**-**	**18,611,693**
Decrease in the period	12,299,640	-	12,299,640	14,643,214	-	14,643,214
Change of current-year DPF part	730,727	-	730,727	1,176,567	-	1,176,567
Balance as at 31 Dec	**107,250,524**	**-**	**107,250,524**	**102,765,143**	**-**	**102,765,143**
Movements in claims outstanding						
Reported claims	**54,193,964**	**12,516,814**	**40,745,462**	**55,962,960**	**17,859,783**	**38,103,177**
Not reported claims	**62,711,688**	**4,689,602**	**57,577,554**	**69,483,711**	**10,621,802**	**58,861,909**
Balance as at 1 Jan	**116,905,651**	**17,206,417**	**98,323,016**	**125,446,672**	**28,481,585**	**96,965,086**
Increases due to acquisition of companies	-	-	-	116,265	490	115,776
Decreases due to the withdrawal of the subsidiary	**-**	**-**	**-**	**105,715**	**490**	**105,225**
Decrease in provisions due to payments	41,104,638	5,211,965	34,261,204	38,539,155	9,132,562	29,406,592
Change in provisions from preceding years +/-	(9,914,043)	2,650,090	(12,564,133)	(14,875,971)	(2,076,761)	(12,799,210)
Increase in provisions in the current year	46,373,268	2,114,217	44,003,799	45,683,291	288,101	45,395,189
Reported claims	**54,182,944**	**13,664,568**	**40,518,376**	**54,193,964**	**12,516,814**	**41,677,149**
Not reported claims	**58,077,294**	**3,094,191**	**54,983,102**	**62,711,688**	**4,689,602**	**58,022,085**
Balance as at 31 Dec	**112,260,238**	**16,758,759**	**95,501,479**	**116,905,651**	**17,206,417**	**99,699,235**
Movements in other insurance technical provisions						
Balance as at 1 Jan	**1,340,922**	**-**	**1,340,922**	**1,486,361**	**-**	**1,486,361**
Increase in the period	968,350	-	968,350	832,732	-	832,732
Decrease in the period	1,143,985	-	1,143,985	782,984	-	782,984
Balance as at 31 Dec	**1,165,286**	**-**	**1,165,286**	**1,340,922**	**-**	**1,340,922**

10.16 INSURANCE TECHNICAL PROVISIONS FOR UNIT-LINKED LIFE INSURANCE

Insurance technical provisions for unit-linked life insurance

(in EUR)	Gross + received co-insurance as at 31 Dec 2016	Reinsurance + ceded co-insurance as at 31 Dec 2016	Net as at 31 Dec 2016	Gross + received co-insurance as at 31 Dec 2015	Reinsurance + ceded co-insurance as at 31 Dec 2015	Net as at 31 Dec 2015
Claims provisions	1,836,888	-	1,836,888	428,850	-	428,850
- reported claims	1,836,888	-	1,836,888	428,850	-	428,850
Provisions for unit-linked life insurance policyholders	282,619,438	-	282,619,438	259,697,710	-	259,697,710
Total unit-linked life insurance	**284,456,325**	**-**	**284,456,325**	**260,126,559**	**-**	**260,126,559**

Movements in insurance technical provisions for unit-linked life insurance

(in EUR)	Gross 1 Jan – 31 Dec 2016	Reinsurance 1 Jan - 31 Dec 2016	Net 1 Jan - 31 Dec 2016	Gross 1 Jan - 31 Dec 2015	Reinsurance 1 Jan - 31 Dec 2015	Net 1 Jan - 31 Dec 2015
Movements in claims outstanding						
Reported claims	**428,850**	**-**	**428,850**	**326,627**	**-**	**326,627**
Balance as at 1 Jan	**428,850**	**-**	**428,850**	**326,627**	**-**	**326,627**
Decreased provisions due to payments	181,932	-	181,932	241,910	-	241,910
Change in provisions from preceding years +/-	(48,559)	-	(48,559)	6,880	-	6,880
Increase in provisions in the current year	1,638,529	-	1,638,529	337,252	-	337,252
Reported claims	**1,836,888**	**-**	**1,836,888**	**428,850**	**-**	**428,850**
Balance as at 31 Dec	**1,836,888**	**-**	**1,836,888**	**428,850**	**-**	**428,850**
Movements in claims outstanding for reported and non-reported claims for unit-linked life insurance policyholder						
Balance as at 1 Jan	**259,697,710**	**-**	**259,697,710**	**257,282,345**	**-**	**257,282,345**
Increases due to acquisition of companies	-	-	-	3,634,539	-	3,634,539
Decreases due to the withdrawal of the subsidiary	**-**	**-**	**-**	**3,591,312**	**-**	**3,591,312**
Increase in the period	57,909,316	-	57,909,316	31,620,166	-	31,620,166
Decrease in the period	34,987,588	-	34,987,588	29,248,029	-	29,248,029
Balance as at 31 Dec	**282,619,438**	**-**	**282,619,438**	**259,697,710**	**-**	**259,697,710**

10.17 LIABILITIES ARISING FROM FINANCIAL CONTRACTS

Liabilities arising from financial contracts

(in EUR)	31 Dec 2016	31 Dec 2015
Liabilities to pension savers (policyholders)	4,735,916	-
Liabilities from financial contracts for payments	4,695,351	-
Liabilities from financial contracts for fund return	40,565	-
Other liabilities	17,274	-
Total liabilities from financial contracts	**4,753,190**	**-**

As at 31 December 2016, savers' payments amounted to EUR 4,695,351 and represented the net premium (gross premium payments reduced by the entry/exit charges and asset management fees). These costs/expenses charged to the saver's account represent other insurance revenues from fees and commissions for the manager of guarantee funds for AS pension insurance. In the period from the beginning of conclusion and management of financial contracts, EUR 13,369 of entry/exit charges and EUR 28,884 of management fees were charged.

The gain that increases the liability is calculated from net gain (capital gains and losses), which was generated with asset management and reduced by management costs. Short-term operating liabilities are recorded under other liabilities.

Movements in financial contracts liabilities

(in EUR)	1 Jan – 31 Dec 2016	1 Jan - 31 Dec 2015
Increase in the period	**4,767,687**	**-**
for payments	4,727,130	-
for achieved return	40,557	-
Decrease in the period	**31,770**	**-**
for payouts (surrender)	31,770	-
As at 31 December	**4,735,916**	**-**

Annual gain of savers for which the liability of the Group increases varied in 2016 depending on the type of AS pension savings:

- 5.41% for the guarantee fund Pokojninsko varčevanje AS Drzni do 50 (pension fund),
- 1.48% for the guarantee fund Pokojninsko varčevanje AS Umirjeni med 50 do 60 (pension fund),
- 1.11% for the guarantee fund Pokojninsko varčevanje AS Zajamčeni od 60 (pension fund).

Gain was reached with the management of equity securities of available-for-sale financial assets, that is why the change in gain determined due to the revaluation at fair value is treated as an increase or decrease in liabilities from financial contracts.

Each month, at the end of the accounting period, the Group calculates the guaranteed value of assets and compares it with the guaranteed return of 60% of the average annual interest rate on government securities. As at the end of 2016, the guaranteed return was 1.11%. Since the guaranteed return was not achieved in 2016, the parent company (as a pension insurance manager) formed provisions or long-term liabilities of EUR 9,861 charged to own fund life insurance assets, in line with the Pension and Disability Insurance Act (ZPIZ-2) due to the failure to achieve the guaranteed return.

10.18 OTHER PROVISIONS

10.18.1 Other provisions

(in EUR)	1 Jan – 31 Dec 2016	1 Jan – 31 Dec 2015
Provisions for termination benefits	4,030,008	3,934,369
Provisions for jubilee benefits	46,826	1,200,623
Total	**4,076,834**	**5,134,992**

10.18.2 Provisions for employee benefits

Provisions for employee benefits

(in EUR)	31 Dec 2016	31 Dec 2015
Provisions for employee benefits	1,423,879	1,546,218
Other non-current provisions	2,606,129	2,388,151
Total	**4,030,008**	**3,934,369**

Movements in provisions for employee benefits

(in EUR)	1 Jan – 31 Dec 2016	1 Jan – 31 Dec 2015
As at 1 Jan	**3,934,369**	**3,293,079**
Acquisition of subsidiary	48,446	5,385
New balance as at 1 Jan	**-**	**(5,370)**
Increase in current period	347,415	711,161
Decrease due to paid provisions for termination and jubilee benefits	(624,239)	(293,682)
Actuarial gains and losses	329,623	225,966
Adjustments arising from past experience	191,023	125,357
Effect of change of assumptions	138,599	100,609
Other changes	(5,605)	(2,170)
As at 31 December	**4,030,008**	**3,934,369**

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.

The calculation for 2016 used different assumptions about the discount rate and expected increase in salaries than in the calculation for 2015, which however did not significantly affect the total values.

The main assumptions applied in the calculation of provisions for termination and jubilee benefits:

- the discount rate of 0.747% (31 December 2015: 1.337%),
- the expected increase in salaries in the Company, including the expected increase in salaries due to promotions of 2.2% (31 December 2015: 2.2%),
- the expected mortality is determined based on Slovene mortality tables from 2007 (the same as at 31 December 2015),
- 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 as at 31 December 2015).

The provision amounts in 2016 include taxes and contributions. The effect of changes in assumptions amounted to EUR 138.599.

Analysis of sensitivity to changes in parameters

Parameters	Parameter changes	1 Jan – 31 Dec 2016	1 Jan – 31 Dec 2015
Discount rate	Change in discount rate curve by +0.25%	(87,314)	(75,071)
	Change in discount rate curve by -0.25%	90,686	77,930
Salary increase	Change in annual salary increase by +0.5%	165,810	141,421
	Change in annual salary increase by -0.5%	(150,224)	(129,330)
Mortality	Permanent increase in mortality by +20%	(34,707)	(29,404)
	Permanent increase in mortality by -20%	35,343	29,934
Early termination of employment	Change in expense curve by +20%	(364,090)	(316,922)

10.18.3 Other long-term provision

Movements in other long-term provisions

(in EUR)	1 Jan – 31 Dec 2016	1 Jan – 31 Dec 2015
As at 1 Jan	**1,200,623**	**785**
Increase in current period (formation)	2,000	1,200,000
Decrease	(1,200,000)	(162)
Decrease (reversal)	44,204	-
As at 31 Dec	**46,827**	**1,200,623**

In 2016, the Group allocated EUR 1,200,000 to long-term provisions based on the received first instance court judgement for the lawsuit filed by Pozavarovalnica Sava in 2012 against Adriatic Slovenica (see Section 12 for more details). At the end of 2016, these liabilities were recorded as short-term deferred expenses, because the settlement is expected to be realised within one year.

10.19 OTHER FINANCIAL LIABILITIES

Movements in loans and other current financial liabilities

(in EUR)	1 Jan – 31 Dec 2016	1 Jan – 31 Dec 2015
Balance as at 1 Jan	**968,936**	**711,811**
Acquisition of subsidiary	31	-
Increase	46,992,353	258,765
Decrease	(46,975,741)	(30,256)
Inter-company eliminations	-	28,615
Balance as at 31 Dec	**985,579**	**968,936**

10.20 OPERATING LIABILITIES

The Group has no secured liabilities.

Operating liabilities

(in EUR)	31 Dec 2016	31 Dec 2015
Liabilities arising from direct insurance contracts	3,862,118	3,887,670
Liabilities arising from reinsurance and co-insurance	1,955,042	1,558,050
Tax liability	766,361	1,540,738
Total	**6,583,521**	**6,986,458**

Compared to 2015, the operating liabilities as at the 2016 year-end decreased by 7%, mainly as a result of lower tax liability.

For 2016, the Group accounted for the current tax liabilities at a 17% tax rate by 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 10.28).

10.21 OTHER LIABILITIES

Other liabilities

(in EUR)	31 Dec 2016	31 Dec 2015
Other operating (trade) liabilities	12,640,611	18,190,151
Accrued costs/expenses and deferred revenues	6,007,112	4,661,682
Total	**18,647,723**	**22,851,833**

The Group does not have any liabilities with a maturity date over 5 years.

10.21.1 Other operating liabilities

Other operating liabilities

(in EUR)	31 Dec 2016	31 Dec 2015
Long-term operating liabilities	**33,651**	**24,067**
Long-term securities	4,600	-
Other long-term operating liabilities	29,051	24,067
Current operating liabilities	**12,606,960**	**18,166,084**
Current operating liabilities to suppliers	1,458,382	1,337,653
Current operating liabilities to employees	2,879,661	2,580,331
Other current liabilities from insurance operations	5,107,321	9,603,012
Current operating liabilities to the state (except for income tax)	779,142	710,730
Current liabilities for received advances	6,472	37,278
Other current operating liabilities	2,375,981	3,897,079
Total	**12,640,611**	**18,190,151**

As at the 2016 year-end, other operating liabilities decreased by 31% mainly due to a decrease in other current liabilities from insurance operations of EUR 4,495,692. These liabilities represent the majority, 40% share and mainly refer to the liabilities to the Slovene Insurance Association for contributions for coverage of claims for damage on unknown and uninsured vehicles and vessels (in the amount of EUR 1,020,000), to the liabilities for sales tax on insurance operations (in the amount of EUR 721,524) and to liabilities for the repayment of reinsurance commissions advances (in the amount of EUR 3,133,848).

The decrease at the end of 2016 was primarily a result of the reduction in liabilities for the reinsurance commissions advances with maturity in future years. These liabilities are based on the respective claims ratio in relation to the expected total claims. In the period from 1 January 2016 to 31 December 2016, the claims ratio of reinsurance (for which the liability for the advance was established in 2015) improved and the liability for the reinsurance commissions advances decreased by EUR 3,490,307.

10.21.2 Accrued costs and deferred revenue

Accrued costs and deferred revenue

(in EUR)	31 Dec 2016	31 Dec 2015
Accrued expenses - operating	328,104	817,872
Accrued expenses - for unused annual holidays	1,448,157	1,207,160
Accrued expenses – acquisition costs and unexpired commissions	732,847	705,514
Accrued expenses from equalisation scheme for complementary health insurance	904,604	963,644
Other deferred and accrued items	2,593,401	967,493
Total	**6,007,112**	**4,661,682**

10.22 REVENUE

10.22.1 Premium revenue from insurance contracts

Net premium revenue from insurance contracts in 2016

(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	39,635,867	(735,114)	286,049	1,400	39,188,202
Land motor vehicle insurance	34,357,934	(1,500,720)	84,685	(75,716)	32,866,183
Accident insurance	17,276,547	(121,513)	(167,898)	(20,243)	16,966,892
Fire and natural forces insurance	16,743,620	(3,888,598)	(5,707)	1,363	12,850,679
Other damage to property insurance	12,493,060	(1,467,919)	(75,952)	(5,985)	10,943,204
General liability insurance	8,341,384	(958,382)	(34,236)	18,352	7,367,118
Credit insurance	(5,863)	-	300,743	-	294,879
Other non-life insurance, excluding health insurance	9,717,348	(616,558)	(52,508)	13,905	9,062,187
Insurance contracts for non-life insurance, excluding health insurance	**138,559,897**	**(9,288,803)**	**335,175**	**(66,924)**	**129,539,344**
Health insurance contracts	**100,783,826**	**-**	**241,002**	**-**	**101,024,827**
Life insurance	21,471,815	(1,794,191)	59,015	(28,421)	19,708,218
Unit-linked insurance contracts	37,080,206	(3,399)	-	-	37,076,807
Additional pension insurance	924,286	-	-	-	924,286
Life insurance contracts	**59,476,307**	**(1,797,590)**	**59,015**	**(28,421)**	**57,709,311**
Total	**298,820,030**	**(11,086,394)**	**635,191**	**(95,345)**	**288,273,482**

Net premium revenue 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	40,069,958	(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
Insurance contracts for non-life insurance, excluding health insurance	**136,855,125**	**(9,369,183)**	**926,795**	**(61,660)**	**128,351,076**
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**
Total	**298,222,282**	**(10,956,953)**	**1,714,682**	**(66,068)**	**288,913,941**

10.22.2 Financial revenue and expenses from investments and investments in associates

Financial revenue and expenses from investments

(in EUR)	1 Jan – 31 Dec 2016	1 Jan – 31 Dec 2015
Income from financial investments measured at FVTPL	**27,166,596**	**5,177,095**
Held for sale	581,069	1,091,319
Dividends	1,452	34,601
Interest and net exchange differences	365,373	802,716
Net sales income	185,505	248,514
Revaluation income	28,738	5,488
At initial recognition	26,585,527	4,085,776
Dividends	88,397	107,928
Interest and net exchange differences	243,869	282,017
Net sales income	-	3,695,831
Revaluation income	26,253,261	-
Income from financial investments held to maturity (HTM)	**2,159,694**	**2,628,854**
Interest and net exchange differences	2,159,694	2,334,629
Sales income	-	293,683
Reversal of impairment	-	543
Income from financial investments available-for-sale (AFS)	**12,170,174**	**11,980,310**
Dividends	172,108	715,041
Interest and net exchange differences	2,779,600	2,646,554
Sales income	9,218,466	8,618,715
Income - derivatives	**45,700**	**93,801**
Income from loans and receivables	**3,430,161**	**4,185,402**
Interest	2,742,170	3,468,640
Net exchange differences	60,615	51,025
Other income	627,376	665,737
INCOME FROM INVESTMENTS	**44,972,324**	**24,065,464**
Income from investments - associates	255,182	-
Income from investments - subsidiaries	-	354,221
INCOME FROM INVESTMENTS IN SUBSIDIARIES AND ASSOCIATES	**255,182**	**354,221**
Expenses for financial investments measured at FVTPL	**(642,987)**	**(2,724,769)**
Held for sale	(8,120)	(31,763)
Revaluation expenses	(8,120)	(31,763)
At initial recognition	(634,867)	(2,693,006)
Net sales expenses	(604,477)	(4,053)
Revaluation expenses	(30,390)	(2,688,954)
Expenses for financial investments held to maturity (HTM)	**-**	**(47)**
Realised losses	-	(47)
Expenses for financial investments available-for-sale (AFS)	**(1,816,035)**	**(3,347,815)**
Realised losses	(441,285)	(2,967,661)
Impairment	(1,374,749)	(380,153)
Expenses - derivatives	**(42,000)**	**(172,381)**
EXPENSES FOR INVESTMENTS	**(2,501,022)**	**(6,245,012)**
Expenses for investments - associates	(19,330)	(19,330)
Expenses for investments - subsidiaries	(51,963)	-
EXPENSES FOR INVESTMENTS IN SUBSIDIARIES AND ASSOCIATES	**(71,293)**	**(19,330)**
Net financial result - investments measured at FVTPL	**26,523,609**	**2,452,326**
Net financial result - investments held to maturity (HTM)	**2,159,694**	**2,628,807**
Net financial result - available-for-sale investments (AFS)	**10,354,139**	**8,632,496**
Net financial result - derivatives	**3,700**	**(78,580)**
Net financial result from loans and receivables	**3,430,161**	**4,185,402**
Net financial result - investments in subsidiaries and associates	**183,890**	**334,891**
NET FINANCIAL RESULT FROM INVESTMENTS	**42,655,192**	**18,155,342**

In 2016, the net financial result of these investments was EUR 25,803,575. In the same period, the insurance technical provisions for these funds increased, therefore it is important to take into account the insurance technical provisions which contribute to a realistic display of results of profit or loss in funds for unit-linked life insurance. The change in these insurance technical provisions (See Section 10.16) in 2016 totalled EUR 22,921,727 and therefore decreased the final result in this amount.

Net gains/losses on held-for-trading financial assets

(in EUR)	1 Jan – 31 Dec 2016	1 Jan – 31 Dec 2015
Realised profits	330,632	1,380,643
Unrealised profits	132,796	404,600
Realised losses	(145,127)	(1,132,129)
Unrealised losses	(112,178)	(430,875)
Total	**206,123**	**222,239**

Net gains/losses on financial assets at initial recognition through profit or loss, excluding investment risk

(in EUR)	1 Jan – 31 Dec 2016	1 Jan – 31 Dec 2015
Realised profits	2,625,336	5,514,613
Unrealised profits	26,360,505	1,485,217
Realised losses	(3,229,814)	(1,822,834)
Unrealised losses	(137,634)	(4,174,170)
Total	**25,618,393**	**1,002,825**

Net gains/losses on financial assets at initial recognition through profit or loss pertaining to unit-linked life insurance amounted to EUR 25,643,613 (2015: EUR 1,345,389).

For 2016 the effects of revaluation of available-for-sale financial assets are recognised in the statement of other comprehensive income and are presented in Section 10.13.

Impairment of securities of available-for-sale financial assets

(in EUR)	2016	2015
Equity securities	1,374,749	380,153
Total	**1,374,749**	**380,153**

Within the available-for-sale financial assets, permanent impairment was made for the investment into non-negotiable shares of and impairment for investments into negotiable shares of Gea Tovarna olja d.d.and the mutual fund “KD MM, sklad denarnega trga – EUR” (money market fund – EUR), which totalled EUR 1,373,515. Together with other impairments of such investments in the Group, losses due to permanent impairment totalled EUR 1,374,749 and were recognised in full under investment expenses in the income statement within the expenses from impairment of financial assets not measured at fair value through profit or loss.

Within the held-to-maturity financial assets, there were no permanent impairments of investments made in 2016.

10.22.3 Other insurance revenue

Revenue from management commission and other insurance revenue

(in EUR)	1 Jan – 31 Dec 2016	1 Jan – 31 Dec 2015
Revenue from insurance contracts	**1,698,758**	**4,177,894**
Revenues from reinsurance fees/commissions and from shares in positive technical result	1,680,153	4,150,714
Other fee income for management of insurance contracts	18,605	27,180
Revenue from financial contracts	**42,252**	**-**
Revenue from investments contracts for administration (entry fees)	13,369	-
Other fee income for management of financial contracts	28,884	-
Total fee and commission revenue	**1,741,010**	**4,177,894**

Other insurance revenue consists mainly of revenue from reinsurance commissions from participation in the positive technical result from individual reinsurance contracts. Revenue from reinsurance contracts decreased in 2016 by EUR 2,436,884, mostly due to the termination of quota reinsurance of car insurance. In 2015, there were EUR 2,687,515 of reinsurance commission revenue, while in the reporting year there was no such revenue.
The second portion of other insurance revenue includes fees for concluding and managing financial contracts arising from Pokojninsko varčevanje AS (pension saving).

10.22.4 Other revenue

Other revenue

(in EUR)	1 Jan – 31 Dec 2016	1 Jan – 31 Dec 2015
Net revenue from sales of goods and services	**1,111,316**	**1,373,014**
Revenue from the sale of services	1,111,316	1,373,014
Other net insurance revenues	**1,662,452**	**2,578,409**
Revaluation operating revenues	**488,130**	**2,161,159**
Reversal of provisions	**51,541**	**-**
Excess on acquisitions	**53,415**	**-**
Other financial and other revenues	**4,439,828**	**2,330,903**
Other operating revenues	**88,824**	**290,970**
Other commission revenue	**2,835,913**	**(0)**
Fund management fee and commission revenue	2,771,849	(0)
Revenues from asset management	64,064	-
Total	**10,731,420**	**8,734,455**

Other revenue in 2016 were higher by EUR 1,996,966, mainly due to management fees from fund management. The Group acquired these revenues in the last quarter of the year by acquiring the subsidiary KD Skladi d.o.o.

Revenue from sales (of goods) and services represent revenue above the redemption value of receivables and result from recovery services provided by the subsidiary Prospera d. o. o.

Other net revenue from insurance operations is shown in a separate table below.

Other net insurance revenue

(in EUR)	1 Jan – 31 Dec 2016	1 Jan – 31 Dec 2015
Revenue for management of insurance contracts	47,062	566,863
Revenue from other services provided to KD Funds	386,976	850,722
Revenue from insurance services provided to foreign insurance companies	351,391	319,920
Revenue from rent on parking lot and cars	183,126	193,807
Revenue from Green Card sales	445,237	463,550
Revenue from other services	248,661	183,547
Total	**1,662,452**	**2,578,409**

Revaluation operating revenue

Revaluation operating revenue mostly originate from the reversal of impairment of receivables (of premium receivables, subrogation receivables, other receivables and financial receivables) in the amount of EUR 229,798 and from the write-off of liabilities from previous years in the amount of EUR 185,899. In 2016, this revenue was lower by EUR 1,673,028 primarily due to lower revenue from reversals of impairment of premium receivables and impairment of financial receivables.

Other operating (financial and other) revenue includes:

- received penalties and damages, which compared to the previous year most affected the increase in the reporting period and totalled EUR 1,062,230 (in 2015: EUR 60,653). This is the result of the increase in damages to be paid for breaching the sales agreement for the purchase of real property;
- rental revenue from investment property amounted to EUR 1,871,619 (in 2015: EUR 1,582,730);
- other financial revenue in the amount of EUR 1,126,859 (in 2015: EUR 224,045), arising from revaluation of loans given to Fondpolica policyholders due to changes in rates;
- recovered written-off receivables in the amount of EUR 847 (in 2015: EUR 3,023);
- other extraordinary revenue in the amount of EUR 377,273 (in 2015: 392,708).

10.23 NET CLAIMS INCURRED

Net claims incurred in 2016

(in EUR)	Gross claims settled	Revenues from subrogation receivables	Share of reinsurance/ coinsurance in claims/ benefits paid	Change in grossclaims provisions	Change inclaims provisions ceded to reinsurance/ coinsurance	Expenses from equalisation scheme	Net expenses for claims/ benefits paid
Motor vehicle liability insurance	30,340,269	(853,704)	(3,446,843)	126,508	339,744	-	26,505,974
Land motor vehicles insurance	28,371,768	(660,808)	(278,264)	(204,985)	(78,855)	-	27,148,856
Accident insurance	8,007,548	(700)	(203,293)	(986,812)	180,353	-	6,997,095
Fire and natural disasters Insurance	6,233,054	(118,352)	(168,832)	1,073,807	(560,121)	-	6,459,556
Other damage to property insurance	8,241,012	(26,103)	(431,706)	(589,834)	12,865	-	7,206,234
General liability insurance	2,846,291	(9,623)	(4,669)	(1,787,057)	19,243	-	1,064,184
Credit insurance	142,145	(101,508)	-	(14,385)	-	-	26,253
Other non-life insurance, excluding health insurance operations	4,179,261	(52,610)	(58,219)	(330,734)	77,332	-	3,815,031
Non-life insurance contracts, excluding health insurance contracts	**88,361,349**	**(1,823,407)**	**(4,591,826)**	**(2,713,492)**	**(9,440)**	**-**	**79,223,184**
Health insurance contracts	**86,893,046**	**(144,840)**	**-**	**405,057**	**-**	**3,495,251**	**90,648,514**
Life insurance	14,811,312	-	(571,512)	(309,502)	(81,066)	-	13,849,232
Unit-linked insurance contracts	27,141,438	-	-	1,408,038	-	-	28,549,476
Additional pension insurance	432,450	-	-	-	-	-	432,450
Insurance contracts and investment life insurance contracts	**42,385,200**	**-**	**(571,512)**	**1,098,536**	**(81,066)**	**-**	**42,831,158**
Total	**217,639,595**	**(1,968,247)**	**(5,163,338)**	**(1,209,899)**	**(90,506)**	**3,495,251**	**212,702,856**

Net claims incurred in 2015

(in EUR)	Gross claims settled	Revenues from subrogation receivables	Share of reinsurance/ coinsurance in claims/ benefits paid	Change in gross claims provisions	Change in claims provisions ceded to reinsurance/ coinsurance	Expenses from equalisation scheme	Net expenses 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	4,367,853	(53,963)	(216,013)	(326,876)	192,828	-	3,963,829
Non-life insurance contracts, excluding health insurance contracts	**88,305,902**	**(1,732,739)**	**(9,488,016)**	**(7,998,100)**	**11,333,188**	**-**	**80,420,235**
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**
Total	**213,012,397**	**(1,741,174)**	**(9,917,804)**	**(8,448,646)**	**11,273,739**	**3,631,901**	**207,810,413**

Net claims incurred classified into expenses for the current year and expenses for previous years

(in EUR)	Gross 1 Jan – 31 Dec 2016	Reinsurance 1 Jan – 31 Dec 2016	Net 1 Jan – 31 Dec 2016	Gross 1 Jan – 31 Dec 2015	Reinsurance 1 Jan – 31 Dec 2015	Net 1 Jan – 31 Dec 2015
Expenses for claims and benefits paid for current year	**226,918,392**	**2,587,208**	**224,331,184**	**219,824,856**	**964,583**	**218,860,273**
Claims and benefits paid	176,001,799	808,195	175,193,604	170,530,926	500,500	170,030,425
Change in claim provisions	47,421,342	1,779,013	45,642,329	45,662,030	464,083	45,197,947
Expenses from equalisation scheme	3,495,251	-	3,495,251	3,631,901	-	3,631,901
Expenses for claims and benefits paid for previous years	**(8,961,693)**	**2,666,636**	**(11,628,328)**	**(13,370,378)**	**(2,320,518)**	**(11,049,860)**
Claims and benefits paid	39,669,549	4,355,143	35,314,406	40,740,298	9,416,906	31,323,391
Change in claim provisions	(48,631,241)	(1,688,507)	(46,942,734)	(54,110,676)	(11,737,425)	(42,373,251)
Total	**217,956,699**	**5,253,844**	**212,702,856**	**206,454,478**	**(1,355,935)**	**207,810,413**

10.24 COSTS

10.24.1 Costs by natural groups

(in EUR)	1 Jan – 31 Dec 2016	1 Jan – 31 Dec 2015
Operating costs for material	1,038,657	1,176,550
Acquisition costs	26,601,061	27,129,483
Operating costs for services	21,127,928	20,244,117
Depreciation/amortisation	3,111,246	3,109,264
Labour costs	**31,506,601**	**30,064,995**
Payroll – wages and salaries	22,621,789	21,602,389
Social security costs	1,731,841	1,750,600
Pension insurance costs	2,102,375	1,918,846
Other labour cost	4,271,472	3,977,365
Provisions for termination benefits and jubilee benefits	779,123	815,795
Total	**83,385,492**	**81,724,408**

10.24.2 Costs by functional groups

(in EUR)	1 Jan – 31 Dec 2016	1 Jan – 31 Dec 2015
Costs related to acquisition of insurance and financial contracts	26,060,023	27,114,753
Costs related to financial asset management	2,445,067	2,606,555
Costs related to PPE management	777,282	671,530
Other costs for management fees	3,201,450	2,618,434
Costs of sale	22,890,526	21,820,753
Other costs/expenses	21,774,457	20,906,731
Total costs/expenses by functional groups	**77,148,806**	**75,738,755**

The costs by functional groups differ from costs by natural groups due to claim handling costs, accounted for by the Group among gross claims incurred. In 2016, these costs totalled EUR 6,197,681 (2015: EUR 5,985,653). Together with the transfer of a part of other expenses relating to direct claim handling costs in the amount of EUR 39,004 (2015: EUR 30,857), there were EUR 6,236,685 transferred to gross claims incurred (2015: EUR 6,016,510).

10.24.3 Labour costs of own agents

(in EUR)	1 Jan – 31 Dec 2016	1 Jan – 31 Dec 2015
Labour costs	8,154,716	7,394,015
Wages and salaries	6,135,404	5,378,524
Social security costs	402,093	388,188
Pension insurance costs	578,995	549,727
Other labour cost	1,038,224	1,077,576
Costs of services provided by private individuals	310,279	348,755
Total	**8,464,995**	**7,742,771**

10.24.4 Auditor's remuneration

The audit of annual consolidated financial statements of the parent company Adriatic Slovenica for 2016, as well as 2015, 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 Zgreb branch office was performed by the audit firm Antares revizija d.o.o.

Fees paid for auditor's services

(in EUR)	1 Jan – 31 Dec 2016	1 Jan – 31 Dec 2015
Statutory audit of the annual report	134,897	167,712
Other audit services	45,770	4,789
Tax counselling services	-	
Other non-audit services	-	
Total fees for independent auditor's services	180,667	172,500

10.25 OTHER INSURANCE EXPENSES

Other insurance expenses

(in EUR)	1 Jan – 31 Dec 2016	1 Jan – 31 Dec 2015
Expenses for preventive activities	841,329	844,290
Contribution for covering losses caused by uninsured and unknown vehicles	(2,993)	108
Other net insurance expenses	3,254,806	3,840,992
Total	**4,093,142**	**4,685,390**

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 2016, 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.

Other net insurance expenses are in volume the largest part of other insurance expenses and are generated from

- receivables write-offs from insurance premiums in the amount of EUR 283,405 (2015: EUR 1,065,875),
- subrogation receivables write-offs in the amount of EUR 342,131 (2015: EUR 203,961),
- write-offs of other receivables in the amount of EUR 128,022 (2015: EUR 239,006),
- insurance expenses for car assistance in the amount of EUR 1,700,673 (2015: EUR 1,708,327),
- expenses of fund manager due to the failure to achieve the guaranteed return in the amount of EUR 9,892,
- expenses of pension savings in the amount of EUR 19,902,
- expenses of supervisory bodies and other net insurance expenses in the amount of EUR 770,780 (2015: EUR 623,828).

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 2016, compared to 2015, the amount of write-offs of receivables from insurance cases and subrogation receivables is significantly lower, mostly because of decrease of the structure of older and non-past due receivables.

10.26 OTHER EXPENSES

Other expenses

(in EUR)	1. 1. - 31. 12. 2016	1. 1. - 31. 12. 2015
Revaluation operating expenses	**2,108,333**	**2,279,607**
Expenses for investment properties	**2,920,646**	**1,999,640**
Depreciation of investment properties	513,319	425,241
Impairment - investment properties	905,825	-
Losses-upon disposal of investment properties	16,409	36,066
Other expenses for investment properties	1,485,093	1,538,332
Other operating expenses	**1,981,813**	**3,670,615**
Finance expenses	**4,174,077**	**947,084**
Total	**11,184,868**	**8,896,946**

Revaluation operating expenses were mostly generated by revaluation and impairment of receivables (from premiums, subrogations, other receivables and financial receivables) and expenses for impairment of intangible assets (long-term accrued expenses and material rights). In comparison to 2015, these expenses remain within the range of last year's volume.
Compared to the year before, expenses from amortisation of investment property were up by EUR 921,006 in 2016, mainly due to expenses for impairment of investment property totalling EUR 905,825 as at the 2016 year-end (see Section 10.3). Other expenses from amortisation of investment property include all management, maintenance and material costs incurred during the year with respect to investment property.

Other operating expenses are presented in the table below.

Other operating expenses

(in EUR)	1 Jan – 31 Dec 2016	1 Jan – 31 Dec 2015
Payments for charity and cultural purposes	169,220	100,750
Benefits not depending on operating profit or loss	164,283	177,128
Financial penalties and compensations	423,644	1,201,599
Other operating expenses	986,248	997,332
The rest of other operating expenses	238,419	1,193,806
Total	**1,981,813**	**3,670,615**

Financial penalties and damages are lower by EUR 777,955 in comparison to 2015 because the parent company recognised in the income statement EUR 1,200,000 of expected expenses for financial penalties due to the lawsuit filed by Pozavarovalnica Sava in 2015 against Adriatic Slovenica (the bulk of the total – described in detail in Section 12). In 2016, the Group recognised a further minor part of expenses due to this lawsuit in accordance with the legal assessment of the case.

Other operating expenses include:

- administrative and court fees of EUR 309,443 (in 2015: EUR 420,682)
- membership fees for the Slovene Chamber of Commerce and associations in the amount of EUR 192,047 (in 2015: 215,125)
- expenses for benefits of EUR 5,753 (in 2015: 5,983)
- expenses for motor vehicles (registration, vignettes and parking) of EUR 26,359 (in 2015: 24,844)
- scholarships for students of EUR 20,429 (in 2015: 7,196)
- administrative fees for AZN (Insurance Supervision Agency) of EUR 14,852 (in 2015: 9,263)
- other expenses of EUR 417,365 (in 2015: 314,239).

Other operating expenses primarily include interest expenses relating to provisions for employee benefits (jubilee and post-employment benefits) and extraordinary expenses. Compared to 2015, these were significantly reduced (by EUR 944,370) due to lower interest expenses relating to provisions for jubilee benefits this year in the amount of EUR 16,481 (in 2015: EUR 989,676).

Financial expenses compared to 2015 increased significantly and are presented in more detail in the following text.

Financial expenses

(in EUR)	1 Jan – 31 Dec 2016	1 Jan – 31 Dec 2015
Financal expenses for interest - issued bonds	2,394,088	-
Financal costs - interest	51,661	85,936
Other financial expenses	1,728,327	861,149
Financal expenses arising from other financial liabilities	10,046	20,878
Financal expenses arising from operating liabilities	1,718,281	840,271
Total	**4,174,077**	**947,085**

Financial expenses from other financial liabilities are higher compared to the previous year, mostly due to higher interest expenses regularly paid by the Company to the creditors of subordinated debt. In 2016, these amounted to EUR 2,394,088 of accrued interest.

In 2016, other financial expenses were higher by EUR 875,791 mainly due to financial expenses from operating liabilities. Within the framework of liquidation proceedings of AS Osiguranje a.d.o., Belgrade, Serbia, the subsidiary transferred its insurance portfolio to the third insurance company in Serbia; the expenses related thereto amounted to EUR 1,096,020 in 2016. The remaining financial expenses from operating liabilities were mainly connected to other investment expenses, such as purchasing commissions (EUR 395,702), other interest expenses (EUR 120,406) and negative foreign exchange difference from abroad (EUR 56,181).

10.27 REINSURANCE RESULT

Reinsurance result for non-life insurance in 2016

Insurance class in EUR	Reinsurance premiums	Reinsurance claims	Change in reinsurance unearned premium reserves	Change in reinsurance claims provisions	Reinsurance commissions	Net reinsurance result
Accident insurance	(121,513)	203,293	(20,243)	(180,353)	44,749	(74,067)
Land motor vehicle insurance	(1,575,417)	278,580	(457)	69,211	219,687	(1,008,395)
Marine loss insurance	(46,958)	-	-	-	894	(46,064)
Transportation (goods in transit) insurance	(228,175)	40,637	-	(140)	17,730	(169,948)
Fire and natural disaster insurance	(3,309,256)	151,050	121,821	590,376	522,678	(1,923,331)
Other damage to property insurance	(1,270,605)	407,114	(2,517)	(119,623)	42,722	(942,909)
Motor vehicle liability insurance (MTPL)	(735,114)	3,447,014	1,400	(339,744)	217,678	2,591,234
Aircraft liability insurance	(6,359)	-	(1,033)	-	1,821	(5,571)
Ship/boat liability insurance	13,754	(7,162)	(8,721)	60,046	(11,603)	46,313
General liability insurance	(876,773)	4,633	16,925	1,461	57,410	(796,345)
Suretyship insurance	(121,086)	17,500	16,221	(140,248)	37,184	(190,429)
Miscellaneous financial loss insurance	(91,060)	(700)	(2,167)	(77,654)	14,067	(157,514)
Legal expenses insurance	133	-	-	-	784	917
Assistance insurance	-	-	-	-	12,565	12,565
Total non-life insurance	**(8,368,430)**	**4,541,959**	**121,229**	**(136,668)**	**1,178,364**	**(2,663,545)**

Reinsurance result for non-life insurance in 2015

Insurance class in EUR	Reinsurance premiums	Reinsurance claims	Change in reinsurance unearned premium	Change in reinsurance claims provisions	Reinsurance commissions	Net reinsurance result
Accident insurance	(181,166)	456,029	20,255	(511,218)	255,393	39,292
Land motor vehicle insurance	(1,605,247)	2,532,372	(125,998)	(3,082,736)	1,306,983	(974,626)
Aircraft insurance	-	-	(705)	-	-	(705)
Marine loss insurance	(62,327)	121,870	-	(119,200)	-	(59,657)
Transportation (goods in transit) insurance	(222,470)	36,525	-	(1,503)	11,994	(175,453)
Fire and natural disaster insurance	(3,580,303)	534,317	(78,528)	(608,404)	583,415	(3,149,503)
Other damage to property insurance	(1,347,806)	67,678	(11,819)	(127,786)	56,881	(1,362,852)
Motor vehicle liability insurance (MTPL)	(1,095,407)	5,625,000	2,195	(7,197,268)	1,417,227	(1,248,253)
Aircraft liability insurance	(9,298)	-	(1,304)	-	930	(9,673)
Ship/boat liability insurance	(59,948)	-	-	5,166	-	(54,782)
General liability insurance	(647,608)	(13,240)	(82,377)	78,031	43,167	(622,028)
Suretyship insurance	(137,078)	2,484	44,487	20,236	34,945	(34,926)
Miscellaneous financial loss insurance	(82,252)	98	(442)	(53)	13,973	(68,676)
Legal expenses insurance	115	415	-	(19,525)	5,315	(13,680)
Assistance insurance	-	54,606	-	(77,950)	85,575	62,231
Total non-life insurance	**(9,030,795)**	**9,418,153**	**(234,236)**	**(11,642,210)**	**3,815,798**	**(7,673,289)**

10.28 CORPORATE INCOME TAX

Taxes

(in EUR)	1 Jan – 31 Dec 2016	1 Jan – 31 Dec 2015
Corporate income tax charge	(2,531,179)	(1,920,077)
Deferred tax income/(expense)	3,565,666	(647,732)
Total	**1,034,488**	**(2,567,808)**

Tax base and rate for the calculation of corporate income tax

(in EUR)	1 Jan – 31 Dec 2016	1 Jan – 31 Dec 2015
Profit or loss before taxes	**11,311,646**	**15,644,795**
Revenue adjustment to level recognised for tax purposes	(6,545,155)	(10,808,613)
Expense adjustment to level recognised for tax purposes	9,496,141	7,246,847
Tax allowance	(409,240)	(2,058,911)
Total tax base	13,853,392	11,294,569
Rate used for income tax calculation	**17**	**17**
Income tax	**(2,531,179)**	**(1,920,077)**
Effective tax rate	**9.15**	**16.41**

Adjustment between the actual and the calculated tax expense by applying the effective tax rate

(in EUR)	1 Jan – 31 Dec 2016	1 Jan – 31 Dec 2015
Profit or loss before taxation	**11,311,646**	**15,644,795**
Tax calculated by using official tax rate (2016: 17%, 2015: 17%)	(2,066,772)	(2,659,615)
Income excluded from the tax base	**1,195,877**	**1,625,494**
Dividend income exempt from tax	54,239	196,286
Adjustment of income to the level recognised for tax purposes (decrease)	1,141,638	1,429,209
Expenses not recognised in the tax base	**(1,735,057)**	**(1,231,963)**
Increase in expenditure (not recognised for tax purposes in previous years)	78,091	600,486
Reversal of tax allowances from previous years	(2,570)	(870)
Adjustment of income to the level recognised for tax purposes	(1,810,578)	(1,831,579)
Use of tax allowance in the current year	**131,974**	**346,007**
Effect of utilisation of tax loss	**(57,201)**	**-**
Other changes in deferred taxes in the income statement	**3,565,666**	**(647,732)**
Tax on tax losses unaccounted for in deferred taxes	-	0
Corporate income tax	**1,034,488**	**(2,567,809)**
Effective tax rate (in %)	**9.15**	**16.41**

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 2016 is 9.15% (2015: the effective tax rate 16.41%).

In Slovenia, the tax liability from the tax base for 2016 was calculated at a 17% tax rate, which is the same as the previous year. In the subsidiaries in Croatia, the base was calculated at a 20% tax rate (same as in 2015), as prescribed by the local legislation in Croatia, in the subsidiary in Serbia, the base was calculated at a 15% tax rate (same as in 2015) and in the subsidiary in Macedonia the base was calculated at a 10% tax rate (same as in 2015).

10.29 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.

Slovene tax legislation prescribes an increase in the tax rate from 17% to 19% starting 1 January 2017. Based on the legal changes, the management believes that the available taxable profit, against which the deductible temporary differences could be utilised, will occur in 2017 or later, and thus recognises deductible temporary differences at a 19% tax rate and presents the effect of the transition to a higher tax rate in the dicsclosures.

Recognised deferred tax amounts

(in EUR)	31 Dec 2016	31 Dec 2015
Deferred tax assets	**7,033,551**	**3,302,992**
– receivables for deferred tax to be recovered	7,033,551	3,302,992
Deferred tax liabilities	**110,646**	**732,097**
– liabilities for deferred taxes pending payment	110,646	732,097

Overview of bases for deferred tax receivables

(in EUR)	Base 1 Jan – 31 Dec 2016	Reinsurance 1 Jan – 31 Dec 2016	Base 1 Jan – 31 Dec 2015	Reinsurance 1 Jan – 31 Dec 2015
Due to impairment/value adjustments of receivables for premiums, for subrogation receivables and for other current receivables	12,781,508	2,172,856	13,752,293	2,337,890
Due to impairment/value adjustments of financial investments	23,039,252	3,916,673	3,929,310	667,983
Due to impairment/value adjustments of provisions and depreciation above the statutory rate	3,512,227	597,079	1,747,764	297,120
Other	2,040,845	346,944	-	-
Total	**41,373,832**	**7,033,551**	**19,429,367**	**3,302,992**

Overview of bases for deferred tax liabilities

(in EUR)	Base 1 Jan – 31 Dec 2016	Deferred tax liability 1 Jan – 31 Dec 2016	Base 1 Jan – 31 Dec 2015	Deferred tax liability 1 Jan – 31 Dec 2015
Due to reversal of impairment of financial investments	643,429	110,647	4,306,452	732,097
Total	**643,429**	**110,647**	**4,306,452**	**732,097**

Deferred taxes taken to equity in a given year

(in EUR)	31 Dec 2016	31 Dec 2015
Available-for-sale financial assets	706,472	455,298
Total	**706,472**	**455,298**

Movements in deferred taxes

(in EUR)	Total
New balance as at 1 Jan 2015	**2,763,304**
Debited/credited to income statement	(647,705)
Debited/credited to equity	455,298
Net balance of assets and liabilities as at 31 Dec 2015	**2,570,896**
New balance as at 1 Jan 2016	**2,570,896**
Acquisition of subsidiary	80,149
Debited/credited to income statement	3,230,839
Debited/credited to equity	793,865
Debited/credited to income statement due to change in tax rate	334,828
Debited/credited to equity due to change in tax rate	(87,393)
Exchange rate differences	(278)
Net balance of assets and liabilities as at 31 Dec 2016	**6,922,905**

Movements in deferred tax liabilities (without offsetting)

(in EUR)	Impairment reversal to fair value	Other	Total
New balance as at 1 Jan 2015	1,194,632	-	1,194,632
Debited/credited to equity	(462,535)	-	(462,535)
Net balance of assets and liabilities as at 31 Dec 2015	**732,097**	**-**	**732,097**
New balance as at 1 Jan 2016	**732,097**	**-**	**732,097**
Acquisition of subsidiary	3,701	-	3,701
Debited/credited to equity	(712,545)	-	(712,545)
Debited/credited to equity due to change in tax rate	87,393	-	87,393
Net balance of assets and liabilities as at 31 Dec 2016	**110,646**	**-**	**110,646**

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	Decrease of profit or loss brought forward due to change in life insurance methodology	Total
Balance as at 1 Jan 1. 1. 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 1. 1. 2015	**1,641,667**	**667,983**	**343,393**	**286,143**	**21,294**	**342,514**	**0**	**3,302,993**
Balance as at 1 Jan 1. 1. 2016	**1,641,667**	**667,983**	**343,393**	**286,143**	**21,294**	**342,514**	**0**	**3,302,993**
Acquisition of subsidiary	-	-	-	-	-	80,149	-	**80,149**
Debited/credited to income statement	175,722	2,497,327	48,416	26,483	(23,369)	263,068	246,515	**3,234,162**
Debited/credited to equity	-	71,784	-	-	-	-	-	**71,784**
Debited/credited to income statement due to change in tax rate	139,209	79,657	40,399	33,950	2,505	39,107	-	**334,828**
Debited/credited to equity due to change in tax rate	-	-	-	-	-	-	9,915	**9,915**
Exchange rate differences	-	(278)	-	-	-	-	-	**(278)**
Balance as at 31 Dec 31. 12. 2016	**1,956,597**	**3,316,473**	**432,208**	**346,576**	**430**	**724,837**	**256,430**	**7,033,551**

10.30 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 2016	31 Dec 2015
Net profit or loss for the financial year	12,353,402	13,114,581
Weighted average number of ordinary shares outstanding	10,304,407	10,304,407
Basic and adjusted net earnings / loss per share (in EUR)	**1,20**	**1,27**

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

(in EUR)	1 Jan – 31 Dec 2016	1 Jan – 31 Dec 2015
As at 1 Jan	10,304,407	10,304,407
As at 31 Dec	**10,304,407**	**10,304,407**

10.31 ISSUES, REDEMPTIONS AND PAYOUTS OF SECURITIES AND DIVIDENDS

In 2016, the Adriatic Slovenica Group issued a subordinated bond (Floating Rate Subordinated Notes due 2026) (See Section 10.14), however it did not purchase or sell any equity securities.

Dividend per share

(in EUR)	1 Jan – 31 Dec 2016	1 Jan – 31 Dec 2015
Amount of dividends (in EUR)	13,246,820	17,944,000
Dividend per share (in EUR)	1.29	1.74

Dividends are formed from the accumulated profit determined by the Group after the financial year ended and are paid in the foreseen amount after the General Meeting of Shareholders adopted such a resolution.

On 8 April 2016, the General Meeting of Shareholders of the parent company adopted a resolution, referring to 2015, to allocate EUR 13,246,820 for dividend payments to the shareholders. The dividends were paid in full on 8 April 2016.

10.32 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.

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 2016, 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 2016, 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 in 2016 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 2016 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 2016: 184
Company objects: The principal activity of Nama is retail trade services of food and non-food products.
As at 31 December 2016, 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 2016.
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 2016.

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 of the 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)	1 Jan – 31 Dec 2016	1 Jan – 31 Dec 2015
Shareholder of Adriatic Slovenica d.d	309,251	258,930
Associate of Adriatic Slovenica d.d.	68	68
Other associated/affiliated companies of Adriatic Slovenica d. d.	852,301	1,580,999
Total	**1,161,620**	**1,839,997**

Purchase of goods and services

(in EUR)	1 Jan – 31 Dec 2016	1 Jan – 31 Dec 2015
Shareholder of Adriatic Slovenica d.d	465,016	488,482
Associate of Adriatic Slovenica d.d.	8	8
Other associated/affiliated companies of Adriatic Slovenica d. d.	2,155,466	4,481,989
Total	**2,620,490**	**4,970,479**

Receivables of the Group from related parties

(in EUR)	31 Dec 2016	31 Dec 2015
Shareholder of Adriatic Slovenica d.d	5,395	3,626
Other associated/affiliated companies of Adriatic Slovenica d. d.	84,643	158,406
Total	**90,038**	**162,032**

Liabilities of the Group from related parties

(in EUR)	31 Dec 2016	31 Dec 2015
Shareholder of Adriatic Slovenica d.d	39,234	117,075
Associate of Adriatic Slovenica d.d.	9	8
Other associated/affiliated companies of Adriatic Slovenica d. d.	346,723	255,671
Total	**385,965**	**372,755**

Purchase of investment properties from related parties

In 2016, 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)	1 Jan – 31 Dec 2016	1 Jan – 31 Dec 2015
At the beginning of year	**15,766,973**	**11,072,392**
Increase due to acquisition	-	105,327
Bonds purchased from the owners	-	15,131,750
Bonds purchased within the Group	-	1,004,732
Bonds sold within the Group	-	(12,411,512)
Interest charged	1,119,698	1,135,193
Interest received	(970,388)	(561,887)
Valuation/measurement	(135,483)	290,978
At the end of the reporting period	**15,780,799**	**15,766,973**

Bonds issued by other related parties

(in EUR)	1 Jan – 31 Dec 2016	1 Jan – 31 Dec 2015
At the beginning of year	**6,973,577**	**6,212,877**
Increase due to acquisition	-	775,642
Interest charged	816,218	466,073
Interest received	(821,975)	(480,077)
Valuation/measurement	47,114	(938)
At the end of the reporting period	**7,014,935**	**6,973,577**

Shares of the shareholder of the parent company

(in EUR)	1 Jan – 31 Dec 2016	1 Jan – 31 Dec 2015
At the beginning of year	**125,550**	**162,840**
Valuation/measurement	411,822	(37,290)
At the end of the reporting period	**537,372**	**125,550**

Shares of the associate

(in EUR)	1 Jan – 31 Dec 2016	1 Jan – 31 Dec 2015
At the beginning of year	**11,705,901**	**11,705,901**
Dividends paid	77,175	180,446
Dividends received	(77,175)	(180,446)
At the end of the reporting period	11,705,901	11,705,901

Shares and shareholdings of other related parties

(in EUR)	1 Jan – 31 Dec 2016	1 Jan – 31 Dec 2015
At the beginning of year	**1,470,120**	**1,279,892**
Shares purchased from other related companies	-	131,819
Shares sold to third parties	(177,318)	-
Dividends paid	-	89,411
Dividends received	-	(89,411)
Valuation/measurement	5,263	58,409
Permanently impaired	(3,676)	-
At the end of the reporting period	**1,294,389**	**1,470,120**

Loans received and loans given

Loans given to the shareholder of the parent company

(in EUR)	1 Jan – 31 Dec 2016	1 Jan – 31 Dec 2015
At the beginning of year	**8,390,765**	**8,099,996**
Approved loans	21,400,000	9,000,000
Repaid loans	(22,919,185)	(9,100,000)
Interest accrued	367,378	401,203
Interest reduction	(359,472)	(401,411)
At the end of year	**6,879,487**	**7,999,788**
Paid interest	**363,717**	**425,096**

The new loans given are long-term and short-term; long-term loans were given at a 5% market interest rate while short-term loans were given at a 2% market interest rate. The loans are secured with blank bills of exchange.

Loans given to other related parties

(in EUR)	1 Jan – 31 Dec 2016	1 Jan – 31 Dec 2015
At the beginning of year	**21,563,957**	**19,751,835**
Approved loans	13,755,670	17,800,000
Repaid loans	(20,898,840)	(15,987,130)
Interest accrued	713,657	950,259
Interest reduction	(720,985)	(951,007)
At the end of year	**14,413,459**	**21,563,957**
Paid interest	747,689	1,000,855

The loans given to other related parties were given at market interest rate 8% and 2%. 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 collateralized with debt securities, bills of exchange, by pledging real property (mortgage) or with an agreement on the sale and transfer of claims.

Remuneration of members of management and supervision bodies and employees on individual employment agreements – all companies of the Adriatic Slovenica Group in 2016

Remuneration type in EUR	Remuneration of management board members	Remuneration of the Audit Committee members	Remuneration of supervisory board members	Remuneration of audit commission members
Salary	906,594	-	-	5,152,699
Bonuses and other remuneration	254,534	-	-	6,045,309
Meeting attendance fees	-	11,178	124,635	-
Total	**1,161,128**	**11,178**	**124,635**	**11,198,008**

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 2016 for the period in which they had the function of management and/or supervision in the parent company Adriatic Slovenica d.d. and in subsidiaries AS neživotno osiguranje a. d. o., PROSPERA, družba za izterjavo d.o.o.,VIZ zavarovalno zastopništvo d. o. o., ZDRAVJE AS zdravstvene storitve d. o. o., KD IT, informacijske storitve, d. o. o., KD Skladi, družba za upravljanje, d. o. o., KD Locusta Fondovi d.o.o. and KD Fondovi AD Skopje.

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 2016

in EUR		Gross salary	Variable part of remuneration	Holiday allowance	Reimbursements of costs*	Insurance premiums	Commissions, bonuses and other fringe benefits	Remuneration for work in subsidiaries
Gabrijel Škof	President of the Management Board	159,627	-	1,102	2,136	2,175	6,641	-
Varja Dolenc, MSc	Member of the Management Board (until 30 October 2016)	100,000	-	1,102	1,465	1,362	83,255	-
Matija Šenk	Member of the Management Board	120,000	-	1,102	2,452	1,181	2,294	2,310

*Including travel expenses using own vehicle and daily allowance at home and abroad.

Payments to the members of the supervision bodies in 2016

in EUR	Office	Fees for attending board sessions
Matjaž Gantar	Chairman	21.600
Aljoša Tomaž	Member	19.200
Tomaž Butina	Member	19.200
Aleksander Sekavčnik	Member	19.200
Borut Šuštaršič	Member, representative of employees	19.200
Matjaž Pavlin	Member, representative of employees	19.200

As at the 2016 year-end, the Group carries the following current operating receivables and liabilities related to the management of the parent company within the Group:

- EUR 96 of receivables and no liabilities from the members of the Management Board. arise from the insurance business (premiums due) and from rents of parking spaces;
- EUR 36,503 of receivables and no liabilities from the members of the Supervisory Board and the Audit Committee. The receivables arise from the insurance business (premiums due) in the amount of EUR 481, and receivables from exercised subrogation receivables in the amount of EUR 36,022;
- EUR 9,447 of receivables and EUR 42 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 EUR 7,007 arises from the insurance business (premium due), while the rest 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 2017.

As at the 2016 year-end, the parent company within the Group carries receivables in the amount of EUR 131 and no liabilities related to members of management or supervision bodies of the associate.

In 2016, 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 2016, 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 EUR 1,208 of insurance premiums,
- the immediate family members of members of the Supervisory Board paid the aggregate amount of EUR 6,524 of insurance premiums,
- the immediate family members of members of the Audit Committee paid the aggregate amount of EUR 5,290 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 2016, based on the concluded insurance policies, the insurance company paid EUR 1,954 for claims to the immediate family members of members of the Supervisory Board and EUR 856 for claims to the immediate family members of members of the Audit Committee, whilst to the immediate family members of members of the Management Board no claims were paid.

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 2016, the senior management of the controlling companies of the parent company Adriatic Slovenica, apart from reimbursements for claims arising from insurance contracts in the amount of EUR 320, received also EUR 2,367 of daily allowance for business trips.

The receivables carried in the books of account as at the 2016 year-end and arising from the senior management of the parent companies up to the highest parent company amounted to EUR 36,393. Outstanding receivables refer to the receivables arising from the insurance business (premiums) and rents for parking spaces in the amount of EUR 371, and receivables from exercised subrogation receivables in the amount of EUR 36,022. Receivables are paid regularly in line with the agreement on payment by instalments. As at 31 December 2016, there are no outstanding liabilities from the management board members of controlling entities by the parent company.

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 EUR 11,947,676; receivables from the state in the amount of EUR 3,225,338, receivables for unrealised subrogations from insurance operations in the amount of EUR 5,930,790 and receivables for pension insurance premiums in the amount of EUR 232,291 and contingent receivables from insurance and legal disputes in the amount of EUR 235,266.

Among contingent receivables or assets, there was a significant decrease (by EUR 2,791,862 in receivables arising from insurance operations such as receivables from unrealised subrogation receivables. These receivables were lower mainly due to a court settlement for an unrealised subrogation receivable in the amount of EUR 2,066,444. Contingent receivables for pledged guarantees with securities and mortgage decreased by EUR 447,069 and receivables from pension insurance premiums by EUR 1,997,303 after the payments were allocated to the corresponding funds of new the new voluntary supplemental pension insurance – AS pension savings, which was launched in 2016. Compared to the 2015 year-end, as at 31 December 2016 new contingent receivables from litigation were formed in the amount of EUR 235,266.

Among contingent liabilities as at 31 December 2016, the Group disclosed outstanding liabilities arising from the actions filed by Pozavarovalnica Sava d. d. in the amount of EUR 291,753. Considering the fact that there is no case law for this dispute with Pozavarovalnica Sava based on which the Court's decision could be predicted, in 2015 the Group adequately formed long-term provisions (accrued expenses) of EUR 1,200,000, which represented 60% of the recognised claim at that time, by taking into account its own assessment and the precautionary principle. Based on own assessment, as at 31 December 2016 the difference in the amount of EUR 556,640 to the claimed amount (EUR 848,393) was included in accrued expenses and recognised under expenses for damages and penalties. The Group continues to record EUR 291,753 of contingent liabilities to Pozavarovalnica Sava d. d. in the off-balance sheet under contingent liabilities. Apart from that, the Group also recognises contingent liabilities arising from labor-law disputes in the amount of EUR 128,386 and insurance litigations (such as actions against pharmacies) in the amount of EUR 32,628.

In 2016, the Group recognised among contingent liabilities the liability for the guarantee provided under the Master Agreement on Portfolio Transfer agreed between subsidiaries of the contractual parties in Serbia (hereinafter: the Master Agreement), i.e. between the assignor AS neživotno osiguranje a.d.o., Belgrade, a subsidiary and the assignee of the portfolio Sava Osiguranje a.d.o., a subsidiary of Pozavarovalnica Sava. According to the Master Agreement, Adriatic Slovenica must provide a guarantee to Pozavarovalnica Sava after the transfer of the portfolio (the latter will then transfer it to Sava Osiguranje) in the cases of exceeding the expected expenses for insurance technical provisions; these cases are explicitly defined. The validity of this guarantee is 5 years from the execution of portfolio transfer (i.e. until 12 April 2021). After this period, the scope of the guarantee will be limited only to individual pending court cases, after which it will completely expire on 12 September 2021. The potential value of the guarantee as at 31 December 2016 was estimated to EUR 157,750.

Compared to the 2015 year-end, contingent liabilities arising from labour law disputes increased by EUR 90,689 and new contingent liabilities were formed from financial contracts due to the failure to achieve the guaranteed return of EUR 9,861 for Pokojninsko zavarovanje AS Zajamčeni od 60 (pension fund). To this end, the Group recognised liabilities in own life insurance assets in the balance sheet (under other non-current liabilities for ZPIZ 2) in the same amount due to the failure to achieve the guaranteed return for Pokojninsko zavarovanje AS Zajamčeni od 60 (pension fund). The Group had no liabilities from pension payments and liabilities to the Group companies, which had not been included in the balance sheet.

Contingent receivables and liabilities of option and futures contracts

Through the subsidiary parent company, as at 31 December 2016 the Group had:

- **two** put options, enabling the Company to sell a total of 21,000 bonds with the SKD1 ticker symbol (ISIN: SI0032103135) in the amount of EUR 2,100,000. The agreed price of the bond is 100% of the nominal value (100 EUR/bond), including accrued interest in accordance with the amortisation plan as at the date of payment of the purchase price by the Group. Sales option contracts are enforceable until maturity of the SKD1 bond on 7 October 2017 when the contracts will expire.
- **three** call options, which, if the conditions are met, present for the Company a potential obligation to purchase 21,650 bonds with the KDH3 ticker symbol (ISIN: SI0032103416) in the amount of EUR 433,000 excluding accrued interest. The agreed price of one bond is 100% of the nominal value (20 EUR/bond) plus accrued interest in line with the amortisation plan as at the date of payment of the purchase price by the Group. Call option contracts are enforceable from 29 September 2016 to 31 December 2016 when they will expire.

Through the subsidiary KD Skladi d.o.o., the Group concluded a futures contract with the remaining shareholders of KD Fondovi Locust for the purchase of a 20% stake in KD Fondovi Locust d.o.o. in the next two years (10% each year) and an option contract to buy a 10% stake in KD Fondovi Locust d.o.o. in 2019. The estimated purchase value of the stakes in the total amount of EUR 674,098 is recorded in the off-balance sheet. The market prices of comparable stakes have not changed since the time of entering into agreements, therefore the value of derivatives is not disclosed in the financial statements.

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 Company first adequately formed long-term provisions in the amount of EUR 1,200,000 based on its own assessment and the precautionary principle, then it allocated further EUR 556,640 to long-term provisions, which was slightly less than the total disputed sum. The difference between this amount and the amount under dispute of EUR 291,753 is accounted for by the Company under off-balance-sheet contingent 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 2016.

Events after the consolidated balance sheet date, important for business operations in 2017

Regarding the action brought by Pozavarovalnca Sava in 2012 against the insurer Adriatic Slovenica (the parent company) (see Section 10.18.3), the parent company adequately formed long-term provisions in its books of account.

After the end of the financial year (beginning of March 2017), the parent company received the Decision of the High Court, which upheld the appeal of Adriatic Slovenica; the case was remitted for retrial at the Court of First Instance.

On the basis of the information received in relation to this case, the parent company estimates that the current value of the provisions is appropriate.

APPENDIX TO THE ANNUAL REPORT

of Adriatic Slovenica d.d. for

2016

For the purposes of the Insurance Supervision Agency, the Appendices have been prepared in compliance with the Decision on Annual Reports and Quarterly Financial Statements of Insurance Undertakings.

CONTENTS

Appendices to the Annual Report of Adriatic Slovenica d.d. include:

- The selected accounting and financial indicators prepared in compliance with the Decision on Annual Reports and Quarterly Financial Statements of Insurance Undertakings and the prescribed methodology laid down in Appendix 3 to the said Decision;
- Presentation of assets and liabilities for each fund managed separately, in line with the schemes set out in Appendix 2;
- Income statement for each fund managed separately, in line with the schemes set out in Appendix 2.

1. SELECTED ACCOUNTING AND FINANCIAL INDICATORS

Growth of gross written premium	Gross written premium in current year in euros	Gross written premium in previous year in euros	Year 2016 index	Gross written premium in current year in euros	Gross written premium in previous year in euros	Year 2015 index
1	2	3	4=2/3*100	5	6	7=5/6*100
Results by class of insurance:						
1. Accident insurance	17,276,547	16,728,573	**103**	16,728,573	15,877,417	**105**
2. Health insurance	100,783,826	100,643,709	**100**	100,643,709	108,193,279	**93**
3. Land vehicle insurance	34,357,934	34,161,119	**101**	34,161,119	34,523,565	**99**
5. Aircraft insurance	4,182	6,054	**69**	6,054	13,024	**46**
6. Ship insurance	524,112	527,960	**99**	527,960	609,587	**87**
7. Goods in transit insurance	1,443,674	1,499,391	**96**	1,499,391	1,453,635	**103**
8. Fire and natural forces insurance	16,743,620	15,997,825	**105**	15,997,825	16,029,584	**100**
9. Other damage to property insurance	12,493,060	12,024,662	**104**	12,024,662	12,256,797	**98**
10. Vehicle liability insurance	39,635,867	40,069,385	**99**	40,069,385	40,577,052	**99**
11. Aircraft or other flying machine liability insurance	8,315	11,796	**70**	11,796	14,041	**84**
12. Liability for ship insurance	629,499	560,344	**112**	560,344	586,267	**96**
13. General liability insurance	8,341,384	7,425,674	**112**	7,425,674	7,475,629	**99**
14. Credit insurance shall be insurance covering:	(5,863)	(144)	**-**	(144)	20,890	**-**
15. Suretyship insurance	175,621	206,304	**85**	206,304	188,392	**110**
16. Miscellaneous financial loss insurance	827,377	695,625	**119**	695,625	792,493	**88**
17. Legal expenses insurance	115,625	134,159	**86**	134,159	134,381	**100**
18. Tourist assistance	5,988,943	5,742,416	**104**	5,742,416	5,380,554	**107**
19. Life assurance	21,471,815	20,161,409	**106**	20,161,409	18,713,529	**108**
21. Life assurance linked to units of investment fund or to units of funds	37,080,206	35,440,281	**105**	35,440,281	34,169,493	**104**
23. Capital redemption insurance	5,631,924	4,612,407	**122**	4,612,407	870,294	**530**
Non-life insurance contracts	141,585,446	138,359,806	**102**	138,359,806	138,328,965	**100**
Life insurance contracts	64,183,946	60,214,098	**107**	60,214,098	53,753,316	**112**
Complementary health insurance	97,758,276	98,075,048	**100**	98,075,048	105,797,624	**93**
Total	**303,527,668**	**296,648,952**	**102**	**296,648,952**	**297,879,905**	**100**

Net written premiums as % of gross written premiums	Net written premiums	Gross written premiums	Year 2016	Net written premiums	Gross written premiums	Year 2015
	in euros	in euros	in %	in euros	in euros	in %
1	2	3	4=2/3*100	5	6	7=5/6*100
Results by class of insurance:						
1. Accident insurance	17,155,034	17,276,547	**99**	16,547,407	16,728,573	**99**
2. Health insurance	100,783,826	100,783,826	**100**	100,643,709	100,643,709	**100**
3. Land vehicle insurance	32,857,214	34,357,934	**96**	32,555,872	34,161,119	**95**
5. Aircraft insurance	4,182	4,182	**100**	6,054	6,054	**100**
6. Ship insurance	477,154	524,112	**91**	465,633	527,960	**88**
7. Goods in transit insurance	1,215,499	1,443,674	**84**	1,276,921	1,499,391	**85**
8. Fire and natural forces insurance	12,866,417	16,743,620	**77**	12,363,429	15,997,825	**77**
9. Other damage to property insurance	11,029,377	12,493,060	**88**	10,635,059	12,024,662	**88**
10. Vehicle liability insurance	38,900,949	39,635,867	**98**	39,323,359	40,069,385	**98**
11. Aircraft or other flying machine liability insurance	1,956	8,315	**24**	2,498	11,796	**21**
12. Liability for ship insurance	578,881	629,499	**92**	500,397	560,344	**89**
13. General liability insurance	7,383,433	8,341,384	**89**	6,699,539	7,425,674	**90**
14. Credit insurance shall be insurance covering:	(5,863)	(5,863)	**100**	(144)	(144)	**-**
15. Suretyship insurance	54,535	175,621	**31**	69,226	206,304	**34**
16. Miscellaneous financial loss insurance	665,123	827,377	**80**	613,363	695,625	**88**
17. Legal expenses insurance	115,625	115,625	**100**	134,159	134,159	**100**
18. Tourist assistance	5,988,943	5,988,943	**100**	5,742,416	5,742,416	**100**
19. Life assurance	19,677,624	21,471,815	**92**	18,577,411	20,161,409	**92**
21. Life assurance linked to units of investment fund or to units of funds	37,076,807	37,080,206	**100**	35,437,788	35,440,281	**100**
23. Capital redemption insurance	5,631,924	5,631,924	**100**	4,612,407	4,612,407	**100**
Non-life insurance contracts	147,428,603	141,585,446	**104**	129,503,851	138,359,806	**94**
Life insurance contracts	62,386,356	64,183,946	**97**	58,627,606	60,214,098	**97**
Complementary health insurance	82,643,681	97,758,276	**85**	98,075,048	98,075,048	**100**
Total	**292,458,639**	**303,527,668**	**96**	**286,206,505**	**296,648,952**	**96**

Movement in gross claims and benefits paid	Gross claims and benefits paid in current year in euros	Gross claims and benefits paid in previous year in euros	Year 2016 in %	Gross claims and benefits paid in current year in euros	Gross claims and benefits paid in previous year in euros	Year 2015 in %
1	2	3	4=2/3*100	5	6	7=5/6*100
Results by class of insurance:						
1. Accident insurance	7,495,229	7,536,194	**99**	7,536,194	6,897,156	**109**
2. Health insurance	86,429,588	84,470,174	**102**	84,470,174	86,989,783	**97**
3. Land vehicle insurance	26,667,823	26,030,750	**102**	26,030,750	25,263,899	**103**
5. Aircraft insurance	-	-	**-**	-	39,701	**-**
6. Ship insurance	322,975	647,384	**50**	647,384	1,208,985	**54**
7. Goods in transit insurance	526,454	464,092	**113**	464,092	1,509,269	**31**
8. Fire and natural forces insurance	5,718,819	5,926,758	**96**	5,926,758	5,812,571	**102**
9. Other damage to property insurance	7,511,637	7,623,584	**99**	7,623,584	8,637,556	**88**
10. Vehicle liability insurance	28,615,925	27,547,083	**104**	27,547,083	25,546,184	**108**
11. Aircraft or other flying machine liability insurance	-	15,840	**-**	15,840	-	**-**
12. Liability for ship insurance	67,506	44,971	**150**	44,971	29,376	**153**
13. General liability insurance	2,590,100	2,756,611	**94**	2,756,611	3,014,741	**91**
14. Credit insurance shall be insurance covering:	139,251	405,882	**34**	405,882	690,693	**59**
15. Suretyship insurance	25,000	12,884	**194**	12,884	12,806	**101**
16. Miscellaneous financial loss insurance	309,798	335,455	**92**	335,455	404,232	**83**
17. Legal expenses insurance	-	877	**-**	877	124	**709**
18. Tourist assistance	2,681,921	2,384,923	**112**	2,384,923	1,988,579	**120**
19. Life assurance	14,561,154	14,951,226	**97**	14,951,226	12,849,957	**116**
21. Life assurance linked to units of investment fund or to units of	26,881,141	23,520,448	**114**	23,520,448	21,116,359	**111**
23. Capital redemption insurance	431,503	850,060	**51**	850,060	343,964	**247**
Non-life insurance contracts	84,820,716	83,559,782	**102**	83,559,782	82,465,450	**101**
Life insurance contracts	41,873,798	39,321,734	**106**	39,321,734	34,310,280	**115**
Complementary health insurance	84,281,312	82,643,681	**102**	82,643,681	85,580,205	**97**
Total	**210,975,826**	**205,525,197**	**103**	**205,525,197**	**202,355,935**	**102**

Claims ratio	Gross claims and benefits paid in euros	Gross written premiums in euros	Year 2016 coefficient	Gross claims and benefits paid in euros	Gross written premiums in euros	Year 2015 coefficient
1	2	3	4=2/3	5	6	7=5/6
Results by class of insurance:						
1. Accident insurance	7,495,229	17,276,547	**0.43**	7,536,194	16,728,573	**0.45**
2. Health insurance	86,429,588	100,783,826	**0.86**	84,470,174	100,643,709	**0.84**
3. Land vehicle insurance	26,667,823	34,357,934	**0.78**	26,030,750	34,161,119	**0.76**
5. Aircraft insurance	-	4,182	**0.00**	-	6,054	**0.00**
6. Ship insurance	322,975	524,112	**0.62**	647,384	527,960	**1.23**
7. Goods in transit insurance	526,454	1,443,674	**0.36**	464,092	1,499,391	**0.31**
8. Fire and natural forces insurance	5,718,819	16,743,620	**0.34**	5,926,758	15,997,825	**0.37**
9. Other damage to property insurance	7,511,637	12,493,060	**0.60**	7,623,584	12,024,662	**0.63**
10. Vehicle liability insurance	28,615,925	39,635,867	**0.72**	27,547,083	40,069,385	**0.69**
11. Aircraft or other flying machine liability insurance	-	8,315	**0.00**	15,840	11,796	**1.34**
12. Liability for ship insurance	67,506	629,499	**0.11**	44,971	560,344	**0.08**
13. General liability insurance	2,590,100	8,341,384	**0.31**	2,756,611	7,425,674	**0.37**
14. Credit insurance shall be insurance covering:	139,251	(5,863)	**-**	405,882	(144)	**-**
15. Suretyship insurance	25,000	175,621	**0.14**	12,884	206,304	**0.06**
16. Miscellaneous financial loss insurance	309,798	827,377	**0.37**	335,455	695,625	**0.48**
17. Legal expenses insurance	-	115,625	**0.00**	877	134,159	**0.01**
18. Tourist assistance	2,681,921	5,988,943	**0.45**	2,384,923	5,742,416	**0.42**
19. Life assurance	14,561,154	21,471,815	**0.68**	14,951,226	20,161,409	**0.74**
21. Life assurance linked to units of investment fund or to units of funds	26,881,141	37,080,206	**0.72**	23,520,448	35,440,281	**0.66**
23. Capital redemption insurance	431,503	5,631,924	**0.08**	850,060	4,612,407	**0.18**
Non-life insurance contracts	84,820,716	141,585,446	**59.91**	83,559,782	138,359,806	**60.39**
Life insurance contracts	41,873,798	64,183,946	**0.65**	39,321,734	60,214,098	**0.65**
Complementary health insurance	84,281,312	97,758,276	**0.86**	82,643,681	98,075,048	**0.84**
Total	**210,975,826**	**303,527,668**	**0.70**	**205,525,197**	**296,648,952**	**0.69**

Operating expenses as % of gross written premiums	Operating expenses in euros	Gross written premiums in euros	Year 2016 in %	Operating expenses in euros	Gross written premiums in euros	Year 2015 in %
1	2	3	4=2/3*100	5	6	7=5/6*100
Results by class of insurance:						
1. Accident insurance	4,840,743	17,276,547	**28**	4,798,251	16,728,573	**29**
2. Health insurance	12,543,697	100,783,826	**12**	14,547,087	100,643,709	**14**
3. Land vehicle insurance	9,403,256	34,357,934	**27**	8,596,837	34,161,119	**25**
5. Aircraft insurance	11,005	4,182	**263**	10,759	6,054	**178**
6. Ship insurance	225,676	524,112	**43**	230,263	527,960	**44**
7. Goods in transit insurance	397,391	1,443,674	**28**	332,423	1,499,391	**22**
8. Fire and natural forces insurance	7,004,762	16,743,620	**42**	6,973,232	15,997,825	**44**
9. Other damage to property insurance	4,985,491	12,493,060	**40**	4,921,882	12,024,662	**41**
10. Vehicle liability insurance	10,125,889	39,635,867	**26**	9,224,950	40,069,385	**23**
11. Aircraft or other flying machine liability insurance	9,845	8,315	**118**	7,873	11,796	**67**
12. Liability for ship insurance	224,305	629,499	**36**	226,230	560,344	**40**
13. General liability insurance	2,575,155	8,341,384	**31**	2,313,630	7,425,674	**31**
14. Credit insurance shall be insurance covering:	30,327	(5,863)	**-**	40,454	(144)	**-**
15. Suretyship insurance	79,725	175,621	**45**	71,919	206,304	**35**
16. Miscellaneous financial loss insurance	253,225	827,377	**31**	219,420	695,625	**32**
17. Legal expenses insurance	60,242	115,625	**52**	60,855	134,159	**45**
18. Tourist assistance	1,542,852	5,988,943	**26**	1,615,714	5,742,416	**28**
19. Life assurance	10,545,904	21,471,815	**49**	9,775,954	20,161,409	**48**
21. Life assurance linked to units of investment fund or to units of	8,537,559	37,080,206	**23**	8,888,631	35,440,281	**25**
23. Capital redemption insurance	767,109	5,631,924	**14**	414,335	4,612,407	**9**
Non-life insurance contracts	42,884,373	141,585,446	**30**	40,829,378	138,359,806	**30**
Life insurance contracts	19,850,573	64,183,946	**31**	19,078,919	60,214,098	**32**
Complementary health insurance	11,429,212	97,758,276	**12**	13,362,402	98,075,048	**14**
Total	**74,164,158**	**303,527,668**	**24**	**73,270,699**	**296,648,952**	**25**

Acquisition costs as % of gross written premiums	Insurance acquisition costs in euros	Gross written premiums in euros	Year 2016 in %	Insurance acquisition costs in euros	Gross written premiums in euros	Year 2015 in %
1	2	3	4=2/3*100	5	6	7=5/6*100
Results by class of insurance:						
1. Accident insurance	1,614,184	17,276,547	9	1,507,031	16,728,573	9
2. Health insurance	2,143,480	100,783,826	2	2,612,050	100,643,709	3
3. Land vehicle insurance	3,157,764	34,357,934	9	3,171,826	34,161,119	9
5. Aircraft insurance	153	4,182	4	(22)	6,054	0
6. Ship insurance	78,825	524,112	15	81,519	527,960	15
7. Goods in transit insurance	113,673	1,443,674	8	105,223	1,499,391	7
8. Fire and natural forces insurance	3,802,013	16,743,620	23	3,817,005	15,997,825	24
9. Other damage to property insurance	2,500,165	12,493,060	20	2,522,289	12,024,662	21
10. Vehicle liability insurance	3,444,133	39,635,867	9	3,328,786	40,069,385	8
11. Aircraft or other flying machine liability insurance	1,059	8,315	13	1,058	11,796	9
12. Liability for ship insurance	81,896	629,499	13	85,417	560,344	15
13. General liability insurance	1,155,905	8,341,384	14	1,036,312	7,425,674	14
14. Credit insurance shall be insurance covering:	56	(5,863)	-	2,300	(144)	-
15. Suretyship insurance	2,497	175,621	1	2,368	206,304	1
16. Miscellaneous financial loss insurance	67,567	827,377	8	76,645	695,625	11
17. Legal expenses insurance	12,683	115,625	11	14,946	134,159	11
18. Tourist assistance	584,740	5,988,943	10	563,786	5,742,416	10
19. Life assurance	5,096,901	21,471,815	24	5,304,426	20,161,409	26
21. Life assurance linked to units of investment fund or to units of funds	2,570,876	37,080,206	7	3,070,050	35,440,281	9
23. Capital redemption insurance	62,622	5,631,924	1	75,771	4,612,407	2
Non-life insurance contracts	7,331,581	141,585,446	5	16,368,044	138,359,806	12
Life insurance contracts	7,730,399	64,183,946	12	8,450,248	60,214,098	14
Complementary health insurance	11,429,212	97,758,276	12	2,560,495	98,075,048	3
Total	**26,491,192**	**303,527,668**	**9**	**27,378,787**	**296,648,952**	**9**

Net claims ratio	Net claims paid + change in claims provisions in euros	Net written premium + change in unearned premiums in euros	Year 2016 coefficient	Čiste zavarovalne odškodnine + sprememba škodnih rezervacij in euros	Obračunane čiste zavarovalne premije + sprememba prenosnih premij in euros	Year 2015 coefficient
1	2	3	4=2/3	5	6	7=5/6
Results by class of insurance:						
1. Accident insurance	8,098,395	16,957,321	**48**	6,592,933	16,471,505	**40**
2. Health insurance	86,024,531	101,024,827	**85**	84,245,662	101,384,319	**83**
3. Land vehicle insurance	26,724,168	32,774,696	**82**	20,433,337	32,604,353	**63**
5. Aircraft insurance	(32)	4,942	**-**	(47)	8,901	**-**
6. Ship insurance	331,067	479,161	**69**	758,391	507,054	**150**
7. Goods in transit insurance	666,697	1,232,576	**54**	525,821	1,280,073	**41**
8. Fire and natural forces insurance	5,264,470	12,830,877	**41**	6,429,814	12,239,729	**53**
9. Other damage to property insurance	7,696,772	10,929,191	**70**	7,928,546	10,576,935	**75**
10. Vehicle liability insurance	24,732,824	39,188,088	**63**	20,587,051	39,479,375	**52**
11. Aircraft or other flying machine liability	-	2,360	**0**	15,840	2,417	**655**
12. Liability for ship insurance	80,601	568,680	**14**	99,454	511,837	**19**
13. General liability insurance	4,353,246	7,345,810	**59**	2,743,538	6,916,556	**40**
14. Credit insurance shall be insurance	153,636	294,879	**52**	435,122	284,940	**153**
15. Suretyship insurance	63,638	56,173	**113**	22,837	72,088	**32**
16. Miscellaneous financial loss insurance	230,605	644,364	**36**	316,552	620,258	**51**
17. Legal expenses insurance	2,666	125,533	**2**	21,814	134,953	**16**
18. Tourist assistance	2,753,596	5,941,973	**46**	2,063,801	5,569,786	**37**
19. Life assurance	14,380,210	19,708,218	**73**	15,249,891	18,615,760	**82**
21. Life assurance linked to units of	25,473,103	37,076,807	**69**	23,418,226	35,437,788	**66**
23. Capital redemption insurance	431,503	5,631,924	**8**	850,060	4,612,407	**18**
Non-life insurance contracts	83,226,447	132,387,718	**63**	70,782,760	129,876,594	**55**
Life insurance contracts	40,284,816	62,416,949	**65**	39,518,177	58,665,955	**67**
Complementary health insurance	83,950,433	98,013,734	**86**	82,437,706	98,788,483	**83**
Total	**207,461,696**	**292,818,401**	**71**	**192,738,642**	**287,331,032**	**67**

Combined claims ratio	(Gross claims incurred + operating expenses) v EUR	Earned premium v EUR	Year 2016 koeficient	(Gross claims incurred + operating expenses) v EUR	Earned premium v EUR	Year 2015 koeficient
1	2	3	4=2/3	5	6	7=5/6
Non-life insurance contracts	229.762.540	239.664.099	**96**	224.954.903	237.735.719	**95**

Expense ratio	Operating expenses in euros	Premium income in euros	Year 2016 in %	Operating expenses in euros	Premium income in euros	Year 2015 in %
1	2	3	4=2/3*100	5	6	7=5/6*100
Life insurance contracts	19,698,559	64,242,960	**31**	18,946,580	60,261,083	**31**

Undewriting profitability ratio	(Life insurance claims paid + change in technical provisions) in euros	Written gross premium for life insurance in euros	Year 2016 in %	(Life insurance claims paid + change in technical provisions) in euros	Written gross premium for life insurance in euros	Year 2015 in %
1	2	3	4=2/3*100	5	6	7=5/6*100
Life insurance contracts	10,197,108	64,183,946	**16**	32,593,489	60,214,098	**54**

Investment return as % of average investments	Investment income in euros	(Balance of investments as at beginning of year + balance of investments as at year-end)/2 in euros	Year 2016 in %	Investment income in euros	(Balance of investments as at beginning of year + balance of investments as at year-end)/2 in euros	Year 2015 in %
1	2	3	4=2/3*100	5	6	7=5/6*100
Investments from Non-life insurance	1,619,527	135,327,058	**1.2**	2,639,174	123,940,544	**2.1**
Life insurance investments	7,988,869	122,132,086	**6.5**	7,818,858	109,592,885	**7.1**
Unit-linked life insurance investments	26,665,018	277,934,344	**9.6**	324,948	264,182,794	**0.1**
Complementary health insurance investments	(27,481)	6,206,105	**-0.4**	363,125	7,842,154	**4.6**
Investments from other lines of business, for which mathematical provision is formed	38,424	720,556	**5.3**	69,585	1,077,018	**6.5**
Investments which are not financedfrom technical provisonos	943,374	78,649,095	**1.2**	3,424,965	73,011,136	**4.7**
Total insurance	**37,227,732**	**620,969,245**	**6.0**	**14,640,654**	**579,646,530**	**2.5**

Claim provsions, net of reinsurance as % of earned premium	Net provisions for claims outstanding in euros	Net earned premiums in euros	Year 2016 in %	Net provisions for claims outstanding in euros	Net earned premiums in euros	Year 2015 in %
1	2	3	4=2/3*100	5	6	7=5/6*100
Results by class of insurance:						
1. Accident insurance	9,654,427	16,957,321	**57**	10,460,886	16,471,505	**64**
2. Health insurance	6,194,080	101,024,827	**6**	5,789,024	101,384,319	**6**
3. Land vehicle insurance	7,073,122	32,774,696	**22**	7,352,140	32,604,353	**23**
5. Aircraft insurance	5,544	4,942	**112**	5,513	8,901	**62**
6. Ship insurance	277,057	479,161	**58**	285,149	507,054	**56**
7. Goods in transit insurance	204,165	1,232,576	**17**	385,045	1,280,073	**30**
8. Fire and natural forces insurance	3,519,865	12,830,877	**27**	3,120,529	12,239,729	**25**
9. Other damage to property insurance	3,676,649	10,929,191	**34**	4,257,185	10,576,935	**40**
10. Vehicle liability insurance	44,492,598	39,188,085	**114**	44,026,346	39,479,378	**112**
11. Aircraft or other flying machine liability insurance	-	2,360	**0**	-	2,417	**0**
12. Liability for ship insurance	360,494	568,680	**63**	373,589	511,837	**73**
13. General liability insurance	15,016,086	7,345,810	**204**	16,783,900	6,916,556	**243**
14. Credit insurance shall be insurance covering:	31,693	294,879	**11**	46,078	284,940	**16**
15. Suretyship insurance	1,864	56,173	**3**	58,002	72,088	**80**
16. Miscellaneous financial loss insurance	213,588	644,364	**33**	134,477	620,258	**22**
17. Legal expenses insurance	2,302	125,533	**2**	4,968	134,953	**4**
18. Tourist assistance	445,720	5,941,973	**8**	517,395	5,569,786	**9**
19. Life assurance	4,332,224	19,708,218	**22**	4,722,792	18,619,988	**25**
21. Life assurance linked to units of investment fund or to units of funds	1,836,888	37,076,807	**5**	428,850	35,437,788	**1**
23. Capital redemption insurance	-	5,631,924	**0**	-	4,612,407	**0**
Non-life insurance contracts, excluding health insurance	85,175,314	131,929,738	**65**	87,937,162	129,876,597	**68**
Life insurance contracts	6,169,111	62,416,949	**10**	5,151,641	58,670,183	**9**
Complementary health insurance	5,993,941	98,471,711	**6**	5,663,062	98,788,483	**6**
Total	**97,338,366**	**292,818,398**	**33**	**98,751,866**	**287,335,263**	**34**

Gross profit, or loss, of the current year as % of net written premiums	Gross profit or loss, of the current year in euros	Net written premiums in euros	Year 2016 in %	Gross profit, or loss, of the current year in euros	Net written premiums in euros	Year 2015 in %
1	2	3	4=2/3	5	6	7=5/6
Non-life insurance contracts	10,130,282	147,428,603	**7**	12,709,359	129,503,851	**10**
Life insurance contracts	2,902,449	62,386,356	**5**	4,929,556	58,627,606	**8**
Complementary health insurance	(2,078,999)	82,643,681	**-**	(823,572)	98,075,048	**-**
Total	**10,953,732**	**292,458,639**	**4**	**16,815,342**	**286,206,505**	**6**

Gross profit or loss, of the current year as % of average capital	Gross profit or loss, of the current year in euros	(Capital at beginning of year + capital at end of year)/2 in euros	Year 2016 in %	Gross profit or loss, of the current year in euros	(Capital at beginning of year + capital at end of year)/2 in euros	Year 2015 in %
1	2	3	4=2/3	5	6	7=5/6
Non-life insurance contracts	8,051,283	77,637,310	**10**	11,885,787	82,532,983	**14**
Life insurance contracts	2,902,449	20,785,355	**14**	4,929,556	21,365,719	**23**
Total	**10,953,732**	**98,422,664**	**11**	**16,815,342**	**103,898,702**	**16**

Gross profit or loss, of the current year as % of average assets	Gross profit, or loss, of the current year in euros	(Assets at beginning of year + assets at end of year)/2 in euros	Year 2016 in %	Gross profit or loss, of the current year in euros	(Assets at beginning of year + assets at end of year)/2 in euros	Year 2015 in %
1	2	3	4=2/3	5	6	7=5/6
Non-life insurance contracts	8,051,283	279,545,790	**3**	11,885,787	289,601,799	**4**
Life insurance contracts	2,902,449	436,504,235	**1**	4,929,556	401,556,873	**1**
Total	**10,953,732**	**699,284,588**	**2**	**16,815,342**	**675,934,380**	**2**

Gross profit or loss, of the current year per share	Gross profit in euros	Number of shares	Year 2016 in euros	Gross profit in euros	Number of shares	Year 2015 in euros
1	2	3	4=2/3	5	6	7=5/6
Non-life insurance contracts	8,051,283	10,304,407	**0.8**	11,885,787	10,304,407	**1.2**
Life insurance contracts	2,902,449	10,304,407	**0.3**	4,929,556	10,304,407	**0.5**
Total	**10,953,732**	**10,304,407**	**1.1**	**16,815,342**	**10,304,407**	**1.6**

Receivables from reinsurance and reinsurance share on technical provisions as % of equity	The insurer's capital in euros	Receivables from reinsurance and technical provisions attributable to reinsurers in euros	Year 2016 in %	The insurer's capital in euros	Receivables from reinsurance and technical provisions attributable to reinsurers in euros	Year 2015 in %
1	2	3	4=2/3	5	6	7=5/6
Non-life insurance contracts	18,269,776	75,968,777	**24**	18,225,977	79,305,842	**23**
Life insurance contracts	738,567	19,946,395	**4**	431,488	21,624,315	**2**
Total	**19,008,343**	**95,915,172**	**20**	**18,657,465**	**100,930,157**	**18**

Gross written premium, net of reinsurance as % of average capital and technical provisions	Gross written premium, net of reinsurance in euros	Average capital + average balance of technical provisions in euros	Year 2016 in %	Gross written premium, net of reinsurance in euros	Average capital + average balance of technical provisions in euros	Year 2015 in %
1	2	3	4=2/3	5	6	7=5/6
Non-life insurance contracts	230,072,284	236,791,575	**97**	227,578,899	247,543,607	**92**
Life insurance contracts	62,386,356	405,627,831	**15**	58,627,606	384,647,545	**15**
Total	**292,458,639**	**642,419,406**	**46**	**286,206,505**	**632,191,152**	**45**

Average balance of technical provision, net of reinsurance as % of net revenues from insurance premiums	Average balance of technical provision, net of reinsurance in euros	Net revenues from insurance contracts in euros	Year 2016 in %	Average balance of technical provision, net of reinsurance in euros	Net revenues from insurance contracts in euros	Year 2015 in %
1	2	3	4=2/3	5	6	7=5/6
Non-life insurance contracts	142,150,979	230,401,449	**62**	142,112,106	228,665,080	**62**
Life insurance contracts	384,538,428	62,416,949	**616**	363,031,948	58,670,183	**619**
Total	**526,689,407**	**292,818,399**	**180**	**505,144,053**	**287,335,263**	**176**

Equity as % of total equity and liabilities	Equity in euros	Total equity and liabilities in euros	Year 2016 in %	Equity in euros	Total equity and liabilities in euros	Year 2015 in %
1	2	3	4=2/3	5	6	7=5/6
Non-life insurance contracts	75,968,777	284,151,878	**27**	79,305,842	274,939,702	**29**
Life insurance contracts	19,946,395	462,023,119	**4**	21,624,315	410,985,350	**5**
Total	**95,915,172**	**733,214,576**	**13**	**100,930,157**	**665,354,600**	**15**

Technical provisions, net of reinsurance as % of total equity and liabilities	Technical provisions, net of reinsurance in euros	Total equity and liabilities in euros	Year 2016 in %	Technical provisions, net of reinsurance in euros	Total equity and liabilities in euros	Year 2015 in %
1	2	3	4=2/3	5	6	7=5/6
Non-life insurance contracts	140,852,713	284,151,878	**50**	143,449,245	274,939,702	**52**
Life insurance contracts	400,999,126	462,023,119	**87**	368,077,729	410,985,350	**90**
Total	**541,851,839**	**733,214,576**	**74**	**511,526,974**	**665,354,600**	**77**

Net provisions (mathematical provisions) as % of net technical provisions	Net provisions (mathematical reserves) in euros	Net technical provisions in euros	Year 2016 in %	Net provisions (mathematical reserves) in euros	Net technical provisions in euros	Year 2015 in %
1	2	3	4=2/3	5	6	7=5/6
Life insurance contracts	400,999,126	541,851,839	**74**	368,077,729	511,526,974	**72**

Gross written premium as % of number of full-time employees	Gross written premiums in euros	Number of full-time employees	Year 2016 in euros	Gross written premiums in euros	Number of full-time employees	Year 2015 in euros
1	2	3	4=2/3	5	6	7=5/6
Aggregate insurance business - total	303,527,668	1,140	**266,252**	297,477,063	1,027	**289,656**

2. FUNDS SEPARATELY MANAGED BY ADRIATIC SLOVENICA

Adriatic Slovenica manages a register of non-life and life insurance, however the funds from the life insurance register are managed separately as follows:

- the life insurance fund,
- the unit-linked life insurance fund,
- internal unit-linked life insurance funds,
- internal and ring-fenced (guarantee) funds.

The names of the funds managed separately and the registration numbers of individual registered funds are presented below, in compliance with the Decision on Annual Reports and Quarterly Financial Statements of Insurance Undertakings issued by the Insurance Supervision Agency (Official Gazette of the Republic of Slovenia No. 1/16).

The name and registration number of individual funds managed separately

Life insurance register	Registration number
Life insurance fund	
Unit-linked life insurance fund	
Unit-linked life insurance fund – NT	5063361024
Unit-linked life insurance fund – FOND POLICA	5063361028
Unit-linked life insurance internal funds	
Aktivni naložbeni paket internal fund	5063361031
Dirigent internal fund	5063361029
KD Vrhunski internal fund	5063361030
Aktivni AS internal fund	5063361037
Guarantee funds	
Group of AS pension saving guarantee funds	
AS pension saving guarantee fund – DRZNI DO 50	5063361034
AS pension saving guarantee fund – UMIRJENI MED 50 IN 60	5063361035
AS pension saving guarantee fund – ZAJAMČENI OD 60	5063361036
Zajamčeni PNA-01 guarantee fund – pension insurance	5063361021
Guarantee fund backing additional pension insurance during the annuity payout period	5063361027

Assets and liabilities and the income statement of individual funds or groups of funds are presented in the form as laid down in the Decision on Annual Reports and Quarterly Financial Statements of Insurance Undertakings, Appendix 2.

2.1 UNIT-LINKED FUNDS

Assets and liabilities of unit-linked funds

(in EUR)	Unit-linked life insurance 31 Dec. 2016	Unit-linked life insurance – FOND POLICA 31 Dec. 2016	Unit-linked life insurance 31 Dec. 2015	Unit-linked life insurance – FOND POLICA 31 Dec. 2015
ASSETS	**26,529,777**	**212,052,883**	**28,415,783**	**190,584,758**
A. Investment property and financial investments	**26,452,657**	**209,957,596**	**28,316,116**	**188,524,706**
III. Other financial investments	26,452,657	209,957,596	28,316,116	188,524,706
3. Investment funds	26,452,657	209,957,596	28,316,116	188,524,706
B. Receivables	**76,643**	**1,685,267**	**99,167**	**1,717,520**
I. Receivables from insurance business	61,610	234,880	88,668	696,809
1. Receivables from policyholders	61,610	234,880	88,668	696,809
II. Other receivables	15,033	1,450,387	10,499	1,020,711
C. Other assets	476	410,008	499	309,066
I. Cash and cash equivalents	476	365,231	499	309,066
II. Other assets	-	44,777	-	-
D. Short-term deferred expenses and accrued revenues	**-**	**12**	**-**	**33,465**
2. Short-term deferred acquisition costs	-	12	-	-
3. Other short-term deferred expenses and accrued revenues	-	-	-	33,465
LIABILITIES	26,322,479	212,480,003	28,317,454	191,032,587
A. Revaluation surplus	**-**	**(0)**	**-**	**(0)**
B. Gross insurance technical provisions	**30,508**	**1,318,594**	**3,298**	**386,304**
III. Gross claim provisions	30,508	1,318,594	3,298	386,304
C. Gross insurance technical provisions for unit-linked life insurance contracts	**26,098,893**	**204,980,382**	**27,770,212**	**185,046,045**
E. Other liabilities	**129,953**	**5,915,707**	**453,762**	**4,900,901**
I. Liabilities from insurance business	25,961	970,719	54,234	1,184,809
1. Liabilities to policyholders	491	354	25,885	32
3. Other liabilities from insurance business	25,470	970,365	28,349	1,184,777
II. Liabilities from co-insurance and reinsurance	-	6,741	-	3,308
III. Other liabilities	103,992	4,938,247	399,528	3,712,784
F. Accrued expenses and deferred revenues	**63,125**	**265,321**	**90,182**	**699,337**

Income statement of unit-linked funds

(in EUR)	Unit-linked life insurance 2016	Unit-linked life insurance – FOND POLICA 2016	Unit-linked life insurance 2015	Unit-linked life insurance – FOND POLICA 2015
I. Gross written premium	**2,167,080**	**23,475,635**	**2,474,815**	**24,929,675**
II. Investment revenue	**3,832,501**	**41,172,294**	**650,860**	**3,681,794**
2. Revenue from other investments	**3,832,501**	**41,172,294**	**650,860**	**3,681,794**
2.2. Interest revenue	-	18	-	0
2.3. Other investment revenue	3,832,501	41,172,276	650,860	3,681,794
2.3.1. revenues from revaluation	3,832,501	41,172,276	650,860	3,681,794
III. Expenses from payments of sum insured or surrender value	**(5,542,528)**	**(19,061,184)**	**(3,594,217)**	**(18,067,462)**
1. Ordinary termination (maturity)	**(4,303,120)**	**(6,539,941)**	**(2,171,172)**	**(4,706,814)**
2. Extraordinary termination	**(1,239,409)**	**(12,521,243)**	**(1,423,045)**	**(13,360,647)**
2.1 Withdrawal from contract	(1,174,252)	(12,199,151)	(1,358,015)	(13,072,141)
2.3 Death of policyholder	(65,157)	(322,092)	(65,030)	(288,506)
V. Change in other insurance technical provisions, net of reinsurance (+/–)	**1,644,108**	**(20,866,626)**	**1,246,269**	**587,713**
1. Change in mathematical provisions (+/–)	**1,644,108**	**(19,934,337)**	**1,248,470**	**651,145**
2. Change in other insurance technical provisions, net of reisurance (+/–)	**-**	**(932,289)**	**(2,201)**	**(63,432)**
VI. Expenses and commissions	**(261,266)**	**(5,608,186)**	**(299,901)**	**(5,680,708)**
1. Entry fees	**-**	**(1,889,783)**	**(341)**	**(1,770,434)**
2. Exit fees	**(15,178)**	**(192,930)**	**(16,528)**	**(246,833)**
3. Management fees	**(246,088)**	**(3,525,473)**	**(283,033)**	**(3,663,441)**
VII. Investment expenses	**(1,708,606)**	**(19,246,100)**	**(395,529)**	**(4,924,134)**
3. Financial expenses from revaluation	**(1,708,606)**	**(19,246,100)**	**(395,529)**	**(4,924,134)**
VIII. Profit/loss of unit linked fund (I + II - III + IV + V - VI - VII)	**131,289**	**(134,167)**	**82,297**	**526,877**

2.2 INTERNAL UNIT-LINKED FUNDS

Assets and liabilities of internal unit-linked funds

(in EUR)	Internal unit-linked fund – DIRIGENT 31 Dec. 2016	Internal unit-linked fund – AKTIVNI NALOŽBENI PAKET 31 Dec. 2016	Internal unit-linked fund – VRHUNSKI 31 Dec. 2016	Internal unit-linked fund – DIRIGENT 31 Dec. 2015	Internal unit-linked fund – AKTIVNI NALOŽBENI PAKET 31 Dec. 2015	Internal unit-linked fund – VRHUNSKI 31 Dec. 2015
ASSETS						
III. Financial assets	**9,663,148**	**22,524,066**	**9,470,762**	**9,367,834**	**19,050,791**	**10,206,315**
1. Financial assets at fair value through profit or loss	9,663,148	22,524,066	9,470,762	9,367,834	19,050,791	10,206,315
IV. Receivables	**-**	**-**	**-**	**665**	**-**	**173**
4. Other receivables	-	-	-	665	-	173
V. Cash and cash equivalents	**342,744**	**(123,218)**	**183,070**	**344,873**	**13,333**	**385,666**
VII. TOTAL ASSETS	**10,005,892**	**22,400,848**	**9,653,832**	**9,713,372**	**19,064,124**	**10,592,154**
LIABILITIES						
I. Operating liabilities	**9,194**	**11,107**	**12,906**	**9,417**	**9,783**	**14,853**
3. Liabilities to custodian	9,194	11,107	12,906	9,417	9,783	14,853
II. Financial liabilities	**-**	**-**	**-**	**7**	**7**	**7**
III. Liabilities to policyholders from insurance contracts	**9,364,064**	**21,223,006**	**9,255,860**	**9,342,715**	**18,578,956**	**10,252,116**
1. Nominal value of premiums paid	6,263,020	19,057,951	7,865,159	6,602,905	16,889,280	9,186,594
3. Net profit/loss brought forward from previous years	3,101,044	2,165,055	1,390,701	2,739,810	1,689,676	1,065,521
IV. Undistributed net profit/loss for the financial year	**632,635**	**1,166,736**	**385,066**	**361,234**	**475,379**	**325,180**
V. TOTAL LIABILITIES	**10,005,892**	**22,400,848**	**9,653,832**	**9,713,372**	**19,064,124**	**10,592,154**
-	-	-	-	-	-	-
NET ASSETS OF THE INTERNAL FUND = ASSETS-OPERATING LIABILITIES-FINANCIAL LIABILITIES	**9,996,698**	**22,389,742**	**9,640,926**	**9,703,949**	**19,054,335**	**10,577,295**

Income statement of internal unit-linked funds

(in EUR)	Internal unit-linked fund – DIRIGENT 2016	Internal unit-linked fund – AKTIVNI NALOŽBENI PAKET 2016	Internal unit-linked fund – VRHUNSKI 2016	Internal unit-linked fund – DIRIGENT 2015	Internal unit-linked fund – AKTIVNI NALOŽBENI PAKET 2015	Internal unit-linked fund – VRHUNSKI 2015
A. Income statement for the internal fund						
I. Financial revenues	**952,994**	**1,725,406**	**881,027**	**977,974**	**1,343,763**	**1,074,585**
1. Revenues from dividends and shares	38,860	-	42,514	47,564	-	60,364
3. Realised gains on financial investments	148,831	97,944	233,355	486,693	611,658	425,825
4. Net unrealised gains and losses from financial investments, measured at fair value through profit and loss	679,679	1,627,461	534,451	208,790	732,104	429,538
5. Other financial revenue	**85,623**	**0**	**70,707**	**234,927**	**1**	**158,859**
IV. Financial expenses	216,176	438,186	334,843	500,453	868,384	564,135
2. Realised loss on financial investments	120,625	432,885	197,924	5,018	26,101	13,376
3. Net gains from the change in fair value of financial investments, recognised at fair value through profit or loss	33,811	5,301	76,103	439,448	730,707	295,315
4. Other financial expenses	61,740	(0)	60,815	55,988	111,576	255,443
VI. Management and operating expenses	**104,183**	**120,484**	**161,119**	**116,287**	**-**	**185,271**
1. Expenses relating to custodian	104,183	120,484	161,119	116,287	-	185,271
VII. Net profit/loss for the period	**632,635**	**1,166,736**	**385,066**	**361,234**	**475,379**	**325,180**

2.3 RING-FENCED PENSION INSURANCE GUARANTEE FUND – SAVING

Assets and liabilities of ring-fenced lifecycle pension insurance funds – Pokojninsko varčevanje AS

(in EUR)	AS – DRZNI 31 Dec. 2016	AS – UMIRJENI 31 Dec. 2016	AS – ZAJAMČENI 31 Dec. 2016	Lifecycle group	AS – DRZNI 31 Dec. 2015	AS – UMIRJENI 31 Dec. 2015	AS – ZAJAMČENI 31 Dec. 2015
ASSETS	1,995,355	1,429,468	1,340,774	4,765,596	-	-	-
Financial investments	**1,640,230**	**1,198,155**	**735,672**	**3,574,058**	-	-	-
available for sale:	1,640,230	1,198,155	735,672	3,574,058	-	-	-
– debt securities	343,910	229,273	-	573,183	-	-	-
– equity securities	1,296,321	968,882	735,672	3,000,875	-	-	-
Receivables	**284,404**	**200,269**	**552,403**	**1,037,076**	-	-	-
Other receivables	284,404	200,269	552,403	1,037,076	-	-	-
Cash and cash equivalents	**70,720**	**31,044**	**42,838**	**144,602**	-	-	-
Off-balance-sheet assets	**-**	**-**	**9,861**	**9,861**	-	-	-
Other off-balance-sheet assets	-	-	9,861	9,861	-	-	-
LIABILITIES	1,995,355	1,429,468	1,340,774	4,765,596	-	-	-
Insurance technical provisions	**1,986,741**	**1,423,242**	**1,325,933**	**4,735,916**	-	-	-
Mathematical provisions for attributed return on assets covering mathematical provisions	40,139	6,631	(6,205)	40,565	-	-	-
Technical provisions where the assets covering mathematical provisions are split to units (VEP)	1,946,602	1,416,611	1,332,138	4,695,351	-	-	-
Operating liabilities	**4,954**	**2,566**	**1,320**	**8,839**	-	-	-
Liabilities to the managing company of the assets covering mathematical provisions	4,724	2,421	1,204	8,349	-	-	-
Other operating liabilities	230	145	116	490	-	-	-
Other liabilities	**3,660**	**3,660**	**3,660**	**10,980**	-	-	-
Off-balance-sheet liabilities	**-**	**-**	**9,861**	**9,861**	-	-	-
Other off-balance-sheet liabilities	-	-	9,861	9,861	-	-	-

Income statement of ring-fenced lifecycle pension insurance funds – Pokojninsko varčevanje AS

(in EUR)	AS – DRZNI 2016	AS – UMIRJENI 2016	AS – ZAJAMČENI 2016	Lifecycle group	AS – DRZNI 2015	AS – UMIRJENI 2015	AS – ZAJAMČENI 2015
Payments or premiums	**1,176,095**	**570,695**	**244,188**	**1,990,978**	-	-	-
Financial revenue	**17,449**	**4,540**	**19**	**22,007**	-	-	-
Revenue from dividends and shares	2,239	551	-	2,790	-	-	-
Interest revenue	(209)	183	1	(26)	-	-	-
Gains on disposals of financial investments	13,369	2,746	18	16,134	-	-	-
Other financial revenue	2,050	1,060	(0)	3,110	-	-	-
Expenses from payment of surrender values	**(243)**	**(245)**	**(1,194)**	**(1,682)**	-	-	-
Ordinary termination	-	-	(402)	(402)	-	-	-
Extraordinary termination	(243)	(245)	(792)	(1,280)	-	-	-
– withdrawal from contract	(243)	-	-	(243)	-	-	-
– death of policyholder	-	(245)	(792)	(1,037)	-	-	-
Assets transfer from or to other provider of pension insurance (+/–)	**779,074**	**849,832**	**1,090,543**	**2,719,449**	-	-	-
Assets transfer from the other provider	779,344	850,641	1,090,543	2,720,529	-	-	-
Assets transfer to the other provider	(270)	(810)	-	(1,080)	-	-	-
Change in insurance technical provisions net of reinsurance (+/–)	**(1,946,602)**	**(1,416,611)**	**(1,332,138)**	**(4,695,351)**	-	-	-
Change in mathematical provisions without the profit of the current year (+/–)	(1,946,602)	(1,416,611)	(1,332,138)	(4,695,351)	-	-	-
Expenses charged by fund manager	**(14,339)**	**(7,407)**	**(4,087)**	**(25,833)**	-	-	-
Entry fees	(8,474)	(3,502)	(1,392)	(13,369)	-	-	-
Exit fees	(2)	(2)	-	(5)	-	-	-
Management fees	(5,863)	(3,902)	(2,694)	(12,459)	-	-	-
Expenses relating to custodian bank	**(2,094)**	**(1,757)**	**(1,572)**	**(5,423)**	-	-	-
Other expenses charged to the pension fund in accordance with fund management rules	**(6,698)**	**(5,148)**	**(3,779)**	**(15,624)**	-	-	-
Financial expenses	**(7,406)**	**(3,630)**	**(387)**	**(11,422)**	-	-	-
Interest expenses	(78)	(52)	-	(131)	-	-	-
Losses on disposal of financial investments	(7,327)	(3,577)	(387)	(11,291)	-	-	-
VII. Net profit/loss for the period	(4,765)	(9,731)	(8,406)	(22,902)	-	-	-

Pension insurance in the context of lifecycle pension insurance guarantee funds, which have been available since 1 February 2016, is underwritten under the new pension insurance schemes Pokojninsko varčevanje AS – individualno (AS pension saving – individual) and Pokojninsko varčevanje AS – kolektivno (AS pension saving – group). The new payments (as of 1 February 2016) will be invested in the new guarantee funds (lifecycle funds) in relation to the age of policyholders and the level of risks they are prepared to take. The payments into the previous guarantee fund (PNA01) will no longer be possible in accordance with the Management Rules. The assets from this fund will only be intended for payouts or transfers to lifecycle funds. The sale of these products has begun in 2016, therefore no year for comparison is available.

Assets and liabilities of the PNA01 ring-fenced pension insurance fund

(in EUR)	31 Dec 2016	31 Dec 2015
ASSETS	12,023,260	10,964,931
Financial investments	**11,802,293**	**10,810,031**
loans and deposits	-	100,013
held to maturity:	2,394,817	2,637,752
– debt securities	2,394,817	2,637,752
available for sale:	9,407,477	8,038,085
– debt securities	8,907,038	8,005,658
– equity securities	500,439	32,426
measured at fair value:	(0)	34,181
– debt securities	(0)	34,181
Receivables	**43,037**	**58,363**
Other receivables	43,037	58,363
Cash and cash equivalents	**175,558**	**96,537**
Off-balance-sheet assets	**2,371**	**-**
Other off-balance-sheet assets	2,371	-
LIABILITIES	12,023,260	10,964,931
Insurance technical provisions	**12,004,082**	**10,937,848**
Mathematical provisions for paid net premiums	10,170,436	9,604,713
Mathematical provisions for attributed return on assets covering mathematical provisions	1,833,645	1,333,135
Operating liabilities	**13,100**	**657**
Liabilities to the managing company of the assets covering mathematical provisions	10,008	-
Liabilities to members of the fund, arising from surrender value	2,363	-
Other operating liabilities	729	657
Other liabilities	**3,707**	**26,426**
Off-balance-sheet liabilities	**2,371**	**-**
Other off-balance-sheet liabilities	2,371	-

Income statement of the PNA01 ring-fenced pension insurance guarantee fund

(in EUR)	2016	2015
Payments or premiums	**209,950**	1,308,201
Financial revenue	**387,048**	405,279
Interest revenue	379,598	319,665
Gains on disposals of financial investments	6,425	18,615
Revaluation financial revenue arising from a change in the fair value of a financial asset through profit and loss	-	3,094
Other financial revenue	1,024	63,905
Revenue from payment of management company due to failing to achieve guaranteed return	**-**	6,520
Expenses from payment of surrender values	**(367,832)**	(358,597)
Ordinary termination	(155,281)	(143,538)
Extraordinary termination	(212,551)	(215,059)
– withdrawal from contract	(196,894)	(206,521)
– death of policyholder	(15,658)	(8,538)
Assets transfer from or to other provider of pension insurance (+/–)	**649,559**	2,812,743
Assets transfer from the other provider	710,468	3,304,206
Assets transfer to the other provider	(60,909)	(491,463)
Change in insurance technical provisions net of reinsurance (+/–)	**(565,941)**	(3,889,340)
Change in mathematical provisions without the profit of the current year (+/–)	(565,941)	(3,889,340)
Expenses, charged by fund manager	**(126,231)**	(121,579)
Entry fees	(1,446)	(11,406)
Exit fees	(3,504)	(8,087)
Management fees	(121,280)	(102,085)
Expenses relating to custodian bank	**(10,819)**	-
Other expenses charged to the pension fund in accordance with fund management rules	**(6,106)**	(9,430)
Financial expenses	**(131)**	(75,437)
Interest expenses	(19)	(240)
Losses on disposal of financial investments	(112)	(69,554)
Revaluation operating expenses from the change in the fair value of financial assets through profit or loss	-	(5,643)
VII. Net profit/loss for the period	169,497	78,360

2.4 RING-FENCED PENSION INSURANCE FUND – DURING THE ANNUITY PAYOUT PERIOD

Assets and liabilities of the ring-fenced pension insurance fund during the annuity payout period

(in EUR)	31 Dec 2016	31 Dec 2015
ASSETS	**612,173**	**639,609**
A. Investment property and financial investments	603,636	634,203
I. Investment property	23,546	24,047
III. Other financial investments	580,090	610,156
1. Shares and other variable rate securities	-	178,849
2. Debt securities and other securities with fixed return	580,090	431,307
B. Receivables	**1,803**	**75**
II. Other receivables	1,803	75
C. Other assets	**6,734**	**5,332**
I. Cash and cash equivalents	6,734	5,332
LIABILITIES	527,456	573,734
A. Revaluation surplus	**(7,340)**	**15,870**
B. Gross insurance technical provisions	**504,212**	**442,539**
II. Gross mathematical provisions	504,212	442,539
E. Other liabilities	**30,584**	**115,325**
I. Liabilities from direct insurance operations	12	3,117
1. Liabilities to policyholders	-	3,117
3. Other liabilities to direct insurance operations	12	-
III. Other liabilities	30,572	112,208

Income statement of the ring-fenced pension insurance fund during the annuity payout period

(in EUR)	2016	2015
I. Transfer of funds from the pension scheme of additional pension insurance	**81,025**	**61,296**
1. this legal entity	81,025	61,296
II. Investment revenue	**46,818**	**30,101**
1.1. Revenue from dividends and shares in subsidiaries	24,667	30,034
1.2. Revenues from dividends and shares in associated companies	4,367	4,367
1.3. Revenues from dividends and shares in other companies	19,831	20,109
2. Revenue from other investments	469	5,559
2.2. Interest revenue	22,151	67
2.3. Other investment revenue	(36,063)	(40,238)
2.3.1. Revaluation financial revenues	(36,063)	(40,238)
3. Value re-adjustments on investments	(61,673)	(14,263)
4. Realised gains from investments	(61,673)	(14,263)
1. Claims paid	(2,252)	(962)
2. Change in claims provisions	(1,433)	-
1. Change in mathematical provisions (+/–)	(819)	(962)
VI. Investment expenses	(5,163)	(8,421)
1. Depreciation of assets not used in operations	**(501)**	**(501)**
2. Expenses arising from asset management, interest expenses and other financial expenses	(103)	(185)
3. Revaluation operating expenses	(3,507)	(6,575)
4. Losses on the realisation of investments	(1,052)	(1,160)
VII. Profit/loss of guarantee fund (I. + II. - III. + IV. - V. - VI.)	22,693	27,513
VII.a. Profit/loss of pension fund (I. + II. - III. + IV. - Va. - VI.)	24,944	28,476