ANNUAL REPORT 2017

AUDITED

Adriatic Slovenica and Adriatic Slovenica Group

New Dimension of Safety

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I. About Adriatic Slovenica and the Adriatic Slovenica Group

1. ADRIATIC SLOVENICA AND THE ADRIATIC SLOVENICA GROUP

1.1 STATEMENT BY THE PRESIDENT OF THE MANAGEMENT BOARD

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

Another dynamic and highly competitive year is behind the insurance company and the AS Group. In addition to economic growth, low interest rates and a demanding investment environment, the year was marked by a new consolidation of shares in the Slovenian insurance market. The company business operations are stable, the last business year was successful.

We can be satisfied.
We have maintained a good and stable credit rating. We have made important steps in the further development and organization of the insurance company, which will stimulate the development of insurance and other services for our clients. Following the acquisition of KD Skladi two years ago, the AS Group today provides, in addition to comprehensive insurance protection, asset management implemented by the best asset managers in Slovenia.

We ended 2017 with a net profit of EUR 11.4 million and achieved a 11.9 percent return on equity thus achieving the planned business results. In the Management Board, we estimate that our results are comparable to the best in the industry last year, as we managed to consolidate our position in the Slovenian and Croatian insurance markets.

Where are we?
We posted a total of EUR 303.8 million of gross insurance premium; we grew in all three core activities of our business and exceeded the planned sales results. We continue to increase our capital adequacy in accordance with the requirements of the Solvency II Directive. Unlike the past two years, when we had a negative outcome in the area of supplementary health insurance, we again performed positively in all three key insurance areas.

Nearly every year, natural disasters affect Slovenia. For the insurance company this means a high claim frequency rate. Last year, in both the east and west of the country, where the intensity of mass loss events was greatest, we were dealing with the aftermath of windstorms and hailstorms. The greatest increase in claims was recorded in fire and natural disaster insurance (by 25%), general liability insurance (by 19%) and assistance insurance (by 9%). The total gross claims paid went up by 2.8 %, while the insured persons were paid out EUR 223.4 million in damages and benefits.

The cost of medical services has been growing unceasingly, while the Ministry of Health has failed to curb uncontrolled spending and to adjust legislation. The proposals made by insurance companies, which seek to establish a financially efficient, long-term sustainable and solidarity healthcare system, were deliberately overlooked. For this reason, we incorporated the responses to the negative reform policy into our development strategy and business plan for 2018.

New dimensions of safety incorporated in the new strategy

The new five-year strategy may be the most important step we made in the past year. It combines modern trends and ambitious however feasible plans. We will invest even more energy into development, flexible ways of selling and information solutions, without forgetting our traditional sales channels, customers and partners.

On this path we will be assisted by the new European Insurance Distribution Directive, which will come into effect in Slovenian legislation in October. The Directive brings a higher level of protection of policyholders, in particular regarding the information disclosed to consumers in accordance with their best interests.

The interplay of interactions across all communication channels is becoming increasingly complex, but at the same time it leads to the complete personalization of integrated solutions provided to the client. The insurance company keeps a systematic analysis of big data; on the other hand, the key solutions have been concentrated in the personal digital portal of each policyholder, opening up new dimensions of our cooperation in the future.

What counts most?

Digitization has the effect of a snowball. Our task is to continuously design and improve simple, effective and safe solutions for information, for the purchase of insurance and assistance services and for asset management. This provides safety to customers, stability and increase in profitability to companies. This year we will therefore witness an accelerated optimization of connections between people, processes and technologies.

Aware that a good user experience in insurance procedures, asset management and claim settlement is most appreciated by the customers, and building on considerations on our development, we know that investment in new knowledge and skills is our best decision. This offers, not least, answers to address the challenges of sustainable development.

Our success in the past year in realizing the expectations of our clients and the environment in the past year is shown by their trust returned to us. The insurance company and the AS Group are becoming increasingly recognizable and respected. We are proud of the recognition of the profession, the growing confidence of the public and, in particular, the best organizational energy in the industry.

Sincere thanks to everyone among the employees and thank you for your trust.

Sincerely,

Gabrijel Škof,
President of the Management Board

1.2 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 2017, 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. The term of office of Matjaž Gantar as Supervisory Board member and Chairman expired on 29 December 2016. After the General Meeting of Shareholders issued a new five-year mandate on 22 December 2016, the Supervisory Board re-appointed him as Supervisory Board Chairman for another five-year term. The term of office of Aljoša Tomaž, Aleksander Sekavčnik and Tomaž Butina expired on 6 September 2017 and the General Meeting of Shareholders re-appointed them as Supervisory Board members for a five-year term on 8 August 2017 effective as of 7 September 2017. Aljoša Tomaž was re-appointed Vice-Chairman by the Supervisory Board in the new mandate on 18 October 2017.

The Supervisory Board performed its activities in accordance with the agreed model of supervision over the operation of the Management Board. In 2017, the Supervisory Board held eight regular sessions and two 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 Reports of Adriatic Slovenica d.d. and Adriatic Slovenica Group for 2016 as well as reviewed the report on the relationship with the controlling company in 2016. The Supervisory Board also examined the report prepared by the actuarial function with regard to non-life and life insurances for 2016 and approved the Supervisory Board functions activity report and compliance report for 2016. Furthermore, the Supervisory Board approved the Solvency and Financial Condition Report (SFCR) for 2016 and the Adriatic Slovenica Own Risk and Solvency Assessment (ORSA) of the insurance company Adriatic Slovenica. 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 2017 and the plans for the work of the Supervisory Board key functions and for monitoring of compliance for 2017. On 21 June 2017, the Supervisory Board approved the 2017 – 2022 Strategy of the insurance company Adriatic Slovenica. In December, it approved the business plan for 2018 and the work plans of the key functions Internal Audit and Compliance for 2018

In 2017, 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.

In 2017, the Supervisory Board discussed the following important issues: it conducted a regular annual review of the management policies of the insurance company, adopted the Corporate Governance Code of the KD Group, appointed Gabrijel Škof President of the Management Board for a new five-year term of office which began on 1 October 2017, appointed Jure Kvaternik member the Management Board (subject to obtaining an authorisation from the Insurance Supervision Agency). In order to regularly monitor the implementation of the strategy and achievement of the target business model, the Supervisory Board appointed a commission composed of Aljoša Tomaž (Chairman), Aleksander Sekavčnik (Vice-Chairman) and Carlo Palmieri (Member).
In 2017, the Supervisory Board approved the convening of sessions of the General Meeting of Shareholders in which the General Meeting of Shareholders decided on the distribution of accumulated profit and granted discharge to the Supervisory Board and the Management Board for the business year 2016 and decided on the new terms of office of the members of the Supervisory Board.

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 2017 and in late 2017 also for 2018. It examined the report on the activities of Internal Audit in the second half of 2016 and the entire 2016 and the report on Internal Audit activities in the first half of 2017. 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.

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Review and approval of the Annual Report

At its 101st session held on 20 March 2018, the Supervisory Board examined the Annual Report and Consolidated Annual Report of Adriatic Slovenica for 2017 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 2017 as well as of financial results and cash flows in the business year 2017 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 2017 and the annual report for 2017. The Supervisory Board issued a positive opinion on the annual report on the activities of Internal Audit in 2017.

Furthermore, the Supervisory Board took note of the report by the Management Board on the relationship with the controlling company in 2017 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 2017, the Supervisory Board:

- approves the Annual Report of Adriatic Slovenica d.d. for 2017,
- approves the Consolidated Annual Report of the Adriatic Slovenica Group for 2017,
- 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 Board 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 2017 amounts to EUR 40,063,857.62 and shall be allocated in the following manner:

- a part of the distributable profit amounting to EUR 10,304,407 shall be used for dividend payments of EUR 1 gross per share. The dividend shall be paid on 28 March 2018 to all shareholders registered in the Share Register as at 27 March 2018;
- the rest of the distributable profit amounting to EUR 29,759,450.62 shall remain undistributed and the decision on its use shall be made in the coming years.

Koper, 20 March 2018

Aljoša Tomaž
Vice Chairman of the Supervisory Board

1.3 REPORT OF THE AUDIT COMMITTEE OF THE SUPERVISORY BOARD

Report of the Audit Committee of the Supervisory Board on its activities in 2017 and on the review of materials for the approval of the Annual Report for 2017

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 2017.
The Audit Committee provides the Supervisory Board with expertise required for the implementation of supervision over the management of the Company.

In 2017, the Audit Committee was composed of Matjaž Pavlin as the Chairman, Mojca Kek as the Vice-Chairman and Vera Dolinar as member. The Committee held twelve regular sessions and two sessions by correspondence at which members discussed the following topics:

1. risk management and efficiency of internal controls;
2. Internal Audit reports (individual reports, reports on the implementation of recommendations, half-yearly reports, annual report) and the annual and long-term work plan of the Internal Audit;
3. actuarial function reports;
4. reports and annual work plan of the compliance function;
5. financial reporting;
6. audit of financial statements;
7. annual report, report on the relationship with the controlling company, Solvency and Financial Condition Report, Own Risk and Solvency Assessment;
8. auditor selection and independence and provision of non-audit services by the selected auditor;
9. monitoring of the progress of inspections, follow-up on decisions issued by regulators to the Company.

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. In early 2017, the Audit Committee examined the work plans of the key functions Internal Audit and Compliance for 2017 and proposed that the Supervisory Board approve the plans. In December, the Audit Committee examined the work plans of the key functions Internal Audit and Compliance for 2018 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 2017, 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 10 regular audits and 1 irregular audit. 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 the Zagreb branch. Four quarterly reports were drafted to this end. In addition to the audits and the follow-up, the Internal Audit Team also provided informal advisory services and monitored the day-to-day operation of the Company.

In the audit reports for 2017, the Internal Audit Team issued 132 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 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 2017 successfully and efficiently, using the appropriate procedures.

Financial statements and external audit

In accordance with its competences, the Audit Committee was involved in determining the frame of reference for the relationship with the auditor KPMG Slovenija d. o. o. and gave consent to the provision of non-audit services by the 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 2017 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 2017 and the annual report on the activities of Internal Audit in 2017;
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 2017 in their proposed form.

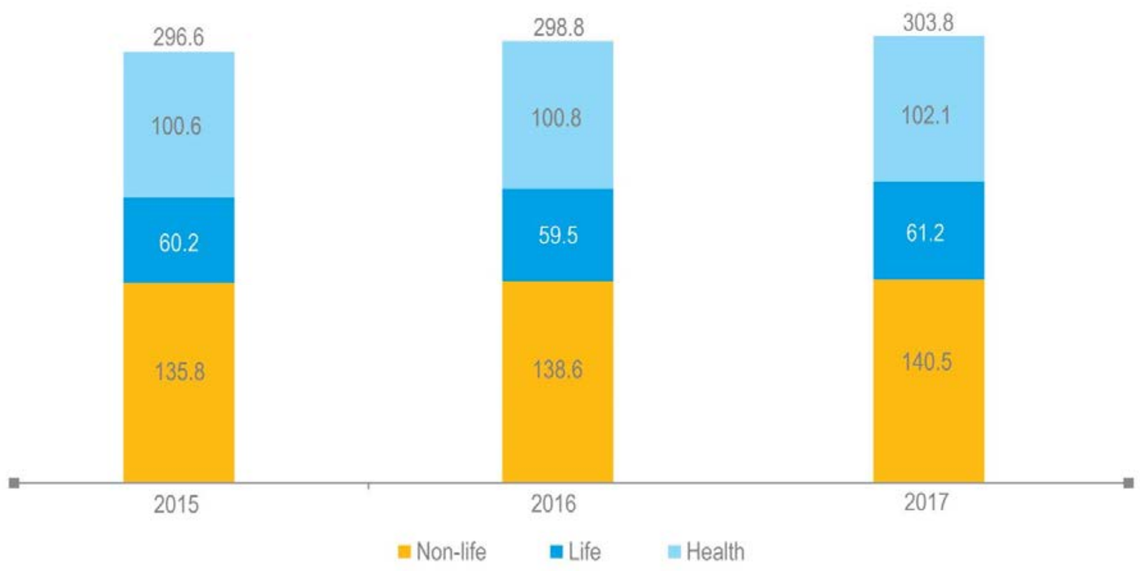
Koper, 20 March 2017

Matjaž Pavlin,
Chairman of the Audit Committee

1.4 HIGHLIGHTS OF THE COMPANY IN 2017

	2017	2016
Gross written premium (in EUR million)	303.8	298.8
Gross claims paid (in EUR million)	223.4	217.2
Market share	14.0%	15.1%
Combined ratio (other insurance)	95.8%	94.4%
Combined ratio (health insurance)	97.4%	102.2%
Profit before tax (in EUR million)	13.5	11.0
Net profit (in EUR million)	11.4	11.9
Return on equity	11.9%	12.1%
Return on investment	5.8%	6.0%
	31/12/2017	31/12/2016
Financial investments, cash and cash equivalents (in EUR million)	674.8	644.8
Gross liabilities from insurance contracts (in EUR million)	574.2	554.5
Number of employees	1,076	1,140
Book value of equity (in EUR million)	96.9	95.9
Book value of shares (in EUR million)	9.40	9.31
Credit rating	BBB- stable (Fitch Ratings)	BBB- stable (Fitch Ratings)

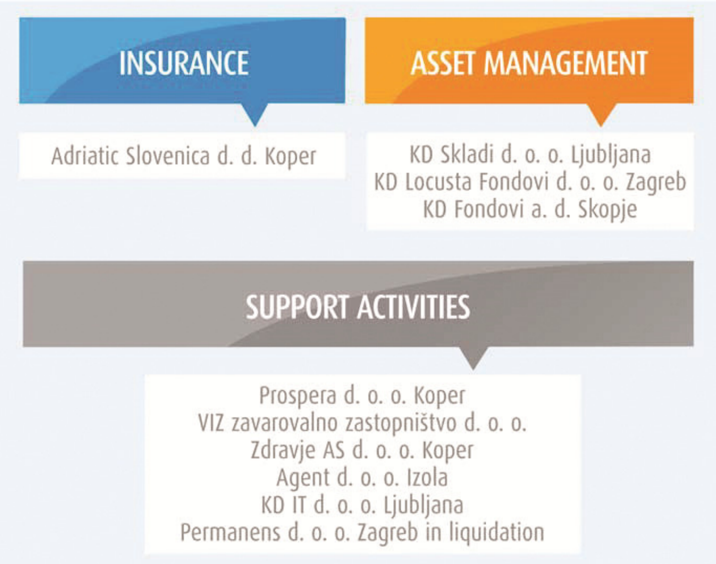
Gross written premium for the 2015–2017 period (in EUR million):



1.5 HIGHLIGHTS OF THE ADRIATIC SLOVENICA GROUP IN 2017

	2017	2016
Gross written premium (in EUR million) – insurance activity	303.8	298.8
Gross claims paid (in EUR million) – insurance activity	223.4	217.2
Market share (in Slovenia) - insurance activity	14.0%	15.1%
Operating profit (in EUR million)	17.4	13.8
Profit before tax (in EUR million)	13.4	11.3
Net profit (in EUR million)	10.7	12.3
Return on equity	10.9%	12.3%
	31/12/2017	31/12/2016
Assets (in EUR million)	760.7	737.3
Book value of equity (in EUR million)	98.0	98.2
Book value of shares (in EUR million)	9.54	9.53
Financial liabilities (in EUR million)	0.4	1.0
Subordinated issued bonds (in EUR million)	49.5	49.5
Assets under management (in EUR million) - asset management	531.6	500.9
Market share (in Slovenia) - asset management	20.0%	20.3%
Credit rating	BBB-stable (Fitch Ratings)	BBB-stable (Fitch Ratings)

In **insurance business**, the Company provides comprehensive insurance protection through non-life, life, pension and health insurances 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 portfolios. The Company is one of the leading Slovene management companies, which as at 31 December 2017 managed KD Krovni sklad with its 16 sub-funds. Another two management companies operate outside Slovenia, together managing 18 investment funds, of which 14 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., KD IT d. o. o. and Agent d. o. o.
Three subsidiaries operate outside Slovenia: KD Locusta Fondovi d. o. o. Zagreb and KD Fondovi a. d. Skopje are subsidiaries of KD Skladi. In Croatia the company Croatian Permanens d. o. o. - in liquidation is being wound up, while its operations were transferred to the Zagreb Branch.



1.6 STRATEGY AND PLANS OF THE ADRIATIC SLOVENICA GROUP

1.6.1 The mission, values and vision of the AS Group

The AS and the AS Group are both part of the KD Group. The strategy of the Group is based on the insurance industry and complemented by high-quality asset management services and investment products.

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 their 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, proactiveness, passion and joy, and the winning mentality.

1.6.2 Goals achieved by the AS Group in 2017

Since mid-year 2017, the Company has been implementing a new development strategy, which is included within the framework of the Adriatic Slovenica 2017-2022 Strategic Plan. On the basis of its mission, values and strategic orientations, this document determines the main strategic activities that will allow the Company to achieve the strategic goals by 2022.

The Company further strengthened its position on the Slovene insurance market, where it as the third largest insurance group reaching a 14% market share. Premium growth was recorded in all three business segments, the highest in the life and pension insurance segments (a 2.8 %). Non-life insurance excluding health insurance saw a 1.4 % growth. In health insurance, the Company managed to stop the downward trend in complementary health insurance; supplementary health insurance further added to the growth in this segment.

With EUR 11.4 million of net profit in 2017, the Company maintains a high profitability of its operations, achieving the return on equity (ROE) of 11.9 % in 2017. Profitability of operations and appropriate risk management lead to further strengthening of the capital adequacy of the Company and maintaining adequate capital surplus over the capital requirement.

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 asset management market.

On foreign markets, the Company, through its Zagreb Branch, entered the Croatian market of complementary health insurance and successfully continued to sell non-life and life insurance. Particularly good results were achieved in the sales of motor vehicle insurance where the annual direct sales results exceeded one million euro of premium written. In 2017, the voluntary liquidation procedure of AS neživotno osiguranje Belgrade was concluded and the AS Group has finally withdrawn from the Serbian insurance market.

Information technology contributed to the strategic objectives focusing on IT management and IT solutions as well as on ensuring a continuous IT system operation. Safety checks of IT solutions, upgrades of monitoring systems and expansion of the platform for continuous development and integration ensure quality and safety of IT solutions
These will be adapted to the GDPR and the Insurance Distribution Directive (IDD) as well as to the new IFRS 17 accounting standards.

1.6.3 Plans of the AS Group for 2018

The key objective for 2018 is profit maximisation (achieving an adequate level of profit), as outlined in the strategy of the Company, and an adequate risk management to further strengthen the capital adequacy of the Company. The Company 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 2018, the return on equity (ROE) will reach 12.2 %. In capital management the Company will strive to maintain or even increase the capital adequacy, as a minimum under the adopted appetite to the risks.

The Company will also aim at maintaining the existing “BBB–” insurer financial strength rating which reflects its solid position on the Slovene insurance and asset management markets.

In 2018, it is expected that the Company will operate under challenging market conditions and in a low interest rate environment on financial markets. Premium written is planned at over EUR 304 million (including premiums for received reinsurance and co-insurance and inflows into pension funds), trends in claims experience are expected to improve while investment return will remain relatively low. The combined ratio in non-life insurance is expected to reach 95%, while the combined ratio in health insurance is planned at below 97%.

Furthermore, in 2018, the Group will pursue the goals set by the 2017-2022 Company Strategy.

1.6.4 Business Strategy

Sustainable and profitable operation with a strong cost base and a new balance of products: we are developing a flexible organisation that enables us to quickly and effectively adapt to the changing market conditions and legislative environment. We offer quality, modern and at the same time affordable insurance products and services. Furthermore, we operate at optimum cost, while maintaining the technological freshness and the highest quality of services.

Our customers are our partners: we are building long-term partnerships with customers who appreciate a good-quality offer and professional and efficient services. We settle claims fast and effectively communicate new features which guarantee even greater safety and savings to our customers. We work proactively to respond to the wishes of policyholders and the needs of modern times. We follow technological trends and incorporate new developments innovatively into our services and offers, adapted to companies or individuals alike.

Comprehensive range of insurance products and solutions: our significant competitive advantage is the 'one-stop' comprehensive insurance protection. We take care of safety of an individual and of all their property under one safe roof. Personal safety is ensured with the widest range of health, life and pension insurance products tailored to the needs of every person. In addition, we offer quality assistance services and support that round the circle of safety for our policyholders. Our range is being constantly supplemented with financial solutions that enable profitable savings while ensuring safe autumn years. We identify risks and offer insurance solutions for the widest array of business risks and natural disasters. In cooperation with the company management, we guarantee superior protection for all key business areas and employees, thereby significantly increasing the company performance and cost effectiveness.

We promote the integration culture: we are developing an organisation that is connected outside and inside by our five values. We are creating a working environment that motivates employees and promotes team spirit and cooperation. We radiate energy outward, so that it can be felt by our customers. We connect modern products and expert advice into the full circle of safety - with the customer at the heart of all our efforts. We also connect with the wider environment and, with the support of various social projects and individuals, we enable the development and enrichment of the environment in which we live and create.

Key strategic objectives defined in the 2017 - 2022 Strategic Plan:

1. Sustainable and profitable operation with a strong cost base and a new balance of products.
2. Development and sales of new assistance services while improving the profitability of existing products.
3. Improvement of the performance of exclusive sales channels and introduction of a hybrid distribution model
4. Improvement of the profitable growth of existing online and other sales channels (WIZ / Croatia / KD Skladi).

1.6.5 Strategic initiatives in the 2017-2022 period

In order to achieve strategic goals, the AS will focus on key strategic initiatives that jointly enable the assessment of the financial impact that is the basis of the sustainability of the repositioning of the AS business model between 2017 and 2022.

Improving performance in motor vehicle insurance: motor vehicle insurance represents the largest business area in non-life insurance, while their profitability has significantly worsened over the years. The goal is for AS to restore profitability in this area.

Improving distribution efficiency by pursuing the goals of the Insurance Distribution Directive (**IDD**): compliance with the Directive is one of Company's main strategic goals. On this path, the biggest step will be the shift to the consultative selling approach in line with the IDD. At the same time, we will carry out additional activities that will lead to a more efficient sale thus lowering the costs of the company.

Proactive management of overall operating costs: the Strategic Plan envisages cost-effective business operations and the search for additional opportunities for cost optimisation in key performance areas.

Product, service and sales synergies: with the announced health reform, AS sees development and sales opportunities in an umbrella product providing cover for all risks, including health, accident, and death covers, which is in line with the new IDD philosophy. In addition, a major focus will be on developing a hybrid distribution model. Additional sales activities will also be carried out on existing online channels such as WIZ, in Croatia, and through the Company KD Skladi.

Welcome to the full circle of safety

WE CARE FOR THE FULL INSURANCE PROTECTION OF INDIVIDUALS, FAMILIES AND COMPANIES.

Our mission is to provide comprehensive insurance protection and risk identification for the greater security of individuals and companies. We stand by you and strive to exceed your expectations, which has been recognized by more than five hundred thousand policyholders.

2. MAJOR BUSINESS EVENTS OF THE COMPANY AND THE GROUP IN 2017 AND AT THE BEGINNING OF 2018

- On 5 January 2017 the Company KD Skladi began to market the new sub-fund KD Corporate Bonds, obvezniški – EUR (bond – EUR).
- On 29 March 2017 the first life insurance offer was signed via the life insurance underwriting application Skleni AS (AS Underwrite). Adriatic Slovenica thus became the first insurance company in Slovenia enabling immediate receipt and underwriting of life insurance via a web application.
- On 14 July 2017 KD Skladi received the license issued by the Securities Market Agency (dated 29 June 2017) for the provision of services for the management of an alternative investment - real estate fund.
- On 17 July 2017 the Ministry of Health of the Republic of Croatia issued to the Insurance Company AS the decision allowing it to perform complementary health insurance activities. AS thus entered the Croatian market of complimentary health insurance through its Zagreb Branch.
- On 1 September 2017 the rating agency Fitch Ratings re-assigned the Company a "BBB–" insurer financial strength rating with a stable outlook.
- On 27 September 2017 AS notified supplementary health insurance policyholders that the monthly complementary health insurance premium would increase from 1 December 2017 due to higher healthcare costs. The monthly premium after this date amounts to EUR 30.34 or EUR 29.43 with the highest statutory discount (3%).
- On 1 October 2017 the President of the Management Board, Gabrijel Škof, started his new five-year mandate after being reappointed by the Supervisory Board on 21 June 2017.
- On 2 October 2017 the Insurance Company acquired 100% of the equity in the Company Agent d. o. o. The Company has been exclusive insurance agent for AS since 1991.
- On 29 November 2017 the Supervisory Board appointed Jure Kvaternik a new member of the Management Board, subject to obtaining an authorisation from the Insurance Supervision Agency.
- 26 December 2017 the Company AS Neživotno osiguranje a. d. o. – in liquidation was removed from the register – it ceased its activities and is no longer part of the AS Group.
- On January 2018, Adriatic Slovenica d.d. commenced the activities to merge the subsidiary KD IT. By entering the merger into the court register, all assets and liabilities of the transferor company will be transferred to Adriatic Slovenica d.d. as the transferee company. Prior to the registration in the court register and in accordance with Article 125 of the Insurance Act (ZZavar-1), Adriatic Slovenica d.d. will have to obtain the authorisation of the Insurance Supervision Agency (AZN) to the merger of the two companies.

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 2017 to 31 December 2017.

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 2017, Adriatic Slovenica committed to apply the KD Group Governance Code (available on the Company website www.as-skupina.si/-/kodeks-upravljanja-skupine-kd/), as it is not required 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 also 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 5.1 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 2017
In 2017, the General Meeting of Shareholders of Adriatic Slovenica was convened two times.

- The 52nd General Meeting of Shareholders was held on 30 May 2017. The General Meeting of Shareholders took note of the adopted Annual Report of Adriatic Slovenica and the AS Group for 2016, including the auditor's opinion, the Supervisory Board's Report on the Verification of the Annual Report for 2016 and the Opinion of the Supervisory Board of the Company on the Annual Internal Audit Report for 2016, including the opinion of the Supervisory Board. Moreover, the shareholders passed the resolution that on 6 June 2017 2016 a part of accumulated profit of EUR 10,613,539.21 would be allocated for dividend payments in the gross value of EUR 1.03 per share, while the remaining part of accumulated profit of EUR 28,807,724.13 would remain undistributed. It granted a discharge to both the Management Board and the Supervisory Board for 2016.
- On 8 August 2017, the 53rd General Meeting of Shareholders was held. It adopted a resolution on the appointment of Aljoša Tomaž, Aleksander Sekavčnik and Tomaž Butina as Members of the Supervisory Board for a five-year mandate.

The Annual General Meeting of Shareholders of the Company is planned for 2018 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 2017

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 2017, Aljoša Tomaž, Aleksander Sekavčnik and Tomaž Butina were re-appointed for a new five-year term.

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

Composition of the Supervisory Board as at 31 Dec. 2017	Office	Started serving as the SB member	Term of office (duration in years)
Matjaž Gantar	Chairman	30 Dec 2016	5
Aljoša Tomaž	Deputy Chairman	7 Sept. 2017	5
Tomaž Butina	Member	7 Sept. 2017	5
Aleksander Sekavčnik	Member	7 Sept. 2017	5
Borut Šuštaršič	Member - employee representative	28 Sept. 2015	4
Matjaž Pavlin	Member - employee representative	7 April 2016	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, was 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 established the first Slovene mutual fund, today's KD Galileo. He established and successfully managed several Slovenian companies dedicated to various activities. He led the construction and sale of 55 terraced houses "Karlovško predmestje". In the field of sport, in the ten years of his presidency he completed the organisational and financial renovation of the Slovene Bridge Association. In the humanitarian field, he is an active member and former President of the Lions Club Ljubljana.

Employee representatives

Borut Šuštaršič, Member – Employee Representative

Borut Šuštaršič holds an undergraduate degree in economics and has been employed at Adriatic Slovenica, and before that at Slovenica d.d., ever since 1998. 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 13 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 Adriatic Slovenica, and before that at Slovenica d.d., ever since 1997. 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 Supervisory Board's work. In 2017, two Supervisory Board Committees were active.

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 2017

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 2017	Office	Start date of term of office
Matjaž Pavlin	Chairman – SB Member	12 Dec 2016
Mojca Kek	Deputy Chairman – Independent Expert	12 Dec 2016
Vera Dolinar	Member – Independent Expert	12 Dec 2016

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.

Committee for the regular monitoring of the implementation of the Strategy and achievement of the target business model

The Supervisory Board appointed Committee for the regular monitoring of the implementation of the Strategy and achievement of the target business model on 18 October 2017. The Committee has 3 members.

Composition of the Audit Committee as at 31 Dec 2017	Office	Start date of term of office
Aljoša Tomaž	Chairman – SB Member	18 Oct 2017
Aleksander Sekavčnik	Deputy Chairman – Independent Expert	18 Oct 2017
Carlo Palmieri	Member – Independent Expert	18 Oct 2017

The Rules of Procedure of the Audit Committee apply mutatis mutandis to the work of the Committee for the regular monitoring of the implementation of the Strategy and achievement of the target business model. Furthermore, the Committee has established a work schedule for 2018 and will regularly report on its findings to the Supervisory Board.

Payments, reimbursements and other benefits

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. In 2017, no remuneration was paid because the Committee has not yet begun work.

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 2017

In 2017, there were no changes in the composition of the Management Board, which is headed for another five-year term by Gabrijel Škof as the President of the Management Board. On 29 November 2017, 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 2017	Office	Start date of term of office	Duration of term of office
Gabrijel Škof	President	1 Oct 2017	5 years
Matija Šenk	Member	30 Jan 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 Zavarovalnica Triglav, 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 banka, Serbia, a Member of the Supervisory Board of Triglav, Zdravstvena zavarovalnica, Koper, a Member of the Supervisory Board of Triglav Re reinsurance company, Ljubljana, a member of the Board of Directors and Executive Director of KD Group, a member of the Board of Directors of the insurance company AS neživotno osiguranje, Belgrade, and member of the Supervisory Board of Sarajevo Osiguranje insurance company, Bosnia and Herzegovina. 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 Board of Directors 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:

- Deputy Chairman of the Supervisory Board of KD Skladi (KD Funds);
- Member of the Strategic Board of the European Actuarial Academy;

- a member of numerous insurance associations;
- a lecturer, author and co-author of books and articles on insurance business.

Remunerations, reimbursements and other benefits

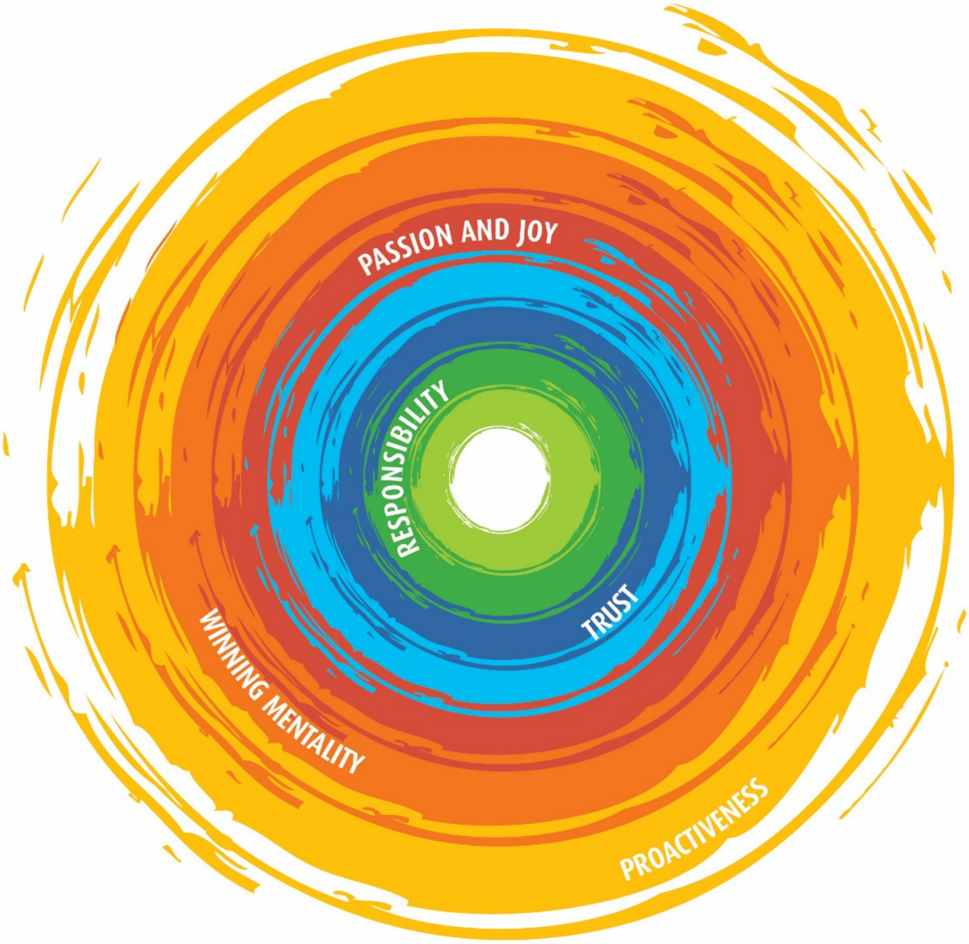
The data on remuneration of the Management Board members are discussed in greater detail in Section 11.4 of the Accounting Report.

Equity shares

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

Koper, 20 March 2018

Matija Šenk	Gabrijel Škof
Member of the Management Board	President of the Management Board



We are the winning team guided by our five values

WITH OUR ENTHUSIASM AND INTEGRATION WE WON THE CERTIFICATE OF GOOD ORGANIZATIONAL ENERGY.

We integrate our values daily into our work.
We are guided by them in our mutual relations but above all they are also reflected in our external relations. We are passionate and committed and we are always looking for the best solutions.

4. NON-FINANCIAL STATEMENT

Adriatic Slovenica and Adriatic Slovenica Group Business Model

The AS and the AS Group are both part of the KD Group. The strategy of the AS Group is based on the insurance industry and complemented by high-quality asset management services and investment products. In **insurance business**, the Company AS 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. and its subsidiaries KD Locusta Fondovi and KD Fondovi.

Since mid-2017, the AS Insurance Company has been implementing a new development strategy, which is included within the framework of the Adriatic Slovenica 2017-2022 Strategic Plan. On the basis of its mission, values and strategic orientations, this document determines the main strategic activities that will allow the Company to achieve the strategic goals by 2022.

Sustainable and profitable operation with a strong cost base: we are developing a flexible organisation that enables us to quickly and effectively adapt to the changing market conditions and legislative environment. We offer quality, modern and at the same time affordable insurance products and services. Furthermore, we operate at optimum cost, while maintaining the technological freshness and the highest quality of services.

Our customers are our partners: we are building long-term partnerships with customers who appreciate a good-quality offer and professional and efficient services. We settle claims fast and effectively communicate new features, which guarantee even greater safety and savings to our customers. We work proactively to respond to the wishes of policyholders and the needs of modern times. We follow technological trends and intertwine new developments innovatively into our services and offers, adapted to companies or individuals alike.

Comprehensive range of insurance products and solutions: our significant competitive advantage is the ‘one-stop’ comprehensive insurance protection. We take care of safety of an individual and of all their property under one safe roof. Personal safety is ensured with the widest range of health, life and pension insurance products tailored to the needs of every person. In addition, we offer quality assistance services and support that round the circle of safety for our policyholders. Our range is being constantly supplemented with financial solutions that enable profitable savings while ensuring safe autumn years. We identify risks and offer insurance solutions for the widest array of business risks and natural disasters. In cooperation with the company management, we guarantee superior protection for all key business areas and employees, thereby significantly increasing the company performance and cost effectiveness.

We promote the integration culture: we are developing an organisation that is connected outside and inside by our five values. We are creating a working environment that motivates employees and promotes team spirit and cooperation. We radiate energy outward, so that it can be felt by our customers. We connect modern products and expert advice into the full circle of safety - with the customer at the heart of all our efforts. We also connect with the wider environment and, with the support of various social projects and individuals, we enable the development and enrichment of the environment in which we live and create.

Company staff policies

The Company staff policies support the business objectives and the strategy of the Company and the Group, since only qualified, committed, responsible and, not least, satisfied employees can meet ambitious goals. The company regularly measures the organizational climate and employee satisfaction, assesses their competencies and performance, and promotes education and training of all employees, with an emphasis on the development of behavioural and sales competencies.

The Company's managerial staff are subject to specific requirements regarding their professional competence and personal suitability due to the managing or supervising responsibilities. The knowledge, skills and experience required from everyone holding a position in the management and supervisory bodies of the company ensure that these persons make competent decisions in managing the company on the basis of a good understanding and knowledge of the Company's operations, risks and corporate governance structure as well as knowledge of the legislation. The requirements for competency and suitability are determined separately for the members of the Supervisory Board and the Audit Committee of the Supervisory Board, the members of the Management Board and the holders of key functions in the company.

The Company remuneration policy encourages reliable and efficient risk management without encouraging risk taking which would exceed the limits of risk tolerance. It is based on the foundations of the Company business strategy, vision and objectives, the Company risk management strategy, the Company performance and the company long-term interests.

The activities, results and main indicators of the Company staff policy are presented in more detail in Section 9.1. of the Company Annual Report.

Environmental and social policies of the Company and anti-corruption action

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 contributing to a better quality of life. Through donations and sponsorships, we have 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. A responsible attitude towards the environment has been a long-standing practice of the insurance company and its employees.

The main activities and indicators of the company's operations in the field of sustainable development are discussed in more detail in Section 9.2. of the Company Annual Report.

The Adriatic Slovenica outsourcing policy defines the principles that constitute a guideline in concluding contracts for the outsourcing of functions or activities, and defines the method and procedure for the selection of independent providers. This guideline enables the continuous monitoring of the performance of independent providers and risk management arising from outsourcing. The policy determines the requirements for the selection of service providers, the obligation to conclude a written agreement, the continuous verification of the service providers and other activities that the company must implement to achieve the purpose defined by the policy.

The employees of Adriatic Slovenica are obliged to respect the Code of Conduct of Adriatic Slovenica d. d., which combines five main values of Adriatic Slovenica: responsibility, trust, passion and joy, proactiveness and winning mentality, and interweaves them with the values of the entire KD Group. The overall basis is the trust that clients, shareholders, employees and the public have in the business and the fairness/integrity of the company and the entire KD Group. This trust depends primarily on the personal behaviour and abilities of employees and members of the management and supervisory bodies of the Company and their belief that together we can create value for our clients, the Company, the KD Group as a whole and, not least, for the shareholders and other stakeholders. The Code represents minimum standards of conduct that are binding on all employees and those acting on behalf of individual companies of the KD Group, in order to prevent events that could negatively affect the reputation of the company or the Group.

According to the Code, the employees act in accordance with the laws and in accordance with the applicable internal rules and guidelines, in a responsible and fair manner, avoiding any conflict between private and business interests.

Protection of confidential data, honesty towards customers and operation consistent with the applicable data protection legislation and adequate internal regulatory framework constitute important bases of trust of our clients. Confidential data, price sensitive information and company records, irrespective of whether they relate to natural or legal persons and regardless of whether they relate to the operations of a particular company or the KD Group or its employees, must be protected at an appropriate level which does not allow access to persons who do not need such data to perform their tasks.

Corruption is not tolerated neither in the company nor in the entire KD Group. Because situations may arise that do not constitute corruption by law, but which may raise doubts about the fair conduct of employees, customers or business partners, the Code of Conduct lists rules of conduct that will prevent such doubts. Charitable donations and sponsorships must remain within the legal system and the adopted common policy; we do not provide political donations and donations to political parties (in accordance with the Political Parties Act).

The Company and the Group KD Group are fully committed to the international fight against money laundering and terrorist financing and carry out all necessary procedures for identifying clients and informing the competent institutions in accordance with applicable laws and internal regulations.

Employees, regardless of their workplace, must not participate in nor tolerate illegal activities. This applies in particular to any infringement of antitrust regulations and tax evasion, including, but not limited to, engaging in tax fraud.

Adriatic Slovenica has developed a system for dealing with notices of wrongdoing from the point of view of legality and respect for the company's internal normative regulation (the whistle-blowing system). The purpose of the system of receiving and dealing with notices of wrongdoing is to enable employees to directly inform the Compliance Team about the wrongdoing that has not been recognized and adequately managed within the framework of regular processes and internal regulatory framework of the Company, as well as to ensure proper treatment of notifications and protection of notifiers.

Koper, 20 March 2018

Matija Šenk,
Member of the Management Board

Gabrijel Škof,
President of the Management Board

KD Skladi

WE ENTRUST INVESTMENTS AND ASSET MANAGEMENT TO THE BEST.

The first Slovenian management company, distinguished by tradition, excellence in management and trust of investors and profession since 1992.

5. GENERAL INFORMATION ABOUT ADRIATIC SLOVENICA AND THE AS GROUP

5.1 ADRIATIC SLOVENICA

Adriatic Slovenica Zavarovalna družba d. d.	
Abbreviated company name	ADRIATIC SLOVENICA d. d.
Address	Ljubljanska cesta 3a, 6503 Koper, Slovenija
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 2017

Shareholder structure	No. of shares	Portion
KD Group d. d.	10.304.407	100,00%
Total	10.304.407	100,00%

As at 31 December 2017, 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.

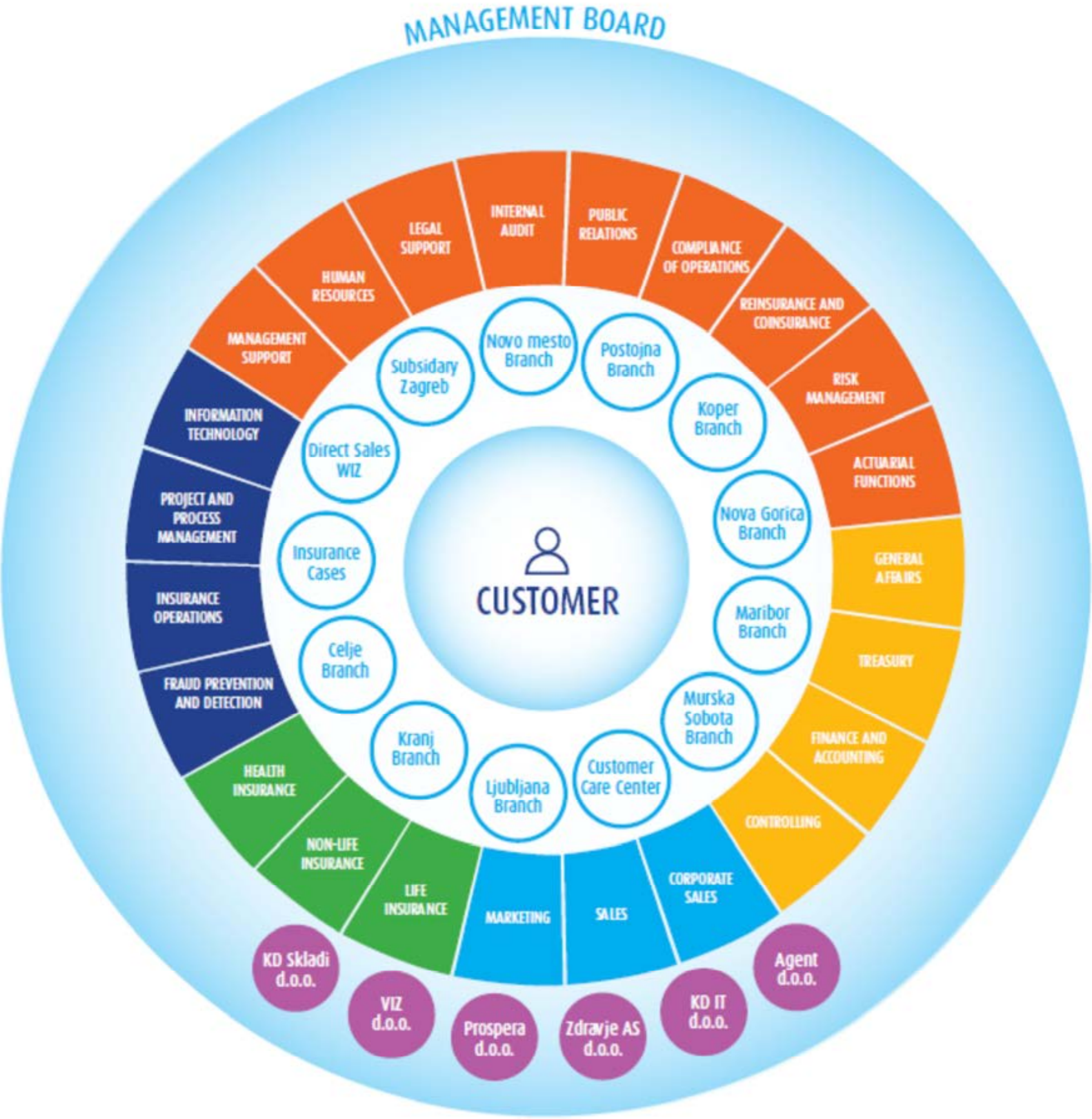
Agreements between the Company and the members of its management or supervisory body on compensation in case of their resignation, dismissal without cause or the termination of their employment due to a statutory takeover bid (under the law governing takeovers): In the case of resignation, Management 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.

5.2 ORGANISATION AND ORGANISATIONAL STRUCTURE OF ADRIATIC SLOVENICA

Adriatic Slovenica (the parent company of the AS Group), provides its services through an extensive sales network in Slovenia, which was developed in the region already in 1993. The parent company is the junction of business the development activities of the AS Group.

The Company is a process-oriented organisation where 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 which adapts its processes to the parent company.

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



Sales network

AS has a stable and wide spread sales network throughout Slovenia as well as in Croatia. It is developed in accordance with the new guidelines and requirements of the Insurance Distribution Directive (IDD), adapted to the needs of customers and new ways of consultative selling. The sale of insurance in Slovenia is organized according to the target customers groups, covering both sale to large legal entities and sale to natural persons and small and medium-sized enterprises.

Sales to large legal entities, corporations and customers requiring a broader business cooperation at the level of the company, and to public procurement clients or clients dedicated to specific activities, are carried out either directly, indirectly through insurance brokers and via the public procurement portal. Sales are based on the individual treatment of risk and the adjustment of the insurance programme to the specific nature of the client's business environment. We offer each client individual treatment and a general key account manager, who is in charge of the overall business cooperation. Medium-sized enterprises and small legal entities (about 96% of enterprises in Slovenia) are provided with comprehensive insurance coverage, including pension and health insurance for employees and are assisted by key account managers. They carry out sales activities as part of their own activities and pursuant to the acquired authorisations.

Adriatic Slovenica is developing a combined model of traditional and digital sales channels (intensively developing the WIZ sales website, adding new underwriting applications and optimizing it). Digital channels are still predominantly used to search and to inform customers about insurance, while clients usually take out insurance over one of the traditional sales channels. Client counselling and purchase of insurance protection are provided by an external agency sales network and our own agent network, by key account managers, complementary channels, point of sales persons and contracted agents.

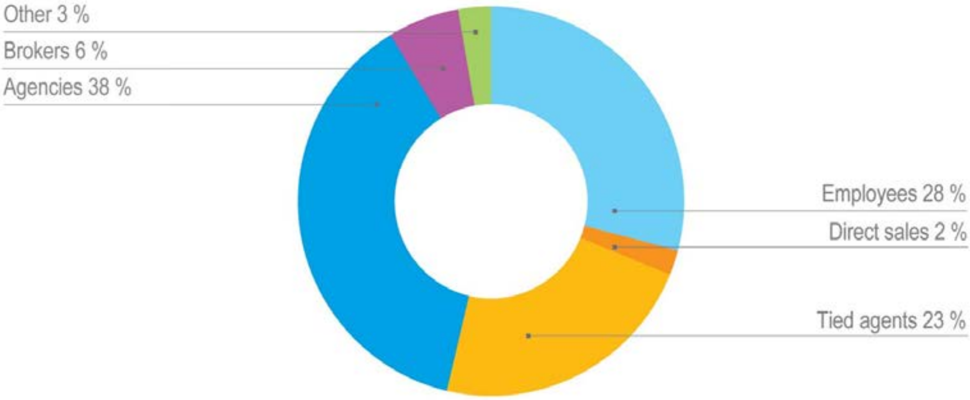
The main sales channel is the agency sales network (as much as 38 % of the overall sales) divided into agencies which offer our clients only our insurance products (the so called exclusive agencies) and agencies which offer also insurance products of other insurance companies (the so called non-exclusive agencies). The second largest sales channel is the own agent network (over 23 % of total sales) with universal agents mostly selling motor vehicle and non-life insurance and special agents specializing in the sale of personal insurance.

We provide services at 377 points of sale throughout Slovenia, in all major regional centres of Slovenia – business units are in Koper, Postojna, Nova Gorica, Ljubljana, Kranj, Novo mesto, Celje, Maribor and Murska Sobota. The Company also provides its services in another five branch offices in Domžale, Idrija, Krško, Slovenj Gradec and Ribnica, 34 representative offices and one additional point of sale operating under branch offices.

Natural persons and small and medium-sized enterprises can also take out insurance via a digital sales channel. They can choose among simple, flexible and understandable insurance solutions and complete the purchase on our website and on our WIZ online point of sale. The Customer Care Centre, which helps and offers information to our customers, also offers active support to the sales network and promotes sales.

The sales network of the Zagreb Branch in Croatia consists of two sales networks: own agent network with offices in Zagreb, Varaždin and Split and external agencies. Agencies are becoming an increasingly important sales channel, however the Branch Office is also developing digital approaches. In July 2017, it started cooperation with two digital agencies: Osiguraj.me and Kompare.

Breakdown of the gross written premium by main sales channels in 2017 (in %)



A brief history of Adriatic Slovenica

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.

5.3 THE ADRIATIC SLOVENICA 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. and Permanens d.o.o. (the latter is in liquidation), all wholly owned by Adriatic Slovenica. AS neživotno osiguranje a.d.o., Belgrade, was removed from the register on 26 December 2017. The subsidiary KD Skladi holds a 94.6% stake in the indirect subsidiary KD Fondovi a.d. Skopje and an 80% stake in the indirect subsidiary KD Locusta 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, Slovenija
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 on 24 February 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 principal activity of KD Skladi is investment fund management. The company's offers 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. As at the 2017 year-end, the Company managed KD Krovni sklad (Umbrella Fund) with 16 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.
At the end of 2017 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), KD Amerika, delniški (KD America, Equity) and KD Corporate Bonds, obvezniški sklad (bond fund).

The Company expanded its operations with real estate funds activity following the receipt of the license issued by the Securities Market Agency on 14 July 2017 for the provision of services for the management of an alternative investment - real estate fund.

In over two decades of operation, KD Skladi has received numerous awards for the successful asset management. In 2017 it received the award given by the magazine Moje Finance (My Finance Magazine) for the best management company and for the best asset manager Aleš Lokar, as well as the following individual awards: KD Galileo for the best fund in the last three and five years in the mixed funds – global flexible category, KD Rastko for the best fund in the last three and five years in the equity – European category, KD MM for the best fund in the last three and five years in the money market – euro category, KD Prvi izbor for the best fund in the last three and five years in the equity – global category, KD Bond for the best fund in the last five years in the bond – European category, KD Novi trgi for the best fund in the last five years in the equity – emerging markets category.

For the third consecutive year, KD Skladi received the international award given by the World Finance Magazine for the best management company in Slovenia (under the "World Finance Investment Management Awards, 2017"). 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 2017, 3 out of 12 sub-funds of the KD Umbrella Fund, received the highest score of 4 stars (KD Prvi izbor (KD First Selection), KD Vitalnost (KD Vitality), KD Bond (KD Bond)).

Outside Slovenia, two fund management subsidiaries manage together 18 investment funds, of which 14 mutual funds in Croatia and four in Macedonia. As at 31 December 2017 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 80% stake, and of the management company KD Fondovi A. D. Skopje, Bul. Partizanski odredi 14A, Skopje, Macedonia, in which it has a 94.60% stake.

Slovenia	31 Dec 2017
Number of (UCITS) funds	16
Assets under management of (UCTIS) funds	EUR 532 million
Number of alternative funds	1
Assets under management of alternative funds *	0
No. of employees in asset management	11
Total no. of employees	52,4
Assets under management (including management)	EUR 721 million
Croatia	**31 Dec 2017**
Number of (UCITS) funds	8
Assets under management of (UCTIS) funds	EUR 43 million
Number of alternative funds	6
Assets under management of alternative funds	EUR 43 milijonov evrov
No. of employees in asset management	3
Total no. of employees	9
Total assets under management	EUR 56 million
Macedonia	**31 Dec 2017**
No. of funds	4
No. of employees in asset management	3
Total no. of employees	6
Assets under management	EUR 16 million

* The alternative fund did not draw down investors' capital by end 2017.

Prospera

The Prospera Subsidiary has operated since 2011 specialising in debt recovy , in particular bad debt recovery under judicial recovery procedures. As a part of the AS Group it is included in the consolidated financial statements of the controlling company.

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

Viz

Viz is a smaller company which, in addition to sale of insurance contacts, 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 in Slovenia and in 2016 expanded the range to accident and health insurance. The range is being expanded constantly. In line with the new Strategy, the website WIZ has become AS's central digital point of sale.

Viz zavarovalno zastopništvo d. o. o.	
Address	Ljubljanska cesta 3a, 6000 Koper, Slovenija
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 530,000 (since 8 March 2018); 560,000 EUR
Equity attributable to the controlling company:	100%
Date of entry into the Companies Register:	14 May 2012
Management and supervisory bodies:	Marko Štokelj, Director (until 31 January 2018); Karmen Škoda Piško (from 1 February 2018 until 5 March 2018); Gašper Bračič (since 6 March 2018)

Zdravje AS

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). Following the start-up of Zdravje AS, the Insurance Company established a key advantage for its customers who can now benefit from the specialist clinic at Vojkova 48 in Ljubljana.

Zdravje AS d. o. o.	
Address:	Ljubljanska cesta 3a, 6000 Koper, Slovenija
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

Agent

The Company Agent d. o. o. has be an AS's long-standing business partner (since 1991) providing insuarance agency services ever since its establishment. It is one of the key sales channels for non-life insurance offered by AS in the area of Business Unit Koper. In 2016 Agent's special agent network was created following their arrival from the company FT&Partnerji. Agent d.o.o. has branch offices in Izola, Koper and Lucija.

Agent d. o .o.	
Address:	Cankarjev drevored 4, 6310 Izola – Isola,
Company registration number:	5467438000
VAT identification number:	SI 20359187
Activity:	Insurance agency
Share capital:	45.184,01 EUR
Equity attributable to the controlling company:	100 %
Date of entry into the Companies Register:	25. februar 1991
Management and supervisory bodies:	Marjan Šavron, Director (until 28 February 2018); Borut Širca, Director (since 1 March 2018)

KD IT

This is the smallest service provider of Adriatic Slovenica which provides IT services and is currently undergoing the process to merge with the parent company. Adriatic Slovenica has been its only shareholder since 2016. It primarily ensures supports to life insurance portfolio management and provides maintenance of the IS Amarta System for the Client.

KD IT d. o .o.	
Address:	Celovška 2016, 1000 Ljubljana, Slovenija
Company registration number:	1964780000
VAT identification number:	SI 15923363
Activity:	IT services
Share capital:	EUR 2,440,081.29
Equity attributable to the controlling company:	100%
Date of entry into the Companies Register:	3 January 2005
Management and supervisory bodies:	Edvard Šimec, Director

Permanens

The company was 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.

Permanens d.o. o. (in liquidation)	
Address:	Draškovićeva 10, 10000 Zagreb, Hrvaška
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

We are expanding our range in Croatia.

AS OSIGURANJE IS WIDENING THE CIRCLE OF POLICYHOLDERS WITH INNOVATIVE SOLUTIONS.

We successfully entered the Croatian market through our branch office in Croatia by offering automobile and life insurances. In 2017 we expanded our range with complementary health insurance.

6. PERFORMANCE IN 2017

6.1 OVERVIEW OF DEVELOPMENTS IN THE ECONOMY AND THE INSURANCE MARKET

Slovenia's macroeconomic environment in 2017

The economic situation in the international environment was favourable. A high, 5.0% growth in the Slovenian economy was largely due to the use of the cyclical developments in the euro area. Investments and private consumption further contributed significantly to the growth of gross domestic product. In addition to investments in equipment and machinery, after the initial recovery in 2016, housing investments in engineering facilities also increased year-on-year. The continued growth of private consumption was linked to the further improvement of the labour market conditions and the consumer mood.

Owing to favourable economic conditions and a high demand for labour, labour market conditions improved from one period to the next, while salary growth remained moderate. The number of people in employment increased in most activities and reached a level comparable to 2007. Companies were increasingly faced with a lack of adequate workforce. Consequently, the employment of foreigners continued to strengthen in some industries. Employment and a smaller inflow into unemployment led to a 5.8 % unemployment (ILO).

Year-on-year growth in consumer prices remains relatively low (1.5%). Energy and service prices are the main contributors to growth, while the contribution of food prices strengthened towards the end of the year. The contributions from other groups remain relatively low.

Owing to favourable economic trends and moderate expenditure growth, the general government balance reached a surplus of 0.8 % of gross domestic product. The high revenue growth is mainly fuelled by favourable economic conditions. After a long period, the year-on-year revenues from European funds were also higher. Expenditure growth was driven by growth in compensation of employees and some transfers.

The Slovene insurance market in 2017

14 insurance companies, 4 foreign branches and 2 reinsurance companies, members of the Slovenian Insurance Association (SIA), operated in the Slovenian insurance market. In March 2017, the portfolio of the ERGO life insurance company was transferred to the ERGO Branch, while Prva osebna zavarovalnica (First Personal Insurance Company) became a new member of the SIA in May 2017.

The improved macroeconomic environment had beneficial effects on the insurance companies. According to collected data of the Slovenian Insurance Association, gross written premium shows a growth in demand for insurance products in 2017. A premium of EUR 2.2 billion was accumulated in total, which represents an increase of 6.2% compared to 2016.

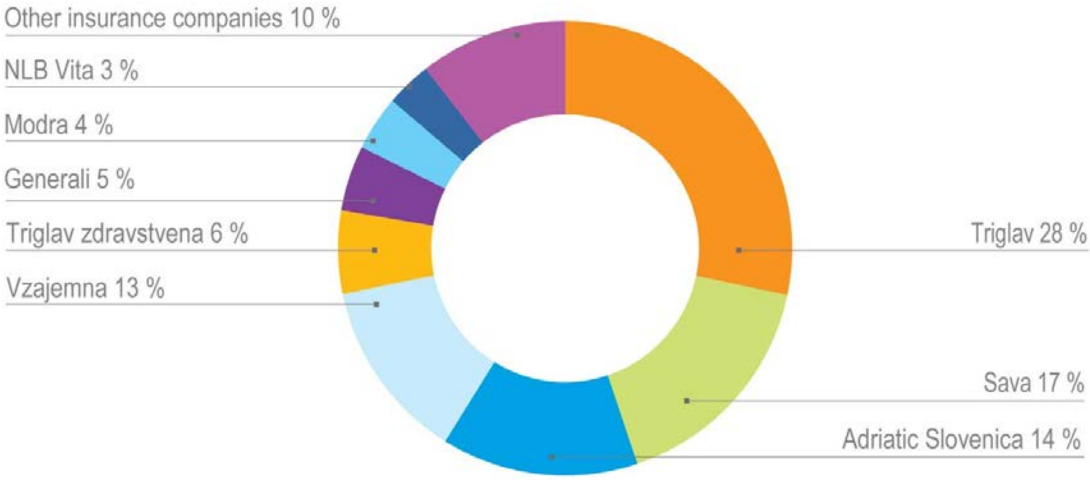
Written premium from non-life insurance totalled EUR 1,541 million (70 %), while written premium from life insurance amounted to EUR 653 million (30 %). Growth was recorded in all insurance segments. Other insurance grew by 6%, health insurance by 4.8%, and life insurance by 7.7%.

The growth of insurance activity was mainly conditioned by the improvement of the economic environment and increased economic activity, as well as by a greater propensity of the population to spend (but also to invest in various forms of insurance products). Increased operations of domestic insurance companies are additionally driven by services rendered on foreign markets and performed by insurance companies either directly, in the form of free movement of services, or through their branches.

In the segment of non-life insurance, the highest growth was achieved by assistance insurance, other damage to property insurance, motor vehicle and general liability insurance. In the segment of life and pension insurance, pension insurance showed the greatest level of growth.

The Slovene insurance market was once again marked by a high concentration rate. The four largest insurance companies held a 72% share of the insurance market. Adriatic Slovenica ranked third among the insurance companies by holding a 14.0% market share.

The structure of the Slovene insurance market in 2017:



The Croatian macroeconomic environment in 2017
Croatia's economic growth stood at 3.1 percent in 2017 and is slightly lower than in the previous period. This is a reflection of the country's worsening investment activities and, to some extent, of the impact of the problems in the Agrokor Group. According to the expert opinion, a slight slowdown in the intensity of growth in economic activity is expected for 2018, as it will be limited by the effect of the tax reform on private consumption and a somewhat lower exports of goods and services.

According to the data of the Croatian national bank, employment went up by 1.8% in 2017. Employment potential, which will be slightly smaller in 2018 compared to the previous year reflecting GDP growth stabilisation, will bring about a survey-based unemployment rate of 10.2%. In 2017, nominal salary growth stood at 4% and it is assumed that future wage developments will moderate due to the modest wage developments in the private sector. Meanwhile, the salary amounts in the public sector will continue to grow steadily on the basis of an agreement between the government and the trade unions.

The Croatian insurance market in 2017
The Croatian insurance market achieved a growth of 4.3%. In total, insurance companies collected premiums of EUR 1,217.2 million, which is EUR 50.1 million more than in the previous year. Growth was driven by non-life insurance, representing 67.5% or EUR 822 million of written premiums, which shows an increase of 5.7%. Life insurance segment collected premiums of EUR 395.2 million, with emphasis on traditional insurance.

The non-life insurance structure did not change over the last period. In 2017, motor insurance prevailed with 24.2%, comprehensive motor vehicle insurance premium accounted for 7.9% of total written premium, while the rest of the premium was evenly divided between other insurance subclasses.

There were 21 insurance companies in the market, which was fairly concentrated as 3 insurance companies held a market share of 48.7% at the end of the year. The considerable effort of international insurance companies, creating new trends in insurance, contributed to market development.

6.2 CAPITAL MARKETS AND THE INDUSTRY OF MUTUAL FUNDS

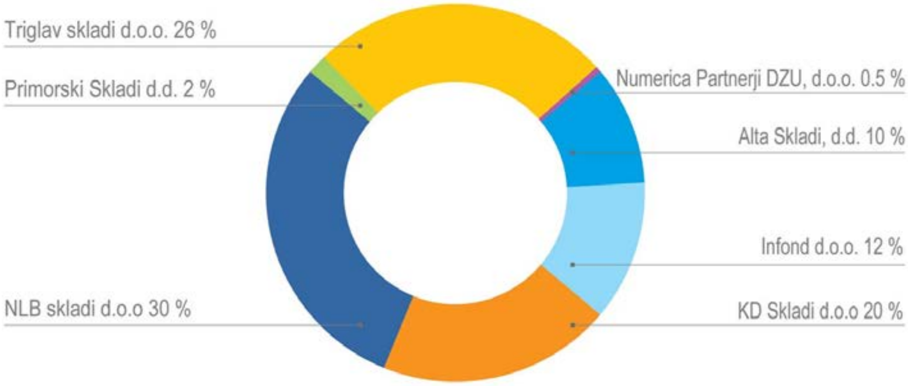
At the 2017 year-end, 203 mutual funds were available in the Slovene market and 100 were managed by 7 Slovene management companies which had - according to the data of the Securities Market Agency - assets amounting to EUR 2,665 billion from 439,727 investors as at 31 December 2017.

Compared to 2016 year-end, the assets managed within mutual funds increased by 7.7% in 2017, i.e. by EUR 190.6 billion, the total number of investors in mutual funds increased by 17,362 (compared to 422,365 investors as at 31 December 2016). This number was driven higher profitability of mutual funds owing to favourable conditions in financial markets.

With regard to the value of net assets managed within mutual funds, at the 2017 end-year most were managed by NLB Skladi, i.e. EUR 795.3 million, which represents a market share of 29.9%. It is followed by Triglav skladi with EUR 679.9 million and a market share of 25.6% and KD Skladi ranking third with EUR 531.6 million from from 53,581 investors and a market share of 20%.

Compared to the end of 2016, the assets managed within the KD Krovni sklad (Umbrella Fund) were up by 6.1% or EUR 30.7 million due to the effects of, asset management in capital markets representing 7.3% or EUR 36.9 million and negative net inflows representing 1.2% or EUR 6.3 million. In 2017, payments into the KD Umbrella Fund totalled EUR 46.7 million, while payouts amounted to EUR 53 million.

Market shares of individual management companies as at 31 December 2017, measured by value of net assets managed by mutual funds:



Capital markets in 2017

The growth trend in global capital markets has continued. The MSCI World Index gained 6.7%, measured in euro. Shares of European companies have risen more than those of American companies when comparing returns in euros. A large part of the growth of American shares was taken away by the fall of the dollar against the euro. The S&P 500 and the Dow Jones Industrial Average Indexes reached an all-time high, with the Dow Jones reaching the milestone of 20,000 points as early as in January. Growth was fairly steady throughout the year. The successful growth of European share prices was influenced by the wider recovery of the European economy and the easing monetary policy of the central bank adopted in 2016. Furthermore, deflationary pressures in Europe were withdrawn. The highest return was recorded by investments in companies from developing countries. The MSCI Index gained almost 22%, measured in euro. Central banks have remained the main players in the bond markets. Monetary policy was still expansive, but less than in recent years. Long-term interest rates on government bonds did not reach new minimum levels. The political events in Europe were marked by elections in France, the Netherlands and Germany. In the USA, President Trump succeeded in changing tax legislation.

Developed markets

Economic growth in the US was higher than in 2016, and in 2017, according to the latest available data, it stood at 2.3% on an annual basis. The unemployment rate decreased for the seventh year in a row and amounted to 4.1% in December, reaching the lowest rate in the past seventeen years. In the summer, the US South suffered two serious natural disasters, namely, Hurricanes Irma in Florida and Harvey. The latter was the strongest hurricane that had hit the US mainland since 2005. The disaster area was beside the Gulf of Mexico, which hosts also American refineries. About a quarter of these stopped operating, which was reflected in the higher price of petrol. On the US stock exchanges, the companies of the technology sector saw the highest rise in prices in 2017. The U.S. Federal Reserve (FED) announced unwinding its expansive monetary policy. FED set a plan to reduce the amount of bonds bought in QE programmes. Furthermore, it raised the interest rate three times in 2017, each time by 25 basis points. Due to the increased influence of the FED on short-term interest rates, the difference in yield to maturity between the 10-year and 2-year bonds was also reduced. The yield to maturity of the 10-year government bond at the end of the year amounted to 2.4%, or about 0.5 percentage point more than the 2-year debt. The rise in interest rates also brought about the lower growth of corporate loans. It is expected that the FED will continue to raise the interest rate in 2018.

The European stock markets closed 2017 higher by more than 7% compared to the previous year. The growth of exchange rates was positively influenced by the growth of economies. According to the latest data, GDP growth in the euro area stood at 2.6%. Unemployment has fallen below 9% reaching the lowest rate in the last 9 years. This was positively received by the consumers who significantly contributed to economic growth. ECB did not change interest rates. The monetary easing programme, which ended in December 2017, was extended until September 2018. The quantity of purchases was decreased from EUR 60 to EUR 30 billion a month. According to latest data, the growth rate of consumer prices in 2017 was 1.4%, which is still below the Central Bank's target of 2%. Political risks arising from the high popularity of nationalist parties has declined, with pro-European candidate Emmanuel Macron celebrating in France, while in the Netherlands, Wilders suffered a defeat. Some volatility was experienced on the European markets in October, when the movement for independence of Catalonia was on the rise.

Emerging markets

Among the BRIC countries, China saw the largest investment growth of more than 30%, while in India stock investments became more expensive by 20%. Last year's winners Brazil and Russia achieved a mixed result.

Brazilian stock investments gained about 6%, while shares of Russian companies fell by 12%. All yields are expressed in MSCI stock indexes in euro. According to recent data, economic growth in China reached 6.8, which is above the expectations at the beginning of the year. This growth was fuelled by consumers and investments. As expected, growth in India declined. In the summer, the PMI composite index in India fell below 50, indicating a decline in the activity of companies. Towards the end of the year, the economy recovered spreading optimism among companies. In December the PMI was 53. 2017 saw Brazilian economy recovering from recession (officially, a state is no longer in recession when GDP growth has been positive for two consecutive quarters). In Brazil, a continuation of recovery and a reduction in unemployment, which according to recent data remains at a high of 12%, are expected. In 2017, Russia also experienced recovery. However, unlike Brazil, it was not confronted with rising unemployment. Economic growth and the improvement of consumer confidence have allowed the central bank to lower the key interest rate from a high of 11% at the beginning of the year to 7.75% in December 2017. The price of crude oil, the main Russian export product, was above USD 60 per barrel at the end of the year, which will have a favourable impact on the government budget. Russia, together with the OPEC oil cartel, has reached an agreement on cutting oil production, which will lead to a reduction in world reserves.

Slovenia and the Balkans

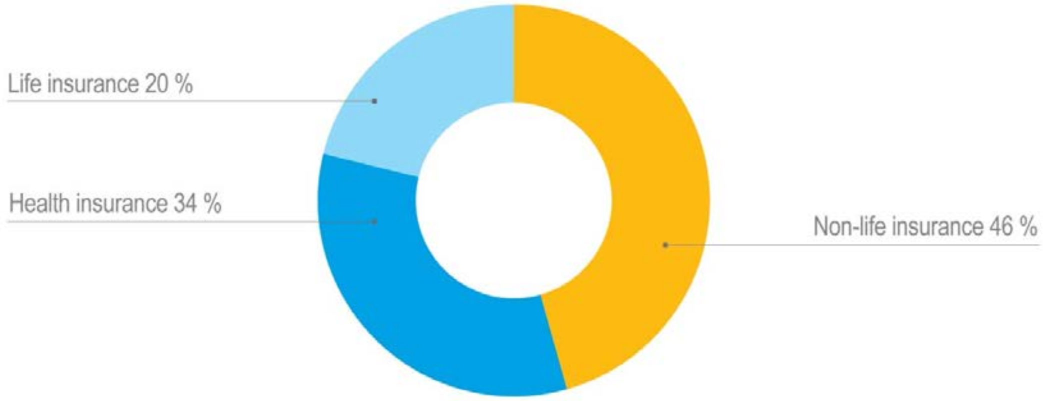
Markets in the region gained slightly less than 5% in 2017, measured by the STOXX Balkan ex Greece and Turkey Total Market Index. The Slovenian share index SBITOP gained around 12%. The biggest increase of more than 60% was recorded by Intereuropa shares, followed by shares of Cinkarna Celje, which gained more than 30%. Most of the Slovenian "blue chips" went up. According to the latest data, Slovenian economy grew at an annual rate of 4.5%, which is the highest growth rate after the global financial crisis. According to the recent Eurostat data, the unemployment rate stood at 6.5%, which is the lowest rate after 2010. Consumer confidence in the country is high with strong recovery felt on the real estate market. Among the markets in the region, only investments in Croatia fell, which can be attributed to developments around Agrokor. Ante Ramljak, appointed as the new President of the Management Board, carried out an audit of the financial position of the holding company. There were no complete solutions to the debt problem in 2017, and it is expected that the outcome of the situation involving Agrokor will continue to affect the Croatian stock market also in 2018. The highest economic growth in the region was recorded in Romania. A possible privatization of Hidroelectrica has been postponed.

6.3 ANALYSIS OF OPERATIONS OF ADRIATIC SLOVENICA

6.3.1 Gross written premiums from insurance, co-insurance and reinsurance contracts

In the reporting period, the written premium totalled EUR 303.8 million, which represents an increase of 1.7% compared to the previous year. 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.

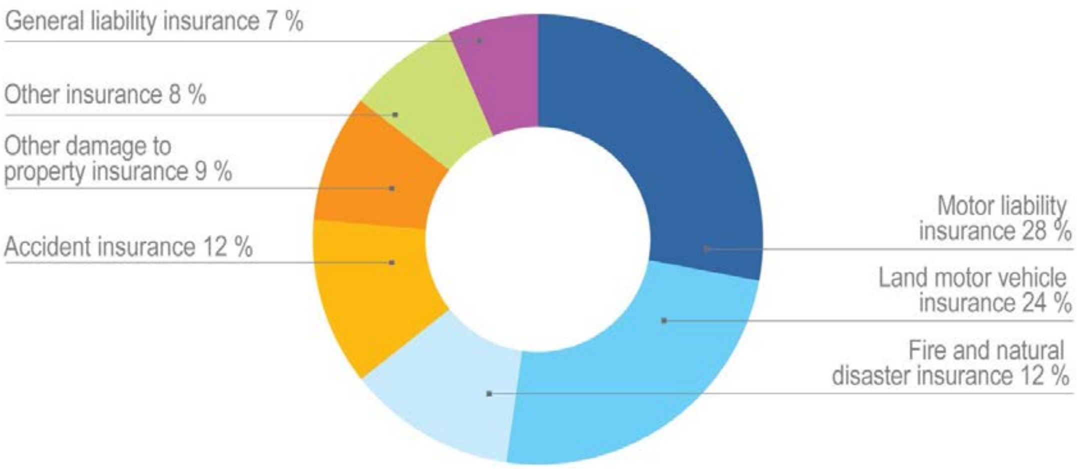
The structure of written premium by insurance class in 2017 – Adriatic Slovenica:



Gross written premiums from insurance, co-insurance and reinsurance contracts by insurance class:

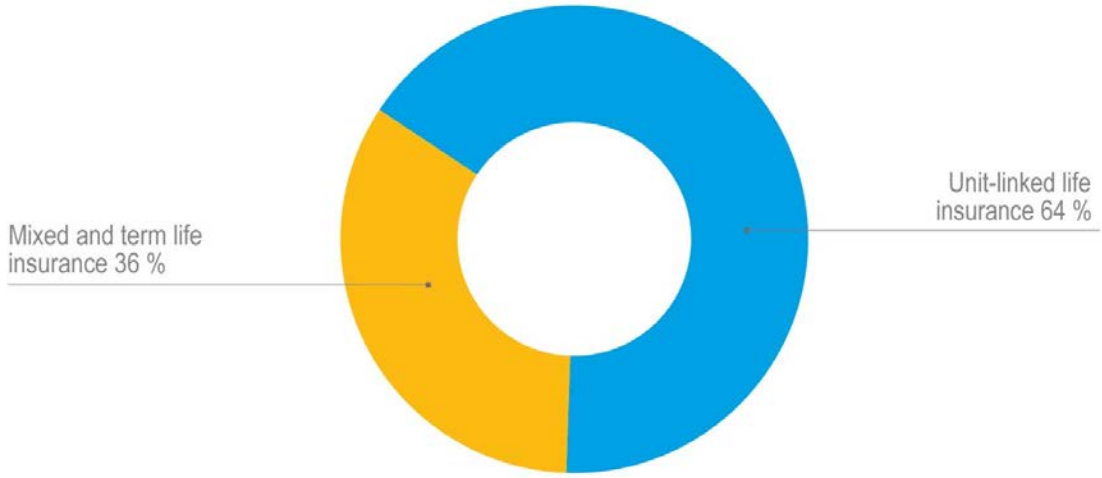
in EUR thousand	2017	2016	2015	Index 2017/2016	Index 2016/2015	Structure 2017
Accident insurance	17,009	17,277	16,729	98.5	103.3	5.6
Land motor vehicle insurance	34,350	34,358	34,161	100.0	100.6	11.3
Fire and natural disaster insurance	17,141	16,744	15,998	102.4	104.7	5.6
Other damage to property insurance	12,949	12,493	12,025	103.7	103.9	4.3
Motor third party liability insurance	39,501	39,636	40,069	99.7	98.9	13.0
General liability insurance	9,171	8,341	7,426	110.0	112.3	3.0
Other insurance	10,370	9,711	9,384	106.8	103.5	3.4
Total non-life (other) insurance	**140,493**	**138,560**	**135,791**	**101.4**	**102.0**	**46.2**
Mixed and term life insurance	22,044	21,472	20,161	102.7	106.5	7.3
Unit-linked life insurance	39,122	37,080	35,440	105.5	104.6	12.9
Pension insurance	0	924	4,612	0.0	20.0	0.0
Total life and pension insurance	**61,166**	**59,476**	**60,214**	**102.8**	**98.8**	**20.1**
Health insurance	**102,129**	**100,784**	**100,644**	**101.3**	**100.1**	**33.6**
TOTAL	303,789	298,820	296,649	101.7	100.7	100.0

The structure of written premium in non-life (other) insurance in 2017:



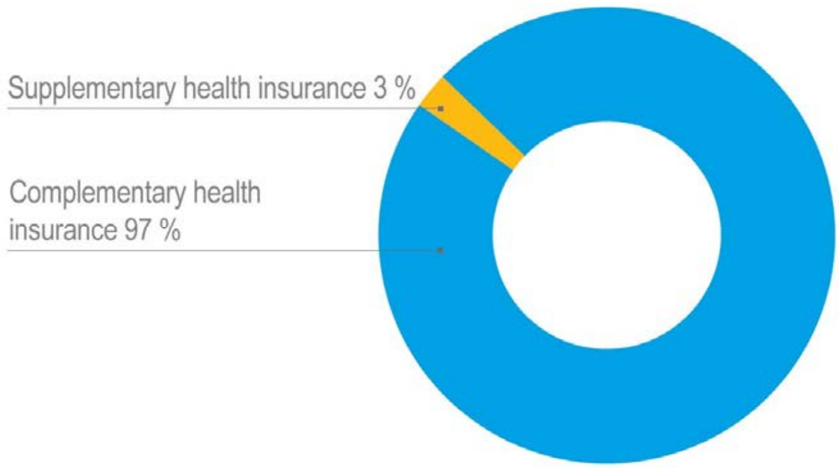
In 2017, non-life insurance grew by 1.4% compared to the previous year. The written premium amounted to EUR 140.5 million and went up in all non-life insurance classes, excluding motor vehicle third party liability insurance, land motor vehicle insurance and accident insurance. In the reporting period, general liability insurance premium recorded above-average growth of 10% due to increased premiums in all major sub-classes. Fire insurance premium was up 2.4% mostly thanks to the Dom AS product premium growth. Other damage to property insurance recorded a 3.7% growth. All major insurance sub-classes have contributed to growth, mostly machinery breakdown insurance, which is the result of a more rigorous policy in identifying maluses. The largest sub-class is home insurance, which reached a growth rate of 3.2 %. Among other insurance classes, which recorded a 6.8% growth, the largest rise was experienced by assistance insurance, in particular health assistance, and cargo insurance.

The structure of written premium in life insurance in 2017:



In the reporting period, the life insurance premium increased by 2.8% compared to the previous year. The highest growth was achieved by unit-linked life insurance where the 5.5% growth was mostly influenced by the large interest of policyholders for single premium unit-linked insurance. With regard to traditional life insurance, its premium growth is the result of risk and additional life insurance.

The structure of written premium in health insurance in 2017:



Compared to the previous year, health insurance premium was higher by 1.3% and amounted to EUR 102.1 million. Complementary health insurance premium totalled EUR 99 million and is in decline in comparison with previous years, mainly due to the higher number of surrenders mainly as a consequence of an increase in the complementary health insurance premium, which had to be implemented due to the extremely negative trend of claims in the past years. The premium share of supplementary health insurance is increasing; in 2017 this share was 3% and exceeded EUR 3 million.

The number of policyholders and insurance contracts by insurance class in 2017:

Insurance class	Adriatic Slovenica d. d.	
	The number of policyholders in 2017	The number of insurance contracts in 2017
Accident insurance	3,488,844	430,842
Health insurance	662,446	362,192
Land motor vehicle insurance	148,222	148,222
Aircraft insurance	5	5
Marine loss insurance	1,601	1,601
Transportation (goods in transit) insurance	2,236	2,236
Fire and natural disaster insurance	84,030	84,030
Other damage to property insurance	102,294	102,294
Motor vehicle liability insurance (MTPL)	279,741	279,741
Aircraft liability insurance	10	10
Ship/boat liability insurance	5,514	5,514
General liability insurance	12,870	12,870
Suretyship insurance	384	384
Miscelaneous financial loss insurance	2,310	2,310
Legal expenses insurance	6,517	6,517
Insurance of assistance	208,085	208,085
Life insurance	67,850	66,343
Unit-linked life insurance	77,880	75,422
Insurance with capitalised payments	6,439	6,439

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.

6.3.2 Gross claims paid of Adriatic Slovenica

Gross claims paid of Adriatic Slovenica by insurance class:

in EUR thousand	2017	2016	2015	Index 2017/2016	Index 2016/2015	Structure 2017
Accident insurance	7,995	7,996	8,366	100.0	95.6	3.6
Land motor vehicle insurance	27,156	28,247	27,429	96.1	103.0	12.2
Fire and natural disaster insurance	7,622	6,103	6,195	124.9	98.5	3.4
Other damage to property insurance	7,883	8,203	8,358	96.1	98.1	3.5
Motor third party liability insurance	26,909	30,229	28,603	89.0	105.7	12.0
General liability insurance	3,398	2,846	3,165	119.4	89.9	1.5
Other insurance	4,749	4,307	4,779	110.3	90.1	2.1
Total non-life (other) insurance	**85,712**	**87,932**	**86,895**	**97.5**	**101.2**	**38.4**
Mixed and term life insurance	15,760	14,811	15,213	106.4	97.4	7.1
Unit-linked life insurance	33,838	27,141	23,740	124.7	114.3	15.1
Pension insurance	632	432	851	146.1	50.8	0.3
Total life and pension insurance	**50,230**	**42,385**	**39,804**	**118.5**	**106.5**	**22.5**
Health insurance	**87,448**	**86,893**	**84,846**	**100.6**	**102.4**	**39.1**
TOTAL	223,389	217,210	211,545	102.8	102.7	100.0

Non-life (other) insurance

Gross claims paid in the non-life insurance segment went down by 2.5% in comparison with 2016. The biggest gross claim fall was achieved by motor third party liability insurance. Lower claims paid were also recorded in land motor vehicle insurance and other damage to property insurance
An increase in claims paid in the fire and natural disaster insurance segment was mainly due to windstorms and hailstorms in the summer months and storms in the months of November and December. The largest increase in claims in the segment of general liability insurance was influenced by the ongoing increase of paid claims in the area of professional indemnity insurance in healthcare and by one major damage related to manufacturer liability.

Life and pension insurance

In 2017, a much larger extent of maturities of unit-linked life insurance was seen in the life insurance segment compared to previous years. Claims paid in 2017 totalled EUR 50.2 million, which represents a rise of 18.5% compared to the same period last year. The rise in claims experience was influenced by maturities of traditional classes of insurance and by the redesign of annuity insurance through surrender and transfer to the new life insurance policy.

Health insurance

In 2017, claims paid from health insurance, excluding the cost of the equalisation scheme, were again higher than in the previous year, totalling EUR 87.5 million. In 2017 we witnessed the continous growth of total claims from complementary health insurance, at the same time the average claim per insurance contract was marked by a constant rise as a consequence of the increase in the amount of compulsory health insurance due to a high economic growth.

Fraud prevention and management measures are becoming increasingly important in limiting the growth in claims from complementary health insurance. The application of such measures led to a decrease in claims by almost EUR 1 million in 2017. Claims experience in the segment of additional health insurance was managed also by means of Zdravje AS, the latter allowing the Company to break new ground in the setting benchmark prices and standards for procedures for other contractors.

6.3.3 Analysis of operations of Adriatic Slovenica - Financial result and position

Financial result

The Company Adriatic Slovenica performed well, ending 2017 with a net profit of EUR 11.4 million and net return on equity of 11.9%.

Income statement

	2017				2016				
in EUR thousand	Non-life	Life	Health care	Total	Non-life	Life	Health care	Total	Index 17/16
REVENUES	143,045	95,208	103,345	341,598	142,582	96,298	101,606	340,486	100.3
Net premium revenue	**130,538**	**59,208**	**102,385**	**292,131**	**129,377**	**57,709**	**101,025**	**288,111**	**101.4**
Gross written premium	140,493	61,166	102,129	303,789	138,560	59,476	100,784	298,820	101.7
Ceded written premium	-9,895	-1,994	0	-11,888	-9,271	-1,798	0	-11,069	107.4
Change in unearned premium	-61	35	256	230	88	31	241	360	64.0
Commissions receivable	**1,542**	**715**	**0**	**2,257**	**1,180**	**561**	**0**	**1,741**	**129.6**
Other revenue	**4,329**	**2,533**	**383**	**7,245**	**4,128**	**2,554**	**176**	**6,857**	**105.7**
Other operating revenue	2,335	157	370	2,861	2,428	1,024	160	3,612	79.2
Rental revenue from investment property	1,847	1,107	12	2,967	1,672	222	15	1,910	155.4
Other financial revenue	147	1,269	1	1,417	28	1,308	0	1,336	106.0
Other fee and commision income	0	0	0	0	0	0	0	0	-
Investment revenue	**6,560**	**31,896**	**576**	**39,032**	**7,898**	**35,473**	**406**	**43,777**	**89.2**
Revenue from shares in associates	715	1,400	129	2,244	0	0	0	0	-
Investment revenue	5,844	30,496	447	36,788	7,898	35,473	406	43,777	84.0
EXPENSES	-135,198	-92,773	-100,098	-328,069	-132,222	-93,395	-103,916	-329,532	99.6
Net claims incurred	**-83,067**	**-49,753**	**-89,367**	**-222,187**	**-78,930**	**-42,831**	**-90,649**	**-212,410**	**104.6**
Gross claims paid	-84,010	-50,230	-90,155	-224,395	-86,073	-42,385	-90,243	-218,701	102.6
Reinsurers' and co-insurers' share	3,130	603	0	3,733	4,306	572	0	4,878	76.5
Changes in claims provisions	-2,188	-126	788	-1,526	2,836	-1,017	-405	1,413	-107.9
Change in insurance technical provisions for unit-linked ins.	**0**	**-18,424**	**0**	**-18,424**	**0**	**-22,922**	**0**	**-22,922**	**80.4**
Change in other insurance technical provisions and liabilities	**422**	**-201**	**116**	**337**	**-289**	**-3,946**	**125**	**-4,110**	**-8.2**
Change in other insurance technical provisions	294	-201	115	209	-389	-3,946	125	-4,210	-5.0
Change in liabilities from investment contracts	0	0	0	0	0	0	0	0	-
Expenses for bonuses and discounts	127	0	1	128	100	0	0	101	127.2
Operating expenses	**-41,755**	**-17,664**	**-10,238**	**-69,657**	**-41,103**	**-19,699**	**-12,344**	**-73,145**	**95.2**
Costs of services	-24,712	-10,509	-5,262	-40,484	-25,211	-13,088	-6,957	-45,256	89.5
of which: Acquisition costs	*-16,689*	*-5,975*	*-1,218*	*-23,882*	*-16,696*	*-7,859*	*-2,181*	*-26,735*	*89.3*
Labour costs	-14,614	-6,437	-4,461	-25,512	-13,522	-5,950	-4,752	-24,224	105.3
Costs of material and energy	-515	-161	-105	-781	-522	-190	-155	-867	90.1
Depreciation and amortisation	-1,913	-557	-410	-2,880	-1,847	-471	-480	-2,799	102.9
Other expenses from insurance operations	**-3,218**	**-173**	**-414**	**-3,805**	**-3,536**	**-194**	**-192**	**-3,922**	**97.0**
Other expenses	**-5,347**	**-3,296**	**-193**	**-8,836**	**-5,812**	**-1,635**	**-547**	**-7,994**	**110.5**
Revaluation operating expenses	-277	-876	0	-1,153	-586	-852	-139	-1,577	73.1
Investment property expenses	-3,636	-305	-2	-3,942	-2,913	-140	-2	-3,055	129.0
Other operating expenses	-1,102	-1,213	-191	-2,506	-1,273	-162	-211	-1,645	152.3
Other financial expenses	-332	-903	0	-1,235	-1,041	-481	-195	-1,716	72.0
Investments expenses	**-305**	**-232**	**-1**	**-539**	**-1,409**	**-865**	**-309**	**-2,584**	**20.8**
Expenses for shares in associates	0	0	0	0	0	-84	0	-84	-
Investments expenses	-305	-232	-1	-539	-1,409	-781	-309	-2,500	21.5
Financial expenses for interest	**-1,852**	**-2,174**	**0**	**-4,026**	**-1,142**	**-1,304**	**0**	**-2,446**	**164.6**
PROFIT BEFORE TAX	7,847	2,435	3,247	13,529	10,361	2,902	-2,309	10,954	123.5
TAX	-1,159	-294	-626	-2,079	-35	-95	1,072	943	-220.5
Income tax	352	-295	-72	-15	-2,450	-189	414	-2,224	0.7
Deferred tax	-1,511	1	-554	-2,064	2,415	94	658	3,167	-65.2
NET PROFIT/LOSS	6,688	2,141	2,621	11,449	10,326	2,808	-1,237	11,897	96.2

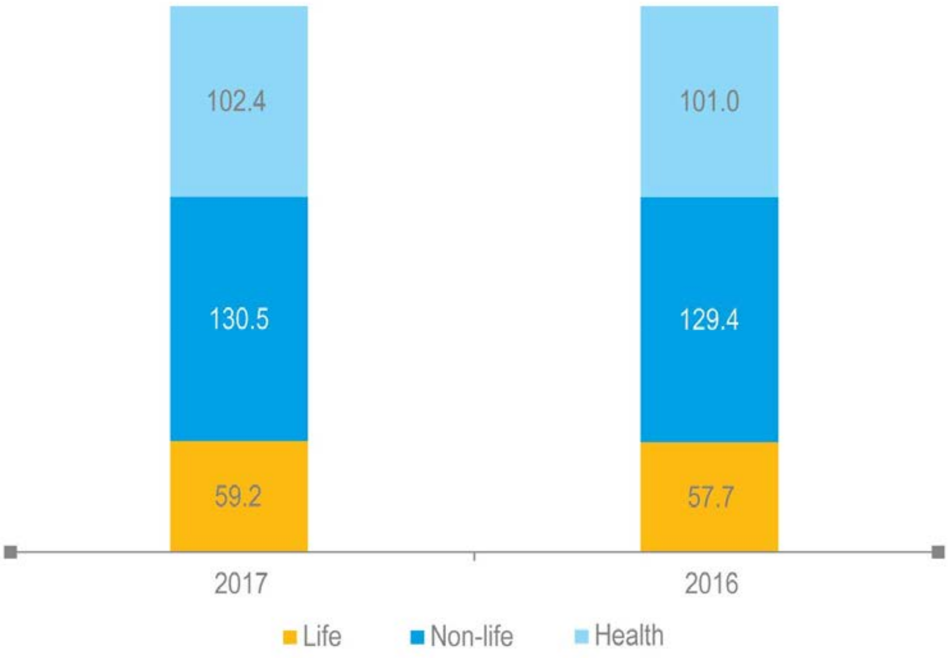
Net premium revenue

In the reported period, gross written premium amounted to EUR 303.8 million or 1.7% more than the year before. In non-life insurance, growth was observed for all insurance classes, with the exception of MTPL insurance and accident insurance. In the life insurance segment, single premium, term and additional insurance was commercially interesting, while growth in health insurance was provided by complementary and supplementary health insurance. By taking into account the premiums ceded to reinsurers and changes in unearned premiums, the Company collected EUR 292.1 million in net premium in 2017, which is 1.4% more than in the previous year.

The ceded reinsurance premium was 7.4% higher and amounted to EUR 11.9 million, while the release of unearned premiums in 2017 had an insignificant effect on net operating revenue – the drawdown of this type of deferred revenue only amounted to EUR 230 thousand.

The predominant segment in the net premium revenue structure was non-life insurance accounting for a 44.7% share. In 2017, it reached EUR 130.5 million, which is 0.9% more than in 2016. Non-life insurance is followed by the health insurance segment with EUR 102.4 million or 1.3% more than in 2016 of net revenue and life insurance with EUR 59.2 million and a 20.3% share of total net premium revenue.

The structure of net premium revenue by business segment in 2017 and 2016 (in EUR million):



Net claims incurred

In 2017, net claims incurred, taking into consideration the changes in claims provisions, amounted to EUR 222.2 million, which represents a 4.6% growth compared to the previous year. This was significantly connected to both gross claims settled, lower reinsurers' shares and changes in claims provisions. In non-life insurance, there was an increase in loss events arising from fire and natural disaster insurance, general liability insurance and accident insurance. At the same time, life insurance was marked by the consequences of a large volume of maturities. Compared to 2016, the increase in complementary health insurance claims in 2017 was the result of additional funds provided by the Health Insurance Institute of Slovenia (ZZZS) in order to expand the selected health programmes and shorten waiting periods as well as to ensure better valuing (higher prices) of previously agreed programmes.

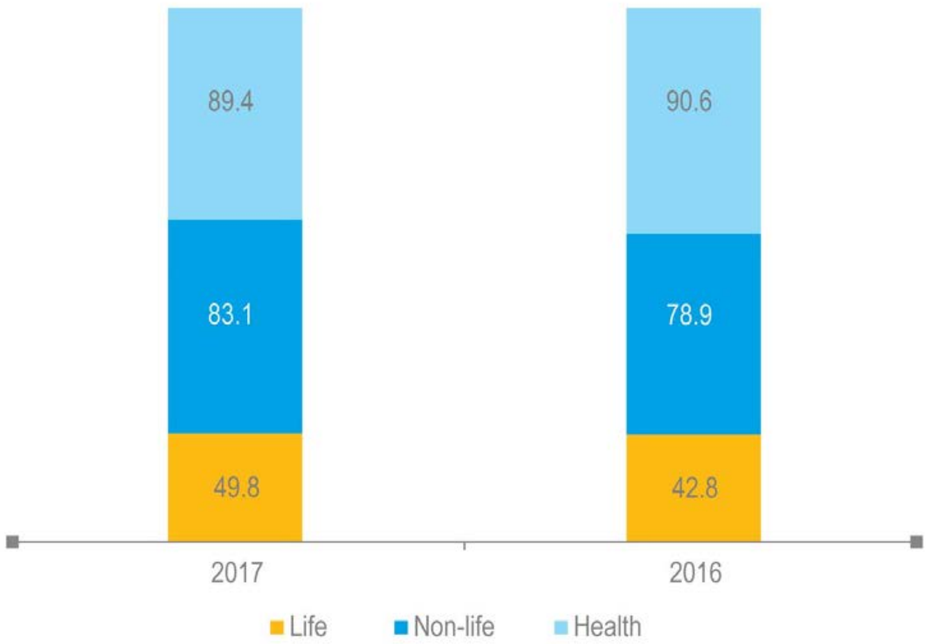
Lower reinsurers' shares contributed to higher net claims incurred, amounting to EUR 3.7 million in 2017, which is 23.5% lower than the year before (mainly in non-life insurance).

Claims provisions (including changes in reinsurance claims provisions) increased by EUR 1.5 million in 2017, while their recognised drawdown (decrease) amounted to EUR 1.4 million in 2016.

In the structure of net claims incurred, health insurance is the prevailing segment with a 40.2% share, which decreased due to the decline in the number of complementary insurance policyholders by 1.4% in 2017 compared to 2016 and totalled EUR 89.4 million. In the second place, net claims incurred in the non-life segment faced an upturn by 5.2% and amounted to EUR 83.1 million. Net claims incurred in life insurance stood at EUR 49.8 million with a 22.4% share of total net claims incurred.

The ratio between net claims incurred and net premium revenue deteriorated by 3.2% or 2.3 percentage point, up from 73.7% to 76.1%.

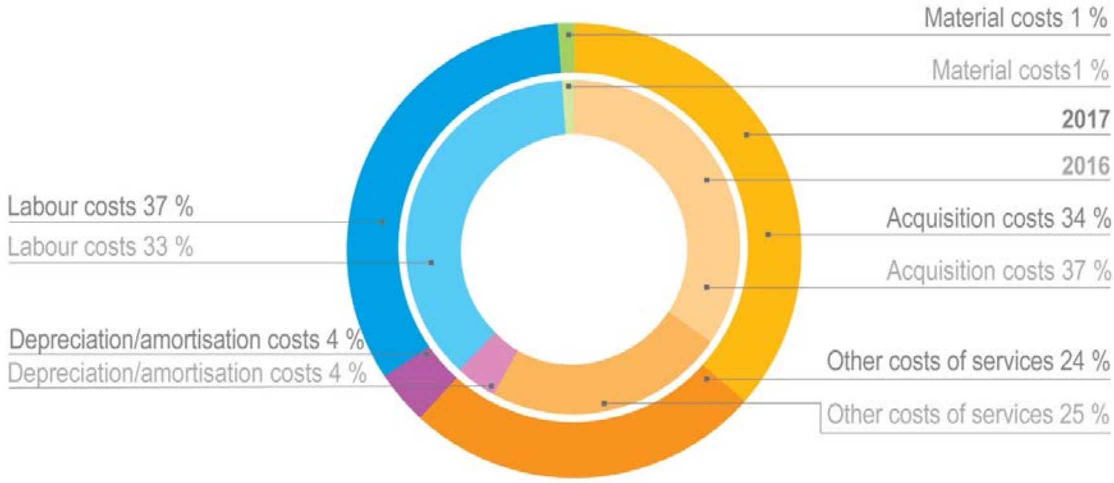
The structure of net claims incurred by business segments in the 2016-2017 period (in EUR million):



Operating expenses

Operating expenses (excluding claim settlement costs, which are recorded under gross claims incurred) amounted to EUR 69.7 million and decreased by 4.8% i.e. by EUR 3.5 million in 2017. The decrease is based on the 10.5% change in service costs, which mainly include acquisition costs (EUR 23.9 million). Amortisation costs (EUR 2.9 million) and material costs remained at the 2016 level, while labour costs increased to EUR 25.5 million.

The structure of operating expenses in 2017 and 2016 (in %):



Changes in other insurance technical provisions (excluding claims provisions)
In 2017, the volume of mathematical/insurance technical provisions for unit-linked insurance changed by EUR 18.4 million due to the increased unit value of policyholders' assets (on the revenue side under this heading, the revenue of unit-linked insurance investments increased leading to a neutral impact on the net profit in life insurance).

Other insurance technical provisions decreased by EUR 337 thousand. In the life insurance segment, mathematical provisions were EUR 201 thousand higher. Provisions for unexpired risk, bonuses and discounts went down in the non-life segment (by EUR 422 thousand) and health segment (by EUR 116 thousand).

Investment revenue and expenses
The Company achieved a net financial result from investing activities in the amount of EUR 38.5 million, which is less than in 2016 by EUR 2.7 million. This was mainly contributed by investment revenue, which was 10.8% (EUR 4.7 million) lower compared to the previous year and amounted to 39.0 million.

After excluding the impact of investment revenue from unit-linked insurance, which, together with the changes in mathematical provisions, have a neutral impact on income statement, investment revenue in the life insurance segment was lower by EUR 1.4 million compared to investments made in 2016. In 2017, the results of the life insurance segment showed revenue from investment in associate amounting to EUR 1.4 million. In non-life insurance the investment revenue achieved EUR 6.6 million and was lower than in 2016 by EUR 1.3 million, mainly due to the decrease in net realised revenue from investments held for sale. Health insurance revenue amounted to EUR 0.6 million.

In contrast, investment expenses were EUR 2.0 million (79.2%) lower and amounted to EUR 0.5 million.

Other revenue and expenses and financial expenses for interest

In 2017, the net result of other revenue (including fee and commission revenues or insurance revenue) and expenses (including financial expenses for interest) totalled EUR –7.2 million and was EUR 1.4 million lower than in the previous comparable period. In 2017, other expenses were higher by EUR 2.3 million, amounting to EUR 16.7 million. Their increase was mostly the result of increased expenses from impairment of investment property (EUR 0.8 million) and financial expenses for interest (interest on subordinated debt, higher by EUR 1.6 million).

Total other revenue amounted to EUR 9.5 million in 2017. Their increase by EUR 903 thousand was the result of increased revenues arising from rents charged on investment properties and gains on the disposal of investment properties.

Net profit or loss

Detailed financial statements show that the Company achieved positive results in all insurance segments. The net operating result in the amount of EUR 11.4 million consists of positive results in life insurance (EUR 2.1 million), non-life insurance (EUR 6.7 million) and health insurance in the amount of EUR 2.6 million. The following factors had an impact on the decreased net profit in 2017 when compared to previous years: lower result from investing activities (excluding the effect of unit-linked life insurance), excess of expenses over revenue, a negative technical result in non-life insurance and higher tax liabilities.

Financial result ratios in the 2016-2017 period:

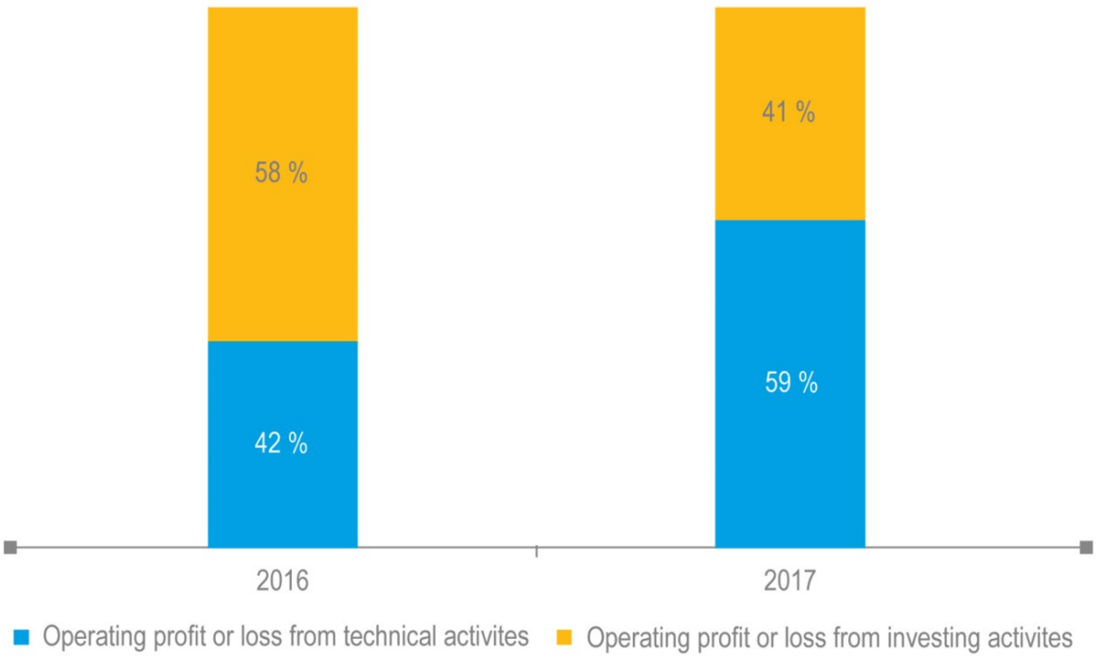
	2017		2016	
	Non-life	Health care	Non-life	Health care
Net cost ratio	30.8%	10.0%	30.9%	12.2%
Net loss ratio	63.6%	87.3%	61.0%	89.7%
Expense ratio	32.2%	10.1%	33.4%	12.5%
Combined ratio	95.8%	97.4%	94.4%	102.2%

Profit/loss before taxation by segments for 2017 and 2016*

	2017				2016			
	Non-life	Life	Health care	Total	Non-life	Life	Health care	Total
Operating profit or loss from technical activities	5,419	-84	2,660	7,995	7,268	-473	-2,224	4,571
Operating profit or loss from investing activities	2,428	2,519	587	5,534	3,093	3,375	-85	6,383
Profit before tax	**7,847**	**2,435**	**3,247**	**13,529**	**10,361**	**2,902**	**-2,309**	**10,954**

* 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 2017 and 2016:



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

in EUR thousand	2017	
Name of insurance class	Revenue	Expenses
Accident insurance	17,737	(14,090)
Health insurance	102,932	(99,549)
Land motor vehicle insurance	36,534	(38,854)
Aircraft insurance	5	(10)
Marine insurance	458	(443)
Cargo insurance	1,628	(1,634)
Fire and natural disaster insurance	19,441	(20,581)
Other damage to property insurance	13,573	(15,031)
Motor third party liability insurance	42,740	(37,451)
Aircraft liability insurance	8	(15)
Marine liability insurance	395	107
General liability insurance	9,229	(8,304)
Credit insurance	356	(285)
Suretyship insurance	278	(245)
Miscellaneous financial loss insurance	764	(687)
Legal expenses insurance	110	(78)
Assistance insurance	6,565	(5,106)
Life insurance	37,442	(33,948)
Unit-linked life insurance	60,406	(61,404)
Capital redemption insurance	5,249	(5,915)

6.3.4 Financial position

As at 31 December 2017, total assets of the Company stood at EUR 758 million, representing a 3.4% increase compared to the previous year. The increase resulted from growth in unit-linked insurance assets. The bulk of assets at the year-end was accounted for by life insurance assets (64.4%), 34.6% of the assets was used for the activities of non-life insurance and the rest for the implementation of health insurance activities.

The structure of assets:

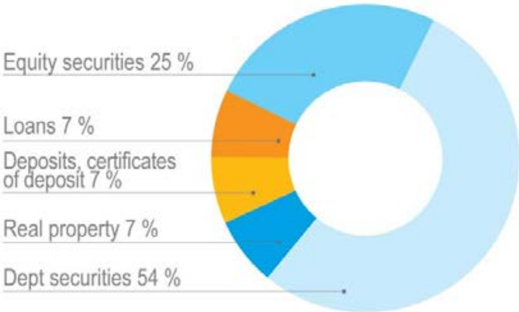
in EUR thousand	2017	in %	2016	in %	Index 17/16
ASSETS	757,927	100.0%	733,215	100.0%	103.4
Intangible assets	4,667	0.6%	5,513	0.8%	84.7
Property, plant and equipment	28,126	3.7%	29,340	4.0%	95.9
Non-current assets for sale	0	0.0%	2,030	0.3%	-
Deferred tax assets	4,015	0.5%	6,084	0.8%	66.0
Investment property	26,287	3.5%	29,567	4.0%	88.9
Financial assets and financial investments in subsidiaries and associated companies	50,817	6.7%	58,161	7.9%	87.4
Financial investments	266,215	35.1%	259,131	35.3%	102.7
- loans and deposits	36,655	4.8%	32,353	4.4%	113.3
- held to maturity	31,418	4.1%	38,008	5.2%	82.7
- available for sale	189,673	25.0%	180,930	24.7%	104.8
- recognised at fair value through profit and loss	8,469	1.1%	7,840	1.1%	108.0
Unit-linked insurance assets	304,978	40.2%	287,601	39.2%	106.0
Reinsurers' and co-insurers' share of insurance technical provisions	17,704	2.3%	17,399	2.4%	101.8
Assets from financial contracts	8,890	1.2%	4,753	0.6%	187.0
Receivables	23,321	3.1%	22,766	3.1%	102.4
- receivables from direct insurance operations	16,433	2.2%	17,407	2.4%	94.4
- receivables from reinsurance and co-insurance operations	2,166	0.3%	1,773	0.2%	122.1
- current tax receivables	2,262	0.3%	0	0.0%	-
- other receivables	2,461	0.3%	3,586	0.5%	68.6
Other assets	5,276	0.7%	5,330	0.7%	99.0
Cash and cash equivalents	17,631	2.3%	5,539	0.8%	318.3

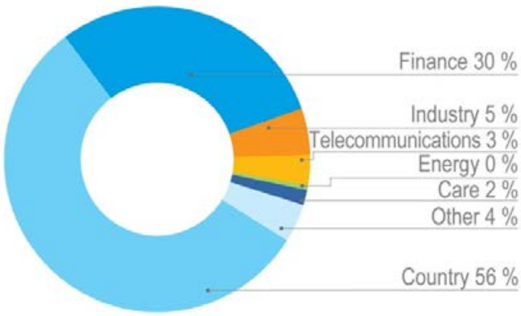
Total investments accounted for EUR 674.7 million or 89.0% of total assets (31 December 2016: EUR 644.8 million). Compared to the previous year, the volume of investments expanded by 4.7%.

As at the end of 2017, EUR 305.0 million was accounted for by unit-linked insurance assets, EUR 266.2 million by other financial investments, EUR 50.8 million by financial investments in Group members, EUR 26.3 million by investment property, EUR 8.9 million by financial contracts and EUR 17.6 million by cash and cash equivalents.

Due to growth in unit value of unit-linked insurance assets, the unit-linked insurance assets increased by 6% compared to the previous year (accounting for a 40.2% share of total assets). The volume of financial investments grew by 2.7%, while at the end of 2017, a large volume of Company assets was invested in money market instruments (EUR 17.6 million).

The structure of financial assets of the Company by type as at 31 December 2017 (excluding unit-linked insurance assets):





As at 31 December 2017, receivables amounted to EUR 23.3 million, accounting for 3.1% of total assets, and, owing to the increase by 2.4% compared to the year before, they retained their share. The increase in the value of receivables resulted from current tax assets and receivables arising from reinsurance and coinsurance (EUR 2.6 million). At the same time there was a decrease of the value of receivables of EUR 2.1 million arising from direct insurance operations and other receivables. The arising of the income tax receivable in 2017 was impacted by the liquidation of the company AS neživotno osiguranje a. d. o., Belgrade. Namely, after the liquidation, all impairments made in the previous years were recognized, which was followed by the release of previously formed deferred tax receivables and their recognition under income tax receivables for the accounting year, in net value – after having taken into consideration all liabilities for the accounting period and the paid income tax prepayment in 2017.

As at 31 December 2017, property, plant and equipment and long-term intangible assets totalled EUR 32.8 million. The former accounted for 3.7% and the latter for 0.6% of total assets. Their total share remained similar to the previous year.

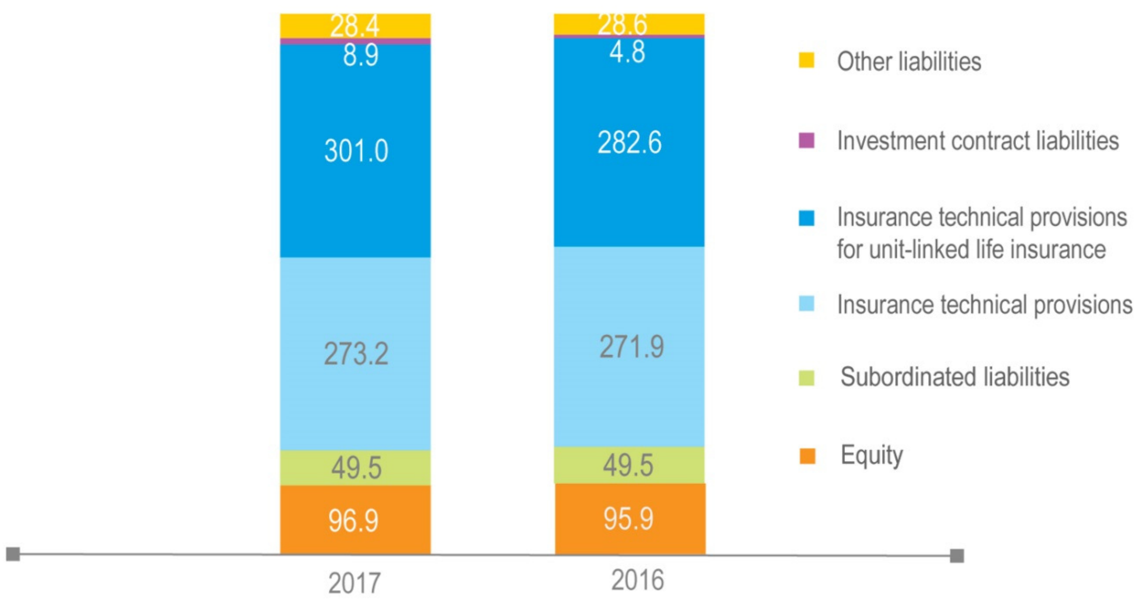
The amount of insurance technical provisions transferred to reinsurance/coinsurance increased by EUR 305 thousand to EUR 17.7 million.

The structure of liabilities:

in EUR thousand	2017	in %	2016	in %	Index 17/16
LIABILITIES	757,927	100.0%	733,215	100.0%	103.4
CAPITAL	**96,892**	**12.8%**	**95,915**	**13.1%**	**101.0**
Capital and reserves attributable to majority shareholders of the Company	**96,892**	**12.8%**	**95,915**	**13.1%**	**101.0**
Called-up capital	*43,000*	*5.7%*	*43,000*	*5.9%*	*100.0*
Share premium	*4,212*	*0.6%*	*4,212*	*0.6%*	*100.0*
Reserves from profit	*9,224*	*1.2%*	*9,224*	*1.3%*	*100.0*
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	*393*	*0.1%*	*59*	*0.0%*	*669.7*
Net profit brought forward	*28,614*	*3.8%*	*26,468*	*3.6%*	*108.1*
Net profit or loss for the period	*11,449*	*1.5%*	*12,954*	*1.8%*	*88.4*
Minority interest	**0**	**0.0%**	**0**	**0.0%**	**-**
Subordinated issued bonds	**49,525**	**6.5%**	**49,453**	**6.7%**	**100.1**
Insurance technical provisions	**273,200**	**36.0%**	**271,896**	**37.1%**	**100.5**
Unearned premium	49,526	6.5%	49,383	6.7%	100.3
Insurance technical provisions for life insurance	107,590	14.2%	107,251	14.6%	100.3
Claims provisions	115,554	15.2%	114,097	15.6%	101.3
Other insurance technical provisions	530	0.1%	1,165	0.2%	45.5
Insurance technical provisions for unit-linked life insurance	**301,043**	**39.7%**	**282,619**	**38.5%**	**106.5**
Other provisions	**4,432**	**0.6%**	**3,815**	**0.5%**	**116.2**
Liabilities from non-current assets held for sale	**0**	**0.0%**	**0**	**0.0%**	**-**
Deferred tax liabilities	**171**	**0.0%**	**99**	**0.0%**	**173.4**
Investment contract liabilities	**8,890**	**1.2%**	**4,753**	**0.6%**	**187.0**
Financial liabilities	**431**	**0.1%**	**1,046**	**0.1%**	**41.2**
Operating liabilities	**7,429**	**1.0%**	**6,418**	**0.9%**	**115.8**
Other liabilities	**15,912**	**2.1%**	**17,200**	**2.3%**	**92.5**

As at 31 December 2017, total equity amounted to EUR 96.9 million, which is 1.0% more than the year before. The proportion of equity in total assets went down by 0.3 percentage points and stood at 12.8% as at 31 December 2017. The share capital, consisting of 10,304,407 ordinary registered no-par value shares, remained unchanged in 2017 and totalled EUR 43 million at the year-end. The value of revaluation reserves increased due to the higher value of available-for-sale financial assets and amounted to EUR 393 thousand as at the 2017 year-end.

Structure of liabilities of the Company as at 31 December 2017:



On the liabilities side, the insurance technical provisions totalled EUR 574.2 million at the 2017 year-end when compared to the year before, increasing their volume in parallel to increasing their total share in total assets to 75.8%. The insurance technical provisions for unit-linked insurance grew by 6.5% to EUR 301.0 million, whereas other insurance technical provisions rose only slightly to EUR 273.2 million.

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

As at 31 December 2017, operating liabilities stood at EUR 7.4 million. At the same time, liabilities from financial contracts were recognized in the amount of EUR 8.9 million (formation in 2016 in connection to pension insurance premium). Based on other short-term liabilities from insurance operations, other liabilities decreased by EUR 1.3 million to EUR 15.9 million due to lower liabilities for reinsurance commission advances with maturity in the following years.

6.4 ANALYSIS OF THE ADRIATIC SLOVENICA 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., Zdravje AS d.o.o., KD IT d.o.o., Agent d.o.o. 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 2017, ending the reporting year with a positive outcome. In 2017, the net profit amounted to EUR 10.7 million and return on equity was 10.9%.

Income statement:

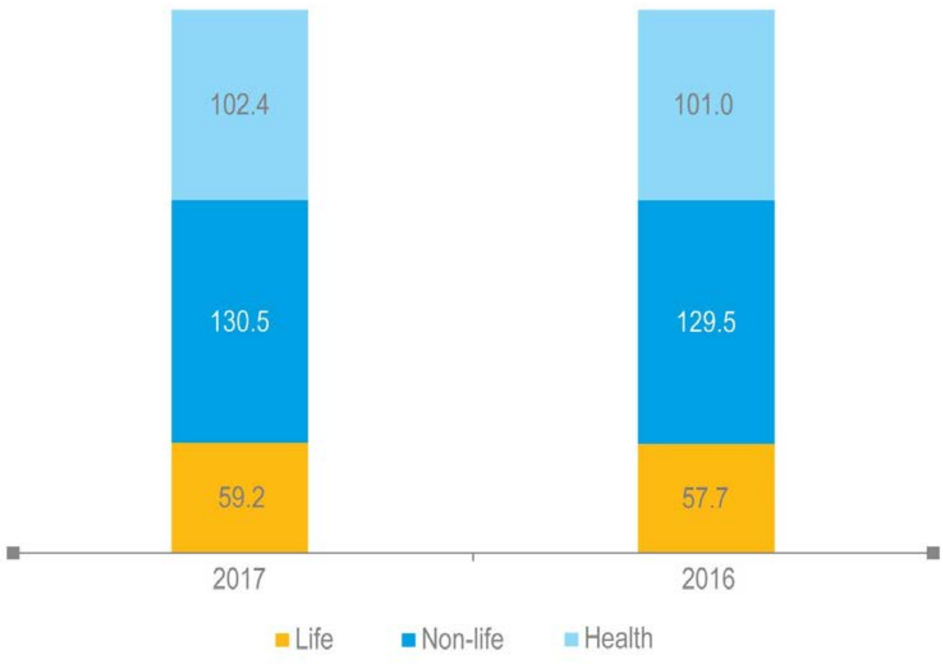
in EUR thousand	2017 Non-life	2017 Life	2017 Health care	2017 Manage-ment	2017 Consoli-dation	2017 Total	2016 Non-life	2016 Life	2016 Health care	2016 Manage-ment	2016 Consoli-dation	2016 Total	Index
REVENUES	144,030	93,594	103,571	11,344	-2,331	350,208	145,253	96,798	101,627	3,482	-1,206	345,954	101.2
Net premium revenue	**130,538**	**59,208**	**102,385**	**0**	**0**	**292,131**	**129,539**	**57,709**	**101,025**	**0**	**0**	**288,273**	**101.3**
Gross written premium	140,493	61,166	102,129	0	0	303,789	138,560	59,476	100,784	0	0	298,820	101.7
Ceded written premium	-9,895	-1,994	0	0	0	-11,888	-9,289	-1,798	0	0	0	-11,086	107.2
Change in unearned premium	-61	35	256	0	0	230	268	31	241	0	0	540	42.7
Commissions receivable	**1,542**	**715**	**0**	**0**	**0**	**2,257**	**1,180**	**561**	**0**	**0**	**0**	**1,741**	**129.6**
Other revenue	**5,031**	**3,133**	**639**	**11,327**	**-1,355**	**18,775**	**5,309**	**2,954**	**196**	**3,478**	**-1,206**	**10,731**	**175.0**
Other operating revenue	3,040	757	626	432	-762	4,093	3,609	1,423	181	122	-438	4,897	83.6
Rental revenue from investment property	1,844	1,107	12	0	-141	2,822	1,672	222	15	0	-38	1,872	150.8
Other financial revenue	147	1,269	1	0	0	1,417	28	1,308	0	0	-209	1,127	125.7
Other fee and commision income	0	0	0	10,894	-451	10,443	0	0	0	3,357	-521	2,836	-
Investment revenue	**6,920**	**30,538**	**547**	**17**	**-976**	**37,046**	**9,225**	**35,574**	**405**	**4**	**0**	**45,208**	**81.9**
Revenue from shares in associates	190	5	158	0	-129	223	161	74	0	0	0	236	94.4
Investment revenue	6,730	30,534	389	17	-847	36,823	9,064	35,500	405	4	0	44,972	81.9
EXPENSES	-137,289	-92,549	-100,514	-8,662	2,202	-336,812	-135,496	-93,680	-104,119	-2,554	1,206	-334,642	100.6
Net claims incurred	**-83,064**	**-49,753**	**-89,367**	**0**	**0**	**-222,184**	**-79,223**	**-42,831**	**-90,649**	**0**	**0**	**-212,703**	**104.5**
Gross claims paid	-84,007	-50,230	-90,155	0	0	-224,392	-86,488	-42,385	-90,243	0	0	-219,117	102.4
Reinsurers' and co-insurers' share	3,130	603	0	0	0	3,733	4,542	572	0	0	0	5,113	73.0
Changes in claims provisions	-2,188	-126	788	0	0	-1,526	2,723	-1,017	-405	0	0	1,300	-117.3
Change in insurance technical provisions for unit-linked ins.	**0**	**-18,424**	**0**	**0**	**0**	**-18,424**	**0**	**-22,922**	**0**	**0**	**0**	**-22,922**	**80.4**
Change in other insurance technical provisions and liabilities	**422**	**-201**	**116**	**0**	**0**	**337**	**-217**	**-3,946**	**125**	**0**	**0**	**-4,038**	**-8.4**
Change in other insurance technical provisions	294	-201	115	0	0	209	-317	-3,946	125	0	0	-4,139	-5.1
Change in liabilities from investment contracts	0	0	0	0	0	0	0	0	0	0	0	0	-
Expenses for bonuses and discounts	127	0	1	0	0	128	100	0	0	0	0	101	127.2
Operating expenses	**-43,392**	**-18,297**	**-10,652**	**-8,563**	**2,200**	**-78,704**	**-43,206**	**-20,067**	**-12,547**	**-2,534**	**1,206**	**-77,149**	**102.0**
Costs of services	-25,367	-10,625	-5,478	-4,919	2,200	-44,191	-25,909	-13,143	-7,039	-1,634	1,206	-46,519	95.0
of which: Acquisition costs	*-16,469*	*-5,962*	*-1,218*	*0*	*12*	*-23,638*	*-16,608*	*-7,812*	*-2,181*	*0*	*1*	*-26,600*	*88.9*
Labour costs	-15,556	-6,543	-4,592	-3,406	0	-30,096	-14,881	-6,055	-4,832	-841	0	-26,609	113.1
Costs of material and energy	-521	-161	-129	-72	0	-883	-539	-192	-177	-13	0	-920	95.9
Depreciation and amortisation	-1,947	-968	-453	-167	0	-3,535	-1,878	-677	-499	-46	0	-3,101	114.0
Other expenses from insurance operations	**-3,218**	**-173**	**-414**	**0**	**0**	**-3,805**	**-3,707**	**-194**	**-192**	**0**	**0**	**-4,093**	**93.0**
Other expenses	**-5,887**	**-3,296**	**-193**	**-94**	**0**	**-9,470**	**-6,539**	**-1,635**	**-547**	**-18**	**0**	**-8,739**	**108.4**
Revaluation operating expenses	-702	-876	0	-1	0	-1,579	-1,117	-852	-139	0	0	-2,108	74.9
Investment property expenses	-3,485	-305	-2	0	0	-3,791	-2,778	-140	-2	0	0	-2,921	129.8
Other operating expenses	-1,295	-1,213	-191	-88	0	-2,787	-1,593	-162	-211	-16	0	-1,982	140.6
Other financial expenses	-405	-903	0	-5	0	-1,313	-1,051	-481	-195	-2	0	-1,728	75.9
Investments expenses	**-298**	**-232**	**-1**	**0**	**0**	**-532**	**-1,461**	**-781**	**-309**	**-2**	**0**	**-2,553**	**20.8**
Expenses for shares in associates	0	0	0	0	0	0	-52	0	0	0	0	-52	-
Investments expenses	-298	-232	-1	0	0	-532	-1,409	-781	-309	-1	0	-2,501	21.3
Financial expenses for interest	**-1,852**	**-2,174**	**-2**	**-5**	**2**	**-4,031**	**-1,142**	**-1,304**	**0**	**0**	**0**	**-2,446**	**164.8**
PROFIT BEFORE TAX	6,741	1,045	3,057	2,682	-129	13,396	9,757	3,118	-2,492	928	0	11,312	118.4
TAX	-1,224	-296	-655	-519	0	-2,694	34	-113	1,123	-10	0	1,034	-260.4
Income tax	294	-296	-72	-456	0	-529	-2,508	-223	414	-214	0	-2,531	20.9
Deferred tax	-1,518	0	-584	-63	0	-2,165	2,542	111	709	205	0	3,566	-60.7
NET PROFIT/LOSS	5,518	749	2,402	2,163	-129	10,702	9,791	3,005	-1,369	918	0	12,346	86.7
Minority interest	-9	0	0	78	0	69	-15	0	0	8		-7	-944.3
Interest of parent company	5,527	749	2,402	2,085	-129	10,633	9,806	3,005	-1,369	911		12,353	86.1

Net premium revenue

In the reporting period, gross written premium of the Group was 1.7% higher than the year before, amounting to EUR 303.8 million. In non-life insurance, growth was observed for all insurance classes, with the exception of MTPL insurance and accident insurance. In the life insurance segment, single premium, term and additional insurance was commercially interesting. In health insurance both complementary and supplementary health insurance experienced growth. By taking into account the premiums ceded to reinsurers and changes in unearned premiums, the Company collected EUR 292.1 million in net premium, which is 1.3% more than in the previous year. The ceded reinsurance premium was 7.2% higher and amounted to EUR 11.9 million, while the release of unearned premiums in 2017 had an insignificant effect on net operating revenue – the drawdown of this type of deferred revenue only amounted to EUR 230 thousand.

The predominant segment in the net premium revenue structure was non-life insurance. In 2017, it reached EUR 130.5 million, accounting for a 44.7% share, which is EUR 1.0 million (0.8%) more than in 2016. Non-life insurance is followed by the health insurance segment with EUR 102.4 million (1.3% more than in 2016) of net revenue and life insurance with EUR 59.2 million and a 20.3% share of total net premium revenue.

The structure of net premium revenue by business segment in 2017 and 2016 (in EUR million):



Net claims incurred

In 2017, net claims incurred, taking into consideration the changes in claims provisions, amounted to EUR 222.2 million, which represents a 4.5% growth compared to the previous year. This was significantly connected to both gross claims settled, lower reinsurers' shares and changes in claims provisions. In non-life insurance, there was an increase in loss events arising from fire and natural disaster insurance, general liability insurance and accident insurance. At the same time, life insurance was marked by the consequences of a large volume of maturities. Compared to 2016, the increase in complementary health insurance claims in 2017 was the result of additional funds provided by the Health Insurance Institute of Slovenia (ZZZS) in order to expand the selected health programmes and shorten waiting periods as well as to ensure better valuing (higher prices) of previously agreed programmes.

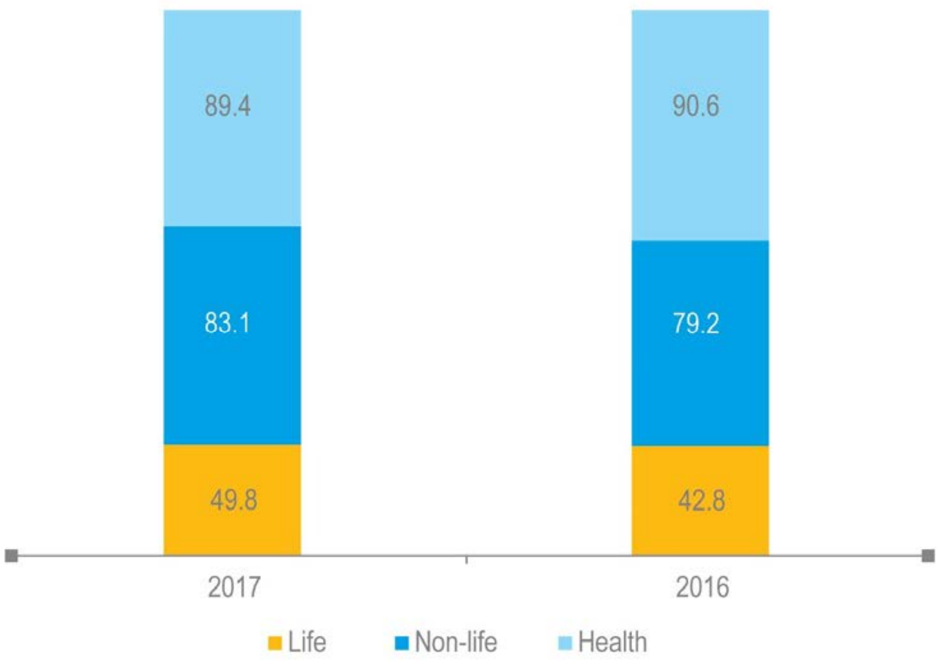
Lower reinsurers' shares contributed to higher net claims incurred, amounting to EUR 3.7 million in 2017, which is 27.0% lower than the year before (mainly in non-life insurance).

Claims provisions (including changes in reinsurance claims provisions) increased by EUR 1.5 million in 2017, while their recognised drawdown (decrease) amounted to EUR 1.3 million in 2016.

In the structure of net claims incurred, health insurance is the prevailing segment with a 40.2% share, which decreased due to the decline in the number of complementary insurance policyholders by 1.4% in 2017 compared to 2016 and totalled EUR 89.4 million. In the second place, net claims incurred in the non-life segment faced an upturn by 4.8% and amounted to EUR 83.1 million. Net claims incurred in life insurance stood at EUR 49.8 million with a 22.4% share of total net claims incurred.

The ratio between net claims incurred and net premium revenue deteriorated by 3.1% or 2.3 percentage point, up from 73.8% to 76.1%.

The structure of net claims incurred by business segments in the 2016-2017 period (in EUR million):



Operating expenses

Operating expenses (excluding claim settlement costs, which are recorded under gross claims incurred) amounted to EUR 78.7 million and increased by 2.0% i.e. by EUR 1.6 million in 2017. The increase resulted from the year-round integration of KD Skladi and other companies in the consolidation and is reflected in higher labour costs and other service costs.

Acquisition costs amounting to EUR 23.6 million decreased by 11.1%, while amortisation/depreciation costs increased by 14% to EUR 3.5 million. Material and goods costs remained at the 2016 level.

The structure of operating expenses in 2017 and 2016 (in %):

Changes in insurance technical provisions

In 2017, the volume of mathematical/insurance technical provisions for unit-linked insurance changed by EUR 18.4 million due to the increased unit value of policyholders' assets (on the revenue side, the revenue of unit-linked life insurance investments therefore increased leading to a neutral impact on the net profit in life insurance).

Other insurance technical provisions decreased by EUR 337 thousand. In the life insurance segment, mathematical provisions were EUR 201 thousand higher. Provisions for unexpired risk, bonuses and discounts went down in the non-life segment (by EUR 422 thousand) and health segment (by EUR 116 thousand).

Investment revenue and expenses

The Company achieved a net financial result from investing activities in the amount of EUR 36.5 million, which is less than in 2016 by EUR 6.1 million. This was mainly contributed by investment revenue, which was 18.1% (EUR 8.2 million) lower compared to the previous year and amounted to 37.0 million.

After excluding the impact of investment revenue from unit-linked insurance, which, together with the changes in mathematical provisions, have a neutral impact on financial statements, investment revenue in the life insurance segment decreased by EUR 2.8 million compared to 2016. In non-life insurance the investment revenue achieved EUR 6.9 million and was lower than in 2016 by EUR 2.3 million, mainly due to the decrease in net realised revenue from investments held for sale. Health insurance revenue amounted to EUR 0.5 million.

In contrast, investment expenses were EUR 2.0 million lower than in 2016 and amounted to EUR 0.5 million.

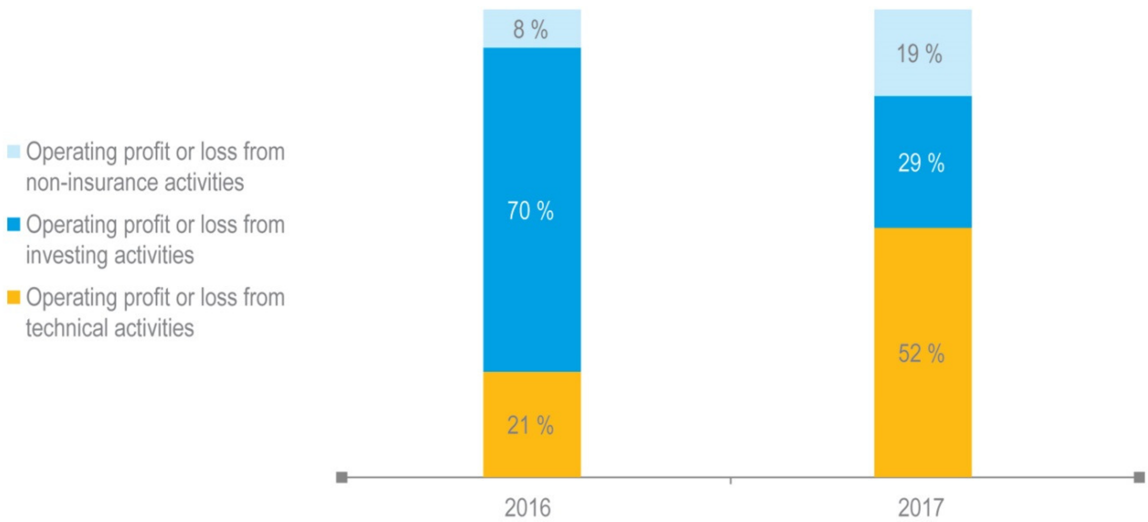
Other revenue and expenses and financial expenses for interest

In 2017, the net result of other revenue (including fee and commission revenue or insurance revenues) and expenses (including financial expenses for interest) totalled EUR 3.7 million and was EUR 6.5 million higher than in the previous comparable period. This result is based on higher other revenue, which in 2017 amounted to EUR 21.0 million. The impact of consolidation, the effect of KD Skladi and other companies included in the consolidation, brings an additional EUR 7.8 million of revenues at the Group level. Total other expenses were higher than the year before by EUR 2.0 million, amounting to EUR 17.3 million. Their increase was mostly the result of increased investment property expenses, other operating expenses 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 10.7 million consists of positive results in non-life insurance (EUR 5.5 million), life insurance (EUR 749 thousand) and health insurance (EUR 2.4 million). Positive results of EUR 2.2 million were also achieved by the asset management segment. The following factors had an impact on the decreased net profit in 2017 when compared to the previous years: lower financial results from investing activities, while a positive impact was played by improved insurance-technical result in health and life insurance as well as a positive result achieved in the asset management segment.

The structure of profit before tax for 2017 and 2016:



Financial position

As at 31 December 2017, total assets of the Group stood at EUR 760.7 million, representing a 3.2% increase compared to the previous year. The increase resulted from growth in unit-linked insurance assets and a higher cash and cash equivalents item. The bulk of assets at the year-end was accounted for by life insurance assets (64.4%), 34.4% by non-life insurance assets and the rest was intended for the implementation of health insurance activities and asset management.

The structure of assets:

in EUR thousand	31/12/2017	in %	31/12/2016	in %	Index
ASSETS	760,709	100.0%	737,307	100.0%	103.2
Intangible assets	32,924	4.3%	33,883	4.6%	97.2
Property, plant and equipment	30,720	4.0%	31,918	4.3%	96.2
Non-current assets for sale	0	0.0%	4	0.0%	0.0
Deferred tax assets	4,864	0.6%	7,034	1.0%	69.2
Investment property	24,120	3.2%	27,444	3.7%	87.9
Financial assets and financial investments in subsidiaries and associated companies	12,026	1.6%	12,130	1.6%	99.1
Financial investments	270,557	35.6%	269,781	36.6%	100.3
- loans and deposits	37,136	4.9%	38,508	5.2%	96.4
- held to maturity	31,418	4.1%	38,008	5.2%	82.7
- available for sale	193,392	25.4%	184,025	25.0%	105.1
- recognised at fair value through profit and loss	8,611	1.1%	9,240	1.3%	93.2
Unit-linked insurance assets	304,978	40.1%	287,601	39.0%	106.0
Reinsurers' and co-insurers' share of insurance technical provisions	17,704	2.3%	17,399	2.4%	101.8
Assets from financial contracts	8,890	1.2%	4,753	0.6%	187.0
Receivables	27,896	3.7%	28,983	3.9%	96.3
- receivables from direct insurance operations	17,737	2.3%	18,916	2.6%	93.8
- receivables from reinsurance and co-insurance operations	2,166	0.3%	1,773	0.2%	122.1
- current tax receivables	2,316	0.3%	78	0.0%	2981.8
- other receivables	5,677	0.7%	8,216	1.1%	69.1
Other assets	5,918	0.8%	5,456	0.7%	108.5
Cash and cash equivalents	20,111	2.6%	10,920	1.5%	184.2

As at 31 December 2017, on the assets side, investments were recognised as the most important category. They accounted for EUR 620.6 million or 81.6% of total assets (31 December 2016: EUR 601.7 million). Compared to the previous year, the volume of investments expanded by 3.1%. As at the end of 2017, EUR 305.0 million was accounted for by unit-linked insurance assets, EUR 270.6 million by other financial investments, EUR 12.0 million by financial investments in Group members, EUR 24.1 million by investment property and EUR 8.9 million by financial contracts.

Due to growth in unit value of unit-linked insurance assets, the unit-linked insurance assets increased by 6% compared to the previous year, and accounted for a 40.1% share of total assets as at 31 December 2017 (31 December 2016: a 39% share).

As at 31 December 2017, receivables amounted to EUR 27.9 million, accounting for 3.7% of total assets, and, owing to the decrease by 3.7% compared to the year before, they lost their share. The decrease in the value of receivables arising from direct insurance operations resulted from a more effective recovery of premium payments and lower other receivables (reinsurance fees and commissions) while the increase in receivables resulted from current tax assets and from reinsurance and coinsurance.

As at 31 December 2017, property, plant and equipment and long-term intangible assets totalled EUR 63.6 million. The former accounted for 4.0% and the latter for 4.3% of total assets.

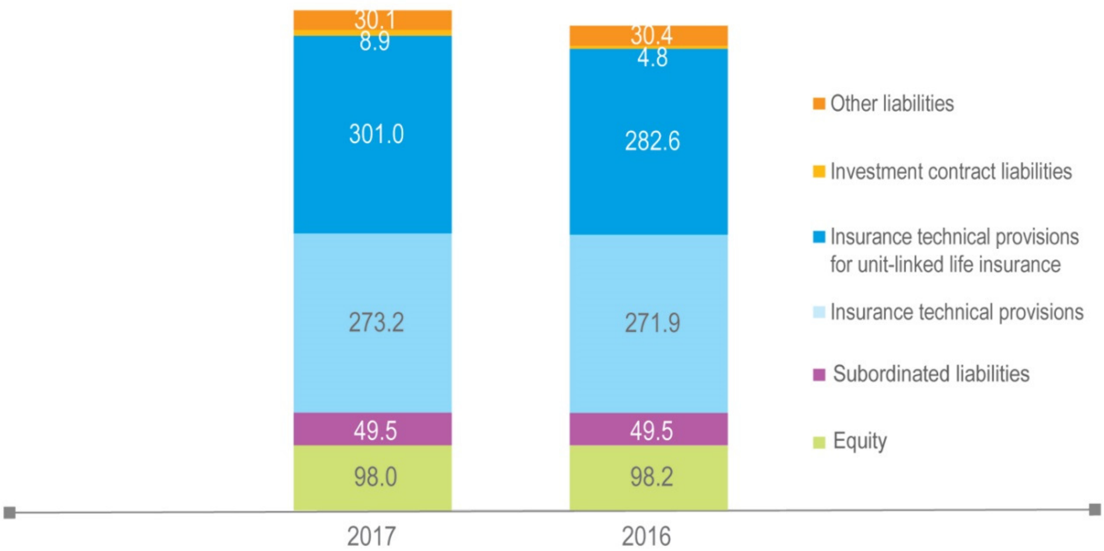
The amount of insurance technical provisions ceded to reinsurance/coinsurance increased by EUR 305 thousand to EUR 17.7 million.

The structure of liabilities:

in EUR thousand	31/12/2017	in %	31/12/2016	in %	Index
LIABILITIES	760,709	100.0%	737,307	100.0%	103.2
CAPITAL	**97,960**	**12.9%**	**98,181**	**13.3%**	**99.8**
Capital and reserves attributable to majority shareholders of the Company	**97,749**	**12.8%**	**97,788**	**13.3%**	**100.0**
Called-up capital	*43,000*	*5.7%*	*43,000*	*5.8%*	*100.0*
Share premium	*4,212*	*0.6%*	*4,212*	*0.6%*	*100.0*
Reserves from profit	*9,224*	*1.2%*	*9,224*	*1.3%*	*100.0*
Own shares/interest shares (deductible)	*0*	*0.0%*	*0*	*0.0%*	*-*
Translation reserves	*10*	*0.0%*	*-1,931*	*-0.3%*	*-0.5*
Fair value revaluation reserve	*0*	*0.0%*	*0*	*0.0%*	*-*
Revaluation reserve	*729*	*0.1%*	*355*	*0.0%*	*205.2*
Net profit brought forward	*29,941*	*3.9%*	*29,518*	*4.0%*	*101.4*
Net profit or loss for the period	*10,633*	*1.4%*	*13,410*	*1.8%*	*79.3*
Minority interest	**211**	**0.0%**	**393**	**0.1%**	**53.7**
Subordinated issued bonds	**49,525**	**6.5%**	**49,453**	**6.7%**	**100.1**
Insurance technical provisions	**273,200**	**35.9%**	**271,896**	**36.9%**	**100.5**
Unearned premium	49,526	6.5%	49,383	6.7%	100.3
Insurance technical provisions for life insurance	107,590	14.1%	107,251	14.5%	100.3
Claims provisions	115,554	15.2%	114,097	15.5%	101.3
Other insurance technical provisions	530	0.1%	1,165	0.2%	45.5
Insurance technical provisions for unit-linked life insurance	**301,043**	**39.6%**	**282,619**	**38.3%**	**106.5**
Other provisions	**4,625**	**0.6%**	**4,077**	**0.6%**	**113.5**
Liabilities from non-current assets held for sale	**0**	**0.0%**	**0**	**0.0%**	**-**
Deferred tax liabilities	**191**	**0.0%**	**111**	**0.0%**	**172.9**
Investment contract liabilities	**8,890**	**1.2%**	**4,753**	**0.6%**	**187.0**
Financial liabilities	**429**	**0.1%**	**986**	**0.1%**	**43.5**
Operating liabilities	**7,439**	**1.0%**	**6,584**	**0.9%**	**113.0**
Other liabilities	**17,405**	**2.3%**	**18,648**	**2.5%**	**93.3**

As at 31 December 2017, total equity amounted to EUR 98.0 million, remaining at the 2016 level. The proportion of equity in total assets went down by 0.4 percentage points and stood at 12.9% as at 31 December 2017.

The structure of liabilities of the Company as at 31 December 2017 (in EUR million):



The insurance technical provisions totalled EUR 574.2 million as at 2017 year-end when compared to the year before, increasing their volume in parallel to increasing their total share in total assets to 75.5%. The insurance technical provisions for unit-linked insurance grew by 6.5% to EUR 301.0 million, whereas other insurance technical provisions rose only slightly to EUR 273.2 million.

As at 31 December 2017, operating liabilities stood at EUR 7.4 million. At the same time, liabilities from financial contracts were recognized in the amount of EUR 8.9 million (formation in 2016 in connection to pension insurance premium), which represents an 87% increase compared to 2016 year-end. Based on other short-term liabilities and other short-term liabilities from insurance operations, other liabilities decreased by EUR 1.2 million to EUR 17.4 million.

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7. RISK MANAGEMENT AND INTERNAL AUDIT

7.1 RISK MANAGEMENT

In May 2017, AS published its first report on solvency and financial condition of the company, which, together with the extended annual set of quantitative reporting templates (QRT) and the regular report to the supervisor, presents the new disclosure requirements binding companies for the first time since 2017 in accordance with the third pillar of Solvency II. In addition to disclosing the risk profile and a description of the management processes (including risks), the company also disclosed its capital adequacy ratio, which exceeded the legally required ratio as at 2016 year-end. In 2017, the risk profile of the company (estimated at the end of each quarter as a capital requirement) did not change significantly and, consequently, the capital adequacy ratio practically did not change.

In the last quarter of 2017, own risk and solvency assessment for 2017 was carried out based on the newly adopted medium-term business strategy, the business plan for 2018 deriving from it, and the projections until 2022. In the framework of the own risk and solvency assessment, the sustainability of the new medium-term business strategy to meet the capital requirements and to achieve risk appetite, as well as the resilience of the Company to the risks associated with the implementation of the strategy were tested.

In addition to the main activities comprising risk management, calculation and reporting of the capital adequacy of the Company, various scenarios will be continuously prepared regarding the effect of the planned investment, strategic or insurance activities on the capital adequacy of the Company and achievement of the set risk appetite. In 2018, the Company will continue to provide faster and easier acquisition of the data necessary for the calculation of capital adequacy and regulatory reporting. The latter is important because of the further shortening of the regulatory reporting deadlines, but will also facilitate the introduction of IFRS 17.

In the future, the Company will continue to primarily focus on monitoring and managing the underwriting, market and operating risks

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. The risk management system is proportional to the nature, scope and complexity of the company's operations.

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 entire 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 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 against risk system:

In the context of the three lines of defence against risk 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 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:

- capital adequacy;
- taking out insurance and establishment of insurance technical provisions;
- asset-liability management;
- 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.

7.1.6 IT-related safety risk management

In order to improve the quality, safety and reliability of IT, several safety tests were carried out in 2017 with regard to major changes that pose a safety risk to the Company and customers. The Company intensively continues to raise awareness of the information security of our employees and we work together to ensure compliance with the GDPR.

7.2 INTERNAL AUDITING

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. It is headed by a director who directly reports to the Management Board on the performed tasks and operations, which guarantees the independence of its functioning.

In accordance with the legal requirements, the operations of the insurance company were supervised to verify and assess whether the processes of risk management, control procedures and Company management procedures were adequate and ensured the achievement of the key objectives of the Insurance Company. Internal auditing was carried out 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.

An external assessment of the quality of the internal audit function was carried out three times, in 2008, 2013 and 2017. The opinion of the external evaluators was that internal auditing was carried out, in all material respects, in accordance with all the International Standards for the Professional Practice of Internal Auditing and in accordance with The Code of Internal Auditing Principles and the Code of Ethics for Internal Auditors.

The Internal Audit Team carried out internal audit activities on the basis of the annual work plan for 2017, which was adopted by the Management Board of the Insurance Company after receiving the approval of the Supervisory Board. An important part of auditing was devoted to carrying out audits, monitoring the implementation of recommendations, continuous auditing, day-to-day supervision, advising the management of the Company and cooperating with key functions in the Company.

In performing internal audits in 2017, the focus was on auditing those areas that represent higher risks for the Company and consequently a greater potential damage or loss or major lost opportunities; assessing the risk management system and the established internal control system; reviewing the preparation of the insurance company for changes in legislation; approach 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 and the transfer of good business practices.

After each internal audit, a draft report was initially issued and submitted to the auditee for comment. The final report was examined by the Management Board, which set a deadline for the auditee to take corrective action or to implement the recommendations. On the basis of follow-up audits, special reports on corrective actions taken were issued and submitted for examination to the Management Board. Together with the Management Board, we were actively monitoring the corrective measures of the auditees, thus achieving a high share of implemented recommendations in 2017. After being examined by the Management Board, all internal audit reports were also sent to the Audit Committee. A half-yearly and annual report were produced and examined by the competent bodies of the insurance company.

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At the modern Assistance Centre, we provide policyholders with the fastest possible assistance in an event of illness or injury.
In 2017 we helped our clients 4,505 times to find the best treatment options.
At the AS Health Centre you will be taken care of by top medical specialists, who are also trusted by the Slovenian Olympians.

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8. CUSTOMER AT THE CENTRE OF PRODUCTS AND SERVICES OF THE AS GROUP

8.1 IMPORTANT CUSTOMER SERVICES

8.1.1 CIRCLE OF SAFETY

A comprehensive set of modern insurance products and complementary services is constantly being supplemented with innovative insurance-financial products and advice so as to provide customer-tailored insurance solutions, while simultaneously ensuring quality insurance protection and rapid assistance, 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 as we strive to provide an excellent consumer experience each time the Company is contacted.

The Company would want its clients to be thrilled with the experience gained with the Company, and for this reason the Company constantly monitors their satisfaction via internal and external surveys. Among the most important regular surveys performed by external independent 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. The results confirm a high satisfaction rate of policyholders in both insurance underwriting and claim settlement.

Ugled is a continuous survey examining reputation and name recognition of the largest and most visible companies in Slovenia. In 2017 the survey captured 800 representatives from the business world who assessed 60 companies. According to the 2017 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.

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. In 2017 the AS insurance company was placed among the best three insurance companies regarding their name recognition, visibility and reputation.

With an average score of 4.1 (on a rating scale from 1 to 5) or with 82% of satisfied policyholders, AS achieved a high satisfaction rate of its customers. Moreover, a positive recommendation index was recorded with the NPS of 4 and 36 % of promoters. This means that more than a 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?”.

8.1.2 MOJ AS (MY ADRIATIC SLOVENICA PORTAL)

The MOJ AS Portal enables 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. In 2017, the Portal was upgraded. Signature with a digital certificate was enabled, overviews of the value of the assets for investment insurance were added and optimisation of the functioning of the Portal continued. By the end of the year, over 22,000 users have been registered on the portal, and on average, there are almost 200 viewers per day.

8.1.3 WIZ ONLINE BRAND

In line with the new Company strategy, the WIZ Website has become AS's digital point of sale of simple, transparent and modern insurance products. The development of the online point of sale WIZ is therefore receiving undivided attention, it is being upgraded to sell not only the existing products (Wiz Avto – Wiz Car, Wiz Zdravje – WIZ Health, Wiz Kolo – Wiz Bicycle) but also a new range ((WIZ KUŽA – WIZ DOG, WIZ TUJINA – WIZ ABROAD, WIZ SMUČAR - WIZ SKIER …), static website is undergoing search engine optimisation, and landing page and underwriting applications are being redesigned to ensure excellent user and shopping experience.

8.1.4 ASfalt (ASphalt) MOBILE APPLICATION

The application, which was offered to all drivers free of charge in 2015, underwent a complete redesign in late 2017 – it now includes improved data sources and provides real-time following of traffic information and conditions on saved routes across Slovenia and abroad or making a call to Car Assistance with one click when in trouble. By the end of year, the application was downloaded by more than 13,700 users.

8.1.5 CENTER ZDRAVJE AS (AS HEALTH CENTRE)

The AS Health Centre provides quick and quality assistance to customers using services from the supplementary insurance scheme Specialisti in zdravila (Specialists and Medicines).

We authorised 7.266 specialist services (66% more than in 2016) and provided 233 services from transitional care insurance which offers our complementary health insurance policyholders the possibility of free complementary services.

In 2017, we carried out 1,090 so-called navigations to help policyholders find information about the shortest waiting period in the public healthcare system. The toll free number 080 81 10, intended exclusively for the complementary health insurance policyholders, recorded 6,946 calls or 66% more than the previous year. In-house surveys prove that clients are very satisfied with the services because of understandable advice, kindness of advisers, responsiveness, consideration of wishes, speed of authorization consents and assistance when choosing a specialist.

98 % of the policyholders are satisfied with the AS Health Centre.

8.1.6 MOJ SERVIS AS (MY AS SERVICE) AND ROADSIDE ASSISTANCE

Repairing the car in the network of Company contracted car service providers simplifies procedures and saves time for policyholders and those who have suffered loss. They have at their disposal a quick damage appraisal at the garage without additional errands, a quality and quick repair by using original spare parts, free-of-charge use of a replacement vehicle during car repair (up to 3 days and up to 100 km/day) and, if necessary, a favourable vehicle rental for the remaining repair time. Clients are further motivated with a coupon enabling them to purchase a new or to renew car insurance. Policyholders can select the MOJ SERVIS AS (My AS Service) in the network comprising 78 garages covering all brands and body shops throughout Slovenia.

Roadside assistance is provided to all persons claiming damage after a road traffic accident (both policyholders and those who have suffered loss). In order to claim benefits one must report loss event at 080 88 48 or +386 5 66 28 500 if calling from abroad.

76 % of the policyholders believe that their loss or accident event was settled quickly.

8.1.7 CUSTOMER CARE

Customers are provided with a comprehensive customer service in order to meet their wishes for quick responses and transparent services. We invest into new knowledge and skills, proactiveness and innovation in an effort to develop customer loyalty and meet their expectations. Direct contact, satisfaction monitoring and sales support are implemented via the central free toll number 080 11 10, email address info@as.si, MojAS Portal, Facebook, chat and personal contact at the Customer Care Centre

Particular care is dedicated to individual consulting and portfolios of life insurance policyholders; policyholders are advised on insurance management and provided with professional advice on asset management while customers are assisted when purchasing insurance. The Customer Care Centre carries out recovery of unpaid premiums and user satisfaction and user experience surveys, which have been responded by as many as 5,500 policyholders. Since November, the communication related to the WIZ web portal has been running through the Customer Care Centre.

As many as 98 % of the policyholders believe that the staff are professional and kind.

8.1.8 AS KLUB (AS CLUB)

In 2017, after 11 years of its existence, AS Klub ugodnosti (AS Bonus Club) was joined by about ten thousand new members. We provided them with a new e-včlanjevanje application (enabling joining of the club) at www.as-klub.si, which cancels the need for cards to enjoy bonuses. We make them happy with a variety of discounts at the ever-growing number of our partners.

8.2 INSURANCE AND SERVICES DEVELOPMENT

8.2.1 Non-life insurance products

In 2017, the actuarial bases for the DomAS insurance, general liability insurance and TujinaAS assistance insurance were redesigned, and a new insurance for mopeds with a maximum design speed of over 25km/h was offered. Cooperation with specialized insurance companies was expanded while cooperation with ARAG was resumed in the area of legal protection insurance both in order to expand the offer to our clients and to rationalize operations.

In 2017 accident insurance products continued to be linked to health and other life insurance products with the online product Wiz kolo (Wiz Bicycle) being developed. Apart from that, 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) was completed and assistance services of the Call Centre were expanded to include this insurance. Insurance coverage was adjusted to specific segments or target groups (professional athletes, recreational athletes) and the offering of insurance products was adapted to individual sales channels. Major projects comprise the unification of accident insurance underwriting through marketing campaigns, a new underwriting application for school accident insurance and the accident insurance for the holders of the national sports card devised in cooperation with the Olympic Committee of Slovenia.

In motor vehicle insurance, the focus remained on improving premium tariffs, obtaining new data for additional segmentation and updating criteria for admission to insurance for certain insurance sub-classes. Furthermore, a further strategy of this area was set forth on the basis of detailed multiannual analyses. On 1 January 2018, Adriatic Slovenica offered its updated AS Tujina (AS Abroad) assistance insurance enabling now a new assistance network offering worldwide medical services and doctors specialising in various fields of medicine, providing 24/7 assistance in the Slovenian language and solving travelling problems, from luggage to lost documents.

8.2.2 Life and pension insurance products

In late March 2017, Adriatic Slovenica concluded the first life insurance contract via the underwriting application Skleni AS (AS Underwrite) thus becoming the first insurance company in Slovenia enabling online receipt and underwriting of life insurance. This set up a new milestone in life insurance both in Slovenia and in the wider region enabling Adriatic Slovenica to assume the leading role in introducing such solutions. In the second half of the year, the marketing network was educated for the transition to a fully electronic underwriting system, scheduled for the beginning of 2018.

Additional covers related to the life insurance product Življenjski kasko - Asistenca življenja (Whole Life Insurance – Life Assistance) were redesigned. Additional insurance of critical illness was supplemented to enable selection of the duration of insurance to be identical to life insurance for the event of death. The calculation of additional costs for practicing dangerous sports in additional accident insurance was changed and the possibility of raising and lowering the sum insured for the event of death or life insurance premium was introduced.

In May 2017, Moje Finance (My Finance) magazine carried out a survey among insurance companies that offer term-life insurance and awarded Življenjski kasko - Asistenca življenja (Whole Life Insurance – Life Assistance) the first prize for the BEST term-life insurance for a 30-year-old for a 30 year term amounting to 50,000 euros.

As the demand for a life insurance Enkratna priložnost AS (AS Unique Opportunity) product increased, the cost of insurance management was reduced in order to accelerate the sale of the insurance at higher premiums. Clients were offered an additional bonus for high premiums - more favourable insurance underwriting. In addition to other activities aimed at optimizing the traditional insurance portfolio, we stopped selling mixed life insurance Vita AS Royal.

In late 2017, documents related to the life insurance products Fondpolica ZLATA LETA (Golden Years), Enkratna priložnost AS (AS Unique Opportunity) and Fondpolica were brought into compliance with the Regulation on key information documents for packaged retail and insurance-based investment products (PRIIP). On this occasion, the Fondpolica product was upgraded, just as the Varna Leta AS insurance product, while the Aktivna renta AS (AS Active Annuity) ceased being sold.

The pension scheme with a new life-cycle investment policy - "Pokojninsko varčevanje AS" (AS Pension Saving), introduced in 2016, and the pension scheme for additional pension annuities - "Dodatna pokojnina AS" (AS Additional Pension) were being intensively marketed.

8.2.3 Health insurance products

Adriatic Slovenica has continued implementing the strategy which ensures comprehensive healthcare to policyholders. At the same time, we closely followed the goal of continuing to be the leading insurance company in the development of innovative health products and health-related assistance services.

Particular attention was devoted to the development of information support, which is the basis of quality assistance services. For this reason the operation of the "Center Zdravje AS" (AS Health Centre), which is developing into a key contact point for assisting policyholders in solving health problems, was upgraded. Being constantly aware of the importance of continuous monitoring of the needs and wishes of our policyholders, we provide both individuals and companies with the possibility to take out innovative packages comprising health, accident and life insurance

The implementation of quality health services is the basis for the trust that our clients have been showing for many years. Therefore, great attention was dedicated to improving and building a quality network of own and contracted health service providers. 2017 saw a successful operation of our own outpatient clinic, which is the basis for the creation of a future network of our own health service providers. We have been inviting prominent and recognized medical professionals as well as developers of appropriate IT solutions which enable quick and efficient solving of insurance case processes and effective communication internally and with our external staff and our clients.

8.2.4 Solving Insurance Cases

The process of solving insurance cases is approached in a comprehensive and professional manner. Together with our external partners we offer customer-friendly, high quality and comprehensive solutions from reporting to repairs.

The MY SERVICE network and the free 24/7 AS ROAD ASSISTANCE service are the foundation on which a long-term partnership with the customer is actively built. The Company is extending its development to smart, connected services and various new tools, such as mobile applications and other technologically supported solutions, a great example of this being the MOJ AS (My AS) portal. Digital communication is being put at the forefront also by means of the project E- ŠKODA (e-Claims). Simultaneously with the development of new technologies, web access to information and business efficiency, the internal processes are being actively changed, as we are aware that by introducing automated and efficient processes we will fulfill the expectations of our customers.

Customers can already report damage from the site of the accident via the MOJ AS portal, which offers quick and easy documentation of the damage. Another application is being currently developed that will allow the customer an automatic overview of all stages of the solving of the insurance case.

8.2.5 Sales Network

In 2017, the sales network intensively developed new, user-friendly underwriting applications and actively educated the network. As a tool enabling easy, high-quality and consultative insurance underwriting, new online applications related to insurance with assistance abroad, school accident insurance and health insurance, but above all a new e-underwriting application for life insurance Skleni AS (AS Underwrite) were developed. The sales process was adjusted to include the requirements of the Insurance Distribution Directive, which enabled us to come closer to consultative selling having the customer at the center.

The Zagreb Branch is planning to further intensify the traditional and digital selling of motor vehicle and unit-linked life insurance as the only specialized insurance company on this market. They will offer a new insurance - the Življenjski kasko (Whole Life Insurance) and dedicate more attention to customer service in their own call center.

As early as 2017, KD Skladi started to develop alternative funds by launching the first alternative real estate fund, the KD Adriatic Value Fund, a special investment fund that will invest in commercial real estate in Slovenia, Croatia and Serbia. The Company estimates that alternative funds are interesting for its development and in the future plans to launch new funds, which will invest their assets in alternative investment classes. In optimizing its operations, KD Skladi continually develops new digital solutions which contribute to increasing its efficiency and improving both user and investor experiences. In 2017, KD Skladi launched a renewed web site and has continued preparing new solutions for online and mobile investing in funds.

In 2018, a new, flexible savings package that will allow investors to exchange funds in which they invest with periodic payments will be launched.

8.2.6 Information Technology

In addition to monitoring the business environment and IT trends and meeting experts' demands and good IT management practices, the IT Team took part in the development of the new Company Strategy. The AS Group and KD Group companies were provided adequate IT support and a roaming service in the AS private cloud.

Own agents and partners were provided with modern life insurance e-underwriting via the SkleniAS (AS Underwrite) information system, which includes both an automated risk assessment and a personal e-signature. In parallel with the introduction of the new product TUJINA AS (AS Abroad), a new application for tourist agencies was also made available. The application is integrated with the Company back office system and enables to take out the TUJINA AS insurance and the trip cancellation insurance. The new provider of assistance services is enabled to check the insurance of individual policyholder via a dedicated application.

In 2018, the IT Team will continue to renovate the architecture of the Company data warehouse, increase the scope and quality of the data. Portals of the insurance company will be upgraded with additional content and services, which will bring them closer to our customers. The IT Team will continue to automate the preparation of data required for reporting to the regulator and the legislator (eg. regarding Solvency II) and to upgrade tools for a more efficient implementation of the insurance marketing process.

In order to successfully launch the business strategy, especially in the fields of digitalization and digital transformation, it is necessary to establish technologies and develop competencies in the IT, which will enable fast and efficient development of modern digital solutions and applications. This includes the development of modern web and mobile solutions, the development of APIs for the needs of the API economy, the integration of these solutions with back-office systems and information solutions, and the introduction of the Customer Engagement system. In the future, by providing support and education to users throughout the Group, the IT Team will contribute to more efficient use of information solutions and user satisfaction.

The information system for online sales of the Branch in Croatia was expanded to include complementary health insurance. The integration of partners via APIs enabled entrance into the world of API economy.

The commission settlement was improved by the introduction of reverse invoicing. When it comes to infrastructure, the firewall was replaced, the central database backup system was upgraded, switch was made to a higher version of the application servers of the key back-end system, and the domain servers and Exchange e-mail servers were upgraded to the 2016 version. The architecture of the data warehouse was updated and data automated in line with Solvency II. Basic concepts of information systems architecture were prepared within the framework of the IFRS 17 project.

8.3 MARKETING AND SALES ACTIVITIES

8.3.1 Brand management and marketing communication

Strengthening the visibility and reputation of the AS brand at the corporate and product level is a constant, which is also regularly monitored. Continual surveys show that in 2017 the Company once again maintained the visibility in the general public, and we successfully raised the visibility and reputation among the business community. In line with our strategy, corporate activities were directed towards the strengthening of the reputation of the Company as a stable yet innovative, socially responsible insurance company and an important partner in the maintaining of financial security. 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.

8.3.2 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 (more details in Section 8.2 Sustainable Development). An important part of the communication with the environment takes place through media and is up to date, regular and two-way. In 2017, the AS Group replaced the system for monitoring unpaid media coverage. A total of 1,283 commentaries was recorded, 13% of which were planned and 87 % unplanned. Primary commentaries, where AS was mentioned, held a 20% share and secondary commentaries held an 80% share. Positive commentaries prevailed, with a rate of 75%. Neutral commentaries equalled to one quarter, while the number of negative commentaries was less the one percent. The value of unpaid media coverage was EUR 1,532,155.

From time to time, the Company subsidiaries, business units and teams organize small professional and other gatherings of business partners in their regions . News is shared with the public and clients at events organized by the Company or other organizers. In the subsidiaries, communication with the broad social environment takes place in line with the strategy adopted by the parent company.

8.3.3 Sales activities

All target groups are addressed through different sales promotions and activities. In 2017, the aim of the promotions was to attract the attention at the following events: Wings For Life World Run, the largest cycling marathon – the Franja Marathon; opening of the children's playgrounds at Kobilarna Lipica (Lipica Stud Farm), in various football matches played by the Slovenian national team and at the Olympic Festival.

Among other most recognizable sales activities, it is worth mentioning that, in order to alleviate the difficulties for policyholders whose treatment may be limited by the long queues in the health system, the benefits of the supplementary insurance scheme Specialisti in zdravila (Specialists and Medicines) were communicated. As the ambassador, the Company supported the Zdrava Slovenija (Healthy Slovenia) campaign with the obligation to help individuals achieve their healthy resolutions. Famous Slovenian athletes: Sara Isaković, Uroš Zorman and Vasilij Žbogar accepted to cooperate with the Company. The biggest Slovenian challenge for raising awareness and encouraging people to move for a healthy body and well-being – Popolni AS izziv (Total AS Challenge) was organised. The campaign won the SPORTO SPONSORSHIP/ENDORSMENT AWARD at the SPORTO Conference, which awards the best practice in sponsorship and marketing in sport in Slovenia. The Company has partnered with a recognized psychologist Matej Tušak and organized a lecture on stress, which was attended by as many as 620 people; the participants were offered the Specialisti in zdravila (Specialists and Medicines) insurance.

Together with the popular singing duo Nipke and Trkaj and the music hit HIP Hop junak (HIP Hop Hero), a new insurance for children and young people was successfully launched. Numerous children were able to enjoy unforgettable gatherings with football players and to watch the matches of the Slovenian national team in the campaign "Mami, pelji me med nogometne AS-e". (Mum, take me to meet football AceS).

The central website - www.as.si was completely redesigned and now provides visitors with information, recommendations and advice on our insurance solutions and services range. The new page provides various ways of reporting claims and is the entrance point to the self-service portal Moj AS (My AS), where clients access their insurance data, the status of payments, can report damage and directly communicate with the insurance company.

Other important websites are: www.as-skupina.si; www.as-galerija.si; www.as-klub.si; https://pokojnina.adriatic-slovenica.si/izracun-pokojnine; www.zdravje-as.si; www.adriatic-slovenica.si/center-zdravje-as; https://as.hr/ in www.as-direct.hr.

Web appearances were successfully managed and customers and visitors of our portals were informed, educated and inspired through a variety of content. The activities on social networks serve to spread news about the Company socially responsible activities, important business information and business results, and to share advice and relevant content. Various online activities are used to attract visitors and turn them into customers. In addition to the active management of the FB profile, in 2017, a strategy for entering LinkedIn was established, thus intensifying activities on this social network, which is also uses to find personnel. Since 2018, the WIZ website has become a digital online point for the sale of a wide range of insurance products and has been extensively expanding.

AS Foundation and AS Gallery

WE SUPPORT THE BEST AND MAKE ART CLOSER.

In more than twenty years we have helped many.
Right now and with our assistance gifted young individuals acquire knowledge in a wide variety of fields. We make painting, photography and contemporary art closer to the general public in our own gallery.

9. EMPLOYEES AND SUSTAINABLE DEVELOPMENT IN THE AS GROUP

9.1 EMPLOYEES OF AS AND THE AS GROUP

In 2017, staff restructuring and increasing the share of specialist staff continued.

The annual verification and assessment of competences was also performed in 2017 and serves as the basis for the introduction of development measures contributing to the acquisition of competences that are crucial for an effective operation and development of the company. The performance of staff management systems was also monitored in 2017 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 and annual development interviews – AS Dialogue and management by objectives for a group of managers were carried out for the first time.

Employees in the subsidiaries Prospera and Viz, KD Skladi, Zdravje AS and KD IT enjoy the same benefits as employees of the parent company.

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

As at the end of 2017, AS and its subsidiaries had 1,208 employees. Taking into account the employment share in individual companies, 1,158.3 employees worked in the AS Group.

AS had 1,076 employees as at the end of 2017, which is 64 less than in the previous year. Considering the employment share in individual companies, 1,013 employees or 94% worked full-time, while 63 employees or 6% worked part-time.

The number of employees in AS and the AS Group:

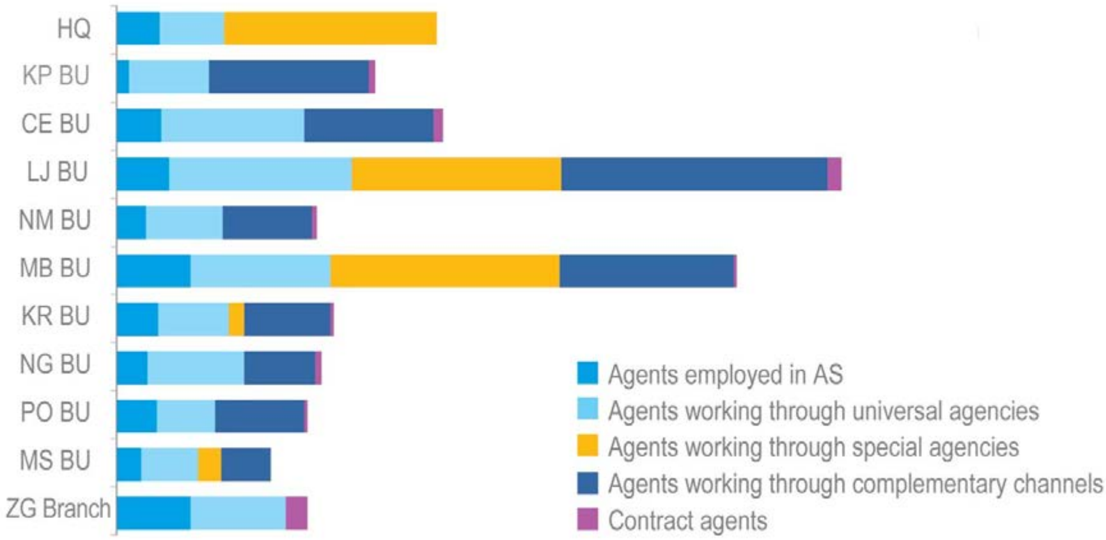
	Number of employees				Difference	
	2017		2016		2017/2016	
The parent company and subsudiaries	per person	FTE	per person	FTE	per person	FTE
Adriatic Slovenica d. d.	1.076	1.055,5	1.140	1.108,2	-64	-52,8
AS neživotno osiguranje a. d. o. **	0	0,0	5	5,0	-5	-5,0
Prospera, družba za izterjavo, d. d.	36	12	42	27,8	-6	-15,8
VIZ, zavarovalno zastopništvo, d. o. o.	2	2	3	3	-1	-1
Permanens d. o. o.*	0	0	0	0	0	0
Zdravje AS, zdravstvene storitve, d. o. o.	4	1,4	3	2,5	1	-1,1
KD IT, informacijske storitve, d. o. o.	1	1	4	3,1	-3	-2,1
KD Skladi, družba za upravljanje, d. o. o.	55	52,4	54	48,9	1	3,5
KD Fondovi AD, Skopje	9	9	9	9	0	0
KD Locusta Fondovi d. o. o.	6	6	6	6	0	0
Agent d. o. o.	19	19	0	0	19	19
Total	**1.208**	**1.158,3**	**1.266**	**1.213,5**	**-58**	**-55,3**

Note:
* Since November 2016, Permanens d.o.o. has been in liquidation;
**AS neživotno osiguranje a. d. o. was removed from the register on 26. 12. 2017;
***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 44.2 years. The proportion of fixed-term employees was 5% as at the end of 2017.

AS has a wide sales network in all regions. As at the 2017 year-end, insurance products were sold by 303 insurance agents employed in AS, 1,141 agents working through authorized universal and special agencies, 724 661 agents working through complementary channels and 46 contract agents.

Number of agents in the marketing network in 2017:



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 35%—since the statutory requirement for insurance agents is completed secondary education.

Level of education	2017	2016
	Share (in %)	Share (in %)
Level I–IV	3,0	3,0
Level V	35,0	35,6
Level VI	15,0	13,9
Level VII	43,0	43,3
Level VIII–IX	4,0	4,3
Total	**100,0**	**100,0**

9.1.2 Employee care in AS

The "Family-Friendly Enterprise" policy, by which the Company strives for a better work-life balance of its employees, was embraced and implemented by the employees in 2017. In 2017, the new measure Re-induction of employees returning to work after a long period of absence was implemented. Employees who were absent for one year or more, either because of parental leave, sick leave or any other absence, are given by their direct leader upon returning to work a programme of activities with the purpose of systematically informing the colleague of all changes occurred in the company during their absence and which are relevant to their work. This year also saw the launching of activities aimed at implementation of new measures and acquisition of the full certificate. The starting point for the new measures will be the findings and suggestions of the employees obtained by means of the survey which was carried out among the employees.

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 2017, **115** employees and their families took advantage of this option.

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, **94%** 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 **1,073** employees and **395** members of their families.

Around Christmas time, presents were handed out to the children of employees as in previous years.

9.1.3 Quality of life in the Company

The employees of Adriatic Slovenica enjoy taking exercise and the recreation activities bring us together and connects us. The numerous events organized by our Sports and Culture Club Pravi Asi (True AceS) enabled us to meet with colleagues from different teams. It was simple and we had a lot of fun. The Sports and Culture Club Pravi Asi True AceS) has been active since 2010 with the aim of promoting sports and cultural activities in the Company and 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. Employees are encouraged to engage in some of the activities with their family members.

In 2017, several new members joined the Club. We are proud that the Club already has 510 members. The Sports and Culture Club operates in various activities, divided into several sections (running, hiking, cycling and culture). We took part in winter and summer sports games organized by financial organizations (ŠIFO 2017), coming first on both occasions.

As part of the Company Health Promotion Project, some of the employees received training and became Health Promoters. The task of the promoters is to lead 15-minute active exercises (Body & Work) during working hours engaging employees in various body, relaxation and proper breathing exercises. Every location of the Company has organized various recreational activities, attended by a large number of members.

Events where employees interact with each other generate significant added value. Sports games, open door day for the children of employees "Where do your dad and mum work?", AS's charity market, New Year's celebration and various gatherings on special occasions enable us to get to know each other and connect with the other employees of one's location, as well as from other locations and the entire Company. The employees of AS live our values! Responsibility, trust, proactiveness, passion and joy, and winning mentality lead us to day-to-day excellence.

9.1.4 Health and Safety

In 2017, a safe and healthy work environment continued to be provided for the employees. A positive climate was also promoted through various measures and activities fostering **health promotion**. The Company is dedicated to strengthening the fitness, acquiring skills for preventive action, healthy eating, encouraging physical activity and an active life, providing counsel and assistance in coping with negative stress factors and promoting techniques aimed at strengthening good relationships in the workplace.

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, **320** employees were referred to preliminary, periodic or targeted check-ups. As every year, vaccination against seasonal influenza was organised for Company employees.

We are proud that an increasing number of employees are involved in organized forms of health promotion, which can be attributed to the attractiveness of their content and to an increased employee's awareness of the importance of a healthy lifestyle. This has proven to be reflected both in the greater satisfaction of employees and thus higher productivity at work, and in the reduction of injuries, health disorders and diseases that result in incapacity of the employee for work for medical reasons.

9.1.5 Adriatic Slovenica and the Diversity Charter of Slovenia

The Diversity Charter of Slovenia was officially established on 14 November 2017 when it was signed by the first 59 Slovenian organisations, including Adriatic Slovenica. The Charter is based on voluntarily accepted principles aimed to promote the values of diversity, equality and inclusion, thus encouraging the acceptance, respect and integration of diversity in Slovenian organizations as a potential for innovation for sustainable solutions. The Diversity Charter of Slovenia, as the 20th in succession, joined the European platform, which today brings together over 8,000 organizations and 18 million employees.

9.1.6 Adriatic Slovenica obtained the Certificate of Good Organisational Energy

Organizational energy is a reflection of a company energy charge - the power and motivation of operation, innovation, adaptability to change ... It is radiated by employees, who are the most important added value creating surplus and competitive advantage.

The intensity of organizational energy is closely linked to the success of the company and its performance. For this reason, this year Adriatic Slovenica joined the national survey measuring organizational climate. The measurement takes into account all the main elements of motivation, satisfaction and commitment of employees. The research brings additional dimensions of measuring the intellectual, emotional and behavioural potential of people. We first took part in the survey in 2016 and scored the best index of organizational energy in the financial services category. The challenge was accepted again in 2017. The results were exceptional. The last year's single index of organizational energy in Slovenia was 1.91, however Adriatic Slovenica managed to achieve this year a **single index of 2.64**, thus improving the last year's index (2.34). The result was so good that we received the Certificate of Good Organizational Energy, which is received by organizations that show an optimum or higher single organizational energy index, and the validity of the certificate is 1 year. The index achieved by Adriatic Slovenica means that its productive energy is extremely high, that Adriatic Slovenica is the winner in its sector.

DOBRA ORGANIZACIJSKA ENERGIJA

Certifikat 2017 | 18

Adriatic Slovenica

9.1.7 Employee training

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 upgraded 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. All training programmes provided by the AS Academy are implemented systematically for different target groups. The content of the programmes is significantly complemented by coaching. The needs for development and knowledge and skill upgrading are identified by means of the competence system. The team of internal trainers ensure continuous education and transfer of good practices

Good communication leads to a good mutual relationship, and in 2017, we focused our attention on training excellence in communication and effective solution of challenges. Great emphasis was put on workshops aimed at strengthening professional-insurance knowledge - the traditional forms of education were therefore complemented by e-learning and examinations. The system of internal employee surveys regarding satisfaction with education was updated and upgraded with a questionnaire on the usability of acquired knowledge in practice.

Training was received by **97 %** of employees. Each employee attended 7 training modules on average and totalled up **46 hours**. Adriatic Slovenica cares for the association of the Company with our scholarship holders by giving them the opportunity to gain the greatest possible experience during their studies. We also support employees in studying at work and gaining a higher level of formal education.

9.1.8 KompAS and employee development systems

The intranet site KompAS has become the main access point enabling employees to access information and was enhanced with additional information and new functionalities. One of the major innovations is the OneDrive allowing easy and secure file sharing among employees. In addition to exchange services, OneDrive also allows simultaneous and interactive document processing. Furthermore, KompAS enables meeting room reservation and was used to promote the use of the videoconference system. The 2018 upgrade plan foresees the use of the intranet on mobile devices, the personalization of user's websites and the expansion of the platform to other companies in the Group.

AS Dialogue – Competent and satisfied employees are crucial for the efficient functioning and development of the Company. Human resources systems have been established within the Company in order to provide an environment which will enable the development of appropriate competencies and commitment of the employees. Annual development interviews – AS Dialogue are carried out once a year, also to verify and assess competencies. The results are the basis for the preparation of annual development and education plans and for the monitoring of career development of employees. The quarterly performance appraisal and management by objectives enable the monitoring of the achievement of the set goals and the stimulating rewarding of those contributing more to the overall result. In 2017, the competence model and annual development interviews were also introduced at the Zagreb Branch.

AS Dialogue – Management by Objectives: In 2017, the assessment interviews of AS Dialog - target management were continued based on the results of the introduction of the management by objectives system at the first level of management. 175 new employees were comprised. The implementation has brought about an increased efficiency of direct management of employees at all levels and set standards of targeted management.

AS Onboarding Process: introduced in 2017, it is a systematic approach to induction and integration of new employees into the work environment and the Adriatic Slovenica social system. During the induction period, the main role in the induction of a new employee is played by the manager who passes on important information to the new employee, delegates tasks, communicates expectations about work performance, and monitors work performance and integration. A new and equally important role in this process is that of a tutor, who helps a new colleague to integrate into the social system of AS.

AS Perspective: The implementation of a new HR development model has been launched. This is a system that enables promissing individuals in the Company to acquire new knowledge with the help of their mentors and external lecturers. The training is a two-year programme aimed at developing managerial or professional careers of these individual. It includes employees who, with their abilities and motivation, show true energy for shaping our business success. Promissing employees who were selected in the first generation of the AS Perspective programme following a competition and on the basis of the estimated potential are included in the two-year training programme according to the chosen direction of development. The training will provide them with the key knowledge and necessary skills and develop competencies required to perform the work of an excellent manager or top-level expert in the Company deficit segments.

9.1.9 Work-related injuries

In 2017, the number of accidents at work that resulted in absence from work was higher than in the previous two years. Consequently, the number of days of absence from work increased. Employees working in the field tend to be more susceptible to the risk of work-related injuries, especially due to unforeseen circumstances and traffic conditions. The number of injuries at work is still relatively small, most injuries are minor.

In 2017, over half of the recorded injuries occurred during business visits to clients, two of these while driving for business. The cause of work-related injuries, which occurred inside Company business premises, was recklessness during walking and use of work equipment. All but two of the work-related injuries were minor ones, causing only brief absence from work, i.e. up to 30 working days.

Work-related injuries in AS - The number and share of injuries	2015		2016		2017	
	number	share in %	number	share in %	number	share in %
At work	3	37,5	4	67	2	25
On business trips	5	62,5	2	33	7	75
TOTAL	8	100	6	100	9	100

Lost work days due to injuries at work	2015	2016	2017
	number	number	number
	73	106	170

9.2 SUSTAINABLE DEVELOPMENT

Adriatic Slovenica pays constant attention to cooperation with the environment. In 2017, over 300 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). Furthermore, the AS Health Centre own outpatient clinic in Ljubljana became the Olympic reference medical centre in 2017. The Company has been cooperating with the Football Association of Slovenia for the past 18 years. 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 in 2018. The Company continued to sponsor Vasilij Žbogar (for the18th year), the greatest Slovene sailor of all time.

In addition, Adriatic Slovenica is the proud partner 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.

We ensured a safer Slovenian Mountain Bike Route that crosses all major mountain groups and covers as many as 1,750 km of trails and 50 thousand meters of climbs.

The subsidiary KD Skladi is also closely related to sport. In 2017, it became the general sponsor of the sailors: the Tina Mrak - Veronika Macarol 470 Slovenia Sailing Team. KD Skladi is also a long-standing supporter of the Slovenian Chess Federation.

In culture and preservation of natural and cultural heritage, the Company has been supporting the Portorož Auditorium and the Koper Theatre (since its establishment in 2002) and the Škocjan Caves Park. In cooperation with the Volčji Potok Arboretum and the Lipica Stud Farm, the Company organised various events, which contributed to the conservation of heritage and to the common visibility, while being intended for families, policyholders and members of the AS Bonus Club.

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 14 exhibitions were organised in the gallery so far, mostly by Slovenian authors.

The quality selection is reflected in the increasing number of visitors and a growing media profile of the gallery.

The **AS Foundation** has continued its core mission ever since 1995 (known as Ajda at the time and later as KD Foundation). By offering financial assistance, the Foundation supports talented young individual in a variety of fields. In 2017, 7 young people acquired knowledge in the best universities all around the world owing to the assistance of the Foundation.

With respect to **healthcare,** the Company supported the initiative "Moj zdravnik" (*My Doctor*) for the 16th 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 and reputation of the health profession. Since 1995 the Company has been rewarding blood donors through the Red Cross regional branches in Izola and Koper.

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 buildings and premises and purchasing more environmentally-friendly vehicles.
By switching to the heating system with our own heat pump at the Koper Haed Office, costs were reduced by almost 60% and over EUR 23,000 were saved.

We pay particular attention to the electricity, water and paper saving measures and to the separation of hazardous waste (toners, ink cartridges, IT equipment, lithium batteries and bulbs (the latter since 2014). By digitizing our operations, we almost halved the consumption of hazardous waste - toners and cartridges. As early as in 2016 we started the separation of all waste in the working environment into common containers at organized recycle stations across all business units.

Types of separated waste	2016 kg	2017 kg
Bulk waste	5.550	2.510
Electronic waste	300	460
Toners	300	171
Battery packs	37	105
Paper	16.687	20.747

10. 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	
	2017	2016	2017	2016
Total insurance contracts	102	101	102	100
Non-life insurance contracts	101	102	101	101
Life insurance contracts	103	99	103	98
Health insurance contracts	101	100	101	100

Loss ratio (net claims incurred as a % of net premium income)	Adriatic Slovenica		Group	
	2017	2016	2017	2016
Total insurance contracts	76%	74%	76%	74%
Non-life insurance contracts	64%	61%	64%	61%
Life insurance contracts	84%	74%	84%	74%
Health insurance contracts	87%	90%	87%	90%

Operating costs as a % of gross written insurance premium	Adriatic Slovenica		Group	
	2017	2016	2017	2016
Total insurance contracts	23%	24%	26%	26%
Non-life insurance contracts	30%	30%	31%	31%
Life insurance contracts	29%	33%	30%	34%
Health insurance contracts	10%	12%	10%	12%

Gross profit/loss for the year as a % of net premium income	Adriatic Slovenica		Group	
	2017	2016	2017	2016
Total insurance contracts	5%	4%	5%	4%
Non-life insurance contracts	6%	8%	5%	8%
Life insurance contracts	4%	5%	2%	5%
Health insurance contracts	3%	-	6%	-

Gross profit/loss for the year as a % of average total assets	Adriatic Slovenica		Group	
	2017	2016	2017	2016
Total	2%	2%	2%	2%
Total insurance contracts	3%	4%	3%	4%
Non-life insurance contracts	1%	1%	0%	1%
Life insurance contracts	14%	-	13%	-
Asset management	-	-	0%	0%

Return on equity (net profit/loss for the year as a % of average total equity)	Adriatic Slovenica		Group	
	2017	2016	2017	2016
Total	12%	12%	11%	12%

AUDITED

FINANCIAL STATEMENTS FOR 2017

Adriatic Slovenica d. d.

VSEBINA

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 2017. 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 2017.

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, 16 March 2018

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

To the owners of Adriatic Slovenica d.d.

Report on the Audit of Separate Financial Statements

Opinion

We have audited the separate financial statements of the Adriatic Slovenica d.d. ("the Insurance company"), which comprise the separate statement of financial position as of 31 December 2017, 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 Insurance company as at 31 December 2017, 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) and EU Regulation (EU) No 537/2014. Our responsibilities under those standards are further described in the *Auditor's Responsibility for the Audit of the Financial Statements* section of our report. We are independent of the Insurance 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 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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Recoverable amounts of investment property	
The carrying amount of investment property as at 31 December 2017: EUR 26,287,114 (31 December 2016: EUR 29,566,583); related impairment loss recognized in 2017: EUR 1,160,888 (2016: EUR 905,825). *We refer to the separate financial statements: Notes 5.3 and 6.4 (accounting policies), Notes 10.3 and 10.26 (financial disclosures).*	
Key audit matter	**Our response**
Investment property is the property the Insurance company holds to earn rental income. This includes, primarily, various office space throughout Slovenia, as well as Maribox Maribor, a cultural, entertainment and business center. The investment property is stated at cost less accumulated depreciation and any accumulated impairment losses. As the property is partly unoccupied and partly generating low rental income streams, there are indications that it's recoverable amount may be below the carrying amount. In such circumstances, the relevant financial reporting standards require that investment property shall be impaired. The determination of the recoverable amounts of the Insurance 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 Insurance company, in particular, in respect of the assumptions such as discount rates applied and cash flow projections (based on expected future rental income) and comparable market transactions. Judgment involved in making the assessment is particularly high for Maribox Maribor, the single most significant investment property, due to its specific nature. The recoverable amount of the investment property is highly sensitive to changes in the assumptions used, and therefore we considered this area to be our key audit matter.	Our procedures, performed with the support from an external appraisal expert engaged by us, included, among others: • Assessing the competence, experience and objectivity of the external experts engaged by the Insurance company; • Critically evaluating, by reference to the relevant financial reporting standards and current market practice, the appropriateness of the methodology applied by the Insurance company and its external experts in their determination of the recoverable amounts of the investment property assets; • Challenging the key assumptions used in the valuation reports, mainly focusing on discount rates, proportion of vacancy and rental income, by tracing them to the signed rental contracts, independent external sources and discount rates used in most recent comparable transactions; • In addition to the above, specifically for Maribox Maribor, challenging the appropriateness of the range of key assumptions used by the Insurance company in its sensitivity analysis as disclosed in annual report; • Assessing the adequacy and appropriateness of the Insurance company's disclosures related to the significant judgments of the outcomes of the impairment assessment.

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Measurement of life insurance contract liabilities
Life insurance contract liabilities as at 31 December 2017: EUR 107,590,283 (31 December 2016: EUR 107,250,524), increase in the amount of life insurance contract liabilities in 2017: EUR 339,759 (2016: increase of EUR 4,485,381). *We refer to the financial statements: Notes 5.15, 6.5 (accounting policies), Notes 10.15 and 7.2.1 (financial disclosures).*

Key audit matter	Our response

Life insurance contract liabilities represent a significant liability in the Insurance company's statement of financial position.
 	
Measurement of these liabilities is associated with significant estimation uncertainty as it requires the Management Board 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 Insurance company is required to perform a liability adequacy test (hereinafter, "LAT") with an aim to determine whether its recognized life insurance contract liabilities are accurate and complete. The test is based on the comparison of the Management Board's current estimate of the present value of future cash flows arising from the in-force insurance contracts with the stated amounts of the related liabilities. In case the LAT test shows that the amounts of life insurance contract liabilities are insufficient in light of the estimated future cash flows, the entire deficiency is recognized in profit or loss.
 	
The Insurance company's key assumptions used in the above cash flow model include those in respect of: the expected expenses, lapse rates, investment yields and discount rates used. Relatively insignificant changes in these assumptions can have a significant effect on the amounts of the related estimates due to the long-term nature of the obligations. In view of the above-mentioned factors, we considered this area to be our key audit matter.
	Our procedures, performed with the support from our own actuarial and IT specialists, included, among others:
	
	• Evaluating the methodology used by the Insurance company in measuring life insurance contract liabilities against relevant regulatory and financial reporting requirements;
	• Assessing and testing of general IT controls, including those over the collecting and security of the data used in life insurance contract liabilities calculation;
	• Evaluating the reasonableness of the Insurance company's current estimates of future cash flows used for LAT purposes, by means of:
	  - assessing the results of the Insurance company's experience analysis, and using those historical results to challenge the key assumptions used in the measurement of the current estimates as at 31 December 2017. Specifically, among other things, we assessed whether lapse rates used in LAT were properly extracted from the Insurance company's experience studies, and whether the discount rates and investment yields used were in line with observable market rates;
	  - assessing the reasonableness of the expense assumptions in LAT in comparison with those in the business plan of the Insurance company, which we assess on an annual basis by testing past budgets against actual outcomes;
	• Assessing the reasonableness of the movements in the life insurance contracts liabilities for the year, starting from the opening value and developing our independent expectation for the items which should result in an increase in the liability (such as premiums, technical interest rate, profit sharing, yield rate) and those which result in its decrease (claims, expense loadings, risk premium);
	• Assessing the Insurance company's disclosures in respect of life insurance contract liabilities against the requirements of the relevant financial reporting standards.

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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 separate financial statements and our auditor's report thereon. We obtained other information before the date of the separate financial statements and the auditor's report, except for the report About Adriatic Slovenica and the Adriatic Slovenica Group, which will be available later.

Our opinion on the separate financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the separate financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the separate financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

With respect to the Business Report, we have considered whether they include the disclosures required by the Company's Act (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 separate financial statements and the procedures above, in our opinion:

- the information given in the Business Report for the financial year for which the separate financial statements are prepared, is consistent with the separate financial statements; and
- the Business Report has been prepared in accordance with the applicable legal requirements.

In addition, in light of the knowledge and understanding of the Insurance company 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 other information that we obtained prior to the date of this auditors report. We have nothing to report in this respect.

Responsibility of Management and Those Charged with Governance for the Separate Financial Statements

Management is responsible for the preparation and fair presentation of these separate 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 separate financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the separate financial statements, management is responsible for assessing the Insurance company'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 Insurance company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Insurance company's financial reporting process.

Auditor's Responsibility for the Audit of Separate Financial Statements

Our objectives are to obtain reasonable assurance about whether the separate 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 separate financial statements.

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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 separate 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 Insurance 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 Insurance 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 Insurance 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.

Report on Other Legal and Regulatory Requirements

We were appointed by shareholders of Adriatic Slovenica d.d. on shareholders meeting dated 22 of December 2016 to audit the separate financial statements of Adriatic Slovenica d.d. for the year ended 31 December 2017. Our total uninterrupted period of engagement is 5 years, covering the periods ending 31 December 2013 to 31 December 2017.

We confirm that:

- our audit opinion is consistent with the additional report presented to the Audit Committee of the Insurance company dated 16 March 2018;
- we have not provided any prohibited non-audit services (NASs) referred in Article 5 of EU Regulation (EU) No 537/2014. We also remained independent of the audited entity in conducting the audit;

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For the period to which our statutory audit relates, in addition to the audit and services, which are disclosed in the Management Report or in the separate financial statements of the Insurance company, we have not provided any other services to the Insurance company.

On behalf of the auditing company

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

Damjan Ahčin, FCCA	Barbara Kunc
Certified auditor	*Certified auditor*
	Partner

Ljubljana, 16 March 2018

KPMG Slovenija, d.o.o.
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3. FINANCIAL STATEMENTS

3.1 BALANCE SHEET

Balance sheet as at 31 December 2017

(in EUR)	Note	31 Dec 2017	31 Dec 2016
Assets		757,926,662	733,214,576
Intangible assets	10.1	4,667,467	5,512,694
Property, plant and equipment	10.2	28,125,536	29,340,310
Non-current assets held for sale	10.5	-	2,029,983
Deferred tax assets	10.29	4,014,638	6,083,846
Investment properties	10.3	26,287,114	29,566,583
Financial investments in subsidiaries and associates	10.4	50,816,704	58,161,079
Financial investments	10.6	266,214,531	259,131,080
In loans and deposits		36,655,339	32,352,930
In held-to-maturity financial assets		31,417,539	38,008,230
In available-for-sale financial assets		189,672,564	180,929,889
In financial assets measured at fair value		8,469,089	7,840,031
Unit-linked investments of policyholders	10.7	304,978,130	287,601,433
Amounts of technical provisions ceded to reinsurers	10.8	17,704,191	17,399,320
Assets from investment contracts	10.9	8,890,333	4,753,190
Receivables	10.10	23,321,241	22,766,149
Receivables from direct insurance business		16,433,204	17,407,497
Receivables from reinsurance and coinsurance		2,165,701	1,772,999
Income tax receivables		2,261,714	(0)
Other receivables		2,460,621	3,585,653
Other assets	10.11	5,276,167	5,330,357
Cash and cash equivalents	10.12	17,630,610	5,538,551
Off-balance sheet items	12	83,674,696	24,724,739
Equity and liabilities		757,926,662	733,214,576
Equity	10.13	96,891,946	95,915,172
Share capital		42,999,530	42,999,530
Capital reserves		4,211,782	4,211,782
Reserve from profit		9,223,936	9,223,936
Reserve due to fair value measurement (Revaluation surplus)		392,840	58,661
Retained net earnings		28,614,486	26,467,638
Net profit or loss for the financial year		11,449,372	12,953,626
Subordinated liabilities	10.14	49,525,147	49,453,317
Technical provisions	10.15	273,200,326	271,895,805
Unearned premiums		49,526,004	49,382,871
Mathematical provisions		107,590,283	107,250,524
Outstanding claims provisions		115,554,196	114,097,124
Other technical provisions		529,843	1,165,287
Insurance technical provisions for unit-linked insurance	10.16	301,043,281	282,619,438
Other provisions	10.18	4,431,901	3,815,150
Deferred tax liabilities	10.29	171,035	98,641
Liabilities from investment contracts	10.17	8,890,333	4,753,190
Other financial liabilities	10.19	430,815	1,046,383
Operating liabilities	10.20	7,429,450	6,417,671
Liabilities from direct insurance contracts		5,267,178	3,862,611
Liabilities from reinsurance and coinsurance contracts		2,162,271	1,955,043
Income tax liabilities		0	600,017
Other liabilities	10.21	15,912,429	17,199,809
Off-balance sheet items	12	83,674,696	24,724,739

The accounting policies and notes set out on pages from 118 to 238 are an integral part of the financial statements.

3.2 INCOME STATEMENT

Income statement for the period from 1 January 2017 to 31 December 2017

(in EUR)	Note	2017	2016
NET PREMIUM INCOME	**10.22**	**292,131,025**	**288,110,763**
Gross written premiums	-	303,788,849	298,820,030
Premiums ceded to reinsurers and coinsurers	-	(11,888,097)	(11,069,029)
Change in unearned premiums	-	230,273	359,762
REVENUES FROM INVESTMENTS IN ASSOCIATES, of which	**10.22**	**2,244,354**	**-**
- dobiček iz naložb v kapital pridruženih in skupaj obvladovanih družb, obračunan z uporabo kapitalske metode	-	-	-
INCOME FROM INVESTMENTS	**10.22**	**36,787,565**	**43,777,104**
OTHER INCOME FROM INSURANCE OPERATIONS, of which	**10.22**	**2,256,523**	**1,741,010**
- fee and commission income	-	2,256,523	1,741,010
OTHER INCOME	**10.22**	**7,244,811**	**6,857,324**
NET EXPENSES FOR CLAIMS AND BENEFITS PAID	**10.23**	**(222,186,860)**	**(212,410,024)**
Gross amounts of claims and benefits paid	-	(224,394,576)	(218,701,287)
Reinsurers'/coinsurers' shares	-	3,733,323	4,877,763
Change in claims provisions	-	(1,525,607)	1,413,499
CHANGE IN OTHER TECHNICAL PROVISIONS	**10.15**	**209,400**	**(4,210,408)**
CHANGE IN TECHNICAL PROVISIONS FOR THE BENEFIT OF UNIT-LINKED INSURANCE POLICYHOLDERS	**10.16**	**(18,423,843)**	**(22,921,728)**
CHANGES IN LIABILITIES ARISING FROM INVESTMENT CONTRACTS	**-**	**-**	**-**
EXPENSES FOR BONUSES AND DISCOUNTS	**-**	**128,090**	**100,722**
OPERATING EXPENSES, of which	**10.24**	**(69,656,683)**	**(73,145,012)**
- acquisition costs	-	(23,882,186)	(26,735,474)
EXPENSES FROM INVESTMENTS IN ASSOCIATES, of which	**10.22**	**-**	**(83,819)**
-loss from capital investments in associates and joint ventures, calculated using the equity method	-	-	-
EXPENSES INVESTMENTS, of which	**10.22**	**(538,745)**	**(2,500,272)**
- impairment losses of financial assets not measured at fair value through profit or loss	-	-	(1,373,515)
OTHER INSURANCE EXPENSES	**10.25**	**(3,805,195)**	**(3,922,235)**
OTHER EXPENSES	**10.26**	**(12,861,631)**	**(10,439,693)**
PROFIT/(LOSS) BEFORE TAX	**-**	**13,528,810**	**10,953,732**
CORPORATE INCOME TAX	**10.28**	**(2,079,405)**	**942,917**
NET PROFIT FOR THE REPORTING PERIOD	**-**	**11,449,406**	**11,896,650**

(in EUR)	Note	2017	2016
Basic net earnings/loss per share	**10,30**	**1,11**	**1,15**
Diluted net earnings/loss per share	**-**	**1,11**	**1,15**

The accounting policies and notes set out on pages from 118 to 238 are an integral part of the financial statements.

3.3 STATEMENT OF OTHER COMPREHENSIVE INCOME

Statement of other comprehensive income for the period from 1 January 2017 to 31 December 2017

(in EUR)	Note	2017	2016
NET PROFIT OR LOSS FOR THE FINANCIAL YEAR AFTER TAXATION	**-**	**11,449,406**	**11,896,650**
OTHER COMPREHENSIVE INCOME AFTER TAXATION	**10.13**	**159,622**	**(3,658,226)**
Items not to be allocated to profit or loss in subsequent periods	**-**	**(174,557)**	**(142,532)**
Net gain/loss, recognised in revaluation surplus of property, plant and equipment	-	-	(141)
Actuarial net gain/loss for pension programmes	-	(174,557)	(142,391)
Items that may be allocated to profit or loss in subsequent periods	**10.13**	**334,179**	**(3,515,694)**
Net gain/loss from re-measurement of available-for-sale financial assets	-	412,567	(4,234,030)
Gain/loss, recognised in revaluation surplus	-	2,967,177	4,543,903
Transfer of gain/loss from revaluation surplus to income statement	-	(2,554,610)	(8,777,934)
Tax on items that may be allocated to profit or loss in subsequent periods	-	(78,388)	718,337
TOTAL COMPREHENSIVE INCOME FOR THE YEAR, AFTER TAXATION	**-**	**11,609,028**	**8,238,424**

The accounting policies and notes set out on pages from 118 to 238 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 2017 to 31 December 2017

in EUR	Note	I. Share capital	II. Capital reserve	III. Reserves from profit				IV. Revaluation surplus	V. Retained earnings	VI. Net profit/loss	TOTAL EQUITY
				Legal abd statutory	Credit risk	Catastrophic loss reserves	Other reserves				
Total amount at the end of previous financial year		42,999,530	4,211,782	1,519,600	-	-	7,704,336	58,661	26,467,638	12,953,626	95,915,172
OPENING BALANCE IN THE FINANCIAL PERIOD		**42,999,530**	**4,211,782**	**1,519,600**	**-**	**-**	**7,704,336**	**58,661**	**26,467,638**	**12,953,626**	**95,915,172**
Comprehensive income net of tax	**10.13**	**-**	**-**	**-**	**-**	**-**	**-**	**334,179**	**(174,557)**	**11,449,372**	**11,608,994**
a. Net profit/loss for the year		-	-	-	-	-	-	-	-	11,449,372	11,449,372
b Other comprehensive income	10.13	-	-	-	-	-	-	334,179	(174,557)	-	159,622
Allocation of net profit/loss for the preceeding year to retained profit/loss		-	-	-	-	-	-	-	12,953,626	(12,953,626)	-
Payment (accounting) of dividends	10.31	-	-	-	-	-	-	-	(10,613,539)	-	(10,613,539)
Other		-	-	-	-	-	-	-	(18,682)	-	(18,682)
CLOSING BALANCE AS AT 31 DECEMBER		**42,999,530**	**4,211,782**	**1,519,600**	**-**	**-**	**7,704,336**	**392,840**	**28,614,486**	**11,449,372**	**96,891,946**

The accounting policies and notes set out on page 203 are an integral part of the statement of changes in equity.

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	TOTAL EQUITY
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)
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 203 are an integral part of the statement of changes in equity.

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 2017 to 31 December 2017

(in EUR)	Note	2017	2016
Cash flows from operating activities	**-**	**5,723,331**	**(13,243,677)**
Income statement items	**-**	**5,958,625**	**877,925**
Net premiums written in the period	-	291,900,752	287,751,000
Revenues from investments (other than financial revenues)	-	2,966,670	1,956,982
Other operating revenues (other than revaluation and excluding the decrease in provisions) and financial revenues from operating receivables	-	4,607,525	5,085,849
Net claims paid for the period	-	(220,661,227)	(213,823,523)
Net operating expenses excluding depreciation costs and change in deferred acquisition costs	-	(65,960,338)	(69,837,969)
Investment expenses (excluding depreciation and financial expenses)	-	(1,677,875)	(3,329,668)
Other operating expenses excluding depreciation (other than revaluation and excluding the increase in provisions)	-	(5,201,763)	(4,700,448)
Income tax and other taxes excluded from operating expenses	-	(15,121)	(2,224,297)
Changes in net operating assets (receivables for insurance, other receivables, other assets and deferred tax assets and liabilities) of balance sheet items	**-**	**(235,294)**	**(14,121,603)**
Opening less closing operating receivables from direct insurance operations	-	277,095	890,352
Opening less closing receivables from reinsurance	-	(404,519)	(238,098)
Opening less closing other receivables from (re)insurance contracts	-	(150,382)	1,601,593
Opening less closing other receivables and assets	-	(1,136,494)	(7,263,416)
Opening less closing deferred tax assets	-	2,063,214	(3,166,936)
Opening less closing inventories	-	(1,865)	1,655
Closing less opening liabilities from direct insurance operations	-	1,404,534	(5,392)
Closing less opening liabilities from reinsurance	-	207,229	470,552
Closing less opening other operating liabilities	-	(1,758,233)	(3,481,685)
Closing less opening other liabilities (other than unearned premium)	-	(735,874)	(2,211,890)
Closing less opening deferred tax liabilities	-	-	(718,337)
Net cash from/(used in) operating activities	**-**	**5,723,331**	**(13,243,677)**
Cash flows from investing activities	**-**	**15,223,318**	**(27,931,874)**
Cash inflows from investing activities	**-**	**705,993,130**	**805,763,364**
Cash inflows from interest received from investing activities	-	7,767,768	6,917,173
Cash inflows from dividends and participations in profit of others	-	2,871,582	334,679
Cash inflows from disposal of property, plant and equipment	-	77,975	-
Cash inflows from disposal of financial investments	-	695,275,804	798,511,512
Cash outflows from investing activities	**-**	**(690,769,812)**	**(833,695,238)**
Cash outflows to acquire intangible assets	-	(1,498,792)	(1,747,002)
Cash outflows to acquire property, plant and equipment	-	(2,059,818)	(3,007,660)
Cash outflows to acquire financial investments	-	(687,211,202)	(828,940,576)
Net cash from /(used in) investing activities	**-**	**15,223,318**	**(27,931,874)**
Cash flows from financing activities	**-**	**(8,854,591)**	**33,812,341**
Cash inflows from financing activities	**-**	**5,771,830**	**49,453,317**
Cash inflows from long-term loans and issued bonds	-	71,830	49,453,317
Cash inflows from short-term loans	-	5,700,000	-
Cash outflows from financing activities	**-**	**(14,626,421)**	**(15,640,976)**
Cash outflows for interest paid	-	(3,953,582)	(2,394,156)
Cash outflows for payments of short-term financial liabilities	-	(59,300)	-
Cash outflows to pay out dividends and other participations in profit	-	(10,613,539)	(13,246,820)
Net cash from/(used in) financing activities	**-**	**(8,854,591)**	**33,812,341**
Closing balance of cash and cash equivalents	10.12	**17,630,609**	**5,538,551**
Cash flows for the period	**-**	**12,092,058**	**(7,363,210)**
Closing balance of cash and cash equivalents for the previous year	**-**	**5,538,551**	**12,901,762**

The accounting policies and notes set out on pages from 118 to 238 are an integral part of the financial statements.

3.6 STATEMENT OF ACCUMULATED PROFIT

Statement of accumulated profit for 2017

(in EUR)	Note	Total 2017	Total 2016
Net profit/(loss) for the financial year	**-**	**11,449,372**	**11,896,650**
Net profit carried forward (+) / net loss carried forward (-)	**10.13**	**28,614,486**	**26,467,638**
- result for the current year under effective standards	-	28,614,486	26,467,638
Decrease in reserves	**10.13**	**-**	**1,056,976**
Balance-sheet profit allocated by the Annual General Meeting as follows:	**-**	**40,063,858**	**39,421,263**
− to the shareholder	-	10,304,407	10,613,539

The accounting policies and notes set out on pages from 118 to 238 are an integral part of the financial statements.

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.

Adriatic Slovenica d.d. (the controlling company) together with the subsidiaries PROSPERA d.o.o., VIZ d.o.o., Permanens d.o.o. (in liquidation), ZDRAVJE AS d. o. o., KD IT d. o. o., Agent d.o.o., KD Skladi d.o.o. and two indirect subsidiaries KD Locusta Fondovi d.o.o., Croatia, and KD Fondovi AD Skopje, 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 2018. The Group comprised the company KD AS Neživotno osiguranje a. d. o. whose liquidation procedure was concluded in 2017.

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 annual report is produced for the widest range of related companies of the Company by the controlling company KD d. d., Dunajska cesta 63, 1000 Ljubljana, Slovenia. 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 2017:

Gabrijel Škof, President of the Management Board
Matija Šenk, Member of the Management Board
Until end-year 2017, the Company Adriatic Slovenica was led by a two-person Management Board. 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 2017:

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

Audit Committee in 2017:

Matjaž Pavlin, Chairman
Mojca Kek, Deputy Chairman
Vera Dolinar, member (independent expert)

Committee for the regular monitoring of the implementation of the Strategy and achievement of the target business model in 2017:

Aljoša Tomaž, Chairman – SB Member (Start date 18 Oct 2017)
Aleksander Sekavčnik, Deputy Chairman – Independent Expert (Start date 18 Oct 2017)
Carlo Palmieri, član – Member – Independent Expert (Start date 18 Oct 2017)

Shareholders as at 31 December 2017

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 2017 year end

Data on employees by number and level of education in 2017

	Qualification level					
Number of employees as at	I- IV	V	VI	VII	VIII-IX	Total
1 Jan 2016	30	383	154	442	34	1043
31 Dec 2016	29	364	144	441	31	1009
1 Jan 2016 AS Branch	6	44	17	21	5	93
31 Dec 2016 AS Branch	4	27	15	20	1	67
2017 average	**31.9**	**410.8**	**161.6**	**458.8**	**35.7**	**1098.8**

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 2017 year-end, the number of employees in Adriatic Slovenica, taking into consideration these proportion, is 1,055.45 and is different from the number of employees per person, which was 1,076 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 for 2017 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 2017 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 2017:

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 15 Revenue from Contracts with Customers and Clarifications to IFRS 15 Revenue from Contracts with Customers (issued on 12 April 2016)

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

The new Standard provides a framework that replaces existing revenue recognition guidance in IFRS. Entities will adopt a five-step model to determine when to recognise revenue, and at what amount. The new model specifies that revenue should be recognised when (or as) an entity transfers control of goods or services to a customer at the amount to which the entity expects to be entitled. Depending on whether certain criteria are met, revenue is recognised;

- over time, in a manner that depicts the entity's performance; or
- at a point in time, when control of the goods or services is transferred to the customer.

IFRS 15 also establishes the principles that an entity shall apply to provide qualitative and quantitative disclosures which provide useful information to users of financial statements about the nature, amount, timing, and uncertainty of revenue and cash flows arising from a contract with a customer.

The Clarifications to IFRS 15 clarify some of the Standard's requirements and provide additional transitional relief for companies that are implementing the new Standard.

The amendments clarify how to:

- identify a performance obligation - the promise to transfer a good or a service to a customer- in a contract;
- determine whether a company is a principal (the provider of a good or service) or an agent (responsible for arranging for the good or service to be provided, and determine whether the revenue from granting a license should be recognised at a point in time or over time

The amendments also provide entities with two additional practical expedients:

- An entity need not restate contracts that are completed contracts at the beginning of the earliest period presented (for entities that using the full retrospective method only);
- For contracts that were modified before the beginning of the earliest period presented, an entity need not retrospectively restate the contract but shall instead reflect the aggregate effect of all of the modifications that occur before the beginning of the earliest period presented (also for entities recognising the cumulative effect of initially applying the standard at the date of initial application).

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.

IFRS 9 Financial Instruments (2014)

This standard is effective for annual periods beginning on or after 1 January 2018 (postponement until 2020 has been proposed for insurance companies); to be applied retrospectively with some exemptions. The restatement of prior periods is not required, and is permitted only if information is available without the use of hindsight. Early application is permitted.

This Standard replaces IAS 39, Financial Instruments: Recognition and Measurement, except that the IAS 39 exception for a fair value hedge of an interest rate exposure of a portfolio of financial assets or financial liabilities continues to apply, and entities have an accounting policy choice between applying the hedge accounting requirements of IFRS 9 or continuing to apply the existing hedge accounting requirements in IAS 39 for all hedge accounting until the standard resulting from the IASB's project in macro hedge accounting is effective.

Although the permissible measurement bases for financial assets – amortised cost, fair value through other comprehensive income (FVOCI) and fair value through profit or loss (FVTPL) – are similar to IAS 39, the criteria for classification into the appropriate measurement category are significantly different.

A financial asset is measured at amortized cost if the following two conditions are met:

- the assets is held within a business model whose objective is to hold assets in order to collect contractual cash flows; and
- its contractual terms give rise, on specified dates, to cash flows that are solely payments of principal and interest on the principal outstanding.

In addition, for a non-trading equity instrument, a company may elect to irrevocably present subsequent changes in fair value (including foreign exchange gains and losses) in OCI. These are not reclassified to profit or loss under any circumstances.

For debt instruments measured at FVOCI, interest revenue, expected credit losses and foreign exchange gains and losses are recognised in profit or loss in the same manner as for amortised cost assets. Other gains and losses are recognised in OCI and are reclassified to profit or loss on derecognition.

The impairment model in IFRS 9 replaces the 'incurred loss' model in IAS 39 with a forward-looking an 'expected credit loss' (ECL) model, which means that a loss event will no longer need to occur before an impairment allowance is recognised. The new impairment model will apply to financial assets measured at amortized cost or FVOCI, except for investments in equity instruments, and to contract assets.

Under IFRS 9, loss allowances will be measured on either of the following bases:

- 12-month ECLs: these are ECLs that result from possible default events within the 12 months after the reporting date; and
- Lifetime ECLs: these are ECLs that result from all possible default events over the expected life of a financial instrument.

IFRS 9 includes a new general hedge accounting model, which aligns hedge accounting more closely with risk management. The types of hedging relationships – fair value, cash flow and foreign operation net investment – remain unchanged, but additional judgment will be required.

The standard contains new requirements to achieve, continue and discontinue hedge accounting and allows additional exposures to be designated as hedged items.

Extensive additional disclosures regarding an entity's risk management and hedging activities are required.

The Company expects for this amendment to have 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), fair value through profit or loss (FVTPL), 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 Company'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. The Company will start applying the new standard, as is permitted by the the standard, in 2021.

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

Effective for annual periods beginning on or after 1 January 2018; to be applied retrospectively with some exemptions.

The amendments address concerns arising from implementing IFRS 9 before implementing the replacement standard that the IASB is developing for IFRS 4. The amendments introduce two optional solutions. One solution is a temporary exemption from IFRS 9, effectively deferring its application for some insurers. The other is an overlay approach to presentation to alleviate the volatility that may arise when applying IFRS 9 before the forthcoming 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.

IFRS 16 Leases

Effective for annual periods beginning on or after 1 January 2019. Earlier application is permitted if the entity also applies IFRS 15.

IFRS 16 supersedes IAS 17 Leases and related interpretations. The Standard eliminates the current dual accounting model for lessees and instead requires companies to bring most leases on-balance sheet under a single model, eliminating the distinction between operating and finance leases.

Under IFRS 16, a contract is, or 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. For such contracts, the new model requires a lessee to recognise a right-of-use asset and a lease liability. The right-of-use asset is depreciated and the liability accrues interest. This will result in a front-loaded pattern of expense for most leases, even when the lessee pays constant annual rentals.

The new Standard introduces a number of limited scope exceptions for lessees which include:

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

Lessor accounting, however, shall remain largely unchanged and the distinction between operating and finance leases will be retained.

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

Standards, interpretations and changes of the published standards, which are not yet effective and have not been adopted by the EU as at 12 December 2017

Amendments to IFRS 10 and IAS 28 Sale or contribution of assets between an investor and its associate or joint venture

Day of application not yet defined. The European Commission decided to defer the endorsement indefinitely.

The Amendments clarify that in a transaction involving an associate or joint venture, the extent of gain or loss recognition depends on whether the assets sold or contributed constitute a business, such that:

- a full gain or loss is recognised when a transaction between an investor and its associate or joint venture involves the transfer of an asset or assets which constitute a business (whether it is housed in a subsidiary or not), while
- a partial gain or loss is recognised when a transaction between an investor and its associate or joint venture involves assets that do not constitute a business, even if these assets are housed in a 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.

IFRS 17 Insurance Contracts

Effective for annual periods beginning on or after 1 January 2021; to be applied prospectively. Early application is permitted.

IFRS 17 replaces IFRS 4, which was brought in as an interim Standard in 2004. IFRS 4 has given companies dispensation to carry on accounting for insurance contracts using national accounting standards, resulting in a multitude of different approaches.

IFRS 17 solves the comparison problems created by IFRS 4 by requiring all insurance contracts to be accounted for in a consistent manner, benefiting both investors and insurance companies. Insurance obligations will be accounted for using current values, instead of historical cost.

The Company expects that the new Standard, when initially applied, will have a material impact on the financial statements of the Company. However, the impact cannot be assessed at this moment.

IFRIC 22 Foreign Currency Transactions and Advance Consideration

Effective for annual periods beginning on or after 1 January 2018. Early application is permitted

IFRIC 22 provides requirements about which exchange rate to use in reporting foreign currency transactions (such as revenue transactions) when payment is made or received in advance and clarifies that the transaction date is the date on which the company initially recognises the prepayment or deferred income arising from the advance consideration. For transactions involving multiple payments or receipts, each payment or receipt gives rise to a separate transaction date.

The Company does not expect that the Interpretation, when initially applied, will have material impact on the financial statements as the Company uses the exchange rate on the transaction date for the initial recognition of the non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration.

IFRIC 23 Uncertainty over Income Tax Treatments

Effective for annual periods beginning on or after 1 January 2019. Early application is permitted.

IFRIC 23 clarifies the accounting for income tax treatments that have yet to be accepted by tax authorities, whilst also aiming to enhance transparency. Under IFRIC 23, the key test is whether it is probable that the tax authority will accept the entity's chosen tax treatment. If it is probable that the tax authorities will accept the uncertain tax treatment then the tax amounts recorded in the financial statements are consistent with the tax return with no uncertainty reflected in measuring current and deferred taxes. Otherwise, the taxable income (or tax loss), tax bases and unused tax losses shall be determined in a way that better predicts the resolution of the uncertainty, using either the single most likely amount or expected (sum of probability weighted amounts) value. An entity must assume the tax authority will examine the position and will have full knowledge of all the relevant information.

The Entity does not expect that the Interpretation, when initially applied, will have material impact on the financial statements as the Entity does not operate in a complex multinational tax environment.

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

Effective for annual periods beginning on or after 1 January 2018; to be applied prospectively. Earlier application is permitted).

The amendments clarify share-based payment accounting on the following areas:

- the effects of vesting and non-vesting conditions on the measurement of cash-settled share-based payments;
- share-based payment transactions with a net settlement feature for withholding tax obligations; and
- a modification to the terms and conditions of a share-based payment that changes the classification of the transaction from cash-settled to equity settled.

The Entity expects that the amendments, when initially applied, will not have a material impact on the presentation of the financial statements of the entity because the Entity does not enter into share-based payment transactions.

Annual Improvements

Annual Improvements to IFRS 2014-2016 Cycle (issued on 8 December 2016)

Effective for annual periods beginning on or after 1 January 2018 except for the changes to IFRS 12 that shall be applied for annual periods beginning on or after 1 January 2017. The Improvements to IFRSs (2014-2016) contain 3 amendments to standards.

The main changes were to:

- delete short-term exemptions for first-time adopters (IFRS 1 First-time Adoption of International Financial Reporting Standards) relating, inter alia, to transition provisions of IFRS 7 Financial Instruments - Disclosures regarding comparative disclosures and transfers of financial assets, and of IAS 19 Employee Benefits; The exemptions were deleted due to the fact that these reliefs had been available to entities only for reporting periods that had passed;
- clarify that requirements of IFRS 12 Disclosure of Interest in Other Entities (with an exception of disclosure of summarized financial information in accordance with paragraphs B10-B16 of that standard) apply to entities that have an interest in subsidiaries, or joint arrangements, or associates, or unconsolidated structured entities, which are classified as held for sale or discontinued operations in accordance with IFRS 5 Non-current Assets Held for Sale and Discontinued Operations; and
- clarify that election of exemption from applying the equity method per IAS 28 Investments in Associates and Joint Ventures shall be made separately for each associate or joint venture at initial recognition of the associate or joint venture.

None of these changes are expected to have a material impact on the financial statements of the Entity, for example: because the Entity does not have interest in subsidiaries, joint arrangements, associates or unconsolidated structured entities, which are classified as held for sale or discontinued operations and the Company does not use an exemption from the equity method accounting for its interest in associates and joint ventures.

Amendments to IAS 40 Transfers of Investment Property

Effective for annual periods beginning on or after 1 January 2018; Earlier application is permitted.
The Amendments provide clarification on transfers to, or from, investment properties:

- a transfer into, or out of investment property should be made only when there has been a change in use of the property; and
- such a change in use would involve an assessment of whether the property qualifies as an investment property.

The Company does not expect that the amendments, when initially applied, will have a material impact on the financial statements because the Company transfers a property asset to, or from, investment property only when there is an actual change in use.

Amendments to IFRS 9: Prepayment Features with Negative Compensation

Amendments were issued on 12 October 2017. Effective for annual periods beginning on or after 1 January 2019.

These amendments address concerns raised about accounting for financial assets that include particular contractual prepayment options. In particular, the concern was related to how a company would classify and measure a debt instrument if the borrower was permitted to prepay the instrument at an amount less than the unpaid principal and interest owed. Such a prepayment amount is often described as including 'negative compensation'. Applying IFRS 9, a company would measure a financial asset with so-called negative compensation at fair value through profit or loss. The amendments enable entities to measure at amortized cost some prepayable financial assets with so-called negative compensation.

The Company does not expect that the amendments, when initially applied, will have a material impact on the financial statements because the Company currently does not have prepayable financial assets with negative compensation.

Amendments to IAS 28 Long-term Interests in Associates and Joint Ventures (issued on 12 October 2017)

Amendments were issued on 12 October 2017. Effective for annual periods beginning on or after 1 January 2019.

The amendment clarifies that a venture capital organisation, or a mutual fund, unit trust and similar entities may elect, at initial recognition, to measure investments in an associate or joint venture at fair value through profit or loss separately for each associate or joint venture.

The Entity does not expect the Amendments to have a material impact on its financial statements when initially applied.

Annual Improvements

Annual Improvements to IFRS 2015-2017 Cycle issued on 12 December 2017 and effective for annual periods beginning on or after 1 January 2019.

The Improvements to IFRSs (2015-2017) contains four amendments to standards. The main changes were to:

- clarify that the entity remeasures its previously held interest in a joint operation when it obtains control of the business in accordance with IFRS 3 Business Combinations;
- clarify that the entity does not remeasure its previously held interest in a joint operation when it obtains joint control of the joint operation in accordance with IFRS 11 Joint Arrangements;
- clarify that the entity should always accounts for income tax consequences of dividend payments in profit or loss, other comprehensive income or equity according to where the entity originally recognized past transactions or events that generated distributable profits; and
- clarify that the entity should exclude from the funds that the entity borrows generally borrowings made specifically for the purpose of obtaining a qualifying asset until substantially all the activities necessary to prepare that asset for its intended use or sale are complete as borrowings made specifically for the purpose of obtaining a qualifying asset should not apply to a borrowing originally made specifically to obtain a qualifying asset if that asset is ready for its intended use or sale.

None of these changes are expected to have a material impact on the financial statements of the Company.

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 2017 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-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 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 and a guarantee.

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 government 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 2017.

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 2017	Useful life in 2017 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 useful life of plant, property and equipment is defined as the expected useful life for the Company. The assessment of the useful life of an asset is the Company's best estimate based on its experience with similar assets. 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 2017	Useful life in 2017 in years
Buildings	1,3 -1,8 %	56-77
Motor vehicles	12,5-15,5 %	6-8
Computer equipment	33,3 %-50%	2-3
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 Company defined three cash-generating units - non-life insurance, health insurance and life insurance. The recoverable amount is generally the amount larger 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. Operating conditions are deemed to be deviating from normal, if in the past three years the cash-generating unit has reached a negative profit, which in each case exceeds the amount of the insurance company's significance and there are no prospects for improving its business in the coming years.

The management assesses the values of these properties in the case the business circumstances significantly change or deviate from normal (expected) business conditions (an individual cash-generating unit has been operating with negative results for the last three years) 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 by the Company 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 2017	Useful life in 2017 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 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 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 Company 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 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 enable 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	
		Weight 2: maturity date of security, the fair value of which is being determined	
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
	Cost method	Reproduction of same new building or replacement cost	
	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)	
		rediscount 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 as per the amortisation plan	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 as per the amortisation plan	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

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 30,000. 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 the provisions of the Companies Act (ZGD-1), insurance legislation governing the establishment of reserves, on the basis of the decision adopted by the Management Board and endorsed by the Supervisory Board regarding the establishment of reserves and on the basis of the decision adopted by the Management Board and endorsed by the Supervisory Board regarding the needs for achieving and preserving the adequate level of capital adequacy (other reserves from retained earnings).

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 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 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 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 incur 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 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 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 guarantee 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 payout 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.

Odmerjeni davek

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. At the beginning of 2017, The Slovene local tax legislation increased the tax rate from 17% to 19%. The tax rate applied in the calculation of corporate income tax for 2017 was 19%.

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 2017), and then reported in the tax report of the parent company in Slovenia, where the previously paid tax abroad is deducted, but only up to the level of tax rate effective in Slovenia (19% in 2017).

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, in 2017 there was no need for permanent impairment of the available-for-sale financial investments.

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 (see Section 5.5 Fair Value for more details).

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.

6.3 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 2017, 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.

6.4 UGOTAVLJANJE NADOMESTLJIVE VREDNOSTI NALOŽBENIH NEPREMIČNIN

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 2017, a valuation and an impairment assessment were performed for the investment property Loška 13, 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 an in 2017, serving as a basis for further development of the property. In 2017, the Centre was rebranded as MARIBOX. The Centre boasts the most modern movie theatre in

Slovenia, which was reflected in a higher number of visitors. Further growth and additional investments are planned for 2018 in cinematographic and catering activities and in a general refurbishment of the building and its surroundings.

In 2016, a 14% growth in the number of moviegoers was achieved, which exceeded the market growth of 11% that year. In 2017, a 17% growth in the number of moviegoers was achieved, indicating that the foreseen market growth will be exceeded again. Last year one of the largest commercial premises was leased, and there is a growing interest for the remaining commercial premises, mostly intended for bars and restaurants. Lease agreements with existing lessees were renewed and the number of permanent parking space renters has continued to increase. To sum up, all indicators show that the final objective, i.e. a full recovery of the Centre, will be attained.

The income approach (direct capitalisation method) was used to assess the recoverable value of the property Loška 13, 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 6.77% consisting of:
- real risk-free rate of return of 0.38 %,
- liquidity premium of 1.50 %,
- risk premium of 3.10 %,
- investment management premium of 0.30 %,
- premium for the preservation of capital 1.49 %.

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).

6.5 ESTIMATIONS OF INSURANCE TECHNICAL PROVISIONS

Non-life and health insurance contracts

Claims reported but not settled

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 based on 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; they are paid out as annuities, 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 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 euros	Provision for incurred but not reported claims (IBNR) 31.12.2017	Provision for incurred but not reported claims (IBNR) 31.12.2016
Accident insurance	7,714,385	7,748,043
Health insurance	4,784,152	5,617,722
Land motor vehicles insurance	1,316,940	1,483,391
Marine loss insurance	19,938	45,090
Goods in transport insurance	181,484	114,069
Fire and natural forces insurance	652,733	701,895
Other damage to property insurance	896,517	1,068,398
Motor vehicle liability insurance	26,132,550	28,426,248
Liability for ship/boat insurance	3,577	28,722
General liability insurance	10,633,175	9,663,454
Credit insurance	-	3,875
Suretyship insurance	5,978	6,690
Miscellaneous financial loss insurance	28,621	36,477
Legal expenses insurance	-	662
Travel assistance insurance	258,548	227,764
Life insurance	3,289,725	2,904,791
Total	**55,918,323**	**58,077,294**

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.

Due to an increase in the portfolio of life insurance in the event of death, the Company started forming IBNR for the risk in the event of death.

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	befor 2008	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
At the end of loss year	-	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	89,291,142
1 year after loss year	-	118,496,776	109,844,795	98,882,126	92,331,285	104,142,780	87,477,430	85,239,212	81,956,952	86,186,241	-
2 years after loss year	-	117,455,256	109,454,915	96,330,471	90,568,304	96,570,014	85,740,792	83,397,478	80,211,635	-	-
3 years after loss year	-	117,524,811	107,637,944	95,301,074	89,085,735	94,028,156	83,827,339	81,579,315	-	-	-
4 years after loss year	-	115,587,514	105,953,158	93,622,460	86,234,853	94,315,327	84,162,769	-	-	-	-
5 years after loss year	-	114,800,364	104,876,792	93,138,216	87,113,178	93,416,625	-	-	-	-	-
6 years after loss year	-	113,669,023	104,466,465	92,620,067	86,819,320	-	-	-	-	-	-
7 years after loss year	-	113,329,522	104,972,611	92,363,891	-	-	-	-	-	-	-
8 years after loss year	-	113,291,067	104,850,834	-	-	-	-	-	-	-	-
9 years after loss year	-	113,136,359	-	-	-	-	-	-	-	-	-
Cumulative loss estimate	-	113,136,359	104,850,834	92,363,891	86,819,320	93,416,625	84,162,769	81,579,315	80,211,635	86,186,241	89,291,142
Total losses paid until 31 Dec. 2017	-	110,960,325	101,690,145	90,194,386	83,251,766	90,812,545	80,505,305	77,436,850	72,504,078	70,455,271	51,473,761
Claim provisionss - balance 31 Dec. 2017	13,743,522	2,176,034	3,160,689	2,169,505	3,567,553	2,604,080	3,657,463	4,142,466	7,707,557	15,730,969	37,817,381

Claims provisions do not include claim handling costs.

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

(in EUR)	Listing + IBNR	Provisions for valuation costs	Total
Provisions as at 31.12.2016	95,611,918	5,776,132	101,388,049
Provisions as at 31.12.2017	96,948,803	6,610,043	103,558,845

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 2017, 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.

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 2017, for the first time, the Company produced and published the Solvency and Financial Condition Report for 2016. The report was also reviewed by an independent external auditor, and it is evident from the report that at the 2016 year-end the Company had a surplus of own assets above the required capital. The Company confirms that as at 30 September 2017, 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.

Moreover, in 2017, the Company produced for the first time a Regular Report to the Supervisor and delivered an extended annual set of quantitative reporting templates (QRT).

The parent company performs 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 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. According to the own risk and solvency assessment, the tested negative shocks and scenarios would not jeopardize the Company's capital adequacy.

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 surrenders 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 underwritten 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 is the exposure of the insurance portfolio to loss events over a certain territory, which may result in mass damage of insured buildings as part of the same event.

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 2017

(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	70,702	0.32%	191,729	0.87%
Unit-linked insurance	874,432	2.24%	3,045,368	7.78%
Health insurance	306,354	0.30%	619,668	0.61%
Non-life insurance	13,040,929	9.35%	24,175,214	17.33%
Total	**14,292,417**	**4.66%**	**28,031,980**	**9.13%**

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%**

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 concentration of individual risks is determined by analysing the insurance portfolio. For this purpose, a detailed examination of the exposure to the following risks by number, area and amount of insurance is produced;

- earthquake,
- storm,
- flood.

The analyses show that, according to its structure, the portfolio of Adriatic Slovenica is most exposed to the above risks. These are managed by proportional reinsurance protection above the maximum own shares in the form of reinsurance of individual events, as well as a greater number of such events in the form of reinsurance coverage of annual claims aggregate.

In order to ensure an adequate level of reinsurance coverage, the results of internationally recognized modelling of the exceptional events offered by the reinsurance broker are used.

The level and form of the reinsurance programme has so far proved to be adequate. Over the past two years, reinsurance protection was activated in case of a major event and in case of coverage of the annual aggregate of claims.

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 2017	With reinsurance 2017	Net of reinsurance 2016	With reinsurance 2016
0–9,999 euros	286,870,806	264,836,915	317,404,960	298,339,705
10,000–29,999 euros	861,535,619	752,713,910	871,281,338	788,915,129
30,000–59,999 euros	947,038,464	662,926,918	899,924,105	649,140,322
60,000–99,999 euros	644,289,983	297,635,506	541,092,874	276,996,430
Over 100,000 euros	334,346,183	100,593,936	285,269,397	93,324,677
Total	**3,074,081,055**	**2,078,707,185**	**2,914,972,674**	**2,106,716,263**

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. 12. 2017		TOTAL ANNUAL ANNUITY PAYMENTS as at 31. 12. 2016	
Annual annuity payments to the insured person as at 31 December	amount	%	amount	%
EUR 0–999	407,806	12.56%	608,086	16.02%
EUR 1,000–1,999	889,136	27.39%	1,182,728	30.34%
EUR 2,000–2,999	586,452	18.07%	694,587	17.72%
EUR 3,000–3,999	428,752	13.21%	488,856	12.40%
Over EUR 4,000	933,903	28.77%	961,124	23.52%
Total	**3,246,050**	**100.00%**	**3,935,380**	**100.00%**

In 2017, concentrations of insurance risk with respect to the company's annuity business was the highest in the over EUR 4,000 annual annuity payment bracket, while in 2016 the concentration was highest 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 2018.

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 1.8% 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 2017

The liability adequacy test (LAT) results of 31 December 2017, 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 2017 applied the claims ratio of final claims occurred in 2017, 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 2017

As at 31 December 2017, the Company formed provisions for unexpired risks for health insurance, land motor vehicle insurance and credit insurance in the total amount of EUR 75,988. 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 2017	31 Dec 2016
Factor		
Costs/expenses +5 %	(3,424,254)	(3,624,243)
Costs/expenses -5 %	3,424,254	3,624,243
Interest rates +1 %	16,305,632	17,972,309
Interest rates -1 %	(15,427,105)	(15,798,773)
Assurance mortality +5 %	114,010	92,396
Annuitant mortality -5 %	(130,996)	(107,977)
Loss ratio +5 %	(14,606,551)	(14,640,919)
Loss ratio -5 %	14,606,551	14,640,919

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, homogeneity, 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.

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 2016 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 2017

Type of reinsurance in EUR	Reinsurance premium	Structure of reinsurance premium	Reinsurance policy fees	Written reinsurance claims/losses	Change in unearned premiums for reinsurance	Change in outstanding claims provisions for reinsurance	Impact of reinsurance result on profit
Motor QS	-	0.00%	795,306	254,739	-	(1,640,471)	(590,426)
Quota share reinsurance of earthquake risk	(1,743,249)	15.33%	488,110	1,547	5,377	153	(1,248,063)
Non-life Gross Risk XL reinsurance	(1,228,098)	10.80%	-	-	-	-	(1,228,098)
Engineering Risk XL reinsurance	(137,742)	1.21%	-	6,565	-	32,037	(99,139)
Non-life Cat XL reinsurance	(1,403,098)	12.34%	-	-	-	230,751	(1,172,347)
Non-life, i.e. annual aggregate Cat XL losses	(852,093)	7.49%	-	1,330,084	-	1,378,089	1,856,080
XL reinsurance motor vehicle liability insurance and green cards	(689,505)	6.06%	-	833,322	-	119,835	263,651
XL reinsurance of comprehensive automobile insurance (casco)	(37,028)	0.33%	-	50,000	-	130,000	142,972
Other non-life reinsurance	**(3,287,287)**	**28.91%**	**328,063**	**810,737**	**222,630**	**(281,896)**	**(2,207,754)**
Health reinsurance	**-**	**0.00%**	**-**	**-**	**-**	**-**	**-**
Life reinsurance	**(1,993,543)**	**17.53%**	**572,607**	**602,961**	**9,883**	**(56,321)**	**(864,414)**
Total reinsurance in the financial year	**(11,371,644)**	**100.00%**	**2,184,085**	**3,889,955**	**237,890**	**(87,824)**	**(5,147,538)**
Co-insurance provided	**(516,453)**	**0.00%**	**78,049**	**41,776**	**135,517**	**19,288**	**(241,824)**
Co-insurance received	**329,899**	**0.00%**	**(58,846)**	**(122,758)**	**61,664**	**47,417**	**257,376**
Reinsurance received	**645,340**	**0.00%**	**(88,991)**	**(75,650)**	**(59,730)**	**(61,410)**	**359,557**
Total Re(co)insurance	**(10,912,859)**	**0.00%**	**2,114,296**	**3,733,322**	**375,340**	**(82,529)**	**(4,772,429)**

Reinsurance concentration in the financial year 2016

Type of reinsurance in EUR	Reinsurance premium	Structure of reinsurance premium	Reinsurance policy fees	Written reinsurance claims/losses	Change in unearned premiums for reinsurance	Change in outstanding claims provisions for reinsurance	Impact of reinsurance result on profit
Motor QS	-	0.00%	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)
Engineering 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 reinsurance	(2,856,842)	26.32%	290,321	513,116	5,003	(117,596)	(2,165,999)
Health reinsurance	-	0.00%	-	-	-	-	-
Life reinsurance	(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)**

The above table shows the reinsurance concentration for all contracts.
In 2017, the reinsurance premium of EUR 11,371,644 was totalled or by 4.8% more compared to the previous year.

While in 2017 a somewhat lower reinsurance premium was achieved for XL-reinsurance than in 2016, the growth in the premium for facultative reinsurance continued in 2017. This is due to growth in liability insurance, increased risk sharing among Slovenian insurance companies in the form of co-insurance and reinsurance and the realization of the Cimos international reinsurance programme. As a part of this programme was coinsured, the provided co-insurance premium went up by 139% in 2017.

In 2017, the reinsurers' share in claims totalled EUR 3,889,955 (EUR 4,927,629 in 2016), of which EUR 254,739 came from car insurance quota (EUR 2,350,318 in 2016). The year 2017 was marked by several loss events due to storms, which did not exceed the threshold for enforcement of reinsurance protection for individual catastrophic claims, however annual aggregate Cat XL losses reinsurance had to be applied.

With regard to storms that occurred in 2016 and 2017, in 2017 the reinsurers' share in claims totalled EUR 1,330,084, while claims provisions as of 31 December 2017 went up by EUR 1,608,840 compared to 31 December 2016.

In 2017, loss events in reinsurance of motor vehicle liability insurance were more moderate compared to 2016, which is reflected in lower reinsurers' share in claims and a minimal change of claims provisions. The release of IBNR claims provisions led to an improved loss ratio in the reinsurance of the car quota in the years 2012 to 2014, which partly influenced the increase of reinsurance fees and commissions in 2017.

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 2017, these assets totalled EUR 310,355,667 (2016: EUR 291,406,231). Of this total amount, EUR 304,978,130 (2016: EUR 287,601,433) are accounted for in the category of assets of policyholders who bear investment risk, and a part of the assets amounting to EUR 5,377,537 (2016: EUR 3,805,789) in other balance sheet categories of funds, where policyholders bear investment risk. These other assets derive from underwriting unit-linked insurance, however as at 31 December, these assets are not from policyholders who bear the investment risk and do not carry financial risk, and are therefore not included in the disclosures regarding the risks that the insurance company presents below. Other balance sheet items are specifically presented in the following table.

In EUR	2017	2016
Cash at bank	2,408,989	1,566,686
Financial receivables	1,677,412	1,051,054
Receivables from direct insurance operations	1,291,137	1,141,271
Short-term deferred acquisition costs	-	44,788
Total	**5,377,537**	**3,803,798**

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 balance of 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 2017 and 2016 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 2017

(in EUR)	Non-life insurance contracts, excluding health insurance	Health insurance contracts	Life insurance contracts	Investment contracts pokojninsko varčevanje	Total
ASSETS					
Financial assets at fair value through profit or loss	**3,795,627**	**(0)**	**3,573,500**	**839,694**	**8,208,821**
- listed	2,821,251	(0)	3,463,094	403,988	6,688,333
Government bonds	974,376	(0)	110,406	435,706	1,520,488
Held-to-maturity financial assets	**9,609,406**	**302,271**	**21,505,862**	**-**	**31,417,539**
- listed	9,609,406	302,271	9,805,032	-	19,716,709
Government bonds	-	-	11,700,830	-	11,700,830
Available-for-sale financial assets	**63,453,258**	**5,330,181**	**87,210,150**	**590,650**	**156,584,239**
- listed	19,149,484	(0)	8,045,907	-	27,195,391
- non-listed	3,969,183	-	-	-	3,969,183
Government bonds	40,334,591	5,330,181	79,164,244	590,650	125,419,665
Total debt financial instruments	**76,858,290**	**5,632,451**	**112,289,512**	**1,430,344**	**196,210,599**
Financial assets at fair value through profit or loss	-	-	856,426	4,846,613	5,703,039
- listed	-	-	856,426	4,846,613	5,703,039
Available-for-sale financial assets	26,286,009	670,697	6,722,269	1,647,658	35,326,633
- listed	11,196,200	-	6,061,257	1,647,658	18,905,115
- non-listed	15,089,809	670,697	661,012	-	16,421,518
Total equity financial instruments	**26,286,009**	**670,697**	**7,578,695**	**6,494,271**	**41,029,672**
Loans, deposits and financial receivables	26,036,037	2,913,112	6,028,778	3,585	34,981,512
Investments in subsidiaries and associates	16,714,463	3,180,261	30,921,980	-	50,816,704
Derivatives	112,027	-	131,510	-	243,537
Total financial investments	**146,006,826**	**12,396,522**	**156,950,475**	**7,928,201**	**323,282,024**
Amount (technical provisions) transferred to reinsurers	17,420,258	-	283,933	-	17,704,191
Receivables from insurance business and other receivables	30,667,189	8,221,784	3,312,012	-	26,044,743
Cash and cash equivalents	7,436,765	3,503,242	4,281,613	962,132	16,183,754
Other assets	60,531,973	140,080	3,862,713	-	64,356,284
Total assets	262,063,011	24,261,628	168,690,747	8,890,333	447,570,995
Liabilities from insurance contracts	**146,686,492**	**12,253,257**	**-**	**-**	**158,939,749**
- non-current liabilities	56,428,150	46,653	-	-	56,474,803
- current liabilities	90,258,342	12,206,605	-	-	102,464,946
Liabilities from insurance contracts with DPF	**-**	**-**	**112,924,066**	**-**	**112,924,066**
- non-current liabilities	-	-	101,985,354	-	101,985,354
- current liabilities	-	-	10,938,712	-	10,938,712
Liabilities from investment contracts	**-**	**-**	**-**	**8,865,381**	**8,865,381**
- non-current liabilities	-	-	-	8,865,381	8,865,381
Equity capital	**68,692,068**	**7,830,161**	**20,212,711**	**42**	**96,734,982**
Bonds issued (Subordinated liabilities)	**22,781,568**	**-**	**26,743,579**	**-**	**49,525,147**
Other liabilities	**23,902,884**	**4,178,211**	**8,810,390**	**24,910**	**20,581,669**
- non-current liabilities	5,863,329	25,100	5,264,347	-	4,434,602
- current liabilities	18,039,555	4,153,111	3,546,044	24,910	16,147,068
Total liabilities	262,063,012	24,261,629	168,690,747	8,890,333	447,570,995

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 2016

(in EUR)	Non-life insurance contracts, excluding health insurance	Health insurance contracts	Life insurance contracts	Investment 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) transferred 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 investment 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**
Bonds issued (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.

In the tables showing the classification of assets by maturity into non-current and current assets for 2017 and for 2016, 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 2017

(in EUR)	Non-life insurance contracts, excluding health insurance	Health insurance contracts	Life insurance contracts	Investment contracts pokojninsko varčevanje	Total
Non-current assets					
Debt securities	**75,883,915**	**5,632,451**	**111,877,220**	**1,026,356**	**194,419,943**
At fair value through profit or loss	2,821,251	-	3,161,208	435,706	6,418,165
- listed	2,821,251	-	3,161,208	435,706	6,418,165
Available for sale	63,453,258	5,330,181	87,210,150	590,650	156,584,239
- listed	59,484,075	5,330,181	87,210,150	590,650	152,615,056
- non-listed	3,969,183	-	-	-	3,969,183
Held to maturity	9,609,406	302,271	21,505,862	-	31,417,539
- listed	9,609,406	302,271	21,505,862	-	31,417,539
Equity securities	**26,286,009**	**670,697**	**6,722,269**	**1,671,074**	**35,350,049**
At fair value through profit or loss	-	-	0	23,417	23,417
- listed	-	-	0	23,417	23,417
Available for sale	26,286,009	670,697	6,722,269	1,647,658	35,326,633
- listed	11,196,200	-	6,061,257	1,647,658	18,905,115
- non-listed	15,089,809	670,697	661,012	-	16,421,518
Investments in subsidiaries and associates	16,714,463	3,180,261	30,921,980	-	50,816,704
Loans, deposits and financial receivables	9,233,528	2,499,980	545,865	-	12,279,373
Derivatives	112,027	-	131,510	-	243,537
Total financial investments	**128,229,942**	**11,983,390**	**150,198,845**	**2,697,431**	**293,109,607**
Amount (technical provisions), transferred to reinsurers	8,816,189	-	-	-	8,816,189
Receivables from insurance business and other receivables	9,881,191	561,665	319,248	-	4,043,930
Other assets	32,296,690	-	620,291	-	32,916,981
Total assets	**179,224,012**	**12,545,055**	**151,138,384**	**2,697,431**	**338,886,707**
Current assets					
Debt securities	**974,376**	**(0)**	**412,292**	**403,988**	**1,790,656**
At fair value through profit or loss	974,376	(0)	412,292	403,988	1,790,656
- listed	974,376	(0)	412,292	403,988	1,790,656
Equity securities	-	-	856,426	4,823,197	5,679,622
At fair value through profit or loss	-	-	856,426	4,823,197	5,679,622
- listed	-	-	856,426	4,823,197	5,679,622
Loans, deposits and financial receivables	16,802,509	413,132	5,482,913	3,585	22,702,139
Total financial investments	**17,776,884**	**413,132**	**6,751,631**	**5,230,770**	**30,172,417**
Amount (technical provisions), transferred to reinsurers	8,604,069	-	283,933	-	8,888,002
Receivables from insurance business and other operating receivables	20,785,998	7,660,119	2,992,765	-	22,000,812
Cash and cash equivalents	7,436,765	3,503,242	4,281,613	962,132	16,183,754
Other assets	28,235,283	140,080	3,242,422	-	31,439,303
Total assets	**82,839,000**	**11,716,574**	**17,552,363**	**6,192,903**	**108,684,288**

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

As at the 2017 year-end, the non-current assets prevailed with a 76% share, and current assets accounting for 24% of total assets.

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	Investment 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 subsidiaries 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), transferred 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), transferred 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 amounts to 21% 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 measurement 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 2017 – undiscounted cash flows

(in EUR)	Carrying amount	No maturity date	Up to 1 year	1-5 years	5-10 years	10-15 years	over 15 years	Total
Debt financial instruments	**194,780,254**	**-**	**6,911,217**	**86,985,697**	**73,299,907**	**24,049,584**	**29,805,219**	**221,051,624**
Financial assets at fair value through income statement	7,369,127	-	568,225	3,111,625	3,968,756	-	220,500	7,869,106
Financial assets held to maturity	31,417,539	-	1,995,901	26,361,353	8,788,766	1,345,431	3,080,171	41,571,622
Financial assets available for sale	155,993,589	-	4,347,091	57,512,719	60,542,385	22,704,153	26,504,548	171,610,896
Equity financial instruments	**34,535,400**	**34,535,400**	**-**	**-**	**-**	**-**	**-**	**34,535,400**
Financial assets at fair value through income statement	856,426	856,426	-	-	-	-	-	856,426
Financial assets available for sale	33,678,975	33,678,975	-	-	-	-	-	33,678,975
Loans, deposits and financial receivables	**243,537**	**243,537**	**-**	**-**	**-**	**-**	**-**	**243,537**
Derivatives	**36,655,339**	**600,000**	**11,974,578**	**23,165,523**	**1,499,285**	**177,744**	**1,569,655**	**38,986,785**
Investments in subsidiaries and associates	**50,816,704**	**50,816,704**	**-**	**-**	**-**	**-**	**-**	**50,816,704**
Assets of policyholders who bear investment risk	**304,978,131**	**231,383,976**	**3,435,285**	**5,073,253**	**49,929,888**	**7,974,513**	**6,710,903**	**304,507,818**
Investment properties	**26,287,114**	**26,287,114**	**-**	**-**	**-**	**-**	**-**	**26,287,114**
Assets from investment contracts	**8,890,333**	**7,459,984**	**21,900**	**283,700**	**1,137,500**	**-**	**-**	**8,903,084**
Investment properties	**657,186,813**	**351,326,717**	**22,342,980**	**115,508,173**	**125,866,580**	**32,201,841**	**38,085,777**	**685,332,068**
Total financial investments	17,704,191	-	8,888,002	5,682,716	2,131,923	876,471	125,079	17,704,191
Receivables from insurance business and other receivables	27,335,878	-	27,306,586	29,292	-	-	-	27,335,878
Operating and other receivables	17,630,610	-	17,630,610	-	-	-	-	17,630,610
Cash and cash equivalents	38,069,170	-	38,069,170	-	-	-	-	38,069,170
Other assets	**757,926,662**	**351,326,717**	**114,237,347**	**121,220,182**	**127,998,503**	**33,078,312**	**38,210,857**	**786,071,917**
Bonds issued (Subordinated liabilities)	49,525,147	-	3,953,500	15,825,000	63,832,000	-	-	83,610,500
Non-life and health insurance	158,939,749	-	102,464,949	36,822,474	13,323,828	5,428,363	900,135	158,939,749
Unit-linked life insurance	302,379,792	-	16,320,401	42,782,154	79,563,484	47,667,481	116,046,272	302,379,792
Life insurance	112,924,066	-	6,476,420	8,572,787	25,391,909	21,341,261	63,279,906	125,062,283
Investment contracts	8,865,381	-	44,145	375,978	1,323,022	1,812,856	5,309,381	8,865,381
Other liabilities	28,400,582	-	28,409,903	15,631	-	-	-	28,425,534
Total Liabilities	**661,034,717**	**-**	**157,669,319**	**104,394,024**	**183,434,242**	**76,249,961**	**185,535,693**	**707,283,239**

Overview of maturity of assets and liabilities in 2016 – undiscounted cash flows

(in EUR)	Carrying amount	No maturity date	Up to 1 year	1-5 years	5-10 years	10-15 years	over 15 years	Total
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 income statement	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 income statement	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 investment 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**
Bonds issued (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
Investment 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**

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 2017[1]

(in EUR)	AAA-A	BBB-B	CCC-C	Not rated	Total 2017
Financial assets at fair value through profit or loss	1,747,212	5,621,914	-	0	7,369,127
Debt securities	1,747,212	5,621,914	-	0	7,369,127
Held-to-maturity financial assets	8,958,029	19,947,323	-	2,512,188	31,417,539
Debt securities	8,958,029	19,947,323	-	2,512,188	31,417,539
Available- for-sale financial assets	35,777,088	110,440,886	-	9,775,615	155,993,589
Debt securities	35,777,088	110,440,886	-	9,775,615	155,993,589
Loans, deposits and financial receivables	13,890	15,354,908	-	19,609,129	34,977,927
Assets from investment contracts	-	1,430,344	-	-	1,430,344
Debt securities	-	1,430,344	-	-	1,430,344
Total financial investments	**46,496,219**	**152,795,376**	**-**	**31,896,932**	**231,188,526**
Receivables from insurance business and other receivables	1,978,038	65,602	-	26,166,804	28,210,444
Reinsurers' share of technical provisions	17,431,072	88,826	-	184,293	17,704,191
Cash and cash equivalents	2,256	14,392,745	-	1,788,753	16,183,754
Total assets exposed to credit risk	**65,907,585**	**167,342,548**	**-**	**60,036,782**	**293,286,915**

Investments in debt securities which remained non-rated in 2017 comprise important Slovene state-owned or private companies which issued these securities. Given loans, deposits and financial receivables without a credit rating accounted for 56% of all loans, deposits and financial receivables. The maximum exposure to individual issuers without rating relating to given loans is represented by loans to KD Kapital d. o. o. and SRC Sistemske integracije d. o. o., accounting for 71% of all given loans without a rating. A share of 50% of loans given without a rating are collateralized by bills of exchange and enforcement drafts, 30% by property and equity and the remaining 20% are secured by other types of collateral.

[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 2016

(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 investment 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	-	26,062,969	27,708,768
Reinsurers' share of technical provisions	17,276,655	96,810	-	25,856	17,399,320
Cash and cash equivalents	-	4,410,857	-	739,309	5,150,166
Total assets exposed to credit risk	**62,003,637**	**152,785,582**	**507**	**64,302,632**	**289,393,663**

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 pledgeof 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.

Exposure of investments

With the aim of diversifying investments and seeking higher returns adjusted for risk, the Company reduced its exposure to the Republic of Slovenia. Investments in bonds of the Republic of Slovenia represent 6.28%, shares of Slovenian banks 0.3%, and deposits with domestic banks 0.33%. With regard to the country of the issuer, the insurance company is mainly exposed to government bonds of EU members. The government bonds of the Republic of Italy, Slovenia, Spain, Portugal, France, Croatia and Romania account for a total of 36% of all investments.

Credit risk: Past-due and not past-due financial instruments as at 31 December 2017

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)	194,780,254	-	-	-	-	-	-	-	-	-	-	194,780,254
Assets from investment contracts	1,430,344	-	-	-	-	-	-	-	-	-	-	1,430,344
Loans and financial receivables	31,446,378	-	-	-	1,923,642	1,923,642	1,533,787	(1,097,054)	(16,423)	420,310	420,310	33,790,330
Amount (technical provisions) ceded to reinsu	17,704,191	-	-	-	-	-	-	-	-	-	-	17,704,191
Receivables from Insurance contracts and other receivables	18,198,563	484,105	-	5,576	2,726	492,407	17,992,948	(7,648,346)	(2,990,830)	7,353,772	7,353,772	26,044,743
Insurance receivables	12,405,787	484,105	-	5,576	2,726	492,407	14,416,237	(5,209,818)	(2,736,547)	6,469,873	6,469,873	19,368,067
Recourse receivables	1,719	-	-	-	-	-	2,788,741	(1,893,052)	(208,582)	687,107	687,107	688,826
Other receivables	5,791,057	-	-	-	-	-	787,969	(545,476)	(45,701)	196,793	196,793	5,987,849
Total	263,559,731	484,105	-	5,576	1,926,368	2,416,049	19,526,735	(8,745,400)	(3,007,253)	7,774,082	7,774,082	273,749,862

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 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)	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 reinsu	17,399,320	-	-	-	-	-	-	-	-	-	-	17,399,320
Receivables from Insurance contracts 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.

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. 2017	31. 12. 2016	31. 12. 2017	31. 12. 2016	31. 12. 2017	31. 12. 2016
ASSETS						
Debt securities	132,899,850	160,715,262	61,880,405	46,544,299	194,780,254	207,259,561
Loans and deposits	24,496,642	23,392,063	2,560,087	3,696,845	27,056,729	27,088,909
Cash and cash equivalents	15,221,621	3,971,866	-	-	15,221,621	3,971,866
Assets from financial contracts	1,569,152	1,178,300	826,910	573,183	2,396,062	1,751,483
Total	**174,187,265**	**189,257,492**	**65,267,402**	**50,814,328**	**239,454,661**	**240,071,819**
LIABILITIES						
Bonds issued (Subordinated liabilities)	49,525,147	49,453,316	-	-	49,525,147	49,453,316
Total	**49,525,147**	**49,453,316**	**-**	**-**	**49,525,147**	**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 2017, 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.

The year 2017 was marked by the growth of capital markets and a markedly low year-on-year volatility. The fair value of financial assets in the first months of the year was mainly affected by the volatility of the required return on government bonds of European countries, where the Company has invested the majority of its financial investments. Due to the unstable political situation, above all the fear of the victory of European populist parties and the Eurosceptic option, the required returns increased primarily in the bonds of the peripheral countries of Europe. With the victory of a pro-European party in the Netherlands, and especially after Macron's victory in the French parliamentary and presidential elections, investors' fears began to slacken, while credit spreads began to decline. Despite the political tension over North Korea, the breaches of Brexit, the parliamentary elections in Germany and the referendum in Catalonia, this trend did not change significantly until the end of the year.

The Company ensured prudent management of portfolios to achieve optimum return in relation risk. In line with the existing portfolio structure, assets were invested primarily in European government bonds and, in life insurance, in European shares with a high dividend policy. In order to realize the return on equity, the Company sold a property in the amount of EUR 3,905,425 for the benefit of the life insurance fund. In 2017, the Fund secured a return that exceeded the guaranteed return.

With respect to the fund with a guaranteed return under the PN-A01 pension scheme, the Company did not change the portfolio structure. There were no premium inflows into the fund as it was closed for new payments in May 2016. In 2017, the fund achieved a return that exceeded the guaranteed return. The new fund with a guaranteed return "Zajamčeni od 60" (Guaranteed over 60) started operating in February 2016, when the portfolio started to be built and set up. This is why this fund achieved only the guaranteed return. Following the diversification policies, new investments are made primarily in bond mutual funds and ETFs, as well as corporate and government bonds. In 2017, the fund achieved a return of 0.54%, which is somewhat lower than the guaranteed return (0.85%).

Actual exposure to risk of guaranteed return

Pension insurance scheme/plan	2017	2016
LIFE INSURANCE		
Traditional life insurance		
Average return on investment for the period	4.41%	6.85%
Average guaranteed return	3.22%	3.36%
Difference in interest rates	**1.19%**	**3.49%**
PENSION INSURANCE		
Pension saving AS Zajamčeni od 60		
Average return on investment for the period	0.54%	1.11%
Required (guaranteed) return	0.85%	1.11%
Difference in interest rates	**-0.31%**	**0.00%**
Pension insurance PN-A01		
Average return on investment for the period	2.17%	5.03%
Required (guaranteed) return	0.85%	1.30%
Difference in interest rates	**1.32%**	**3.73%**

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 2017
ASSETS					
Financial assets measured at fair value through profit or loss	7,786,255	-	439,297	-	8,225,552
Equity securities	417,128	-	439,297	-	856,426
Debt securities	7,369,127	-	-	-	7,369,127
Derivatives	243,537	-	-	-	243,537
Held-to-maturity financial assets	31,417,539	-	-	-	31,417,539
Debt securities	31,417,539	-	-	-	31,417,539
Derivatives	-	-	-	-	-
Available-for-sale financial assets	179,161,272	-	1,748,776	8,762,516	189,672,563
Equity securities	27,410,989	-	-	6,267,986	33,678,975
Debt securities	151,750,283	-	1,748,776	2,494,530	155,993,589
Loans, deposits and financial receivables	34,977,927	-	-	-	34,977,927
Investments in subsidiaries and associates	50,816,704	-	-	-	50,816,704
Assets from investment contracts	8,201,274	-	-	689,059	8,890,333
Total financial investment	**312,604,509**	**-**	**2,188,073**	**9,451,575**	**324,244,156**
Receivables from insurance business and other receivables	22,122,844	-	3,921,898	-	26,044,742
Amount (technical provisions) transferred to reinsurers	17,699,451	-	0	4,740	17,704,191
Cash and cash equivalents	14,487,607	-	-	734,015	15,221,621
Other assets	64,007,206	-	349,078	-	64,356,284
Total assets exposed to currency risk	**430,921,616**	**-**	**6,459,049**	**10,190,329**	**447,570,994**
LIABILITIES					
Izdane obveznice (Podrejene obveznosti)	49,525,147	-	-	-	49,525,147
Liabilities arising from insurance contracts	270,467,382	-	1,396,433	-	271,863,815
Liabilities from investment contracts	8,865,381	-	-	-	8,865,381
Other liabilities	12,458,530	-	8,123,140	-	20,581,670
Total liabilities exposed to currency risk	**341,316,439**	**-**	**9,519,573**	**-**	**350,836,013**

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

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
Held-to-maturity financial assets	37,873,586	-	134,644	-	38,008,230
Debt securities	37,873,586	-	134,644	-	38,008,230
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 investment 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) transferred 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**
Bonds issued (Subordinated liabilities)	49,453,316	-	-	-	49,453,316
Liabilities arising from insurance contracts	269,308,826	-	750,092	-	270,058,918
Liabilities from investment 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.

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 2017 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 2017
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 2017

Sensitivity analyses

Analysis of sensitivity to change in the interest rate

(in EUR)	Effect on profit	Effect on equity
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
31 December 2017	-	-
Interest rate change of +50 bp	(200,952)	(6,841,806)
Interest rate change of -50 bp	166,401	6,085,731

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 2016		
Change in prices of equities +15%	**246,006**	**5,037,651**
Change in prices of equities -15%	**(246,006)**	**(5,037,651)**
31 December 2017		
Change in prices of equities +15%	855,456	5,298,995
Change in prices of equities -15%	(855,456)	(5,298,995)

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 5.5.5 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 2017

In EUR 31 Dec 2017	Carrying amount	Fair value	Level 1	Level 2	Level 3
Financial assets measured at fair value through profit or loss, held for sale	**1,651,309**	**1,651,309**	**566,527**	**1,084,782**	**-**
Debt securities	1,084,782	1,084,782	-	1,084,782	-
Investment coupons of mutual funds	566,527	566,527	566,527	-	-
Financial assets measured at fair value through profit or loss, at initial recognition	**6,817,781**	**6,817,781**	**289,899**	**6,225,996**	**301,886**
Debt securities	6,284,345	6,284,345	-	5,982,459	301,886
Investment coupons of mutual funds	289,899	289,899	289,899	-	-
Derivatives	243,537	243,537	-	243,537	-
Available-for-sale financial assets	**173,256,906**	**173,256,906**	**20,006,603**	**148,995,696**	**4,254,607**
Equity securities	11,893,647	11,893,647	11,893,647	-	-
Debt securities	155,993,589	155,993,589	2,743,285	148,995,696	4,254,607
Investment coupons of mutual funds	5,369,670	5,369,670	5,369,670	-	-
Unit-linked investments of policyholders	**304,978,131**	**304,978,130**	**230,673,439**	**55,406,842**	**18,897,849**
Assets from investment contracts	**7,928,201**	**7,928,201**	**6,494,271**	**1,026,356**	**407,573**
Total financial assets measured at fair value	**494,632,327**	**494,632,326**	**258,030,738**	**212,739,672**	**23,861,915**
Held-to-maturity financial assets	**31,417,539**	**39,117,989**	**415,503**	**38,702,486**	**-**
Debt financial instruments	31,417,539	39,117,989	415,503	38,702,486	-
Available-for-sale financial assets	**16,415,657**	**-**	**-**	**-**	**-**
Equity securities	16,415,657	-	-	-	-
Assets from investment contracts	**962,132**	**-**	**-**	**-**	**962,132**
Deposits and loans	**36,655,339**	**36,655,339**	**-**	**-**	**36,655,339**
Investments in subsidiaries and associates	**50,816,704**	**-**	**-**	**-**	**50,816,704**
Investment property	**26,287,114**	**26,240,311**	**-**	**-**	**26,240,311**
Total financial assets for which the fair value is disclosed	**162,554,486**	**102,013,639**	**415,503**	**38,702,486**	**114,674,486**
TOTAL ASSETS	**657,186,814**	**596,645,965**	**258,446,241**	**251,442,158**	**138,536,401**
Loans	1,350	1,320	-	-	1,320
Bonds issued (Subordinated liabilities)	49,525,147	49,228,200	-	49,228,200	-
Total liabilities for which the fair value is disclosed	**49,526,497**	**49,229,520**	**-**	**49,228,200**	**1,320**
TOTAL LIABILITIES	**49,526,497**	**49,229,520**	**-**	**49,228,200**	**1,320**

Financial assets categorised in the fair value hierarchy in 2016

in EUR 31 Dec 2017	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 investment 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
Bonds issued (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**

Level 3 assets and liabilities

Financial assets and liabilities categorised in the fair value hierarchy – Level 3 movement in 2017

(in EUR)	1 Jan 2017	Total profit/loss in profit or loss	Total profit/loss in comprehensive income	Purchase	Sale	Transfers (to) from Level 3	31 Dec 2017
Assets measured at fair value	-	-	-	-	-	-	-
Financial assets measured at fair value through profit or loss, at initial recognition	-	-	**(7,394)**	**309,280**	-	-	**301,886**
Debt securities	-	-	(7,394)	309,280	-	-	301,886
Available-for-sale financial assets	**3,017,094**	**(1,135)**	**(51,351)**	**1,820,000**	**(530,000)**	-	**4,254,607**
Debt securities	3,017,094	(1,135)	(51,351)	1,820,000	(530,000)	-	4,254,607
Assets from investment contracts	-	-	**(4,451)**	**408,439**	-	-	**403,988**
Total assets	**3,017,094**	**(1,135)**	**(63,197)**	**2,537,720**	**(530,000)**	-	**4,960,481**

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	-	-	-	-	-	-	-
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**

Until 31 December 2017, the Company did not reclassify financial asset groups due to the change in their intended use and did not reclassify financial assets due to the change in capital market conditions. The Company purchased debt securities, which belong to Level 3, under the following financial instrument groups

- assets measured at fair value through profit or loss, at initial recognition, EUR 309,280,
- assets available for sale, EUR 1,820,000.
- assets from investment contracts, EUR 408,439.

In 2017, the bond from the group of assets available for sale amounting to EUR 530,000 finally matured.

Fair value of the financial assets as at 31 December 2017 amounts to EUR 4,960,481.

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 BUSINESS LINE

The Company reports by business line 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 lines are further divided into insurance groups 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 groups in order to not only take decisions on the basis thereof regarding the resources to be allocated to a particular line but also to assess the performance of individual line 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 line and can be directly attributed to a particular business line; moreover, the relevant portion of revenue and expenses can be reasonably allocated to a business line.

The accounting policies of business lines are identical to the accounting policies of the Company.

9.1 BALANCE SHEET BY INSURANCE GROUP

Balance sheet as at 31 December 2017 by insurance group in accordance with the Decision on the Annual Reports of Insurance Undertakings

(in EUR)	Life insurance	Non-life insurance	Complementary health insurance	Other health insurance	Total
Assets	487,936,748	262,063,011	22,958,895	1,302,734	757,926,662
Intangible assets	**496,313**	**4,171,154**	**-**	**-**	**4,667,467**
Property, plant and equipment	**(0)**	**28,125,536**	**-**	**-**	**28,125,536**
Deferred tax assets	**314,936**	**3,138,037**	**545,555**	**16,110**	**4,014,638**
Investment properties	**2,156,414**	**24,099,841**	**-**	**30,860**	**26,287,114**
Financial investments in subsidiaries and associates	**30,921,980**	**16,714,463**	**3,180,261**	**-**	**50,816,704**
Financial investments	**127,705,908**	**129,292,363**	**8,763,216**	**453,044**	**266,214,531**
In loans and deposits	7,706,190	26,036,037	2,913,112	-	36,655,339
In held-to-maturity financial assets	21,505,862	9,609,406	302,271	-	31,417,539
In available-for-sale financial assets	93,932,420	89,739,266	5,547,833	453,044	189,672,564
In financial assets measured at fair value	4,561,436	3,907,654	(0)	(0)	8,469,089
Unit-linked investments of policyholders	**304,978,130**	**-**	**-**	**-**	**304,978,130**
Amounts of technical provisions ceded to reinsurers	**283,933**	**17,420,258**	**-**	**-**	**17,704,191**
Assets from investment contracts	**8,890,333**	**-**	**-**	**-**	**8,890,333**
Receivables	**4,288,214**	**27,529,152**	**6,865,674**	**794,445**	**23,321,241**
Receivables from direct insurance business	687,833	8,570,999	6,531,664	642,707	16,433,204
Receivables from reinsurance and coinsurance	288,868	1,876,834	-	-	2,165,701
Income tax receivables	1,470,043	2,628,750	-	151,125	2,261,714
Other receivables	1,841,469	14,452,569	334,009	614	2,460,621
Other assets	**1,209,986**	**4,135,442**	**107,503**	**1,718**	**5,276,167**
Cash and cash equivalents	**6,690,602**	**7,436,765**	**3,496,686**	**6,556**	**17,630,610**
Off-balance sheet items	**27,179,692**	**52,669,294**	**3,822,704**	**3,005**	**83,674,696**
Equity and liabilities	487,936,748	262,063,011	22,958,895	1,302,734	757,926,662
Equity	**20,369,717**	**68,692,068**	**7,724,404**	**105,756**	**96,891,946**
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)	(214,663)	500,500	81,907	25,096	392,840
Retained net earnings	4,834,657	23,615,800	-	-	28,614,486
Net profit or loss for the financial year	2,078,429	6,687,694	2,860,054	(12,778)	11,449,372
Subordinated liabilities	**26,743,579**	**22,781,568**	**-**	**-**	**49,525,147**
Technical provisions	**114,260,578**	**146,686,491**	**11,512,356**	**740,901**	**273,200,326**
Unearned premiums	355,159	42,396,717	6,492,711	281,418	49,526,004
Mathematical provisions	107,377,776	172,372	-	40,136	107,590,283
Outstanding claims provisions	6,527,643	103,620,255	5,019,540	386,758	115,554,196
Other technical provisions	0	497,148	105	32,590	529,843
Insurance technical provisions for unit-linked insurance	**301,043,281**	**-**	**-**	**-**	**301,043,281**
Other provisions	**5,449**	**4,426,452**	**-**	**-**	**4,431,901**
Deferred tax liabilities	**28,534**	**117,401**	**19,213**	**5,887**	**171,035**
Liabilities from investment contracts	**8,890,333**	**-**	**-**	**-**	**8,890,333**
Other financial liabilities	**136**	**430,679**	**-**	**-**	**430,815**
Operating liabilities	**3,912,647**	**3,164,575**	**2,296,881**	**43,550**	**7,429,450**
Liabilities from direct insurance contracts	1,596,504	1,553,215	2,073,909	43,550	5,267,178
Liabilities from reinsurance and coinsurance contracts	550,911	1,611,360	-	-	2,162,271
Income tax liabilities	1,765,231	-	222,972	-	0
Other liabilities	**12,682,494**	**15,763,776**	**1,406,041**	**406,640**	**15,912,429**
Off-balance sheet items	**27,179,692**	**52,669,294**	**3,822,704**	**3,005**	**83,674,696**

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 16,334,725.16 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 2016 by insurance group in accordance with the Decision on the Annual Reports of Insurance Undertakings

(in EUR)	Life insurance	Non-life insurance	Complementary health insurance	Other health insurance	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 investment 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 premiums	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
Outstanding 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 investment 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 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 INSURANCE GROUP

Income statement for the period from 1 January 2017 to 31 December 2017 by insurance group, in accordance with the Decision on Annual Reports of Insurance Undertakings

(in EUR)	Life insurance	Non-life insurance	Complementary health insurance	Other health insurance	Total
NET PREMIUM INCOME	**59,207,673**	**130,538,125**	**98,967,807**	**3,417,421**	**292,131,025**
Gross written premiums	61,166,048	140,493,410	98,792,686	3,336,705	303,788,849
Premiums ceded to reinsurers and coinsurers	(1,993,543)	(9,894,554)	-	-	(11,888,097)
Change in unearned premiums	35,168	(60,732)	175,120	80,716	230,273
REVENUES FROM INVESTMENTS IN ASSOCIATES, of which	**1,400,000**	**715,088**	**129,266**	**-**	**2,244,354**
INCOME FROM INVESTMENTS	**30,495,906**	**5,844,447**	**436,024**	**11,188**	**36,787,565**
OTHER INCOME FROM INSURANCE OPERATIONS, of which	**714,833**	**1,541,690**	**-**	**-**	**2,256,523**
- fee and commission income	714,833	1,541,690	-	-	2,256,523
OTHER INCOME	**2,532,743**	**4,329,166**	**358,650**	**24,253**	**7,244,811**
NET EXPENSES FOR CLAIMS AND BENEFITS PAID	**(49,752,509)**	**(83,066,910)**	**(86,394,929)**	**(2,972,512)**	**(222,186,860)**
Gross amounts of claims and benefits paid	(50,229,763)	(84,009,590)	(87,369,329)	(2,785,894)	(224,394,576)
Reinsurers'/coinsurers' shares	602,961	3,130,362	-	-	3,733,323
Change in claims provisions	(125,708)	(2,187,681)	974,401	(186,618)	(1,525,607)
CHANGE IN OTHER TECHNICAL PROVISIONS	**(200,528)**	**294,434**	**10,669**	**104,825**	**209,400**
CHANGE IN TECHNICAL PROVISIONS FOR THE BENEFIT OF UNIT-LINKED INSURANCE POLICYHOLDERS	**(18,423,843)**	**-**	**-**	**-**	**(18,423,843)**
EXPENSES FOR BONUSES AND DISCOUNTS	**-**	**127,367**	**684**	**39**	**128,090**
OPERATING EXPENSES, of which	**(17,663,567)**	**(41,754,655)**	**(8,830,139)**	**(1,408,322)**	**(69,656,683)**
- acquisition costs	(5,975,003)	(16,688,773)	(1,104,482)	(113,928)	(23,882,186)
EXPENSES INVESTMENTS, of which	**(231,875)**	**(305,492)**	**(1,378)**	**-**	**(538,745)**
OTHER INSURANCE EXPENSES	**(173,231)**	**(3,217,550)**	**(403,603)**	**(10,811)**	**(3,805,195)**
OTHER EXPENSES	**(5,470,323)**	**(7,198,750)**	**(181,051)**	**(11,509)**	**(12,861,631)**
PROFIT/(LOSS) BEFORE TAX	**2,435,279**	**7,846,960**	**4,092,000**	**(845,428)**	**13,528,810**
CORPORATE INCOME TAX	**(294,492)**	**(1,159,265)**	**(776,349)**	**150,701**	**(2,079,405)**
NET PROFIT FOR THE REPORTING PERIOD	**2,140,787**	**6,687,694**	**3,315,652**	**(694,727)**	**11,449,406**

Income statement for the period from 1 January 2016 to 31 December 2016 by insurance group, in accordance with the Decision on Annual Reports of Insurance Undertakings

(in EUR)	Life insurance	Non-life insurance	Complementary health insurance	Other health insurance	Total
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 premiums	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)**
EXPENSES INVESTMENTS, 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 2017 to 31 December 2017 – Adriatic Slovenica d.d., Podružnica Zagreb za osiguranje (the Zagreb branch)

in EUR	2017	2016
NET PREMIUM INCOME	**2,833,084**	**2,520,624**
Gross written premiums	3,370,060	2,662,705
Premiums ceded to reinsurers and coinsurers	(22,953)	(8,851)
Change in unearned premiums	(514,023)	(133,231)
INCOME FROM INVESTMENTS	**1,020,560**	**1,102,024**
OTHER INCOME FROM INSURANCE OPERATIONS, of which	**722,416**	**754,695**
- fee and commission income	722,416	754,695
OTHER INCOME	**67,673**	**151,674**
NET EXPENSES FOR CLAIMS AND BENEFITS PAID	**(814,033)**	**(933,672)**
Gross amounts of claims and benefits paid	(718,173)	(920,096)
Change in claims provisions	(95,860)	(13,576)
CHANGE IN OTHER TECHNICAL PROVISIONS	**(35,119)**	**(99,835)**
CHANGE IN TECHNICAL PROVISIONS FOR THE BENEFIT OF UNIT-LINKED INSURANCE POLICYHOLDERS	**(1,057,284)**	**(1,795,926)**
EXPENSES FOR BONUSES AND DISCOUNTS	**(1,357)**	**(684)**
OPERATING EXPENSES, of which	**(1,875,258)**	**(2,119,696)**
- acquisition costs	(719,129)	(822,717)
EXPENSES FROM INVESTMENTS IN ASSOCIATES, of which	**-**	**(83,819)**
EXPENSES INVESTMENTS, of which	**(96,400)**	**(17,783)**
- impairment losses of financial assets not measured at fair value through profit or loss	-	(2,570,731)
OTHER INSURANCE EXPENSES	**(795,366)**	**(805,729)**
OTHER EXPENSES	**(685,677)**	**(123,414)**
PROFIT/(LOSS) BEFORE TAX	**(716,760)**	**(1,451,542)**
CORPORATE INCOME TAX	**136,191**	**298,417**
NET PROFIT FOR THE REPORTING PERIOD	**(580,570)**	**(1,153,125)**

The income statement above shows the operating result, generated by the Zagreb branch in 2017.

9.3 STATEMENT OF OTHER COMPREHENSIVE INCOME BY INSURANCE GROUP

Statement of other comprehensive income for the period from 1 January 2017 to 31 December 2017 by insurance segment, in accordance with the Decision on Annual Reports of Insurance Undertakings

(in EUR)	Life insurance	Non-life insurance	Complementary health insurance	Other health insurance	Total
NET PROFIT OR LOSS FOR THE FINANCIAL YEAR AFTER TAXATION	**2,140,787**	**7,010,444**	**3,315,652**	**(694,727)**	**11,772,155**
OTHER COMPREHENSIVE INCOME AFTER TAXATION	**66,330**	**85,282**	**9,385**	**(1,374)**	**159,622**
Items not to be allocated to profit or loss in subsequent periods	**159**	**(174,716)**	**-**	**-**	**(174,557)**
Actuarial net gain/loss for pension programmes	159	(174,716)	-	-	(174,557)
Items that may be allocated to profit or loss in subsequent periods	**66,171**	**259,998**	**9,385**	**(1,374)**	**334,179**
Net gain/loss from re-measurement of available-for-sale financial assets	81,693	320,985	11,586	(1,697)	412,567
Gain/loss, recognised in revaluation surplus	1,596,278	1,347,272	25,324	(1,697)	2,967,177
Transfer of gain/loss from revaluation surplus to income statement	(1,514,585)	(1,026,287)	(13,738)	-	(2,554,610)
Tax on items that may be allocated to profit or loss in subsequent periods	(15,522)	(60,987)	(2,201)	322	(78,388)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR, AFTER TAXATION	**2,207,117**	**7,095,726**	**3,325,036**	**(696,102)**	**11,931,778**

Statement of other 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	Other 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**

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 2016	**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, 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**
New balance as at 1 Jan	**4,229,223**	**17,989,233**	**0**	**22,218,456**
Direct increases - investments	-	1,495,289	-	1,495,289
Decreases during the year	-	(514,256)	-	(514,256)
Other changes	-	3,209	-	3,209
Balance as at 31 Dec 2017	**4,229,223**	**18,973,475**	**0**	**23,202,698**
VALUE ADJUSTMENT				
Balance as at 1 Jan 2016	**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**
New balance as at 1 Jan	**2,887,065**	**13,818,697**	**-**	**16,705,762**
Depreciation during the year	-	1,574,445	-	1,574,445
Decreases during the year	-	(593,182)	-	(593,182)
Revaluation owing to impairment of assets	845,844	-	-	845,844
Other changes	-	2,362	-	2,362
Balance as at 31 Dec 2017	**3,732,910**	**14,802,322**	**-**	**18,535,232**
BOOK VALUE				
Balance as at 31 Dec 2016	**1,342,157**	**4,170,536**	**0**	**5,512,694**
Balance as at 31 Dec 2017	**496,313**	**4,171,154**	**0**	**4,667,466**

At the end of 2017, the balance of intangible assets decreased by EUR 845,227 compared to the end of the previous year. Major changes affecting the movement of other non-current intangible assets are investments in software improvement in the amount of EUR 1,495,289. These assets were lower in 2017 mainly due to depreciation and write-offs of software.

The Company determined that as at 31 December 2017, apart from property rights (which are not amortised), there was no need for impairment of other intangible assets.

As at 31 December 2017, the operating liabilities to suppliers of intangible assets amounted to EUR 86,829, 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 2027 based on their determined useful lives and the applied amortisation rates. The Company uses the straight-line amortisation method and in 2017 it did not change the amortisation rates. Amortisation of intangible assets is posted in the income statement among operating costs

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 2016	**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
Activation of assets in 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
New balance as at 1 Jan	27,259,698	17,439,293	393,647	18,196	45,110,833
Direct increases - investments	370,504	1,006,276	119,938	-	1,496,718
Direct increases – advance payments	-	97,386	-	-	97,386
Decreases during the year	-	(1,707,072)	(0)	-	(1,707,072)
Transfers between intangible assets, investment property, and property, plant and equipment	(422,954)	-	(153,229)	-	(576,183)
Other changes	-	2,424	-	292	2,717
Balance as at 31 Dec 2017	27,207,249	16,838,307	360,355	18,488	44,424,399
VALUE ADJUSTMENT					
Balance as at 1 Jan 2016	**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
New balance as at 1 Jan 2015	4,617,985	11,138,820	-	13,719	15,770,523
Depreciation during the year	283,779	1,268,949	-	1,779	1,554,507
Decreases during the year	-	(1,478,609)	-	-	(1,478,609)
Revaluation owing to impairment of assets	0	529,296	-	-	529,296
Transfers between intangible assets, investment property, and property, plant and equipment	(78,789)	-	-	-	(78,789)
Other changes	-	1,710	-	225	1,935
Balance as at 31 Dec 2017	4,822,974	11,460,166	-	15,723	16,298,863
BOOK VALUE					
Balance as at 31 Dec 2016	22,641,714	6,300,472	393,647	4,477	29,340,310
Balance as at 31 Dec 2017	22,384,274	5,378,141	360,355	2,766	28,125,536

As at 31 December 2017, the operating liabilities to suppliers of property, plant and equipment amounted to EUR 63,502, 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 2094, it is expected that all other items of property, plant and equipment at the disposal of the Company be fully depreciated based on the determined useful lives and depreciation rates by the year 2027. 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 2017 compared to the 2015 year-end fell by EUR 1,214,774, mainly due to impairment of equipment by EUR 529,296. The lower value was further caused by depreciation carried out in the accounting period, write-offs and sale of equipment and the transfer of property intended for own use to investment property in the amount of EUR 344,165 (residual values) and the transfer of activated property, plant and equipment to investment property in the amount of EUR 153,229. The change in the movement of property, plant and equipment in terms of the increase was influenced by investments in the adaptation of buildings in the amount of EUR 370,504, and investments in the purchase of computer equipment in the amount of EUR 514,114, the purchase of other equipment in the amount of EUR 310,513 euros and the purchase of cars in the amount of EUR 254,235.

In 2017, 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 or 5.3. The last appraisal of the recoverable amount of property intended for own use was performed by an external certified appraiser in December 2017.

The recoverable amount was assessed:

- using the method of fair value, decreased by costs of sale, defined based on the market approach,
- using the method of value in use, defined based on the income approach, and
- depending on the profitability of individual cash-generating unit of non-life insurance

On the basis of the assessment, it was established that as at the 2017 year-end there were no signs indicating that the real property needed for the performance of activities would have to be impaired as no individual cash-generating unit has been operating with negative results in the last three years.

10.3 INVESTMENT PROPERTIES

Movements in investments in land and buildings

(in EUR)	2017	2016
AT COST VALUE		
Balance as at 1 Jan	**33,350,518**	**33,470,397**
Direct increases - investments	896,780	540,891
Decreases during the year	(3,277,103)	(394,650)
Transfer from/to property, plant and equipment	743,676	-
Other changes	-	(266,121)
As at 31 Dec	**31,713,870**	**33,350,518**
VALUE ADJUSTMENT		
Balance as at 1 Jan	3,783,934	2,634,958
Depreciation in the financial year	357,483	371,990
Decreases during the year	(121,832)	(106,007)
Impairment of cost	1,160,888	905,824
Transfer from/to property, plant and equipment	246,282	(22,831)
As at 31 Dec	**5,426,756**	**3,783,934**
BOOK VALUE		
As at 31 Dec	**26,287,115**	**29,566,584**

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 1.43 EUR/m² and in 2017 the average rent was 9.02 EUR/m²

The balance of investment property as at 31 December 2017 decreased by EUR 3,279,469, primarily due to sale of real property. At the end of 2017, the Company sold an investment property in Ljubljana for EUR 3,905,425. When the property was disposed of, a profit of EUR 578,090 (after paying real estate sales tax of EUR 39,958) was realized in 2017. Financial receivables arising from the sale of investment property will be fully due and payable in 2018.

In addition to the sale of property, the decrease in value of property was due to impairment. In 2017, the management assessed whether there were grounds for impairment of investment property in the way described in the guidelines given in Section 5.3. The last appraisal of the recoverable amount of investment property was carried out by an external certified appraiser in December 2017. 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 based on market data arising from comparable transactions of similar property.

In the **income approach** (the direct yield capitalisation method), the recoverable amount was assessed using the following assumptions:

- the capitalisation rate (discount rate) between 6.77% and 8.00% by applying:
- the real risk-free rate of return between 0.38% and -0.06%,
- liquidity premium between 1.50% and 2.50%,
- risk premium between 3.10% and 3.60%,
- investment management premium of 0.50%, and
- capital recovery premium between 1.49% and 1.46%.

The sensitivity analysis of the appraised real property on Loška 13, Maribor (Maribox)

	% 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 14.0/m2 to EUR 10.0/m2	-9.2%
Reduction of occupancy of premises to 80%	-22.4%
Increase in required return +1 p.p.	-11.5%
Increase in required return +2 p.p.	-23.4%

As at 31 December 2016, the carrying amount of investment property on Loška 13, Maribor was EUR 14,270,000. Details on the valuation and assessment of the recoverable amount of the investment property on the Loška 13, Maribor are presented in Section 6.4.

Based on the valuation and sensitivity analysis, as at the 2016 year-end the management assessed that impairments of one investment property must be made in the total amount of EUR 1,160,888.

The fair value of investment property as at 31 December 2017 was EUR 26,240,311, and was lower than the carrying amount of EUR 26,287,115.

Despite the decrease comparing with the previous year, in 2017 EUR 172,453 were invested in the adaptation of the investment property and EUR 570,000 in the acquisition of real property. The purchase of land and buildings was carried out under normal market conditions. The liabilities for the purchase of investment property in 2017 were fully settled.

The Company uses straight-line amortisation for investment property; in 2017 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)	31 Dec 2017	31 Dec 2016
Revenues from investment properties	**2,985,706**	**1,950,485**
Other revenues arising from rents charged on investment properties	2,388,580	1,909,617
Gains on the disposal of investment properties	578,090	-
Revenues from reversal of impairment of receivables	19,036	40,868
Expenses for investment properties	**(3,877,410)**	**(3,055,735)**
Depreciation	(357,483)	(371,990)
Direct operating expenses for investment properties that generate rental income	(1,661,618)	(1,570,286)
Direct operating expenses for investment properties that do not generate rental income	(827)	(21,162)
Expenses from disposal of investment properties	-	(16,409)
Expenses from impairment of receivables from investment properties	(167,298)	(618)
Expenses from impairment of investment properties.	(1,690,184)	(905,825)

The depreciation expenses in the income statement included depreciation expenses for the buildings of investment property in the amount of EUR 357,483 (see Section 10.2).

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 2017, 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..2017	Equity stake (%) 31.12.2016	Change (in %)	Note
AS neživotno osiguranje a.d.o.	0.00	97.27	-97.27	Liquidation completed
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		In liquidation
ZDRAVJE AS zdravstvene storitve d. o. o.	100.00	100.00	-	
KD IT, informacijske storitve, d. o. o.	100.00	100.00	-	
KD Skladi, družba za upravljanje d. o. o.	100.00	100.00	-	
AGENT Zavarovalniško zastopanje d. o. o.	100.00	-	100.00	Acquisition
Indirect subsidiary **				
KD Fondovi AD Skopje	94,60	94,60	-	
KD Locusta Fondovi d. o. o.	80,00	70,00	10,00	
Associate				
Nama trgovsko podjetje d.d., Slovenia	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	**2017**	**2016**
PROSPERA družba za izterjavo d. o. o., Slovenia	4.770.934	6.970.934
VIZ zavarovalno zastopništvo d. o. o., Slovenia	530.000	530.000
KD IT d. o. o.	3.378.236	9.078.236
ZDRAVJE AS d. o. o	550.000	550.000
KD SKLADI d. o. o	29.326.008	29.326.008
PERMANENS d. o. o., Croatia	-	-
AGENT d. o. o.	555.625	-
Indirect subsidiary	**39.110.803**	**46.455.178**
Associate		
Nama trgovsko podjetje d. d., Slovenija	11.705.901	11.705.901

The carrying amount of investments in subsidiaries decreased in 2017 compared to 2016, primarily as a result of recapitalisation of two subsidiaries - Prospera d. o. o. in KD IT d. o. o.

As at the end of the year, the management assesses the need for impairment based on internal assessment and, with the help of external appraisers, on external assessment. In 2017, external appraisers assessed the changes in circumstances and value since the last appraisal (in 2016) and ensured the Company that the assessment did not show any negative trends. This confirmed the adequacy of the appraisal performed in 2016.

For this purpose, as at the 2017 year-end the Company performed a sensitivity analysis in relation to the recoverable amount for the companies 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 2017

Movements in investments in subsidiaries and associate

(in EUR)	2017	2016
Subsidiaries		
As at 1 January	**46,455,178**	**8,483,894**
Acquisition or establishment	555,625	38,509,253
Recapitalisation	-	544,990
Decreases during the year	(7,900,000)	(1,000,000)
Impairments	-	(82,960)
As at 31 December	**39,110,803**	**46,455,178**
Associates		
As at 1 January	11,705,901	11,705,901
As at 31 December	**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 2017, Adriatic Slovenica received dividends in the amount of EUR 16,265 from its subsidiary Prospera. The dividends were fully paid on 20 March 2016.

In 2017, Adriatic Slovenica d. d., as the sole shareholder of Prospera d. o. o. received from the subsidiary EUR 2,200,000 of capital payout. Based on the finding that the equity capital is too large in relation to the activity and needs of the company, the recapitalisation of EUR 2,200,000 was carried out and capital reserves were reduced for this amount.

Permanens d. o. o.

The subsidiary Permanens d. o. o., Zagreb is disclosed at cost of zero in the financial statements. In 2017 the Company was in liquidation proceedings.

KD IT, informacijske storitve, d. o. o.

In March 2017, Adriatic Slovenica received dividends in the amount of EUR 100,000 from its subsidiary KD IT. The dividends were fully paid.

In 2017, Adriatic Slovenica d. d., as the sole shareholder of KD IT d. o. o. received from the subsidiary EUR 5,700,000 of capital payout. Based on the finding that the equity capital is too large in relation to the activity and needs of the company, the recapitalisation of EUR 5,700,000 was carried out and share capital amounting to EUR 8,140,081 was reduced to EUR 2,440,081.

KD Skladi, družba za upravljanje d. o. o.

In the first half of 2017, Adriatic Slovenica received dividends in the amount of EUR 1,400,000 from its subsidiary KD Skladi. The dividends were fully paid in the first half of 2017.
In 2017, the subsidiary KD Skladi increased its stake in the subsidiary (indirect subsidiary to Adriatic Slovenica) Locusta Fondovi d.o.o. by 10%.

Acquisitions of subsidiaries in 2017

Agent Zavarovalniško zastopanje d. o. o.

In October 2017, Adriatic Slovenica purchased 100% of the equity in the company Agent d. o. o. The principal activity of the company is insurance agent services. The company Agent Zavarovalniško zastopanje d. o. o. Izola was founded in 1991 and has been exclusive insurance agent for AS since then. The company Agent operates at locations in Koper, Izola and Lucija and through a network of insurance agents and life insurance consultants. The acquisition of the entire stake of the company was reasonable due to the nature of the investment and activities of the parent company Adriatic Slovenica. By acquiring the stake, the parent company became the 100% owner of the company Agent d. o. o. and the company Agent d. o. o. became a subsidiary of the Adriatic Slovenica Group.

About the company

Registered company name: AGENT Zavarovalniško zastopanje d. o. o.
Abbreviated company name: AGENT d. o. o.
Head office and address: Cankarjev drevored 4, 6310 Izola – Isola
Company registration number: 5467438000
VAT identification number: 20359187
Share capital: EUR 45,184.01
The reporting period is equal to the calendar year.
Corporate tax rate: 19%.

Associates 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 assessment of the recoverable amount is based on the net asset value method, whereby the recoverable amount of real properties 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 the Company strategy, in addition to performing its principal activity, Nama may also lease and sell its real property.

In 2017, external appraisers assessed the changes in circumstances and value since the last appraisal and ensured the Company that the assessment did not show any negative trends. This confirmed the adequacy of the appraisal performed in 2016. On the basis of the appraisal, the management assessed that no impairments were required in 2017.

To this end, as at the 2017 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 2017, Adriatic Slovenica received EUR 212,712 of dividends from Nama d. d. They were reimbursed in full on 30 June 2017.

Information on the assets and financial position of the Group's subsidiaries

Company name in EUR	Assets		Capital		Revenues		Profit or loss for the	
Subsidiaries	**2017**	**2016**	**2017**	**2016**	**2017**	**2016**	**2017**	**2016**
PROSPERA družba za izterjavo d.o.o.	5,118,616	7,391,735	4,883,376	7,035,994	1,908,243	2,165,156	46,209	26,265
VIZ zavarovalno zastopništvo d.o.o.	23,723	77,064	6,763	62,501	111,234	113,846	(55,738)	(47,482)
Permanens d.o.o., Hrvaška	4,497	5,549	4,286	3,334	12,666	48,495	952	(35,518)
ZDRAVJE AS d. o. o.	395,434	435,432	228,642	418,131	256,394	18,147	(189,488)	(134,526)
KD IT d. o. o.	3,429,610	9,249,799	3,389,304	9,177,405	647,339	451,108	11,898	99,946
KD Skladi, d. o. o.	11,304,642	10,536,380	9,954,728	9,292,708	9,889,794	2,713,896	2,026,947	883,030
AGENT d. o. o.	254,845	-	94,066	-	367,073	-	(142,776)	-
Indirect subsidiary	**2017**	**2016**	**2017**	**2016**	**2017**	**2016**	**2017**	**2016**
KD Fondovi	234,235	147,767	222,726	145,702	249,963	44,735	75,334	11,906
KD Locusta Fondovi d.o.o.	1,294,282	1,560,101	996,405	1,006,676	1,410,206	723,824	265,164	23,526
Associates	**2017**	**2016**	**2017**	**2016**	**2017**	**2016**	**2017**	**2016**
Nama trgovsko podjetje d.d.	12,820,155	12,878,976	10,205,368	10,422,889	16,892,981	15,581,981	214,287	390,120

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 2017 are shown from the date of their acquisition to 31 December 2017

For the reporting purposes, the balance sheet data of Permanens d.o.o. and KD Locusta Fondovi d. o. o. subsidiaries are converted into euros at the reference exchange rate of the European Central Bank. The exchange rate as at 31 December 2017 was applied to convert the balance sheet items from Croatian kuna to euros, i.e. 7.4400 (31 December 2016: 7.5597), and the average annual rate of 7.4637 (2016: 7.5333) 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 61.2150 as at 31 December 2017 (31 December 2016: 61.8), while the income statement items were converted by using the average annual EUR/MKD exchange rate of 61.458 (2016: 61.616).

10.5 NON-CURRENT ASSETS FOR SALE

In 2017, the non-current assets for sale of the insurance company AS neživotno osiguranje a. d. o. Belgrade - in liquidation, amounted to EUR 2,029,983.

In 2015, the Company initiated the winding up proceedings of AS neživotno osiguranje a. d. o., Belgrade based on the operating results on the Serbian market and the consequent decision taken by the Supervisory Board of the Company.

On 18 August 2017, Adriatic Slovenica d. d. received a transfer of liquidation value regarding AS Neživotno Osiguranje a. d. o. With regard to the closure of liquidation, Adriatic Slovenica reported a profit of EUR 728,089, reduced by the cost of transactions.

The liquidation process was officially completed on 26 December 2017 when the company was removed from the register of companies in Belgrade.

10.6 FINANČNE NALOŽBE

The year 2017 was marked by the growth of capital markets and a markedly low year-on-year volatility. The fair value of financial assets in the first months of the year was mainly affected by the volatility of the required return on government bonds of European countries, where the Company has invested the majority of its financial investments. Due to the unstable political situation, above all the fear of the victory of European populist parties and the Eurosceptic option, the required returns increased primarily in the bonds of the peripheral countries of Europe. With the victory of a pro-European party in the Netherlands, and especially after Macron's victory in the French parliamentary and presidential elections, investors' fears began to slacken, while credit spreads began to decline. Despite the political tension over North Korea, the breaches of Brexit, the parliamentary elections in Germany and the referendum in Catalonia, this trend did not change significantly until the end of the year.

Robust economic growth in the euro area, falling unemployment, high consumer confidence and good business results support market growth and above-average valuations. These are slightly higher in the US markets, where despite the gradual tightening of the FED's monetary policy, the positive effects of the tax reform are expected to relieve companies.

The loose monetary policies of central banks, with the exception of the US Fed and the British central bank, which are gradually raising interest rates, has continued. In the light of the encouraging economic conditions in the euro area, notwithstanding weak inflationary expectations, the ECB's monetary policy remains unchanged at zero percent. The bond purchase programme will be reduced from 60 to 30 billion per month from January 2018. This will last until at least the end of September 2018.

In the following text, we are presenting the position of investments as at 31 December 2017 per groups and compared to 2016 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 2017	31 Dec 2016
Equity securities	**289,899**	**289,585**
Listed securities	289,899	289,585
Debt securities	**6,284,345**	**3,697,766**
Listed securities	6,284,345	3,697,766
Derivative financial instruments	**243,537**	**-**
Derivatives for cash flow hedge	243,537	-
Total	**6,817,781**	**3,987,351**

The financial assets belonging to this group comprised on 31 December 2017 a derivative instrument (interest rate swap – IRS) amounting to EUR 243,537. This is intended to protect the variable portion of the interest rate issued by the Company (ADRIS Float 05/24/26) and is measured at fair value.

Financial assets measured at fair value through profit or loss – held for trading

(in EUR)	31 Dec 2017	31 Dec 2016
Equity securities	**566,527**	**545,401**
Listed securities	566,527	545,401
Debt securities	**1,084,782**	**3,307,279**
Listed securities	-	1,650,374
Government bonds	1,084,782	1,656,905
Total	**1,651,309**	**3,852,680**

The total value of financial assets measured at fair value through profit or loss in 2017 decreased due to maturity debt securities.

Available-for-sale financial assets

In 2017, 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. Based on the expert assessment and internal accounting policies, the management assessed that there was no requirement for permanent impairment of investments.

Available-for-sale financial assets

(in EUR)	31 Dec 2017	31 Dec 2016
Equity securities	**38,621,426**	**23,659,234**
Listed securities	17,321,234	15,107,906
Non-listed securities	21,300,192	8,551,328
Debt securities	**156,112,198**	**162,364,484**
Listed securities	27,314,000	32,037,771
Non-listed securities	3,969,183	138,363
Government bonds	124,829,015	130,188,350
Impairment of the value of securities	**(5,061,060)**	**(5,093,829)**
Total	**189,672,564**	**180,929,889**

As at 31 December 2017, available-for-sale assets were higher compared to the year before, mostly because of increased investment of the Company in equity non-listed securities. The amount of debt securities fell mainly due to sales and maturity.

Held-to-maturity financial assets

Held-to-maturity financial assets

(in EUR)	31 Dec 2017	31 Dec 2016
Debt securities	**31,417,539**	**38,008,230**
Listed securities	19,716,709	26,226,525
Government bonds	11,700,830	11,781,706
Total	**31,417,539**	**38,008,230**

The balance of debt securities of financial assets held to maturity decreased in 2017, mostly because of maturity of these financial assets.

Effective interest rates (in %) for debt instruments not measured at fair value

As at 31 Dec	31 Dec 2017	31 Dec 2016
Debt securities	0.00%	0.00%
– held-to-maturity	5.63%	5.65%

For the fair 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 2017	31 Dec 2016
Loans	**25,869,131**	**24,733,078**
Long-term	11,431,643	14,931,726
Short-term	14,437,489	9,801,352
Deposits placed with banks	**1,187,597**	**2,355,831**
Long-term	847,730	1,042,935
Short-term	339,867	1,312,895
Financial receivables	**9,598,611**	**5,264,021**
Total	**36,655,339**	**32,352,930**

Compared to the year before, in late 2017 financial receivables increased by EUR 4,334,589, primarily due to receivables not yet due on 31 December 2017 in relation to the sale of the investment property in late 2017 for the amount of 3,905,425.

Effective interest rates on loans and deposits

in %	31 Dec 2017	31 Dec 2016
Long-term loans in		
- local currency	0.00%	0.00%
- local currency	5.06%	5.06%
Short-term loans in		
- foreign currency	0.00%	0.00%
- local currency	4.96%	4.96%
Deposits placed with banks		
Short-term deposits	1.36%	1.36%
Long-term deposits	1.97%	1.97%

Financial receivables

(in EUR)	31 Dec 2017	31 Dec 2016
Financial receivables arising from investment properties	5,551,172	1,486,214
Other financial receivables	4,047,439	3,777,808
Total	**9,598,611**	**5,264,021**

Movements in financial assets

(in EUR)	Fair value through profit or loss - at initial recognition	Fair value through profit or loss - held for sale	Held to maturity	Available for sale	Loans, deposits and financial receivables	Total
Balance as at 1 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	45,384
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 rates)	101,593	(5,369)	(3,965)	1,373,515	-	1,465,774
Change of fair value (+/-) through revaluation surplus (market rates)	-	-	-	(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**
	-	-	-	-	-	-
Balance as at 1 Jan 2017	**3,987,351**	**3,852,680**	**38,008,230**	**180,929,889**	**32,352,930**	**259,131,080**
Exchange rate differences	7,726	22,283	8,012	(278,229)	535	(239,673)
Increase	2,824,289	6,945,369	463,739	112,249,775	459,797,987	582,281,159
Change of fair value (+/-) through profit or loss (market rates)	(1,158)	(6,146)	-	-	-	(7,305)
Change of fair value (+/-) through revaluation surplus (market rates)	-	-	-	451,799	-	451,799
Increase due to interest	3,473	142,443	1,963,942	2,487,401	1,227,181	5,824,439
Decrease	(3,900)	(9,305,320)	(9,026,384)	(106,168,072)	(456,723,293)	(581,226,969)
Balance as at 31 Dec 2017	**6,817,780**	**1,651,309**	**31,417,539**	**189,672,564**	**36,655,339**	**266,214,532**

Movements in loans, deposits and financial receivables mainly relate to the purchase and disposal of overnight framework deposits by means of an actual transaction account. Also, due to these transactions, higher value movements are also reflected in other current financial liabilities (see Section 10.19).

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. Improvement of the global economic environment and increase of the profitability of companies have helped to ensure that almost all investment classes ended 2017 with a positive result. The end of the year was slightly worse for investors in more conservative investments and precious metals.

Structure of unit-linked life insurance assets

(in EUR)	31 Dec 2017	31 Dec 2016
Financial assets measured at fair value through profit or loss - at initial recognition	**286,080,281**	**270,183,073**
Equity securities	230,673,439	222,437,516
Listed securities	230,673,439	222,437,516
Debt securities	55,406,842	47,745,557
Listed securities	55,406,842	45,845,557
Government bonds	-	1,900,000
Loans and deposits with banks	**18,493,850**	**16,784,178**
Loans	18,493,850	16,784,178
Monetary assets - deposits redeemable at notice	**404,000**	**634,182**
Total	**304,978,131**	**287,601,433**

The investments made for the benefit of unit-linked life insurance policyholders amounted to EUR 304,978,131. 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 1,789,086 and assets invested in BNP Paribas products totalled EUR 53,617,755. 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)	31 Dec 2017	31 Dec 2016
Balance as at 1 Jan	**287,601,433**	**263,760,340**
Increase	56,747,808	51,616,819
Decrease	(60,464,169)	(52,815,325)
Change of fair value (+/-) through profit or loss (market rates)	20,917,162	26,121,278
Deposit placement	49,270,147	64,873,617
Deposit withdrawal	(49,058,107)	(66,033,231)
Accrued interest	110,903	(6)
Exchange rate differences	(147,046)	77,941
Balance as at 31 Dec	**304,978,131**	**287,601,433**

10.8 AMOUNT OF INSURANCE TECHNICAL PROVISIONS TRANSFERRED TO REINSURERS

Reinsurers'/co-insurers' share in insurance technical provisions

(in EUR)	31 Dec 2017	31 Dec 2016
- from insurance contracts for incurred and reported claims	7,669,421	7,757,980
- from insurance contracts for incurred, but not reported claims	1,146,768	2,069,197
Total non-current part	**8,816,189**	**9,827,177**
- unearned premiums	1,013,968	640,562
- from insurance contracts for incurred and reported claims	7,049,266	5,906,588
- from insurance contracts for incurred, but not reported claims	824,768	1,024,994
Total current part	**8,888,002**	**7,572,144**
Total	**17,704,191**	**17,399,320**

10.9 ASSETS FROM FINANCIAL CONTRACTS

Assets from financial contracts

(in EUR)	31 Dec 2017	31 Dec 2016
Financial investments	7,928,201	3,574,846
Cash and cash equivalents	962,132	1,178,300
Other assets	-	44
Total assets from investment contracts	**8,890,333**	**4,753,190**

The assets from financial contracts at the 2017 year-end predominantly comprise investments in financial assets measured at fair value through profit or loss – at initial recognition.

Assets from financial contracts – assets structure

(in EUR)	31 Dec 2017	31 Dec 2016
Financial assets measured at fair value through profit or loss - at initial recognition	**5,686,307**	**-**
Equity securities	4,846,613	-
Listed securities	4,846,613	-
Debt securities	839,694	-
Listed securities	403,988	-
Government bonds	435,706	-
Available-for-sale financial assets	**2,238,308**	**3,574,058**
Equity securities	1,647,658	3,000,875
Listed securities	1,647,658	3,000,875
Debt securities	590,650	573,183
Government bonds	590,650	573,183
Financial receivables	**3,585**	**789**
Total financial assets	**7,928,201**	**3,574,846**

Movement of assets from financial contracts

(in EUR)	2017	2016
Balance as at 1 Jan	**3,574,846**	**-**
Increase (purchase)	6,767,104	4,960,974
Change of fair value (+/-) through profit or loss (market rates)	212,513	-
Change of fair value (+/-) through revaluation surplus (market rates)	67,276	63,467
Increase due to interest	10,933	-
Decrease (sale)	(2,741,112)	(1,449,595)
Exchange rate differences	36,642	-
Balance as at 31 Dec	**7,928,201**	**3,574,846**

10.10 RECEIVABLES

Balance of receivables

(in EUR)	As at 31.12.2017	As at 31.12.2016
Receivables from direct insurance operations	**16,433,204**	**17,407,497**
gross value	24,129,328	25,142,258
value adjustment	(7,696,125)	(7,734,761)
Receivables from reinsurance and coinsurance	**2,165,701**	**1,772,999**
gross value	2,335,702	1,931,184
value adjustment	(170,001)	(158,184)
Income tax receivables	**2,261,714**	**(0)**
OTHER RECEIVABLES	**2,460,621**	**3,585,653**
Other current receivables from insurance operations	**1,039,683**	**896,860**
gross value	1,119,923	971,309
value adjustment	(80,239)	(74,449)
Recourse receivables	**688,826**	**595,711**
gross value	2,790,461	3,018,150
value adjustment	(2,101,635)	(2,422,439)
Operating receivables from the state	**260,510**	**454,724**
gross value	260,510	454,724
Operating receivables for advances given	**122,456**	**182,868**
gross value	149,853	203,946
value adjustment	(27,397)	(21,078)
Other current operating receivables	**319,854**	**1,424,564**
gross value	883,633	2,209,440
value adjustment	(563,779)	(784,876)
Long-term receivables	**29,292**	**30,925**
Total receivables	**23,321,241**	**22,766,149**

Compared to the year before, the balance of receivables as at 31 December 2017 was higher by EUR 555,091 (or 2%). The majority of the various classes of receivables recorded a lower balance compared the end of the previous year, with the exception of income tax receivables which at the end of the reporting period amounted to EUR 2,261,714. The appearance of income tax receivables in 2017 was impacted by the completion of the liquidation of AS neživotno osiguranje a. d. o., Belgrade. Namely, after the liquidation, all impairments made in the previous years were recognized, which released the previously formed deferred tax receivables that were recognized in the income tax receivables group for the accounting year in net amount after payment of all liabilities in the reporting period and payment of the income tax prepayment in 2017.

In the structure of receivables, receivables from direct insurance operations prevail with a 70% share. These are receivables from policyholders due to contractual insurance premium. As at the end of 2017, these receivables dropped by EUR 974,293 compared to the previous year.

Other receivables are lower by EUR 1,125,033. The overall decrease was contributed mainly by other operating receivables, which were lower by EUR 1,104,710 compared with the previous year, due to the compensation made between receivables and liabilities under the contract for real estate purchases.

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 5.9.).

Movements in value adjustments of receivables

(in EUR)	Receivables from insurance operations	Subrogations	Other receivables	Total
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**
Balance as at 1 Jan 2017	**7,892,946**	**2,422,439**	**880,403**	**11,195,787**
Changes during the year	(26,820)	(320,804)	(208,987)	(556,610)
Balance as at 31 Dec 2017	**7,866,126**	**2,101,635**	**671,416**	**10,639,176**

10.11 OTHER ASSETS

Other assets – total balance

(in EUR)	31 Dec 2017	31 Dec 2016
Inventories	10,669	8,804
Deferred acquisition costs	4,632,316	4,683,852
Deferred expenses and accrued revenues	633,182	637,701
Total	**5,276,167**	**5,330,357**

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 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**
Balance as at 1 Jan 2017	**109,552**	**4,574,300**
Utilised in 2017	65,274	3,761,998
Formed in 2017	79,700	3,696,035
Balance as at 31 Dec 2017	**123,979**	**4,508,338**

10.12 CASH AND CASH EQUIVALENTS

Cash and cash equivalents

(in EUR)	31 Dec 2017	31 Dec 2016
Balances on accounts	9,681,513	3,227,300
Short-term deposits placed (maturity date up to 3 months)	7,780,706	2,114,796
Other cash	168,392	196,455
Total	**17,630,610**	**5,538,551**

At the end of 2017, the balances on accounts were higher compared to the year before, as at the moment there was no business opportunity to purchase financial investments.

The effective interest rate in 2017 on call deposits was between 0.0% and 0.01% (2016: from 0.09% to 0.78%).

10.13 EQUITY

Balance of equity

(in EUR)	31 Dec 2017	31 Dec 2016
Share capital	**42,999,530**	**42,999,530**
Capital reserves	**4,211,782**	**4,211,782**
Reserves from profit	**9,223,936**	**9,223,936**
Legal reserves	1,519,600	1,519,600
Other reserves from profit	7,704,336	7,704,336
Other reserves from profit	7,704,336	7,704,336
Reserve due to fair value measurement (Revaluation surplus)	**392,840**	**58,661**
Retained net profit	**28,614,486**	**26,467,638**
Net profit for the financial year	**11,449,372**	**12,953,626**
TOTAL	**96,891,946**	**95,915,172**

Share capital

As at 31 December 2017, 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 2017.

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 30 May 2017, the direct owner of Adriatic Slovenica and the sole shareholder decided on the distribution of accumulated profits for 2016. A part of the accumulated profits in the amount of EUR 10,613,539 was used for dividend payments. The rest of accumulated profits in the amount of EUR 28,807,724 remained unallocated and was transferred to the accumulated profits for 2017. Dividends were paid in full.

Ownership structure

As at 31 December 2017, KD Group d.d. held 10,304,407 shares, i.e. 100% of Adriatic Slovenica. The ownership structure remained unchanged in 2017.

Distribution of accumulated profit and loss coverage

Adriatic Slovenica ended 2017 with a profit before tax totalling EUR 13,528,810 and a net profit for the year amounting to EUR 11,449,406. 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.

On 31 December 2017, the management used the current year profit from unit-linked investment insurance to cover a part of the loss of this insurance from previous years, in the amount of EUR 71,377.

In life insurance, the management used the profit from previous years in the amount of EUR 9,053 to cover the loss for the current year. It also used the last year profit from health insurance in the amount of EUR 226,352 to cover the loss from the current year.

Accumulated profits

After covering the loss from previous years and the reporting year by using the profit from the reporting year and the profit from the previous year, the final balance of net profit for the year was EUR 11,449,372. Together with the unallocated profit brought forward from previous years amounting to EUR 28,614,486, the balance sheet profit as at 31 December 2017 to be distributed at the General Meeting of Shareholders amounted to EUR 40,063,858. A part of the accumulated profits in the amount of EUR 10,304,407 will be used in 2018 for the payout of dividends, while the rest of accumulated profits has remained unallocated.

Other changes

Other changes in in 2017 include foreign exchange in the profit/loss carried forward of the Zagreb Branch in the amount of EUR 16,308.

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 2017, the Company did not change or form additional reserves from profit.

Capital reserves

As at 31 December 2017, 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 2017, 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 2017 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.

Revaluation surplus

(in EUR)	31 Dec 2017	31 Dec 2016
Specific revaluation of equity	392,840	58,661
from reinforcement/impairment of available-for-sale financial assets	484,988	72,421
from adjustment for deferred taxes	(92,148)	(13,760)
Total revaluation surplus	**392,840**	**58,661**

Movements in revaluation surplus from available-for-sale financial assets with profit

(in EUR)	2017	2016
Balance as at 1 Jan	**58,661**	**3,540,100**
Change in revaluation surplus from net actuarial gains / losses for pension programs	**-**	**34,396**
Effect due to change in tax rate	**-**	**(86,129)**
Profits (losses) recognised in revaluation surplus	2,403,414	3,680,447
Net change due to revaluation	2,967,177	4,543,762
Change in deferred taxes due to revaluation	**(563,764)**	**(863,315)**
Transfer of profits (losses) from revaluation surplus to profit or loss	**(2,069,234)**	**(7,110,153)**
Change in revaluation surplus transferred on disposal to profit or loss	(2,554,610)	(8,782,022)
Change in deferred taxes on realisation of revaluation surplus	485,376	1,668,557
Transfer of negative revaluation surplus to profit or loss on impairment	-	4,089
The change deferred taxes from impairments through profit or loss	-	(777)
Balance as at 31 Dec	**392,841**	**58,661**

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 2017 amounted to EUR 49,525,147. Bonds are recorded among non-life insurance in the amount of EUR 22,781,568 and life insurance in the amount of EUR 26,743,579. By 24 November 2017, the Company paid interest to the creditors in the amount of EUR 3,953,500.

Movements in issued bonds

(in EUR)	2017	2016
As at 1.1.	**49,453,316**	**50,000,000**
Issued bond	-	(947,772)
Costs related to the issue of bond	4,025,330	2,394,088
Accrued interest	(3,953,500)	(1,993,000)
Repayment interest	49,525,147	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. Bonds may be recalled after five years.

10.15 INSURANCE TECHNICAL PROVISIONS

Insurance technical provisions (liabilities arising from insurance contracts) – gross and net

(in EUR)	Gross + received co-insurance as at 31.12.2017	Reinsurance + ceded co-insurance as at 31.12.2017	Net as at 31.12.2017	Gross + received co-insurance as at 31.12.2016	Reinsurance + ceded co-insurance as at 31.12.2016	Net as at 31.12.2016
Unearned premiums	42,396,717	962,859	41,433,858	41,972,462	599,336	41,373,126
Claims provisions for	103,620,255	16,457,399	87,162,855	101,444,787	16,469,614	84,975,174
- reported claims	55,775,809	14,485,863	41,289,946	51,890,008	13,375,839	38,514,169
- not reported claims	47,844,446	1,971,536	45,872,909	49,554,779	3,093,774	46,461,005
Provisions for bonuses and discounts	453,746	-	453,746	581,113	-	581,113
Mathematical provisions	172,372	-	172,372	118,305	-	118,305
Other insurance technical provisions	43,402	-	43,402	391,903	-	391,903
Total non-life insurance	**146,686,491**	**17,420,258**	**129,266,233**	**144,508,570**	**17,068,949**	**127,439,621**
Unearned premiums	6,774,128	-	6,774,128	7,029,965	-	7,029,965
Claims provisions for	5,406,298	-	5,406,298	6,194,080	-	6,194,080
- reported claims	622,147	-	622,147	576,358	-	576,358
- not reported claims	4,784,151	-	4,784,151	5,617,722	-	5,617,722
Provisions for bonuses and discounts	109	-	109	832	-	832
Mathematical provisions	40,136	-	40,136	8,082	-	8,082
Other insurance technical provisions	32,586	-	32,586	180,132	-	180,132
Total health insurance	**12,253,257**	**-**	**12,253,257**	**13,413,092**	**-**	**13,413,092**
Unearned premiums	355,159	51,109	304,050	380,444	41,226	339,218
Claims provisions for	5,191,131	232,824	4,958,308	4,621,369	289,145	4,332,224
- reported claims	1,901,406	232,824	1,668,582	1,716,578	288,728	1,427,850
- not reported claims	3,289,725	0	3,289,725	2,904,791	417	2,904,374
Mathematical provisions	107,377,776	-	107,377,776	107,124,136	-	107,124,136
Other insurance technical provisions	0	-	0	11,307	-	11,307
Total life insurance with DPF	**112,924,066**	**283,933**	**112,640,133**	**112,137,256**	**330,371**	**111,806,885**
Total liabilities arising from insurance contracts	**271,863,814**	**17,704,191**	**254,159,623**	**270,058,918**	**17,399,320**	**252,659,598**

The disclosure of insurance technical provisions does not include claims provisions for unit-linked life insurance in the amount of EUR 1,336,512. 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 2017	Reinsurance 2017	Net 2017	Gross 2016	Reinsurance 2016	Net 2016
Movements in unearned premium	-	-	-	-	-	-
Balance as at 1 Jan	**49,382,871**	**640,562**	**48,742,309**	**49,762,262**	**660,190**	**49,102,071**
Increase in liabilities	48,869,722	1,013,968	47,855,754	48,503,241	640,561	47,862,679
Decrease in liabilities	48,726,589	640,562	48,086,027	48,882,632	660,190	48,222,442
Balance as at 31 Dec	**49,526,004**	**1,013,968**	**48,512,036**	**49,382,871**	**640,561**	**48,742,309**
Movements in mathematical provisions	-	-	-	-	-	-
Balance as at 1 Jan	107,250,524	-	107,250,524	102,765,143	-	102,765,143
Increase in the period	**15,210,091**	**-**	**15,210,091**	**16,054,294**	**-**	**16,054,294**
Decrease in the period	15,093,254	-	15,093,254	12,299,640	-	12,299,640
Change of current-year DPF part	222,923	-	222,923	730,727	-	730,727
Balance as at 31 Dec	**107,590,283**	**-**	**107,590,283**	**107,250,524**	**-**	**107,250,524**
Movements in claims outstanding	-	-	-	-	-	-
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 1 Jan	**112,260,238**	**16,758,759**	**95,501,479**	**114,878,175**	**16,555,159**	**98,323,016**
Decrease in provisions due to payments	36,627,890	2,297,717	34,330,173	38,486,707	4,225,503	34,261,204
Change in provisions from preceding years +/-	(7,767,965)	(373,014)	(7,394,951)	(9,914,043)	2,650,090	(12,564,133)
Increase in provisions in the current year	46,353,303	2,602,196	43,751,108	45,782,813	1,779,013	44,003,799
Reported claims	**58,299,362**	**14,718,687**	**43,580,675**	**54,182,944**	**13,664,568**	**40,518,376**
Not reported claims	**55,918,323**	**1,971,536**	**53,946,787**	**58,077,294**	**3,094,191**	**54,983,102**
Balance as at 31 Dec	**114,217,685**	**16,690,223**	**97,527,462**	**112,260,238**	**16,758,759**	**95,501,479**
Movements in other insurance technical provisions	-	-	-	-	-	-
Balance as at 1 Jan	**1,165,286**	**-**	**1,165,286**	**1,210,185**	**-**	**1,210,185**
Increase in the period	495,617	-	495,617	968,350	-	968,350
Decrease in the period	1,131,060	-	1,131,060	1,013,248	-	1,013,248
Balance as at 31 Dec	**529,843**	**-**	**529,843**	**1,165,286**	**-**	**1,165,286**

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 31.12.2017	Reinsurance + ceded co-insurance as at 31.12.2017	Net as at 31.12.2017	Gross + received co-insurance as at 31.12.2016	Reinsurance + ceded co-insurance as at 31.12.2016	Net as at 31.12.2016
Claims provisions	1,336,512	-	1,336,512	1,836,888	-	1,836,888
- reported claims	1,336,512	-	1,336,512	1,836,888	-	1,836,888
Provisions for unit-linked life insurance policyholders	301,043,281	-	301,043,281	282,619,438	-	282,619,438
Total unit-linked life insurance	**302,379,792**	**-**	**302,379,792**	**284,456,325**	**-**	**284,456,325**

The balance of claims provisions for unit-linked life insurance decreased compared to 2016 year-end due to the payment of endowments, which were still disclosed in claims provisions on that day. The endowment related to majority of the policies was on 1 December 2016.

Movements in insurance technical provisions for unit-linked life insurance

(in EUR)	Gross 2017	Reinsurance 2017	Net 2017	Gross 2016	Reinsurance 2016	Net 2016
Movements in claims outstanding	**-**	**-**	**-**	**-**	**-**	**-**
Reported claims	**1,836,888**	**-**	**1,836,888**	**428,850**	**-**	**428,850**
Balance as at 1 Jan	**1,836,888**	**-**	**1,836,888**	**428,850**	**-**	**428,850**
Decreased provisions due to payments	1,304,409	-	1,304,409	181,932	-	181,932
Change in provisions from preceding years +/-	(8,839)	-	(8,839)	(48,559)	-	(48,559)
Increase in provisions in the current year	812,872	-	812,872	1,638,529	-	1,638,529
Reported claims	**1,336,512**	**-**	**1,336,512**	**1,836,888**	**-**	**1,836,888**
Balance as at 31 Dec	**1,336,512**	**-**	**1,336,512**	**1,836,888**	**-**	**1,836,888**
Movements in provisions for unit-linked life insurance policyholders	**-**	**-**	**-**	**-**	**-**	**-**
Balance as at 1 Jan	**282,619,438**	**-**	**282,619,438**	**259,697,710**	**-**	**259,697,710**
Increase in the period	57,262,561	-	57,262,561	57,909,316	-	57,909,316
Decrease in the period	38,838,717	-	38,838,717	34,987,588	-	34,987,588
Balance as at 31 Dec	**301,043,281**	**-**	**301,043,281**	**282,619,438**	**-**	**282,619,438**

10.17 LIABILITIES ARISING FROM FINANCIAL CONTRACTS

Liabilities arising from financial contracts

(in EUR)	31 Dec 2017	31 Dec 2016
Liabilities to pension savers (policyholders)	8,865,381	4,735,916
Liabilities from financial contracts for payments	8,523,199	4,695,351
Liabilities from financial contracts for fund return	342,182	40,565
Other liabilities	24,952	17,274
Total liabilities from financial contracts	**8,890,333**	**4,753,190**

As at 31 December 2017, savers' payments amounted to EUR 8,523,199 and represented the net premium (gross premium payments reduced by the entry charges). 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 2017, EUR 26,207 of entry charges 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)	2017	2016
As at 1 January	**4,735,916**	**-**
Increase in the period	**4,395,273**	**4,767,687**
for payments	4,091,488	4,727,130
for achieved return	303,785	40,557
Decrease in the period	**265,808**	**31,770**
for payouts (surrender)	263,640	31,770
for achieved return	2,168	-
As at 31 December	**8,865,381**	**4,735,916**

Annual gain of savers for which the liability of the Company increases varied in 2017 depending on the type of AS pension savings:

- 7.61% for the guarantee fund Pokojninsko varčevanje AS Drzni do 50 (pension fund),
- 3.24% for the guarantee fund Pokojninsko varčevanje AS Umirjeni med 50 do 60 (pension fund),
- 0.54% achieved (0.85% guaranteed) for the guarantee fund Pokojninsko varčevanje AS Zajamčeni od 60 (pension fund).

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 2017, the guaranteed return was 0.85%. Since the guaranteed return was not achieved in 2017, the Company (as a pension insurance manager) formed long-term liabilities of EUR 11,131 charged to own fund life insurance assets, in line with the Pension and Disability Insurance Act (ZPIZ-2).

10.18 OTHER PROVISIONS

10.18.1 Other provisions

(in EUR)	31 Dec 2017	31 Dec 2016
Provisions for termination benefits	4,428,951	3,813,150
Provisions for jubilee benefits	2,950	2,000
Total	**4,431,901**	**3,815,150**

10.18.2 Provisions for employee benefits

Provisions for employee benefits

(in EUR)	31 Dec 2017	31 Dec 2016
Provisions for employee benefits	1,547,291	1,281,331
Other non-current provisions	2,881,660	2,531,818
Total	**4,428,951**	**3,813,150**

Movements in provisions for employee benefits

(in EUR)	2017	2016
As at 1.1.	**3,813,150**	**3,376,135**
Increase in current period	387,506	328,943
Decrease due to paid provisions for termination and jubilee benefits	(350,265)	(272,215)
Actuarial gains and losses	578,560	380,286
Adjustments arising from past experience	163,160	200,402
Effect of change of assumptions	415,400	179,883
As at 31 December	**4,428,951**	**3,813,150**

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 2017 used different assumptions about the discount rate and expected increase in salaries than in the calculation for 2016, 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 1.007% (31 December 2016: 0.747%),
- the expected increase in salaries in the Company, including the expected increase in salaries due to promotions of 3.6% (31 December 2016: 2.2%),
- the expected mortality is determined based on Slovene mortality tables from 2007 (the same as at 31 December 2016),
- 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 2016).

The provision amounts in 2017 include taxes and contributions. The effect of changes in assumptions amounted to EUR 163,160.

Analysis of sensitivity to changes in parameters

Parameter	Parameter changes	2017	2016
Discount rate	discount curve move by +0,25%	(84,965)	(84,965)
	discount curve move by -0,25%	88,256	88,256
Salary increase	change in annual salary increase by +0,5%	161,787	161,787
	change in annual salary increase by -0,5%	(146,777)	(146,777)
Mortality	permanent increase in mortality by +20%	(33,842)	(33,842)
	permanent increase in mortality by -20%	34,465	34,465
Early termination of employment	expense curve move by +20%	(354,273)	(354,273)

10.18.3 Other long-term provision

Movements in other long-term provisions

(in EUR)	2017	2016
As at 1.1.	**2,000**	**1,200,623**
Increase in current period (formation)	950	2,000
Decrease	-	(1,200,000)
Decrease (reversal)	-	(623)
As at 31.12.	**2,950**	**2,000**

10.19 OTHER FINANCIAL LIABILITIES

Movements in loans and other current financial liabilities

(in EUR)	2017	2016
Balance as at 1 Jan	**1,046,383**	**984,291**
Increase	735,743,714	742,834,049
Decrease	(736,359,282)	(742,771,956)
Balance as at 31 Dec	**430,815**	**1,046,383**

The balance of loans and other current financial liabilities as at 31 December 2017 amounted to EUR 430,383, of which, there were EUR 1,350 of liabilities from received loans (including interest these liabilities amount to EUR 1,618). 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. The major part (EUR 348,341) of these financial liabilities is the liabilities non past-due related to financing of investment properties (liabilities for the payment of real property transaction tax, utilities and similar)

10.20 OPERATING LIABILITIES

Adriatic Slovenica has no secured liabilities.

Operating liabilities

(in EUR)	31 Dec 2017	31 Dec 2016
Liabilities arising from direct insurance contracts	5,267,178	3,862,611
Liabilities arising from reinsurance and co-insurance	2,162,271	1,955,043
Tax liability	-	600,017
Total	**7,429,450**	**6,417,671**

Compared to 2016, the operating liabilities as at 31 December 2017 increased by 16%, mainly as a result of higher liabilities arising from direct insurance contracts. Compared to 2016 year-end, these liabilities increased due to the marketing of a new investment insurance Aktivni AS in December 2017. The new product was activated on 1 January 2018 and the December liabilities for early payments were closed in January 2018 and moved to unit-linked life insurance assets.

For 2017, the Group accounted for the current tax liabilities at a 19% tax rate. At the end of the year, after the accounting of the income tax, the tax liability was equal to zero (see also Section 10.10).

10.21 OTHER LIABILITIES

Other liabilities

(in EUR)	31 Dec 2017	31 Dec 2016
Other operating (trade) liabilities	11,178,449	11,594,022
Accrued costs/expenses and deferred revenues	4,733,980	5,605,787
Total	**15,912,429**	**17,199,809**

10.21.1 Other operating liabilities

Other operating liabilities

(in EUR)	31 Dec 2017	31 Dec 2016
Long-term operating liabilities	**15,631**	**14,361**
Other long-term operating liabilities	15,631	14,361
Current operating liabilities	**11,162,818**	**11,579,662**
Current operating liabilities to suppliers	2,596,193	2,759,444
Current operating liabilities to employees	2,392,246	2,526,529
Other current liabilities from insurance operations	4,119,045	5,107,351
Current operating liabilities to the state (except for income tax)	1,073,671	710,078
Current liabilities for received advances	3,287	3,287
Other current operating liabilities	978,375	472,972
Total	**11,178,449**	**11,594,022**

As at the 2017 year-end, other operating liabilities decreased by EUR 415,574 (4 %) compared to the previous year. The decrease is mainly due to a decrease in other current liabilities from insurance operations of EUR 988,306. These liabilities represent the majority, 38% 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 922,246; last year: EUR 1,020,000),
- the liabilities for sales tax on insurance operations (in the amount of EUR 736,840; last year EUR 721,524),
- liabilities to other insurance companies from equalisation scheme for complementary health insurance (in the amount of EUR 599,614; no liabilities last year), and predominantly to

- liabilities for the repayment of reinsurance commissions advances (in the amount of EUR 1,443,742; last year: EUR 3,133,848).

The decrease at the end of 2017 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 2017 to 31 December 2017, the claims ratio of reinsurance (for which the liability for the advance was established in 2016) improved and the liability for the reinsurance commissions advances decreased by EUR 1,690,107.

The long-term operating liabilities include the long-term liability in the amount of EUR 11,131 formed in line with the Pension and Disability Insurance Act (ZPIZ-2) in favour of life-cycle pension insurance policyholders. These long-term liabilities may become due and payable also after the five-year period (see Section 10.17).

10.21.2 Accrued costs and deferred revenue

Accrued costs and deferred revenue

(in EUR)	31 Dec 2017	31 Dec 2016
Accrued expenses - operating	490,328	324,970
Accrued expenses - for unused annual holidays	1,321,173	1,301,883
Accrued expenses – acquisition costs and unexpired commissions	673,865	711,474
Accrued expenses from equalisation scheme for supplementary health insurance	767,478	904,604
Other deferred and accrued items	1,481,136	2,362,856
Total	**4,733,980**	**5,605,787**

10.22 REVENUE

10.22.1 Premium revenue from insurance contract

Net premium revenue from insurance contracts in 2017

(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	39,501,418	(779,737)	(59,164)	1,233	38,663,750
Land motor vehicle insurance	34,350,324	(1,431,842)	10,845	-	32,929,326
Accident insurance	17,009,496	(489,073)	192,041	163,020	16,875,484
Fire and natural forces insurance	17,141,211	(3,848,282)	(117,659)	11,234	13,186,504
Other damage to property insurance	12,949,196	(1,497,639)	(106,992)	18,292	11,362,857
General liability insurance	9,171,451	(1,259,838)	(424,986)	154,241	7,640,868
Credit insurance	(2,653)	-	223,348	-	220,695
Other non-life insurance, excluding health insurance	10,372,967	(588,142)	(141,689)	15,504	9,658,640
Insurance contracts for non-life insurance, excluding health insurance	**140,493,410**	**(9,894,554)**	**(424,255)**	**363,523**	**130,538,125**
	-	-	-	-	-
Health insurance contracts	**102,129,391**	**-**	**255,837**	**-**	**102,385,228**
Life insurance	22,044,449	(1,993,541)	25,285	9,883	20,086,076
Unit-linked insurance contracts	39,121,599	(3)	-	-	39,121,597
Life insurance contracts	**61,166,048**	**(1,993,543)**	**25,285**	**9,883**	**59,207,673**
Total	**303,788,849**	**(11,888,097)**	**(143,133)**	**373,406**	**292,131,025**

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**

10.22.2 Financial revenue and expenses from investments and investments in associates

Financial revenue and expenses from investments

(in EUR)	2017	2016
Income from financial investments measured at FVTPL	**25,023,460**	**26,998,772**
Held for sale	173,599	412,740
Dividends	69	1,452
Interest and net exchange differences	164,726	223,499
Net sales income	12	185,057
Revaluation income	8,792	2,731
At initial recognition	24,849,861	26,586,032
Dividends	110,903	88,397
Interest and net exchange differences	(133,102)	243,869
Net sales income	3,937,463	505
Revaluation income	20,934,597	26,253,261
Income from financial investments held to maturity (HTM)	**1,971,954**	**2,159,694**
Interest and net exchange differences	1,971,954	2,159,694
Income from financial investments available-for-sale (AFS)	**6,374,918**	**12,320,582**
Dividends	1,258,702	322,491
Interest and net exchange differences	2,209,172	2,779,625
Sales income	2,907,045	9,218,466
Income - derivatives	**-**	**45,700**
Income from loans and receivables	**3,417,232**	**2,252,357**
Interest	1,514,222	1,595,101
Net exchange differences	656,375	29,880
Other income	1,246,635	627,376
INCOME FROM INVESTMENTS	**36,787,565**	**43,777,104**
Income from investments - subsidiaries	2,244,354	-
INCOME FROM INVESTMENTS IN SUBSIDIARIES AND ASSOCIATES	**2,244,354**	**-**
Expenses for financial investments measured at FVTPL	**(83,126)**	**(643,472)**
Held for sale	(64,533)	(8,100)
Net sales expenses	(49,595)	-
Revaluation expenses	(14,938)	(8,100)
At initial recognition	(18,594)	(635,372)
Net sales expenses	-	(604,982)
Revaluation expenses	(18,594)	(30,390)
Expenses for financial investments available-for-sale (AFS)	**(352,434)**	**(1,814,800)**
Realised losses	(352,434)	(441,285)
Impairment	-	(1,373,515)
Expenses - derivatives	**(103,185)**	**(42,000)**
EXPENSES FOR INVESTMENTS	**(538,745)**	**(2,500,272)**
Expenses for investments - subsidiaries	-	(83,819)
EXPENSES FOR INVESTMENTS IN SUBSIDIARIES AND ASSOCIATES	**-**	**(83,819)**
Net financial result - investments measured at FVTPL	**24,940,334**	**26,355,300**
Net financial result - investments held to maturity (HTM)	**1,971,954**	**2,159,694**
Net financial result - available-for-sale investments (AFS)	**6,022,485**	**10,505,781**
Net financial result - derivatives	**(103,185)**	**3,700**
Net financial result from loans and receivables	**3,417,232**	**2,252,357**
Net financial result - investments in subsidiaries and associates	**2,244,354**	**(83,819)**
NET FINANCIAL RESULT FROM INVESTMENTS	**38,493,174**	**41,193,013**

Financial revenue and expenses also include net financial revenue/expenses for unit-linked insurance. In 2017, the net financial result of these investments was EUR 23,628,628. In the same period, the insurance technical provisions for these funds increased; it is therefore 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 2017 totalled EUR 18,423,843 and therefore decreased the final result in this amount.

Net gains/losses on held-for-trading financial assets

(in EUR)	2017	2016
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)	2017	2016
Realised profits	4,767,120	2,625,336
Unrealised profits	20,994,937	26,360,505
Realised losses	(829,657)	(3,229,814)
Unrealised losses	(78,933)	(137,634)
Total	24,853,467	25,618,393

Net gains/losses on financial assets at initial recognition through profit or loss pertaining to unit-linked life insurance amounted to EUR 23,452,940 (2016: EUR 25,643,613).

Impairment of securities of available-for-sale financial assets

(in EUR)	2017	2016
Equity securities	-	1,373,515
Total	-	1,373,515

Within the “available-for-sale financial assets” and the “held-to-maturity financial assets”, there were no permanent impairments of investments made in 2017.

10.22.3 Other insurance revenue

Other insurance revenue

(in EUR)	2017	2016
Revenue from insurance contracts	**2,224,846**	1,698,758
Revenues from reinsurance fees/commissions and from shares in positive technical result	2,114,297	1,680,153
Revenues from front-end/entry costs for insurance contracts	26,207	-
Other fee income for management of insurance contracts	84,342	18,605
Revenue from investment contracts	**31,677**	42,252
Revenue from investments contracts for administration (entry fees)	-	13,369
Other fee income for management of investment contracts	31,677	28,884
Total fee and commission revenue	2,256,523	1,741,010

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 increased in 2017 by EUR 526,088, due an improved underwriting result of quota car insurance at the expense of release of unreported claims provisions.

The second portion of other insurance revenue includes fees for concluding and managing financial contracts arising from Pokojninsko varčevanje AS (pension saving) in line with the investment policy of the life cycle.

10.22.4 Other revenue

Other revenue

(in EUR)	2017	2016
Other net insurance revenues	1,260,408	1,771,172
Revaluation operating revenues	907,182	410,292
Other financial and other revenues	5,077,221	4,675,860
Total	**7,244,811**	**6,857,324**

Other net revenue from insurance operations is shown in a separate table below.

Other net insurance revenue

(in EUR)	2017	2016
Revenue for management of insurance contracts	58,643	47,062
Revenue from other services provided to KD Funds	-	495,696
Revenue from insurance services provided to foreign insurance companies	417,839	351,391
Revenue from rent on parking lot and cars	152,812	183,126
Revenue from Green Card sales	421,992	445,237
Revenue from other services	209,123	248,661
Total	**1,260,409**	**1,771,172**

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 656,886, from the write-off of liabilities from previous years in the amount of EUR 212,127 and revenue from the sales of property, plant and equipment in the amount of EUR 38,169. In 2017, the Company had a number of such revenue items (higher by EUR 434,493), due to higher revenue from revaluation of receivables.

Other financial and other revenue

Compared to the previous year, other financial and other revenue increased by EUR 401,361, which was mainly contributed by rental revenue from investment property, revenue from disposal of investment property and recovered written-off receivables.

The predominant revenue in the structure of financial revenue is rental revenue from investment property which amounted to EUR 2,388,580 (in 2016: EUR 1,909,617) and are higher than last year by EUR 478,963 or 25%. This is followed by other financial revenue (in 2017: EUR 1,416,806 and in 2016: EUR 1,336,146), arising from revaluation of loans given to Fondpolica policyholders due to changes in rates.

10.23 NET CLAIMS INCURRED

Net claims incurred in 2017

(in EUR)	Gross claims settled	Revenues from recourse receivables	Share of reinsurance/ coinsurance in claims/ benefits paid	Change in gross outstanding claims provisions	Change in outstanding claims provisions for reinsurance/ coinsurance share	Expenses from equalisation scheme	Net expenses for claims/ benefits paid
Motor vehicle liability insurance	26,908,535	(847,087)	(1,260,097)	(1,638,937)	1,417,369	-	24,579,783
Land motor vehicles insurance	27,156,288	(433,470)	(190,757)	907,608	(316,232)	-	27,123,437
Accident insurance	7,995,152	-	(142,710)	71,804	95,113	-	8,019,359
Fire and natural disasters Insurance	7,622,159	(13,502)	(895,807)	1,602,919	(1,269,415)	-	7,046,354
Other damage to property insurance	7,883,101	(20,226)	(707,516)	425,071	(26,914)	-	7,553,516
General liability insurance	3,397,504	(12,809)	(53,833)	1,012,979	(31,715)	-	4,312,126
Credit insurance	100,243	(93,288)	-	(26,415)	-	-	(19,460)
Other non-life insurance, excluding health insurance operations	4,648,617	(83,219)	(78,051)	(179,561)	144,009	-	4,451,795
Non-life insurance contracts, excluding health insurance contracts	**85,711,600**	**(1,503,602)**	**(3,328,770)**	**2,175,467**	**12,214**	**-**	**83,066,910**
Health insurance contracts	**87,447,866**	**(176,880)**	**-**	**(787,782)**	**-**	**2,884,237**	**89,367,441**
Life insurance	15,760,107	-	(602,961)	569,762	56,321	-	15,786,410
Unit-linked insurance contracts	33,837,879	-	-	(500,376)	-	-	33,337,503
Additional pension insurance PN-A01	631,776	-	-	-	-	-	631,776
Insurance contracts and investment life insurance contracts	**50,229,763**	**-**	**(602,961)**	**69,386**	**56,321**	**-**	**49,752,509**
Total	**223,389,229**	**(1,680,482)**	**(3,931,731)**	**1,457,071**	**68,536**	**2,884,237**	**222,186,860**

Net claims incurred in 2016

(in EUR)	Gross claims settled	Revenues from recourse receivables	Share of reinsurance/ coinsurance in claims/ benefits paid	Change in gross outstanding claims provisions	Change in outstanding claims provisions for reinsurance/ coinsurance share	Expenses from equalisation scheme	Net expenses for claims/ benefits paid
Motor vehicle liability insurance	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
Insurance contracts and investment life insurance contracts	**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 classified into expenses for the current year and expenses for previous years

(in EUR)	Gross 2017	Reinsurance 2017	Net 2017	Gross 2016	Reinsurance 2016	Net 2016
Expenses for claims and benefits paid for current year	**233,050,241**	**4,236,209**	**228,814,032**	**226,718,866**	**2,481,139**	**224,237,727**
Claims and benefits paid	182,999,829	1,634,014	181,365,816	175,802,273	702,126	175,100,147
Change in outstanding claim provisions	47,166,175	2,602,196	44,563,980	47,421,342	1,779,013	45,642,329
Expenses from equalisation scheme	2,884,237	-	2,884,237	3,495,251	-	3,495,251
Expenses for claims and benefits paid for previous years	**(7,000,186)**	**(373,014)**	**(6,627,171)**	**(9,177,613)**	**2,650,090**	**(11,827,703)**
Claims and benefits paid	38,708,918	2,297,717	36,411,201	39,453,628	4,225,503	35,228,125
Change in outstanding claim provisions	(45,709,104)	(2,670,731)	(43,038,372)	(48,631,241)	(1,575,413)	(47,055,828)
Total	**226,050,056**	**3,863,195**	**222,186,861**	**217,541,253**	**5,131,230**	**212,410,024**

10.24 COSTS

10.24.1 Costs by natural group

(in EUR)	2017	2016
Operating costs for material	885,683	985,795
Acquisition costs	23,882,186	26,735,474
Operating costs for services	17,620,199	19,691,072
Depreciation/amortisation	2,897,415	2,809,213
Labour costs	**30,453,302**	**29,121,138**
Payroll – wages and salaries	21,423,098	20,840,441
Social security costs	1,730,268	1,643,055
Pension insurance costs	2,043,657	1,895,410
Other labour cost	4,484,320	4,065,503
Provisions for termination benefits and jubilee benefits	771,959	676,729
Total	**75,738,785**	**79,342,693**

Compared to the previous year, the operating costs are lower by EUR 3,603,908. This decrease was mainly contributed by acquisition costs (lower by EUR 2,853,288) due to the decrease of insurance-related external representation costs (agencies and other). A significant decrease was recorded in the operating costs for services group (by EUR 2,070,874), mostly due to lower securities brokerage (lower by EUR 730,170) and lower IT services costs (lower by EUR 456,197) and, to a smaller extent, training costs, costs of services provided by students, photocopying costs and similar.

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)	2017	2016
Costs related to acquisition of insurance and investment contracts	23,673,588	26,220,239
Costs related to financial asset management	2,277,603	2,965,818
Costs related to PPE management	375,899	642,811
Other costs for management fees	3,452,285	3,201,450
Costs of sale	20,414,611	21,252,361
Other costs/expenses	19,462,697	18,862,333
Total costs/expenses by functional groups	**69,656,683**	**73,145,012**

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 2017, these costs totalled EUR 6,082,103 (2016: EUR 6,197,681). Together with the transfer of a part of other expenses relating to direct claims handling costs in the amount of EUR 46,532 (2016: EUR 39,004), there were EUR 6,128,634 transferred to gross claims incurred (2015: EUR 6,236,685).

10.24.3 Labour costs of own agents

(in EUR)	2017	2016
Labour costs	8,232,943	8,154,716
Wages and salaries	6,240,851	6,135,404
Social security costs	419,372	402,093
Pension insurance costs	583,428	578,995
Other labour cost	989,293	1,038,224
Costs of services provided by private individuals	241,043	310,279
Total	**8,473,986**	**8,464,995**

10.24.4 Auditor’s remuneration

The audit of the annual financial statements of Adriatic Slovenica for 2017 and 2016 was performed by the audit firm KPMG Slovenija d.o.o. The audit of the Zagreb Branch, Croatia, was performed by the audit firm Antares revizija d.o.o. Other non-audit services were performed by the audit firm KPMG poslovno svetovanje d. o. o.

Fees paid for auditor’s services

(in EUR)	2017	2016
Statutory audit of the annual report	103,503	85,503
Other audit services	49,328	45,770
Tax counselling services	-	-
Other non-audit services	19,564	23,515
Total fees for independent auditor's services	**172,395**	**154,788**

The costs in the table do not include 1% of input VAT.

10.25 OTHER INSURANCE EXPENSES

Other insurance expenses

(in EUR)	2017	2016
Expenses for preventive activities	861,303	841,329
Contribution for covering losses caused by uninsured and unknown vehicles	145,205	(2,993)
Other net insurance expenses	2,798,688	3,083,899
Total	**3,805,195**	**3,922,235**

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 2017, 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 mainly generated by significant events, such as:

- insurance expenses for car assistance in the amount of EUR 1,180,942 (2016: EUR 1,700,673),
- subrogation receivables write-offs, receivables write-offs from insurance premiums and write-offs of other receivables in the amount of EUR 1,052,853 (2016: EUR 753.559) and ,
- expenses of supervisory bodies in the amount of EUR 452,794 (2016: EUR 451,740).

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 2017, compared to 2016, the amount of write-offs of receivables from insurance cases and subrogation receivables is lower.

10.26 OTHER EXPENSES

Other expenses

(in EUR)	2017	2016
Revaluation operating expenses	**1,152,907**	1,577,347
Expenses for investment properties	**3,710,112**	2,885,671
Depreciation of investment properties	357,483	371,990
Impairment - investment properties	1,690,184	905,825
Losses-upon disposal of investment properties	-	16,409
Other expenses for investment properties	1,662,445	1,591,447
Depreciation of property, plant and equipment not intended for insurance activities	**231,536**	169,446
Other operating expenses	**2,505,751**	1,645,344
Finance expenses	**5,261,325**	4,161,884
Total	**12,861,631**	**10,439,693**

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). Compared to the year before, these expenses were down by EUR 390,443 mainly due to lower impairments of premium receivables (by EUR 239,226) and lower impairments of subrogation receivables (by EUR 150,167).

Compared to the year before, investment property expenses were up by EUR 886,531 in 2017, mainly due to expenses for impairment of investment property totalling EUR 1,690,184 as at the 2017 year-end (see Section 10.2 and 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)	2017	2016
Payments for charity and cultural purposes	93,953	156,520
Benefits not depending on operating profit or loss	137,126	144,614
Financial penalties and compensations	1,059,202	419,995
Operating expenses	711,581	718,011
The rest of other operating expenses	503,889	206,204
Total	**2,505,751**	**1,645,344**

Compared to the previous year, other operating expenses went up by EUR 860,407, mainly due to financial penalties. In 2017, the Company settled in an out-of court proceedings the compensation arising from commercial disputes in the amount of EUR 1,055,842, which had the greatest impact on the increase of financial penalties and compensations.

In addition to financial penalties, in 2017 operating expenses were significant. These comprised mainly administrative and court fees of EUR 337,243 (2016: EUR 309,443) and membership fees for the Slovene Chamber of Commerce and associations in the amount of EUR 178,016 (2016: EUR 192,047). The remaining smaller part of these expenses included expenses for motor vehicles (registration, vignettes and parking), administrative fees for AZN (Insurance Supervision Agency), scholarships for students, expenses for environmental protection and similar expenses.

Other operating expenses primarily include interest expenses relating to provisions for employee benefits (jubilee and post-employment benefits) in the amount of EUR 39,677 and extraordinary expenses in the amount of EUR 464,212.

Financial expenses compared to 2016 increased by 26% and are presented in more detail in the following text.

Financial expenses

(in EUR)	2017	2016
Finance expenses for interest - issued bonds	4,025,330	2,394,088
Finance costs - interest	622	51,860
Other financial expenses	1,235,373	1,715,936
Finance expenses arising from other financial liabilities	1,666	-
Finance expenses arising from operating liabilities	1,233,707	1,715,936
Total	**5,261,325**	**4,161,884**

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 4,025,330 of accrued interest (2016: 2,394,088).

In 2017, other financial expenses were lower by EUR 480,562 mainly due to lower financial expenses from operating liabilities, generated mostly by negative foreign exchange difference from abroad (amounting to EUR 650,446; 2016: EUR 56,181), the investment expenses, such as purchasing commissions (amounting to EUR 441,339; 2016: EUR 395,702) and other interest expenses (amounting to EUR 112,101; 2016: EUR 120,406).

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 2017

Insurance class in EUR	Reinsurance premiums	Reinsurance claims	Changes in unearned reinsurance premiums	Changes in reinsurance claims	Reinsurance commissions	Net reinsurance result
Accident insurance	(489,073)	142,710	163,020	(95,113)	122,805	(155,651)
Land motor vehicle insurance	(1,431,842)	190,757	457	316,232	341,595	(582,801)
Marine loss insurance	(42,430)	-	-	(57,063)	-	(99,493)
Transportation (goods in transit) insurance	(223,190)	64,321	-	594	15,201	(143,074)
Fire and natural disaster insurance	(3,630,776)	871,118	15,333	1,288,437	572,020	(883,868)
Other damage to property insurance	(1,451,336)	626,287	19,936	31,009	50,533	(723,572)
Motor vehicle liability insurance (MTPL)	(779,737)	1,260,097	1,233	(1,417,369)	363,654	(572,123)
Aircraft liability insurance	(4,625)	-	(843)	-	729	(4,739)
Ship/boat liability insurance	(46,594)	-	(3,494)	(138,622)	-	(188,710)
General liability insurance	(1,203,022)	50,574	154,648	(2,359)	74,882	(925,278)
Suretyship insurance	(130,502)	24,317	15,045	(86)	43,944	(47,282)
Miscellaneous financial loss insurance	(124,592)	(13,360)	123	48,133	20,411	(69,285)
Legal expenses insurance	(6,934)	-	-	-	1,760	(5,174)
Insurance of assistance	-	(10,809)	-	-	23,146	12,337
Total non-life insurance	**(9,564,655)**	**3,206,012**	**365,457**	**(26,207)**	**1,630,681**	**(4,388,712)**

Reinsurance result for non-life insurance in 2016

Insurance class in EUR	Reinsurance premiums	Reinsurance claims	Changes in unearned reinsurance premiums	Changes in reinsurance claims	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
Insurance of assistance	-	-	-	-	12,565	12,565
Total non-life insurance	**(8,270,685)**	**4,306,251**	**3,313**	**(131,846)**	**1,178,364**	**(2,914,602)**

10.28 CORPORATE INCOME TAX

Taxes

(in EUR)	2017	2016
Corporate income tax charge	(15,121)	(2,224,297)
Deferred tax income/(expense)	(2,064,284)	3,167,215
Total	**(2,079,405)**	**942,918**

Adjustment between the actual and the calculated tax expense by applying the effective tax rate

(in EUR)	2017	2016
Profit or loss before taxation	**13,528,810**	**10,953,732**
Rate used for income tax calculation (in %)	19	17
Tax calculated by using official tax rate	(2,570,474)	(1,862,134)
Income excluded from the tax base and other reductions in the tax base	**3,937,926**	**982,200**
Expenses not recognised in the tax base and other increases in the tax base	**(1,521,282)**	**(1,467,859)**
Use of tax allowance in the current year	**138,709**	**123,497**
Changes in deferred taxes in the income statement	**(2,064,284)**	**3,167,215**
Increase of deductible temporary differences	-	2,920,700
Decrease of deductible temporary differences	(2,221,740)	-
Increase of tax credits carry forwards	157,457	246,515
Profit or loss after taxation	**(2,079,405)**	**942,918**
Effective tax rate (in %)	**15,37**	**8,61**

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 2017, 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 2017 is 15.37% (in 2016 the effective tax rate was 8.61 % – the reason for such a difference is described in detail in Section 10.29.)

According to local tax legislation in Slovenia, the tax rate was changed from 17 % to 19 % on 1 January 2017. Pursuant to the legislative amendment, the tax liability for 2017 was calculated at a 19 % tax rate (compared to 17 % tax rate in 2016).

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.

Recognised deferred tax amounts

(in EUR)	31 Dec 2017	31 Dec 2016
Deferred tax assets	**4,014,638**	**6,083,846**
– receivables for deferred tax to be recovered	4,014,638	6,083,846
Deferred tax liabilities	**171,035**	**98,641**
– liabilities for deferred taxes pending payment	171,035	98,641

Deferred tax receivables

Compared to the year before, in 2017 deferred tax receivables went down by EUR 2,069,209 (or 34%), mainly due to the impact of the concluded liquidation of the company AS neživotno osiguranje a. d. o., Belgrade, and the consequent release of deferred tax receivables (in the amount of EUR 2,199,783) formed by the Company over the previous years due to impairments of investments in the company AS neživotno osiguranje a. d. o., Belgrade (see also Section 10.10).

Overview of bases for deferred tax receivables

(in EUR)	Base 2017	Reinsurance 2017	Base 2016	Reinsurance 2016
Due to impairment/value adjustments of receivables for premiums, for recourse receivables and for other current receivables	11,133,135	2,115,296	12,781,508	2,172,856
Due to impairment/value adjustments of financial investments	5,833,559	1,108,376	19,525,847	3,319,394
Due to impairment/value adjustments of provisions, provisions for relief and depreciation above the statutory rate	4,162,978	790,966	3,479,975	591,596
Total	**21,129,672**	**4,014,638**	**35,787,330**	**6,083,846**

Overview of bases for deferred tax liabilities

(in EUR)	Base 2017	Deferred tax liability 2017	Base 2016	Deferred tax liability 2016
Due to reversal of impairment of financial investments	900,182	171,035	580,243	98,641
Total	**900,182**	**171,035**	**580,243**	**98,641**

Deferred taxes taken to equity in a given year

(in EUR)	31 Dec 2017	31 Dec 2016
Available-for-sale financial assets	(78,388)	718,336
Total	**(78,388)**	**718,336**

Movements in deferred taxes

(in EUR)	Total
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**
	-
New balance as at 1 Jan 2017	**5,985,205**
Debited/credited to income statement	(2,064,284)
Debited/credited to equity	(78,388)
Exchange rate differences	1,070
Net balance of assets and liabilities as at 31 Dec 2017	**3,843,604**

Movements in deferred tax liabilities (without offsetting)

(in EUR)	Impairment reversal to fair value	Other	Total
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**
	-	-	-
Balance as at 1 Jan 2017	**98,641**	**-**	**98,641**
Debited/credited to equity	72,393	-	72,393
Balance as at 31 Dec 2017	**171,034**	**-**	**171,034**

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	Untaxed reliefs	Total
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 1. 1. 2016	**1,369,598**	**3,319,394**	**432,208**	**345,081**	**430**	**370,619**	**246,515**	**6,083,846**
Balance as at 1 Jan 1. 1. 2017	**1,369,598**	**3,319,394**	**432,208**	**345,081**	**430**	**370,619**	**246,515**	**6,083,846**
Debited/credited to income statement	(3,947)	(2,206,087)	(60,145)	41,911	(105)	6,633	157,457	**(2,064,284)**
Debited/credited to equity	-	(5,994)	-	-	-	-	-	**(5,994)**
Exchange rate differences	-	1,064	-	2	3	-	-	**1,069**
Balance as at 31 Dec 31. 12. 2017	**1,365,652**	**1,108,376**	**372,064**	**386,994**	**328**	**377,252**	**403,972**	**4,014,637**

10.30 NET EARNINGS (LOSS) PER SHARE

The net earnings per share that refers to the holders of ordinary shares 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.

Earnings (loss) per share

(in EUR)	2017	2016
Net profit or loss for the financial year	11,449,406	11,896,650
Weighted average number of ordinary shares outstanding	10,304,407	10,304,407
Basic and adjusted net earnings / loss per share (in euros)	**1.11**	**1.15**

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)	2017	2016
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 2017, Adriatic Slovenica did not issue any subordinated bonds and it did not purchase or sell any equity securities.

Dividend per share

(in EUR)	2017	2016
Amount of dividends (in euros)	10,613,539	13,246,819
Dividend per share (in euros)	1.03	1.29

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 30 May 2017, the General Meeting of Shareholders of Adriatic Slovenica adopted a resolution, referring to 2016, to allocate EUR 10,613,539 for dividend payments to the shareholders. The dividends were paid in full.

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 2017, 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 2017, 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, Adriatic Slovenica received adequate payments and reimbursements in all transactions in 2017 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

Shareholders of AS d. d.

With a 100% equity stake, KD Group d.d. is the sole shareholder and direct owner 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%	19%	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%	19%	SI87410206	Activities of insurance agents and brokers	Calendar year
ZDRAVJE AS zdravstvene storitve d. o. o.	Ljubljanska cesta 3 a, 6000 Koper	100%	19%	SI22745866	Specialist outpatient health care service	Calendar year
KD IT, informacijske storitve, d. o. o.	Celovška cesta 206, 1000 Ljubljana	100%	19%	SI15923363	IT services	Calendar year
KD Skladi, družba za upravljanje, d. o. o.	Dunajska cesta 63, 1000 Ljubljana	100%	19%	SI56687036	Activity of custody funds and other funds and similar financial entities	Calendar year
AGENT Zavarovalniško zastopanje d.o.o.	Cankarjev drevored 4, 6310 Izola - Isola	100%	19%	20359187	Activities of insurance agents and brokers	Calendar year
CROATIA						Calendar year
Permanens d.o.o.	Draškovićeva 10, 10000 Zagreb	100%	18%	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	97.27%	15%	105510418	The company was removed from the register after completion of the liquidation on 26 December 2017	Calendar year
Indirect subsidiary						
CROATIA						
KD Locusta Fondovi d.o.o.	Ljudevita Gaja 28, 10000 Zagreb	80%	18%	61865183767	Activities of investment fund management	Calendar year
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	Calendar year
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 Company through management and supervisory bodies, i.e. Management and Supervisory Board members.

11.2 RELATED PARTY TRANSACTIONS

Sale of goods and services

(in EUR)	2017	2016
Shareholder of Adriatic Slovenica d.d	329,952	309,251
Subsidiaries of Adriatic Slovenica d.d.	1,232,119	922,449
Associate of Adriatic Slovenica d.d.	68	68
Other associated/affiliated companies of Adriatic Slovenica d. d.	978,773	852,301
Total	**2,540,912**	**2,084,069**

In 2017, the Company did not sell any receivables to Prospera d. o. o. subsidiary.

Purchase of goods and services

(in EUR)	2017	2016
Shareholder of Adriatic Slovenica d.d	268,921	465,016
Subsidiaries of Adriatic Slovenica d.d.	1,901,214	2,523,566
Associate of Adriatic Slovenica d.d.	468	8
Other associated/affiliated companies of Adriatic Slovenica d. d.	3,589,671	2,155,466
Total	**5,760,274**	**5,144,056**

Receivables of Adriatic Slovenica d.d. from related parties

(in EUR)	31 Dec 2017	31 Dec 2016
Shareholder of Adriatic Slovenica d.d	7,001	5,395
Subsidiaries of Adriatic Slovenica d.d.	80,966	272,679
Other associated/affiliated companies of Adriatic Slovenica d. d.	173,956	84,643
Total	**261,923**	**362,718**

Liabilities of Adriatic Slovenica d.d. from related parties

(in EUR)	31 Dec 2017	31 Dec 2016
Shareholder of Adriatic Slovenica d.d	21,894	39,234
Subsidiaries of Adriatic Slovenica d.d.	123,151	124,768
Associate of Adriatic Slovenica d.d.	9	9
Other associated/affiliated companies of Adriatic Slovenica d. d.	334,529	346,723
Total	**479,583**	**510,733**

Purchase of investment properties from related parties

In 2017, the Company did not purchase or sell any investment properties to its related parties.

Purchase of securities from related parties

(in EUR)	2017	2016
Subsidiaries of Adriatic Slovenica d.d.	555,625	544,990
Other associated/affiliated companies of Adriatic Slovenica d. d.	5,787,639	37,559,054
Total	**6,343,264**	**38,104,044**

In 2017, the Company purchased the 100% of the shares of the company Agent d.o.o. for the amount of EUR 555,625. The company Agent d.o.o. thus became a subsidiary of the AS group.

In the process of purchasing the shares of Jugopetrol AD for the amount of EUR 5,787,639, a sensitivity analysis was carried out using the present value of future cash flows method and the net asset value method under the following assumptions:

- Growth rate 3 %
- WACC 10,50 %

in %	weighted average cost of capital - WACC		
growth rate - g	-1%	0%	1%
-1%	7.5%	-5.3%	-15.3%
0%	15.3%	0.0%	-11.7%
1%	25.8%	6.8%	-7.1%

Bonds issued by the shareholder of Adriatic Slovenica d. d.

(in EUR)	2017	2016
At the beginning of year	**15,780,799**	**15,766,973**
Bonds purchased from third parties	463,739	-
Interest charged	1,085,482	1,119,698
Interest received	(860,028)	(970,388)
Valuation/measurement	(176,568)	(135,483)
At the end of the reporting period	**16,293,424**	**15,780,799**

Bonds issued by other related parties of Adriatic Slovenica d. d.

(in EUR)	2017	2016
At the beginning of year	**7,014,935**	**6,973,577**
Maturing bonds	(6,859,000)	-
Interest charged	409,040	816,218
Interest received	(480,130)	(821,975)
Valuation/measurement	(84,845)	47,114
At the end of the reporting period	**(0)**	**7,014,935**

Shares of the shareholder of Adriatic Slovenica d. d.

(in EUR)	2017	2016
At the beginning of year	**537,372**	**125,550**
Valuation/measurement	-	411,822
At the end of the reporting period	537,372	537,372

Shares of subsidiaries of Adriatic Slovenica d. d.

(in EUR)	2017	2016
At the beginning of year	**46,455,178**	**10,513,878**
Spin-off assets	-	950,200
New balance as at 1 January - after spin-off	**-**	**11,464,078**
Shares purchased from the issuer	-	544,990
Purchased shares in the group	555,625	37,559,054
Repayment of capital	(7,900,000)	(1,000,000)
Dividends paid	1,516,265	73,208
Dividends received	(1,516,265)	(73,208)
Permanently impaired	-	(82,961)
At the end of the reporting period	**39,110,803**	**48,485,161**

Shares of the associate of Adriatic Slovenica d.d.

(in EUR)	2017	2016
At the beginning of year	**11,705,901**	**11,705,901**
Dividends paid	212,833	77,175
Dividends received	(212,833)	(77,175)
At the end of the reporting period	**11,705,901**	**11,705,901**

Shares and shareholdings of other related parties of Adriatic Slovenica d. d.

(in EUR)	2017	2016
At the beginning of year	**1,294,389**	**1,470,120**
Maturing bonds	-	(177,318)
Interest charged	38,898	-

Interest received	(38,898)	-
Valuation/measurement	303,404	5,263
Permanently impaired	-	(3,676)
At the end of the reporting period	**1,597,793**	**1,294,389**

Loans received and loans given

Loans given to the shareholder of Adriatic Slovenica d. d.

(in EUR)	2017	2016
At the beginning of year	**6,480,551**	**7,999,788**
Approved loans	16,555,300	21,400,000
Repaid loans	(7,800,000)	(22,919,185)
Interest accrued	416,891	359,420
Interest reduction	(417,024)	(359,472)
At the end of year	**15,235,718**	**6,480,551**
Paid interest	**375,174**	**363,717**

The new loans given are long-term and given at a 5% market interest rate. The loans are secured with blank bills of exchange.

Loans given to other related parties of Adriatic Slovenica d. d.

(in EUR)	2017	2016
At the beginning of year	**14,413,459**	**21,563,957**
Approved loans	2,500,000	13,755,670
Repaid loans	(9,320,600)	(20,898,840)
Interest accrued	525,319	713,657
Interest reduction	(517,993)	(720,985)
At the end of year	**7,600,185**	**14,413,459**
Paid interest	541,204	747,689

The loans given to other related parties were given at market interest rate in the range between 4.5% and 6%. 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 7 years. The loans are collateralized with debt securities, blank bills of exchange, assignments, by pledging real property (mortgage) or with an agreement on the sale and transfer of claims.

Loans given to subsidiaries of Adriatic Slovenica d. d.

in EUR	2017	2016
At the beginning of year	-	-
Approved loans	130,000	-
Interest accrued	2,396	-
Interest reduction	(2.391)	-
At the end of year	**130,005**	-
Paid interest	2,299	-

The short-term loan was given at the interest rate of 0.839 % in line with the interest rate for related companies and secured by an enforcement draft.

Loans received from other related parties of Adriatic Slovenica d. d.

(in EUR)	2017	2016
At the beginning of year	**60,836**	**15,355**
Approved loans	5,700,000	100,000
Repaid loans	(5,759,300)	(54,350)
Interest accrued	82	199
Interest reduction	-	(368)
At the end of year	**1,618**	**60,836**
Paid interest	-	(368)

* Note: Loans received from other related parties include interest movements.

In June 2017, the subsidiary KD IT d. o. o. gave to the parent company a short-term loan in the amount of EUR 5,700,000. The interest rate was accounted for in line with the Rules on the recognized interest rate for related companies, which at the moment of loan was equal to 0%. The loan was fully repaid in 2017.

In 2017, the Company was repaying the loan to the VIZ d. o. o. subsidiary in accordance with the loan contract concluded in 2016. The interest rate on the loan was charged at the respective interest rate between related parties. The loan was not secured.

In 2017, 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 d. d.

The income received by the members of the Management and Supervisory Boards of Adriatic Slovenica for the performance of their duties in the 2017 financial year.

Adriatic Slovenica made the following payments for 2017 to the members of the Management Board

in EUR	Office	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	-	1,115	1,896	4,646	5,100	-
Matija Šenk	Member of the Management Board	120,000	-	1,115	2,080	1,253	7,471	1,980

* 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 5,670,876 for 2017 of which EUR 4,732,679 were paid for gross salaries and EUR 938,197 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 2017 to the members of the Supervisory Board

in EUR	Office	Gross salary	Variable part of remuneration	Holiday allowance	Reimbursements of costs*	Fees for attending board sessions	Insurance premiums	Commissions, bonuses and other fringe benefits	Remuneration for work in subsidiaries
mag. Matjaž Gantar	Chairman	-	-	-	-	21,600	-	-	-
Aljoša Tomaž	Member	-	-	-	-	19,200	-	-	-
Tomaž Butina	Member	-	-	-	-	19,200	-	-	-
Aleksander Sekavčnik	Member	-	-	-	1,879	19,200	-	-	49,936
Matjaž Pavlin	Member, representative of employees	34,169	-	1,115	2,750	19,200	503	4,064	-
Borut Šuštaršič	Member, representative of employees	30,359	-	1,115	2,370	19,200	1,149	796	-

Adriatic Slovenica made in 2017 the following payments to the members of the Audit Committee

In EUR	Fees for attending board sessions
Matjaž Pavlin	6,300
Mojca Kek	5,544
Vera Dolinar	6,152

As at the 2017 year-end, the Company carries the following current operating receivables and liabilities;

- EUR 98 of receivables and no liabilities from the members of the Management Board. The receivables arise from the insurance business (premiums due) and from rents of parking spaces,
- EUR 32,814 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 275, and receivables from exercised subrogation receivables in the amount of EUR 32,539 paid off in accordance with the agreement,
- EUR 8,844 of receivables and EUR 192 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 7,492 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 2018.

In 2017, 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

As at the 2016 year-end, the Company carries receivables in the amount of EUR 993 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 2017, 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 564 of insurance premiums,
- the immediate family members of members of the Supervisory Board paid the aggregate amount of EUR 8,255 of insurance premiums. In 2017, EUR 208 claims were paid to the immediate family members.
- the immediate family members of members of the Audit Committee paid the aggregate amount of EUR 1,638 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 2017, based on the concluded insurance policies, the insurance company paid EUR 208 for claims to the immediate family members of members of the Supervisory Board, whilst to the immediate family members of members of the Audit Committee and 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 2017, 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 14,407, received also EUR 635 of daily allowance for business trips.

The receivables carried in the books of account as at the 2017 year-end and arising from the senior management of the companies up to the highest parent company amounted to EUR 32,678. Outstanding receivables refer to the receivables arising from the insurance business (premiums) and rents for parking spaces in the amount of EUR 138, and receivables from exercised subrogation receivables in the amount of EUR 32,539. Receivables are paid regularly in line with the agreement on payment by instalments. As at 31 December 2017, 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

(in EUR)	2017	2016
Outstanding recourse receivables	5,859,265	5,930,790
Receivables from the state	-	3,225,338
Received pledged guarantees	26,975,508	11,947,676
Receivables for pension insurance premiums	164,627	232,291
Receivables for options	-	2,100,000
Other receivables	275,125	235,266
Contingent RECEIVABLES	**33,274,525**	**23,671,362**
Receivables - disputes and litigations (labour and insurance)	389,040	610,517
Liabilities for options	-	433,000
Liability for guaranteed return	11,131	9,861
Contingent LIABILITIES	**400,171**	**1,053,377**
Records under swap contracts	50,000,000	-
Total contingent receivables and liabilities	**83,674,696**	**24,724,739**

As at 31 December 2017, the balance of contingent receivables is higher than in the previous year due to guarantees with pledged securities increased by EUR 15,027,832 (received bill of exchange pledged as collateral for given loans). The balance of other receivables went up (by EUR 39,858 due to new commercial disputes), whilst the balance of unrealised subrogation receivables went down (by EUR 71,525) as also the balance of receivables from pension insurance premiums (by EUR 19,667). Among contingent liabilities the Company does not record receivables from the state, former Slovenica against the Republic of Slovenia (outstanding compensation for the loss incurred due to limitation in the motor vehicle insurance prices) since all legal remedies have been exhausted. Contingent receivables arising from options expired in 2017.

Contingent liabilities decreased by EUR 653,206 compared to the end of the previous year. The guarantee resulting from the umbrella agreement on the implementation of the transfer of the portfolio concluded between the assignor AS neživotno osiguranje a. d. o., Belgrade, and the acquirer of the portfolio, the subsidiary of Pozavarovalnica Sava in the amount of 157,750 euros expired. In April 2017, the contingent liability ceased to exist following the withdrawal of the claims. In addition to the termination of the guarantee, the reduction of liabilities (disputes and litigations) was largely impacted by the out-of-court settlement of the contingent liability arising from a commercial dispute in the amount of EUR 90,690 and, to a lesser extent, the payment made after the judgment for contingent liabilities for labour and insurance disputes.

Despite the overall decrease, the balance of contingent liabilities as at 31 December 2017 increased due to the failure to achieve the guaranteed return to the savers of the pension saving fund Zajamčeni od 60 (EUR 1,271). As the manager of pension savings, the Company records the same amount of contingent liabilities under outstanding liabilities in the balance sheet formed within own funds of fund manager, under other non-current liabilities for the Pension and Disability Insurance Act (ZPIZ – 2).

Contingent receivables and liabilities of option and futures contracts

In 2017, all contingent receivables and liabilities under futures contracts from 2016 expired.

Other changes

In 2017, the balance of off-balance sheet items increased by EUR 50,000,000 on the basis of the Interest Rate Swap concluded in the amount of the principal of EUR 50,000,000 and the date of termination on 24 May 2026. The contract was concluded with a view to hedge the variable part of the interest rate of the issued bond Adris Float 05/24/26 in the amount of EUR 50,000,000 and maturity on 24 May 2026.

Important litigations in progress

- 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. In August 2015, the court issued a first instance judgement in favour of Pozavarovalnica Sava. AS lodged an appeal against the judgment and succeeded, in particular for procedural reasons. The case was returned for retrial to the first-instance court. After the retrial at the first instance court, in which the court remedied the procedural deficiencies, the court issued a new (for AS more favourable) judgment at the end of October 2016, according to which AS is obliged to pay EUR 696,926 of statutory default interest from 1 May 2012 onwards. The rest of the claim made by Pozavarovalnica Sava (for EUR 896,953 of statutory default interest from 1 May 2012 onwards) was rejected. Following the appeals lodged and the judgment of the High Court of October 2017 (which did not allow the appeal), this judgment became final. On this basis, Adriatic Slovenica paid to Pozavarovalnica Sava on 27 October 2017 the awarded part of the claim (after offsetting the legal costs to which Adriatic Slovenica was entitled due to a partial failure of Pozavarovalnica Sava, Zavarovalnica Adriatic Slovenica paid a total of EUR 1,001,402). Both parties filed an appeal on a point of law against the final judgment. 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 1,756,640) based on its own assessment and taking into account the prudence principle. After the payment was made pursuant to the judgement, the Company released EUR 1,001,402 and allocated the remaining EUR 755,238 to deferred expenses and accrued revenues, more precisely to short-term deferred expenses. As part of the dispute continues pursuant to the appeal on a point of law (the claim is still open and the interest is still ongoing), the amount of EUR 755,238 is accounted for under short-term deferred expenses in the balance sheet while the amount of EUR 291,753 is accounted for under off-balance contingent liabilities.
- On the basis of the Bank of Slovenia's decisions on extraordinary measures in five Slovenian banks (NLB, NKBM, Abanka, Factor banka, Probanka) in 2013 and in one bank (Banka Celje) in 2014, debt instruments held by the Company in total nominal value of EUR 14,634,800, as well as 123,416 shares of Probanka d.d., 2,085 shares of NLB d.d. and 5 shares of Banka Celje d.d. The Company immediately initiated all procedures to protect its rights and brought an action against the bank which issued the erased financial instruments. In October 2016, the Constitutional Court decided that part of the Banking Act, on the basis of which decisions on extraordinary measures were issued, was in contravention of the Constitution in so far as it was not possible for the holder of eligible liabilities to have adequate judicial protection. The Constitutional Court ordered the legislator to remedy the unconstitutionality and, until the remedy of the unconstitutionality, all proceedings that are pending in this respect have been interrupted with the limitation period beginning six months after the entry into force of the law which will remedy the unconstitutionality. When the National Assembly adopts an act regulating the right to judicial protection of holders of erased eligible liabilities, the Company will initiate appropriate procedures for the protection of its rights in accordance with the new legislation.
- Adriatic Slovenica d. d. (AS) received on 7 February 2018 an enforcement order issued by the District Court in Ljubljana under no. In 1400/2008 on 5 February 2018. The order was issued on the proposal of the Creditor, which was filed in 2001 (!) on the basis of an enforceable deed - judgment of the Labour Court in Koper, no. Pd 650/99, the defendant being Slovenica d. d. The order now requires AS to invite the creditor back to work (which he performed until the unlawful termination in 1989) and pay him salary compensation starting from the final

judgment in 2001 until the actual return to work, in the amount of the difference between the creditor's income and the wage he would have had if he had been employed by Slovenica d. d., plus default interest. The penalty of EUR 250.000 was provided in the event that the creditor is not invited back to work within 8 days, or EUR 100.000 if contributions have not been calculated within 8 days after the order becomes final. An appeal against the order was filed by AS for several reasons: AS cannot comply with the judgment since only the defendant - Slovenica d. d. could; that there was no succession in relation to the (non-monetary and irreplaceable) fulfilment of the judgment; that Slovenica had already offered the return to work and the creditor did not accept it; and, consequently, that the creditor is not entitled to salary compensation for the contested period. The amount of salary compensation, which the creditor merely calculated in a lay manner, as well as the amount of the fines that the court threatens to apply against the debtor AS in case of failure to comply with the obligations, was also contested. The objection also criticized the inactivity of the court, which took 17 years to make a decision, thus causing great damage. In order to avoid the penalty of EUR 250,000, AS invited the creditor to work, and the key elements of the return to work have already been coordinated with the creditor. Despite the clear standpoint reflected in the objection reading that AS is not the debtor in relation to the above obligation, AS proceeded in this way because of the previous inappropriate behaviour of the court, which was explained in detail in the objection against the enforcement order. Once the court has ruled on the objection, it will be clear whether AS is obliged to pay the sums claimed; however, the proceeding may continue in a lawsuit to deal with the contested facts relating to the proposal. The Company estimated that the liability arising from this dispute amounted to about EUR 380,000, and consequently recognized the amount of EUR 380,000 in other expenses in the financial statements.

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 2017.

Events after the balance sheet date, important for business operations in 2018

1. The Management Board of Adriatic Slovenica d.d. as the sole shareholder of the subsidiary KD IT, informacijske storitve d. o. o. adopted a decision on 11 December 2017 to commence the activities related to the exit of the company from the AS Group and to the simplified merger by absorption of the company KD IT, informacijske storitve d. o. o. with the company Adriatic Slovenica d. d. on the accounting date of merger 31 December 2017. The company KD IT d. o. o. adopted on 11 January 2018 a decision to implement all procedures related to the exit of the company from the AS Group and to the simplified merger by absorption of KD IT, informacijske storitve d. o. o. with the company Adriatic Slovenica d.d. On the basis of these decisions, the companies will proceed to activities that will result in the registration of the merger by absorption in the court register by and not later than the end of September 2018. Pursuant to the registration, KD IT d. o. o. as the transferor company, will be dissolved without going into liquidation. By entering the merger into the court register, all assets and liabilities of the transferor company will be transferred to Adriatic Slovenica d.d. as the transferee company. Prior to the registration in the court register and in accordance with Article 125 of the Insurance Act (ZZavar-1), Adriatic Slovenica d.d. will have to obtain the authorisation of the Insurance Supervision Agency (AZN) to the merger of the two companies.

2. On 18 October 2017, an inspection of the period from the merger of the subsidiary KD životno osiguranje, Zagreb with the parent company Adriatic Slovenica d. d. until the end of the first year of operation was launched by the Croatian Tax Administration. At the time of completion of the Annual Report for 2017, the tax investigation was still ongoing.

AUDITED

CONSOLIDATED FINANCIAL STATEMENTS FOR 2017

The Adriatic Slovenica Group

VSEBINA

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 2017. 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 2017.

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, 16 March 2018

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.
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Independent Auditor's Report

To the owners of Adriatic Slovenica d.d.

Report on the Audit of Consolidated Financial Statements

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 2017, 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 2017, 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) and EU Regulation (EU) No 537/2014. Our responsibilities under those standards are further described in the *Auditor's Responsibility for the Audit of the 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 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.

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.

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Recoverable amounts of investment property	
The carrying amount of investment property as at 31 December 2017: EUR 24,119,759 (31 December 2016: EUR 27,443,818); related impairment loss recognized in 2017: EUR 1,690,184 (2016: EUR 905,825). *We refer to the consolidated 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, various office space throughout Slovenia, as well as Maribox Maribor, a cultural, entertainment and business center. The investment property is stated at cost less accumulated depreciation and any accumulated impairment losses. As the property is partly unoccupied and partly generating low rental income streams, there are indications that it's recoverable amount may be below the carrying amount. In such circumstances, the relevant financial reporting standards require that investment property shall be impaired. 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 and cash flow projections (based on expected future rental income) and comparable market transactions. Judgment involved in making the assessment is particularly high for Maribox Maribor, the single most significant investment property, due to its specific nature. The recoverable amount of the investment property is highly sensitive to changes in the assumptions used, and therefore we considered this area to be our key audit matter.	Our procedures, performed with the support from an external appraisal expert engaged by us, included, among others: • Assessing the competence, experience and objectivity of the external experts engaged by the Group; • Critically evaluating, by reference to the relevant financial reporting standards and current market practice, the appropriateness of the methodology applied by the Group and its external experts in their determination of the recoverable amounts of the investment property assets; • Challenging the key assumptions used in the valuation reports, mainly focusing on discount rates, proportion of vacancy and rental income, by tracing them to the signed rental contracts, independent external sources and discount rates used in most recent comparable transactions; • In addition to the above, specifically for Maribox Maribor, challenging the appropriateness of the range of key assumptions used by the Group in its sensitivity analysis as disclosed in annual report; • Assessing the adequacy and appropriateness of the Group's disclosures related to the significant judgments of the outcomes of the impairment assessment.

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Measurement of life insurance contract liabilities
Life insurance contract liabilities as at 31 December 2017: EUR 107,590,283 (31 December 2016: EUR 107,250,524), increase in the amount of life insurance contract liabilities in 2017: EUR 339,759 (2016: increase of EUR 4,485,381). *We refer to the consolidated financial statements: Notes 5.15, 6.6 (accounting policies), Notes 10.15 and 7.2.1 (financial disclosures).*

Key audit matter	Our response
Life insurance contract liabilities represent a significant liability in the Group's consolidated statement of financial position. Measurement of these liabilities is associated with significant estimation uncertainty as it requires the Management Board 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 contract liabilities are accurate and complete. The test is based on the comparison of the Management Board's current estimate of the present value of future cash flows arising from the in-force insurance contracts with the stated amounts of the related liabilities. In case the LAT test shows that the amounts of life insurance contract liabilities are insufficient in light of the estimated future cash flows, the entire deficiency is recognized in profit or loss. The Group's key assumptions used in the above cash flow model include those in respect of: the expected expenses, lapse rates, investment yields and discount rates used. Relatively insignificant changes in these assumptions can have a significant effect on the amounts of the related estimates due to the long-term nature of the obligations. In view of the above-mentioned factors, we considered this area to be our key audit matter.	Our procedures, performed with the support from our own actuarial and IT specialists, included, among others: • Evaluating the methodology used by the Group in measuring life insurance contract liabilities against relevant regulatory and financial reporting requirements; • Assessing and testing of general IT controls, including those over the collecting and security of the data used in life insurance contract liabilities calculation; • Evaluating the reasonableness of the Group's current estimates of future cash flows used for LAT purposes, by means of: - assessing the results of the Group's experience analysis, and using those historical results to challenge the key assumptions used in the measurement of the current estimates as at 31 December 2017. Specifically, among other things, we assessed whether lapse rates used in LAT were properly extracted from the Group's experience studies, and whether the discount rates and investment yields used were in line with observable market rates; - assessing the reasonableness of the expense assumptions in LAT in comparison with those in the business plan of the Group, which we assess on an annual basis by testing past budgets against actual outcomes; • Assessing the reasonableness of the movements in the life insurance contracts liabilities for the year, starting from the opening value and developing our independent expectation for the items which should result in an increase in the liability (such as premiums, technical interest rate, profit sharing, yield rate) and those which result in its decrease (claims, expense loadings, risk premium); • Assessing the Group's disclosures in respect of life insurance contract liabilities against the requirements of the relevant financial reporting standards.

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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. We obtained other information before the date of consolidated the financial statements and the auditor's report, except for the report About Adriatic Slovenica and the Adriatic Slovenica Group, which will be available later.

Our opinion on the consolidated financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion 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, we have considered whether they include the disclosures required by the Company's Act (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 for the financial year for which the consolidated financial statements are prepared, is consistent with the consolidated financial statements; and
- the Business Report has 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 that we obtained prior to the date of this auditors report. 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.

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.

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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 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.

Report on Other Legal and Regulatory Requirements

We were appointed by shareholders of Adriatic Slovenica d.d. on shareholders meeting dated 22 of December 2016 to audit the consolidated financial statements of Group Adriatic Slovenica for the year ended 31 December 2017. Our total uninterrupted period of engagement is 5 years, covering the periods ending 31 December 2013 to 31 December 2017.

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We confirm that:

- our audit opinion is consistent with the additional report presented to the Audit Committee of the Insurance company Adriatic Slovenica d.d. dated 16 March 2018;
- we have not provided any prohibited non-audit services (NASs) referred in Article 5 of EU Regulation (EU) No 537/2014. We also remained independent of the audited Group in conducting the audit.

For the period to which our statutory audit of consolidated financial statements relates, in addition to the audit and services, which are disclosed in the Management Report or in the consolidated financial statements of the Group, we have not provided any other services to the Group.

On behalf of the auditing company

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

Damjan Ahčin, FCCA
Certified auditor

Barbara Kunc
Certified auditor
Partner

Ljubljana, 16 March 2018

KPMG Slovenija, d.o.o.
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3. CONSOLIDATED FINANCIAL STATEMENTS

3.1 CONSOLIDATED BALANCE SHEET

Consolidated balance sheet as at 31 December 2017

(in EUR)	Note	31 Dec 2017	31 Dec 2016
Assets		**760,709,385**	**737,307,236**
Intangible assets	10.1	**32,923,769**	**33,883,437**
Property, plant and equipment	10.2	**30,720,448**	**31,918,209**
Non-current assets held for sale	10.5	**0**	**4,270**
Deferred tax assets	10.29	**4,863,701**	**7,033,551**
Investment properties	10.3	**24,119,759**	**27,443,818**
Financial investments in subsidiaries and associates	10.4	**12,025,841**	**12,130,311**
Financial investments	10.6	**270,557,129**	**269,780,829**
In loans and deposits		37,136,247	38,507,602
In held-to-maturity financial assets		31,417,539	38,008,230
In available-for-sale financial assets		193,392,255	184,024,591
In financial assets measured at fair value		8,611,088	9,240,406
Unit-linked investments of policyholders	10.7	**304,978,130**	**287,601,433**
Amounts of technical provisions ceded to reinsurers	10.8	**17,704,190**	**17,399,319**
Assets from investment contracts	10.9	**8,890,333**	**4,753,190**
Receivables	10.10	**27,896,452**	**28,982,850**
Receivables from direct insurance business		17,737,450	18,915,810
Receivables from reinsurance and coinsurance		2,165,699	1,772,997
Income tax receivables		2,315,916	77,667
Other receivables		5,677,386	8,216,376
Other assets	10.11	**5,918,444**	**5,455,850**
Cash and cash equivalents	10.12	**20,111,188**	**10,920,169**
Off-balance sheet items	12	**84,175,736**	**25,398,837**
Equity and liabilities		**760,709,385**	**737,307,236**
Equity	10.13	**97,959,877**	**98,181,182**
Majority equity interest		**97,748,578**	**97,787,718**
Share capital		42,999,530	42,999,530
Capital reserves		4,211,782	4,211,782
Reserve from profit		9,223,936	9,223,936
Translation differences		10,475	(1,930,505)
Reserve due to fair value measurement (Revaluation surplus)		728,676	355,071
Retained net earnings		29,940,979	29,517,525
Net profit or loss for the financial year		10,633,199	13,410,378
Minority equity interest		**211,299**	**393,464**
Subordinated liabilities	10.14	**49,525,147**	**49,453,317**
Technical provisions	10.15	**273,200,328**	**271,895,806**
Unearned premiums		49,526,004	49,382,872
Mathematical provisions		107,590,283	107,250,524
Outstanding claims provisions		115,554,198	114,097,125
Other technical provisions		529,843	1,165,286
Insurance technical provisions for unit-linked insurance	10.16	**301,043,281**	**282,619,438**
Other provisions	10.18	**4,625,262**	**4,076,834**
Deferred tax liabilities	10.29	**191,266**	**110,646**
Liabilities from investment contracts	10.17	**8,890,333**	**4,753,190**
Other financial liabilities	10.19	**429,198**	**985,578**
Operating liabilities	10.20	**7,439,318**	**6,583,521**
Liabilities from direct insurance contracts		5,225,359	3,862,118
Liabilities from reinsurance and coinsurance contracts		2,162,272	1,955,042
Income tax liabilities		51,687	766,361
Other liabilities	10.21	**17,405,374**	**18,647,723**
Off-balance sheet items	12	**84,175,736**	**25,398,837**

The accounting policies and notes set out on pages from 259 to 391 are an integral part of the consolidated financial statements.

3.2 CONSOLIDATED INCOME STATEMENT

Consolidated income statement for the period from 1 January 2017 to 31 December 2017

(in EUR)	Note	1. 1. - 31. 12. 2017	1. 1. - 31. 12. 2016
NET PREMIUM INCOME	**10.22**	**292,131,025**	**288,273,482**
Gross written premiums		303,788,849	298,820,030
Premiums ceded to reinsurers and coinsurers		(11,888,097)	(11,086,394)
Change in unearned premiums		230,273	539,846
REVENUES FROM INVESTMENTS IN ASSOCIATES, of which	**10.22**	**222,762**	**235,852**
- profit from capital investments from associates and joint ventures, calculated using the equity method		103,950	235,852
INCOME FROM INVESTMENTS	**10.22**	**36,823,049**	**44,972,324**
OTHER INCOME FROM INSURANCE OPERATIONS, of which	**10.22**	**2,256,523**	**1,741,010**
- fee and commission income		2,256,523	1,741,010
OTHER INCOME	**10.22**	**18,774,821**	**10,731,420**
NET EXPENSES FOR CLAIMS AND BENEFITS PAID	**10.23**	**(222,184,419)**	**(212,702,856)**
Gross amounts of claims and benefits paid		(224,392,135)	(219,116,733)
Reinsurers'/coinsurers' shares		3,733,323	5,113,471
Change in claims provisions		(1,525,607)	1,300,405
CHANGE IN OTHER TECHNICAL PROVISIONS	**10.15**	**209,400**	**(4,138,780)**
CHANGE IN TECHNICAL PROVISIONS FOR THE BENEFIT OF UNIT-LINKED INSURANCE POLICYHOLDERS	**10.16**	**(18,423,843)**	**(22,921,728)**
EXPENSES FOR BONUSES AND DISCOUNTS		**128,090**	**100,722**
OPERATING EXPENSES, of which	**10.24**	**(78,704,191)**	**(77,148,806)**
- acquisition costs		(23,637,911)	(26,600,421)
EXPENSES FROM INVESTMENTS IN ASSOCIATES, of which	**10.22**	**-**	**(51,963)**
EXPENSES INVESTMENTS, of which	**10.22**	**(531,521)**	**(2,501,022)**
- impairment losses of financial assets not measured at fair value through profit or loss		-	(1,374,749)
OTHER INSURANCE EXPENSES	**10.25**	**(3,805,195)**	**(4,093,142)**
OTHER EXPENSES	**10.26**	**(13,500,330)**	**(11,184,868)**
PROFIT/(LOSS) BEFORE TAX		**13,396,169**	**11,311,646**
CORPORATE INCOME TAX	**10.28**	**(2,694,301)**	**1,034,488**
NET PROFIT FOR THE REPORTING PERIOD		**10,701,868**	**12,346,134**
MINORITY INTEREST		**68,635**	**(7,268)**
INTEREST OF PARENT COMPANY		**10,633,233**	**12,353,402**

The accounting policies and notes set out on pages from 259 to 391 are an integral part of the consolidated financial statements.

3.3 CONSOLIDATED STATEMENT OF OTHER COMPREHENSIVE INCOME

Consolidated statement of other comprehensive income for the period from 1 January 2017 to 31 December 2017

(in EUR)	Note	1. 1. - 31. 12. 2017	1. 1. - 31. 12. 2016
NET PROFIT OR LOSS FOR THE FINANCIAL YEAR AFTER TAXATION		**10,701,868**	**12,346,134**
OTHER COMPREHENSIVE INCOME AFTER TAXATION	10.13	**221,605**	**(3,726,852)**
Items not to be allocated to profit or loss in subsequent periods		**(174,557)**	**(139,130)**
Net gain/loss, recognised in revaluation surplus of property, plant and equipment		-	(141)
Actuarial net gain/loss for pension programmes		(174,557)	(138,988)
Items that may be allocated to profit or loss in subsequent periods	10.13	**396,162**	**(3,587,722)**
Net gain/loss from re-measurement of available-for-sale financial assets		452,935	(4,201,158)
Gain/loss, recognised in revaluation surplus		3,007,545	4,576,775
Transfer of gain/loss from revaluation surplus to income statement		(2,554,610)	(8,777,934)
Associated net gain/loss related to capital investments in associates , calculated using the equity method		4,354	(25,928)
Tax on items that may be allocated to profit or loss in subsequent periods		(86,058)	711,485
Gain/loss from translation of financial statements of foreign operations		24,931	(72,121)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR, AFTER TAXATION		**10,923,473**	**8,619,283**
- ATTRIBUTABLE TO MINORITY INTEREST		**68,635**	**(7,268)**
- ATTRIBUTABLE TO CONTROLLING COMPANY		**10,854,838**	**8,626,551**

The accounting policies and notes set out on pages from 259 to 391 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 2017 to 31 December 2017

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	-	-	7,704,336	355,071	29,517,526	13,410,378	(1,930,505)	97,787,718	393,464	98,181,182
OPENING BALANCE IN THE FINANCIAL PERIOD		42,999,530	4,211,782	1,519,600	-	-	7,704,336	355,071	29,517,526	13,410,378	(1,930,505)	97,787,718	393,464	98,181,182
Comprehensive income net of tax	10.13	-	-	-	-	-	-	373,605	(174,557)	10,633,199	14,604	10,846,851	76,588	10,923,439
Net profit/loss for the year		-	-	-	-	-	-	-	-	10,633,199	-	10,633,199	68,635	10,701,834
Other comprehensive income	10.13	-	-	-	-	-	-	373,605	(174,557)	-	14,604	213,652	7,953	221,605
Allocation of net profit/loss for the preceeding year to retained profit/loss		-	-	-	-	-	-	-	13,410,378	(13,410,378)	-	0	-	0
Payment (accounting) of dividends	10.31	-	-	-	-	-	-	-	(10,613,539)	-	-	(10,613,539)	(87,465)	(10,701,004)
Spremebe deležev v lastniškem kapitalu odvisnih podjetij		-	-	-	-	-	-	-	(2,197,586)	-	1,926,376	(271,211)	(171,288)	(442,499)
Other		-	-	-	-	-	-	-	(1,242)	0	-	(1,242)	-	(1,242)
CLOSING BALANCE AS AT 31 DECEMBER		42,999,530	4,211,782	1,519,600	-	-	7,704,336	728,676	29,940,979	10,633,199	10,475	97,748,578	211,299	97,959,877

The accounting policies and notes set out on page **Napaka! Zaznamek ni definiran.** are an integral part of the 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
Adjustments for previous financial year		-	-	-	-	-	-	-	-	-	-	-	-	-
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)
Settlement of loss incurred in preceding years	**10.13**	-	-	-	-	-	-	-	-	-	-	-	-	-
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 **Napaka! Zaznamek ni definiran.** 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 2017 to 31 December 2017

(in EUR)	Note	1. 1. - 31. 12. 2017	1. 1. - 31. 12. 2016
Cash flows from operating activities		**9,523,896**	**(12,092,885)**
Items from the income statement		**8,530,748**	**345,149**
Net premiums written in the reporting period		291,900,752	287,913,720
Income from investments (other than financial income)		2,973,783	2,075,257
Other income from ordinary activities (other than income arising from revaluation and decrease in provisions) and financial income from operating receivables		16,274,327	8,739,507
Net claims and benefits paid in the reporting period		(220,658,786)	(214,252,726)
Net operating costs, other than depreciation costs and change in deferred acquisition costs		(74,184,218)	(73,388,589)
Investment charges (excluding depreciation and financial expenses)		(1,677,875)	(3,329,668)
Other operating costs excluding depreciation (other than for revaluation and without increase in provisions)		(5,467,217)	(5,279,624)
Corporate income tax and other taxes not included in operating costs		(630,018)	(2,132,727)
Changes in net current assets (receivables for insurance, other receivables, other assets and deferred tax assets and liabilities) of balance sheet items		**993,147**	**(12,438,034)**
Opening less closing balance of operating receivables from direct insurance business		1,001,601	1,757,417
Opening less closing balance of receivables from reinsurance		(404,519)	(173,789)
Opening less closing balance of other receivables from (re)insurance contracts		1,163,642	3,195,053
Opening less closing balance of other receivables and assets		(1,830,618)	(7,840,652)
Opening less closing balance of deferred tax assets		2,163,856	(3,645,537)
Opening less closing balance of inventories		(1,865)	129,339
Closing less opening balance of debts/liabilities from direct insurance business		1,363,207	(23,830)
Closing less opening balance of debts/liabilities from reinsurance		207,229	469,104
Closing less opening balance of other operating debts/liabilities		(1,886,267)	(3,876,097)
Closing less opening liabilities (other than unearned premiums)		(783,119)	(1,717,762)
Closing less opening deferred tax liabilities		-	(711,282)
Net cash from operating activities		**9,523,896**	**(12,092,885)**
Cash flows from investing activities		**14,005,807**	**(27,998,856)**
Cash receipts from investing activities		**707,757,013**	**806,112,011**
Cash inflows from interest received from investing activities		7,879,718	6,918,285
Cash inflows from dividends and participations in profit of others		1,355,837	334,679
Cash inflows from disposal of property, plant and equipment		83,890	2,326
Cash inflows from disposal of financial investments		698,437,568	798,856,721
Cash disbursements from investing activities		**(693,751,206)**	**(834,110,866)**
Cash disbursements to acquire intangible assets		(1,876,411)	(30,338,800)
Cash disbursements to acquire property, plant and equipment, financed from:		(2,163,390)	(3,518,442)
Cash disbursements to acquire financial investments		(689,711,406)	(800,253,625)
Net cash from investing activities		14,005,807	(27,998,856)
Cash receipts from financing activities		**(14,660,204)**	**33,767,013**
Cash inflows from financing activities		**71,830**	**49,353,317**
Cash inflows from long-term loans and issued bonds		71,830	49,353,317
Cash inflows from short-term loans		-	(0)
Cash outflows from financing activities		**(14,732,034)**	**(15,586,304)**
Cash outflows for interest paid		(3,953,582)	(2,394,156)
Cash outflows for capital repayment		(77,418)	-
Cash outflows for payments of long-term financial liabilities		(31)	-
Cash outflows for payments of short-term financial liabilities		-	54,672
Cash outflows to pay out dividends and other participations in profit		(10,701,004)	(13,246,820)
Net cash from/(used in) financing activities		**(14,660,204)**	**33,767,013**
Closing balance of cash and cash equivalents	**10.12**	**20,111,188**	**10,920,169**
Cash flow for the reporting period		**8,869,499**	**(6,324,728)**
Exchange rate differences		89,404	(28,839)
Increases due to acquisition of companies		232,115	1,972,437
Opening balance of cash and cash equivalents	**10.12**	**10,920,170**	**15,301,298**

The accounting policies and notes set out on pages from 259 to 391 are an integral part of the consolidated financial statements.

3.6 CONSOLIDATED STATEMENT OF ACCUMULATED PROFIT

Consolidated statement of accumulated profit for 2017

(in EUR)	Note	Total 1. 1. – 31. 12. 2017	Total 1. 1. – 31. 12. 2016
Net profit/(loss) for the financial year		**10,633,199**	**12,353,402**
Net profit carried forward (+) / net loss carried forward (-)	**10.11**	**29,940,979**	**29,517,526**
- result for the current year under effective standards		32,138,566	29,517,526
-decrease for the acquisition/sales of the subsidiary		(2,197,586)	-
Decrease in reserves	**10.11**	**-**	**1,056,976**
Balance-sheet profit allocated by the Annual General Meeting as follows:		**40,574,178**	**42,927,903**
− to the shareholder		10,304,407	10,613,539

The accounting policies and notes set out on pages from 259 to 391 are an integral part of the consolidated financial statements.

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.

Adriatic Slovenica d.d. (hereinafter: the controlling company or the parent company of the Group) 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., Agent d.o.o., KD Skladi d.o.o. and two indirect subsidiaries KD Locusta Fondovi d.o.o., Croatia, and KD Fondovi AD Skopje, forms the Adriatic Slovenica Group (hereinafter: the Group or the Adriatic Slovenica Group). The Group comprised the company KD AS Neživotno osiguranje a. d. o. whose liquidation procedure was concluded in 2017

Management and governance bodies of the Group

Management and governance bodies of the parent company in 2017:

Gabrijel Škof, President of the Management Board
Matija Šenk, Member of the Management Board

Until the end of 2017, the parent company was led by two-tier management. In 2017, 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 parent company in 2017:

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

Audit Committee of the insurance company Adriatic Slovenica d.d. in 2017:

Matjaž Pavlin, Chairman
Mojca Kek, Deputy Chairman
Vera Dolinar, member (independent expert)

Committee for the regular monitoring of the implementation of the Strategy and achievement of the target business model in 2017:

Aljoša Tomaž, Chairman – SB Member (Start date 18 Oct 2017)
Aleksander Sekavčnik, Deputy Chairman – Independent Expert (Start date 18 Oct 2017)
Carlo Palmieri - član – Member – Independent Expert (Start date 18 Oct 2017)

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, Slovenia. 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 2017 year-end

Data on the number of employees by the level of professional qualification in 2017 - Adriatic Slovenica Group

	Qualification level					
Number of employees per day	I.- IV.	V.	VI.	VII.	VIII.-IX.	Total
1. 1. 2017	39	447	196	524	53	1259
31 12. 2017	36	420	181	524	47	1208
2017 average	36.3	442.3	185.7	521.2	49.8	1235.4

Note: The number of employees at the end of the year under review and the number of employees as at the first day of the next year are not equal since some employees are employed in the Group until 31 December and some are employed starting on 1 January. The number of employees in the above table is provided 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 controlling 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 2017, the number of employees of Adriatic Slovenica, taking into consideration these proportion, is 1,055.45 and is different from the number of employees per person, which was 1,076 employees at the end of 2017. 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 12, while the number of employees per person is 36 as at 31 December 2017.

Data on the number of employees by the level of professional qualification in 2017 – controlling company

	Qualification level					
Number of employees as at	I- IV	V	VI	VII	VIII-IX	Total
1.1.2017	30	383	154	442	34	1043
31.12.2017	29	364	144	441	31	1009
1.1.2017 AS branch	6	44	17	21	5	93
31.12.2017 AS branch	4	27	15	20	1	67
2017 average	31.9	410.8	161.6	458.8	35.7	1098.8

Data on the number of employees by the level of professional qualification in 2017 – subsidiaries

	Qualification level					
Number of employees as at	I- IV	V	VI	VII	VIII-IX	Total
1.1.2017	3	20	25	61	14	123
31.12.2017	3	29	22	63	15	132
2017 average	4.4	31.5	24.2	62.4	14.2	136.5

4.1 CONSOLIDATION

For 2017, 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., Permanens d.o.o., KD IT d.o.o., ZDRAVJE AS d. o. o., Agent d. o. o. in KD Skladi d. o. o. and indirect subsidiaries KD Fondovi AD Skopje and KD Locusta Fondovi d. o. o. In 2017, the company KD AS Neživotno osiguranje a. d. o. was in liquidation until 30 September 2017, when the liquidation procedure was concluded.

The Adriatic Slovenica Group is fully consolidated within the controlling entity the Group KD Group d.d. and on the highest level within the KD Group d.d. In 2017, 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%	19%	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%	19%	SI87410206	Activities of insurance agents and brokers	Calendar year
ZDRAVJE AS zdravstvene storitve d. o. o.	Ljubljanska cesta 3 a, 6000 Koper	100%	19%	SI22745866	Specialist outpatient health care service	Calendar year
KD IT, informacijske storitve, d. o. o.	Celovška cesta 206, 1000 Ljubljana	100%	19%	SI15923363	IT services	Calendar year
KD Skladi, družba za upravljanje, d. o. o.	Dunajska cesta 63, 1000 Ljubljana	100%	19%	SI56687036	Activity of custody funds and other funds and similar financial entities	Calendar year
AGENT Zavarovalniško zastopanje d.o.o.	Cankarjev drevored 4, 6310 Izola - Isola	100%	19%	20359187	Activities of insurance agents and brokers	Calendar year
CROATIA						Calendar year
Permanens d.o.o.	Draškovićeva 10, 10000 Zagreb	100%	18%	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	97.27%	15%	105510418	The company was removed from the register after completion of the liquidation on 26 December 2017	Calendar year
Indirect subsidiary						
CROATIA						
KD Locusta Fondovi d.o.o.	Ljudevita Gaja 28, 10000 Zagreb	80%	18%	61865183767	Activities of investment fund management	Calendar year
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	Calendar year
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 (%) 31.12.2017	Equity stake (%) 31.12.2016	Change (in %)	Note
AS neživotno osiguranje a.d.o.	0.00	97.27	-97.27	Liquidation completed
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		In liquidation
ZDRAVJE AS zdravstvene storitve d. o. o.	100.00	100.00	-	
KD IT, informacijske storitve, d. o. o.	100.00	100.00	-	
KD Skladi, družba za upravljanje d. o. o.	100.00	100.00	-	
AGENT Zavarovalniško zastopanje d. o. o.	100.00	-	100.00	Acquisition
Indirect subsidiary **				
KD Fondovi AD Skopje	94.60	94.60	-	
KD Locusta Fondovi d. o. o.	80.00	70.00	10.00	
Associate				
Nama trgovsko podjetje d.d., Slovenia	48.51	48.51	-	

Presentation of equity stakes in subsidiaries of the parent company Adriatic Slovenica

Subsidiary	Equity stake (%)		Voting rights (%)		Carrying amount of equity stake (in EUR)	
	31.12.2017	31.12.2016	31.12.2017	31.12.2016	31.12.2017	31.12.2016
AS neživotno osiguranje a. d. o.	-	97.3	-	97.3	-	2,976,832
PROSPERA družba za izterjavo d. o. o.	100.0	100.0	100.0	100.0	4,770,934	7,035,994
VIZ zavarovalno zastopništvo d. o. o.	100.0	100.0	100.0	100.0	530,000	62,501
KD IT d. o. o.	100.0	100.0	100.0	100.0	3,378,236	9,177,405
ZDRAVJE AS d. o. o.	100.0	100.0	100.0	100.0	550,000	418,131
KD Skladi, d. o. o.	100.0	100.0	100.0	100.0	29,326,008	9,292,708
Permanens d. o. o.	100.0	100.0	100.0	100.0	-	3,334
AGENT Zavarovalniško zastopanje d. o. o.	100.0	0.0	100.0	0.0	555,625	-
Indirect subsidiary						
KD Locusta Fondovi d. o. o.	80.0	70.0	80.0	70.0	797,124	704,673
KD Fondovi AD Skopje	94.6	94.6	94.6	94.6	210,708	137,840

Associated companies

Direct subsidiary	Equity stake (%) 30 Sept 2016	Equity stake (%) 31 Dec 2015	Change (%)	Note
Nama trgovsko podjetje d.d., Slovenia	48.51	48.51	-	

Changes in relationships of the parent company Adriatic Slovenica with subsidiaries

Changes in equity shares

The KD Skladi d. o. o. subsidiary increased its equity stake in the subsidiary (indirect subsidiary to AS d.d.) KD Locusta Fondovi d. o. o. by 10 %.

The insurance company discloses the subsidiary Permanens d. o. o., Zagreb at cost of zero in the financial statements. In 2017, the Company was in liquidation proceedings.

Received dividends

In 2017, the parent company Adriatic Slovenica received dividends in the amount of EUR 1,516,265 from its subsidiaries.

Loans received and loans given

In 2017, the parent company gave a loan amounting to EUR 130,000 to the companies in the Group. The short-term loan was given at the interest rate of 0.839 % in line with the interest rate for related companies and secured by an enforcement draft.

In 2017, the parent company received short-term loans in the amount of EUR 5,700,000 from the subsidiaries. The interest rate was accounted for in line with the Rules on the recognized interest rate for related companies, which at the moment of loan was equal to 0%. The loan was fully repaid in 2017.

The AS Group – acquisitions and disposals

The AS Group – Acquisitions

Agent Zavarovalniško zastopanje d. o. o.

In October 2017, Adriatic Slovenica purchased 100% of the equity in the company Agent d.o.o. Contractual obligation remains outstanding as a part of the purchase price of EUR 79,375 has been postponed. Liabilities will be settled subject to achievement of sales objectives. The principal activity of the company is insurance agent services. The company Agent Zavarovalniško zastopanje d. o. o. Izola was founded in 1991 and has been exclusive insurance agent for AS since then. The company Agent operates at locations in Koper, Izola and Lucija and through a network of insurance agents and life insurance consultants. The acquisition of the entire stake of the company was reasonable due to the nature of the investment and activities of the parent company Adriatic Slovenica. By acquiring the stake, the parent company became the 100% owner of the company Agent d. o. o. and the company Agent d. o. o. became a subsidiary of the Adriatic Slovenica Group.

About the company

Registered company name: AGENT Zavarovalniško zastopanje d. o. o.
Abbreviated company name: AGENT d. o. o.
Head office and address: Cankarjev drevored 4, 6310 Izola – Isola
Company registration number: 5467438000
VAT identification number: 20359187
Share capital: EUR 45,184.01
The reporting period is equal to the calendar year.
Corporate tax rate: 19%.

Pursuant to the acquisition of the new company, the Group acquired assets and assumed liabilities in the following amount

in EUR	Agent d. o. o.
ASSETS	**403,145**
- Tangible assets	3,989
- Other receivables	166,721
- Cash and cash equivalents	232,115
- Other assets	319
LIABILITIES	**166,302**
- Other operating liabilities	166,302
NET value of assets (equity)	**236,842**
Purchase value of IP	555,625
- in previous years at fair value of previously acquired assets	-
- for current year	555,625
Equity stake (in %)	100%
Fair value of the acquisition stake	555,625
Value of the non-controlling interest (Minority interest)	-
GOODWILL / NEGATIVE GOODWILL (recognised in revenues)	**(318,783)**

The fair value of assets and liabilities at the time of acquisition was equal to the carrying amounts. With the acquisition of the subsidiary, the Group acquired Goodwill in the amount of EUR 318,783, which is disclosed under intangible assets.

The AS Group – Disposals

AS neživotno osiguranje a. d. o., Beograd

On 18 August 2017, the AS Group received a transfer of liquidation value regarding AS Neživotno Osiguranje a. d. o. in the amount of EUR 2,758,390. The Group prepared the final financial statements and concluded the operations. As of the close of liquidation, the Group reported a profit of EUR 118,812.

The liquidation process was officially completed on 26 December 2017 when the company was removed from the register of companies in Belgrade.

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 2017 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 2017:

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 15 Revenue from Contracts with Customers and Clarifications to IFRS 15 Revenue from Contracts with Customers (issued on 12 April 2016)

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

The new Standard provides a framework that replaces existing revenue recognition guidance in IFRS. Entities will adopt a five-step model to determine when to recognise revenue, and at what amount. The new model specifies that revenue should be recognised when (or as) an entity transfers control of goods or services to a customer at the amount to which the entity expects to be entitled. Depending on whether certain criteria are met, revenue is recognised;

- over time, in a manner that depicts the entity's performance; or
- at a point in time, when control of the goods or services is transferred to the customer.

IFRS 15 also establishes the principles that an entity shall apply to provide qualitative and quantitative disclosures which provide useful information to users of financial statements about the nature, amount, timing, and uncertainty of revenue and cash flows arising from a contract with a customer.

The Clarifications to IFRS 15 clarify some of the Standard's requirements and provide additional transitional relief for companies that are implementing the new Standard.

The amendments clarify how to:

- identify a performance obligation - the promise to transfer a good or a service to a customer- in a contract;
- determine whether a company is a principal (the provider of a good or service) or an agent (responsible for arranging for the good or service to be provided, and determine whether the revenue from granting a license should be recognised at a point in time or over time

The amendments also provide entities with two additional practical expedients:

- An entity need not restate contracts that are completed contracts at the beginning of the earliest period presented (for entities that using the full retrospective method only);
- For contracts that were modified before the beginning of the earliest period presented, an entity need not retrospectively restate the contract but shall instead reflect the aggregate effect of all of the modifications that occur before the beginning of the earliest period presented (also for entities recognising the cumulative effect of initially applying the standard at the date of initial application).

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.

IFRS 9 Financial Instruments (2014)

This standard is effective for annual periods beginning on or after 1 January 2018 (postponement until 2020 has been proposed for insurance companies); to be applied retrospectively with some exemptions. The restatement of prior periods is not required, and is permitted only if information is available without the use of hindsight. Early application is permitted.

This Standard replaces IAS 39, Financial Instruments: Recognition and Measurement, except that the IAS 39 exception for a fair value hedge of an interest rate exposure of a portfolio of financial assets or financial liabilities continues to apply, and entities have an accounting policy choice between applying the hedge accounting requirements of IFRS 9 or continuing to apply the existing hedge accounting requirements in IAS 39 for all hedge accounting until the standard resulting from the IASB's project in macro hedge accounting is effective.

Although the permissible measurement bases for financial assets – amortised cost, fair value through other comprehensive income (FVOCI) and fair value through profit or loss (FVTPL) – are similar to IAS 39, the criteria for classification into the appropriate measurement category are significantly different.

A financial asset is measured at amortized cost if the following two conditions are met:

- the assets is held within a business model whose objective is to hold assets in order to collect contractual cash flows; and

- its contractual terms give rise, on specified dates, to cash flows that are solely payments of principal and interest on the principal outstanding.

In addition, for a non-trading equity instrument, a company may elect to irrevocably present subsequent changes in fair value (including foreign exchange gains and losses) in OCI. These are not reclassified to profit or loss under any circumstances.

For debt instruments measured at FVOCI, interest revenue, expected credit losses and foreign exchange gains and losses are recognised in profit or loss in the same manner as for amortised cost assets. Other gains and losses are recognised in OCI and are reclassified to profit or loss on derecognition.

The impairment model in IFRS 9 replaces the 'incurred loss' model in IAS 39 with a forward-looking an 'expected credit loss' (ECL) model, which means that a loss event will no longer need to occur before an impairment allowance is recognised. The new impairment model will apply to financial assets measured at amortized cost or FVOCI, except for investments in equity instruments, and to contract assets.

Under IFRS 9, loss allowances will be measured on either of the following bases:

- 12-month ECLs: these are ECLs that result from possible default events within the 12 months after the reporting date; and
- Lifetime ECLs: these are ECLs that result from all possible default events over the expected life of a financial instrument.

IFRS 9 includes a new general hedge accounting model, which aligns hedge accounting more closely with risk management. The types of hedging relationships – fair value, cash flow and foreign operation net investment – remain unchanged, but additional judgment will be required.

The standard contains new requirements to achieve, continue and discontinue hedge accounting and allows additional exposures to be designated as hedged items.

Extensive additional disclosures regarding an entity's risk management and hedging activities are required.

The Group expects for this amendment to have 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), fair value through profit or loss (FVTPL), 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 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. The Group will start applying the new standard, as is permitted by the the standard, in 2021.

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

Effective for annual periods beginning on or after 1 January 2018; to be applied retrospectively with some exemptions.

The amendments address concerns arising from implementing IFRS 9 before implementing the replacement standard that the IASB is developing for IFRS 4. The amendments introduce two optional solutions. One solution is a temporary exemption from IFRS 9, effectively deferring its application for some insurers. The other is an overlay approach to presentation to alleviate the volatility that may arise when applying IFRS 9 before the forthcoming 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.

IFRS 16 Leases

Effective for annual periods beginning on or after 1 January 2019. Earlier application is permitted if the entity also applies IFRS 15.

IFRS 16 supersedes IAS 17 Leases and related interpretations. The Standard eliminates the current dual accounting model for lessees and instead requires the Group to bring most leases on-balance sheet under a single model, eliminating the distinction between operating and finance leases.

Under IFRS 16, a contract is, or 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. For such contracts, the new model requires a lessee to recognise a right-of-use asset and a lease liability. The right-of-use asset is depreciated and the liability accrues interest. This will result in a front-loaded pattern of expense for most leases, even when the lessee pays constant annual rentals.

The new Standard introduces a number of limited scope exceptions for lessees which include:

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

Lessor accounting, however, shall remain largely unchanged and the distinction between operating and finance leases will be retained.

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

Standards, interpretations and changes of the published standards, which are not yet effective and have not been adopted by the EU as at 12 December 2017

IFRS 17 Insurance Contracts

Effective for annual periods beginning on or after 1 January 2021; to be applied prospectively. Early application is permitted.

IFRS 17 replaces IFRS 4, which was brought in as an interim Standard in 2004. IFRS 4 has given companies dispensation to carry on accounting for insurance contracts using national accounting standards, resulting in a multitude of different approaches.

IFRS 17 solves the comparison problems created by IFRS 4 by requiring all insurance contracts to be accounted for in a consistent manner, benefiting both investors and insurance companies. Insurance obligations will be accounted for using current values, instead of historical cost.

The Group expects that the new Standard, when initially applied, will have a material impact on the financial statements of the Company. However, the impact cannot be assessed at this moment.

IFRIC 22 Foreign Currency Transactions and Advance Consideration

Effective for annual periods beginning on or after 1 January 2018. Early application is permitted

IFRIC 22 provides requirements about which exchange rate to use in reporting foreign currency transactions (such as revenue transactions) when payment is made or received in advance and clarifies that the transaction date is the date on which the company initially recognises the prepayment or deferred income arising from the advance consideration. For transactions involving multiple payments or receipts, each payment or receipt gives rise to a separate transaction date.

The Group does not expect that the Interpretation, when initially applied, will have material impact on the financial statements as the Group uses the exchange rate on the transaction date for the initial recognition of the non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration.

IFRIC 23 Uncertainty over Income Tax Treatments

Effective for annual periods beginning on or after 1 January 2019. Early application is permitted.

IFRIC 23 clarifies the accounting for income tax treatments that have yet to be accepted by tax authorities, whilst also aiming to enhance transparency. Under IFRIC 23, the key test is whether it is probable that the tax authority will accept the entity's chosen tax treatment. If it is probable that the tax authorities will accept the uncertain tax treatment then the tax amounts recorded in the financial statements are consistent with the tax return with no uncertainty reflected in measuring current and deferred taxes. Otherwise, the taxable income (or tax loss), tax bases and unused tax losses shall be determined in a way that better predicts the resolution of the uncertainty, using either the single most likely amount or expected (sum of probability weighted amounts) value. An entity must assume the tax authority will examine the position and will have full knowledge of all the relevant information.

The Group does not expect that the Interpretation, when initially applied, will have material impact on the financial statements as the Group does not operate in a complex multinational tax environment.

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

Effective for annual periods beginning on or after 1 January 2018; to be applied prospectively. Earlier application is permitted).

The amendments clarify share-based payment accounting on the following areas:

- the effects of vesting and non-vesting conditions on the measurement of cash-settled share-based payments;
- share-based payment transactions with a net settlement feature for withholding tax obligations; and
- a modification to the terms and conditions of a share-based payment that changes the classification of the transaction from cash-settled to equity settled.

The Group expects that the amendments, when initially applied, will not have a material impact on the presentation of the financial statements of the entity because the Group does not enter into share-based payment transactions.

Annual Improvements

Annual Improvements to IFRS 2014-2016 Cycle (issued on 8 December 2016)

Effective for annual periods beginning on or after 1 January 2018 except for the changes to IFRS 12 that shall be applied for annual periods beginning on or after 1 January 2017. The Improvements to IFRSs (2014-2016) contain amendments to standards applicable to Groups.

The main changes were to:

- delete short-term exemptions for first-time adopters (IFRS 1 First-time Adoption of International Financial Reporting Standards) relating, inter alia, to transition provisions of IFRS 7 Financial Instruments - Disclosures regarding comparative disclosures and transfers of financial assets, and of IAS 19 Employee Benefits; The exemptions were deleted due to the fact that these reliefs had been available to entities only for reporting periods that had passed;

None of these changes are expected to have a material impact on the financial statements of the Group.

Amendments to IAS 40 Transfers of Investment Property

Effective for annual periods beginning on or after 1 January 2018. Earlier application is permitted.
The Amendments provide clarification on transfers to, or from, investment properties:

- a transfer into, or out of investment property should be made only when there has been a change in use of the property; and
- such a change in use would involve an assessment of whether the property qualifies as an investment property.

The Group does not expect that the amendments, when initially applied, will have a material impact on the financial statements because the Group transfers a property asset to, or from, investment property only when there is an actual change in use.

Amendments to IFRS 9: Prepayment Features with Negative Compensation

Amendments were issued on 12 October 2017. Effective for annual periods beginning on or after 1 January 2019.

These amendments address concerns raised about accounting for financial assets that include particular contractual prepayment options. In particular, the concern was related to how a company would classify and measure a debt instrument if the borrower was permitted to prepay the instrument at an amount less than the unpaid principal and interest owed. Such a prepayment amount is often described as including 'negative compensation'. Applying IFRS 9, a company would measure a financial asset with so-called negative compensation at fair value through profit or loss. The amendments enable entities to measure at amortized cost some prepayable financial assets with so-called negative compensation.

The Group does not expect that the amendments, when initially applied, will have a material impact on the financial statements because the Group currently does not have prepayable financial assets with negative compensation.

Annual Improvements

Annual Improvements to IFRS 2015-2017 Cycle issued on 12 December 2017 and effective for annual periods beginning on or after 1 January 2019.

The Improvements to IFRSs (2015-2017) contains four amendments to standards. The main changes were to:

- clarify that the entity remeasures its previously held interest in a joint operation when it obtains control of the business in accordance with IFRS 3 Business Combinations;
- clarify that the entity does not remeasure its previously held interest in a joint operation when it obtains joint control of the joint operation in accordance with IFRS 11 Joint Arrangements;
- clarify that the entity should always accounts for income tax consequences of dividend payments in profit or loss, other comprehensive income or equity according to where the entity originally recognized past transactions or events that generated distributable profits; and
- clarify that the entity should exclude from the funds that the entity borrows generally borrowings made specifically for the purpose of obtaining a qualifying asset until substantially all the activities necessary to prepare that asset for its intended use or sale are complete as borrowings made specifically for the purpose of obtaining a qualifying asset should not apply to a borrowing originally made specifically to obtain a qualifying asset if that asset is ready for its intended use or sale.

None of these changes are expected to have a material impact on the financial statements of the Group.

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 deferred 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 percentage 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 and a guarantee.

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 government 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 2017.

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 2017	Useful life in 2017 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 2017	Useful life in 2017 in years
Buildings	1.3 -1.8 %	56-77
Motor vehicles	12.5-15.5 %	6-8
Computer equipment	33.3 %-50%	2-3
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 Insurance Company, which generates cash inflows by performing its principal activities. The Group has defined three cash-generating units - non-life insurance, health insurance and life insurance. 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. Operating conditions deviate from normal, if in the past three years the cash-generating unit has reached a negative profit, which in each case exceeds the amount of the insurance company's significance and there are no prospects for improving its business in the coming years.

The management assesses the values of these properties in the case the business circumstances significantly change or deviate from normal (expected) business conditions (an individual cash-generating unit has been operating for the last three years) 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 by the Insurance Company 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.

Investment properties	Annual rate of depreciation 2017	Useful life in 2017 in years
Buildings	1.3 -1.8%	56-77

Depreciation rates and useful lives of investment properties:

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	
		Weight 2: maturity date of security, the fair value of which is being determined	
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
	Cost method	Reproduction of same new building or replacement cost	
	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)	
		rediscount 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 as per the amortisation plan	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 as per the amortisation plan	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

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 revaluation 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 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 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, revaluation 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, there was no need within the Group for permanent impairment of available-for-sale in 2017.

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 stock exchange values on the active market do not comply with the market activity criterion, an internal model is used to calculate the market value (see Section 5.5 Fair Value for more details).

The Insurance 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.

6.3 UGOTAVLJANJE NADOMESTLJIVE VREDNOSTI NALOŽBENIH NEPREMIČNIN

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 2017, a valuation and an impairment assessment were performed for the investment property Loška 13, 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 an in 2017, serving as a basis for further development of the property. In 2017, the Centre was rebranded as MARIBOX. The Centre boasts the most modern movie theatre in Slovenia, which was reflected in a higher number of visitors. Further growth and additional investments are planned for 2018 in cinematographic and catering activities and in a general refurbishment of the building and its surroundings.

In 2016, a 14% growth in the number of moviegoers was achieved, which exceeded the market growth of 11% that year. In 2017, a 17% growth in the number of moviegoers was achieved, indicating that the foreseen market growth will be exceeded again. Last year one of the largest commercial premises was leased, and there is a growing interest for the remaining commercial premises, mostly intended for bars and restaurants. Lease agreements with existing lessees were renewed and the number of permanent parking space renters has continued to increase. To sum up, all indicators show that the final objective, i.e. a full recovery of the Centre, will be attained

The income approach (direct capitalisation method) was used to assess the recoverable value of the property Loška 13, 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 6.77% consisting of:
- real risk-free rate of return of 0.38 %,
- liquidity premium of 1.50 %,
- risk premium of 3.10 %,
- investment management premium of 0.30 %,
- premium for the preservation of capital 1.49 %.

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

In 2017, with the acquisitions of the company AGENT d. o. o., the Group acquired goodwill amounting to EUR 318,783. 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 2017 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 2017, the Group applied the same methodology for assessment of appropriateness of fair value calculation (see Policies, Section 5.9.) and calculates impairment adjustments of receivables as in previous years.

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 euros	Provision for incurred but not reported claims (IBNR) 31.12.2017	Provision for incurred but not reported claims (IBNR) 31. 12 2016
Accident insurance	7,714,385	7,748,043
Health insurance	4,784,152	5,617,722
Land motor vehicles insurance	1,316,940	1,483,391
Marine loss insurance	19,938	45,090
Goods in transport insurance	181,484	114,069
Fire and natural forces insurance	652,733	701,895
Other damage to property insurance	896,517	1,068,398
Motor vehicle liability insurance	26,132,550	28,426,248
Liability for ship/boat insurance	3,577	28,722
General liability insurance	10,633,175	9,663,454
Credit insurance	-	3,875
Suretyship insurance	5,978	6,690
Miscellaneous financial loss insurance	28,621	36,477
Legal expenses insurance	-	662
Travel assistance insurance	258,548	227,764
Life insurance	3,289,725	2,904,791
Total	**55,918,323**	**58,077,294**

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.

Due to an increase in the portfolio of life insurance in the event of death, the Group started forming IBNR for the risk in the event of death.

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	befor 2008	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
At the end of loss year	-	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	89,291,142
1 year after loss year	-	118,496,776	109,844,795	98,882,126	92,331,285	104,142,780	87,477,430	85,239,212	81,956,952	86,186,241	-
2 years after loss year	-	117,455,256	109,454,915	96,330,471	90,568,304	96,570,014	85,740,792	83,397,478	80,211,635	-	-
3 years after loss year	-	117,524,811	107,637,944	95,301,074	89,085,735	94,028,156	83,827,339	81,579,315	-	-	-
4 years after loss year	-	115,587,514	105,953,158	93,622,460	86,234,853	94,315,327	84,162,769	-	-	-	-
5 years after loss year	-	114,800,364	104,876,792	93,138,216	87,113,178	93,416,625	-	-	-	-	-
6 years after loss year	-	113,669,023	104,466,465	92,620,067	86,819,320	-	-	-	-	-	-
7 years after loss year	-	113,329,522	104,972,611	92,363,891	-	-	-	-	-	-	-
8 years after loss year	-	113,291,067	104,850,834	-	-	-	-	-	-	-	-
9 years after loss year	-	113,136,359	-	-	-	-	-	-	-	-	-
Cumulative loss estimate	-	113,136,359	104,850,834	92,363,891	86,819,320	93,416,625	84,162,769	81,579,315	80,211,635	86,186,241	89,291,142
Total losses paid until 31 Dec. 2017	-	110,960,325	101,690,145	90,194,386	83,251,766	90,812,545	80,505,305	77,436,850	72,504,078	70,455,271	51,473,761
Claim provisionss - balance 31 Dec. 2017	13,743,522	2,176,034	3,160,689	2,169,505	3,567,553	2,604,080	3,657,463	4,142,466	7,707,557	15,730,969	37,817,381

Provisions for outstanding claims in non-life insurance (excluding health insurance), as recognised in the balance sheet

(in EUR)	Listing + IBNR	Provisions for valuation costs	Total
Provisions as at 31.12.2016	95,611,918	5,776,132	101,388,049
Provisions as at 31.12.2017	96,948,803	6,610,043	103,558,845

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 2017, 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 2017, for the first time, the parent company produced and published the Solvency and Financial Condition Report for 2016. The report was also reviewed by an independent external auditor, and it is evident from the report that at the 2016 year-end the parent company had a surplus of own assets above the required capital. The parent company confirms that as at 30 September 2017, 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.

Moreover, in 2017, the parent company produced for the first time a Regular Report to the Supervisor and delivered an extended annual set of quantitative reporting templates (QRT).

The parent company performs 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 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 insurance 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 defined 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 2022. According to the own risk and solvency assessment, the tested negative shocks and scenarios would not jeopardize the Company's capital adequacy.

7.2 TYPES OF RISKS

7.2.1 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 is the exposure of the insurance portfolio to loss events over a certain territory, which may result in mass damage of insured buildings as part of the same event.

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 Group's exposure to large policyholders and beneficiaries

Insurance risk concentration arising from the largest policyholders as at 31 December 2017

(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	70,702	0.32%	191,729	0.87%
Unit-linked insurance	874,432	2.24%	3,045,368	7.78%
Health insurance	306,354	0.30%	619,668	0.61%
Non-life insurance	13,040,929	9.35%	24,175,214	17.33%
Total	**14,292,417**	**4.66%**	**28,031,980**	**9.13%**

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%**

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 concentration of individual risks is determined by analysing the insurance portfolio. For this purpose, a detailed examination of the exposure to the following risks by number, area and amount of insurance is produced;

- earthquake,
- storm,
- flood.

The analyses show that, according to its structure, the portfolio of Adriatic Slovenica is most exposed to the above risks. These are managed by proportional reinsurance protection above the maximum own shares in the form of reinsurance of individual events, as well as a greater number of such events in the form of reinsurance coverage of annual claims aggregate.

In order to ensure an adequate level of reinsurance coverage, the results of internationally recognized modelling of the exceptional events offered by the reinsurance broker are used.

The level and form of the reinsurance programme has so far proved to be adequate. Over the past two years, reinsurance protection was activated in case of a major event and in case of coverage of the annual aggregate of claims

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 2017	With reinsurance 2017	Net of reinsurance 2016	With reinsurance 2016
0–9,999 euros	286,870,806	264,836,915	317,404,960	298,339,705
10,000–29,999 euros	861,535,619	752,713,910	871,281,338	788,915,129
30,000–59,999 euros	947,038,464	662,926,918	899,924,105	649,140,322
60,000–99,999 euros	644,289,983	297,635,506	541,092,874	276,996,430
Over 100,000 euros	334,346,183	100,593,936	285,269,397	93,324,677
Total	**3,074,081,055**	**2,078,707,185**	**2,914,972,674**	**2,106,716,263**

For annuity insurance the 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 31. 12. 2017		TOTAL ANNUAL ANNUITY PAYMENTS as at 31. 12. 2016	
Annual annuity payments to the insured person as at 31 December	amount	%	amount	%
EUR 0–999	407,806	12.56%	608,086	16.02%
EUR 1,000–1,999	889,136	27.39%	1,182,728	30.34%
EUR 2,000–2,999	586,452	18.07%	694,587	17.72%
EUR 3,000–3,999	428,752	13.21%	488,856	12.40%
Over EUR 4,000	933,903	28.77%	961,124	23.52%
Total	**3,246,050**	**100,00%**	**3,935,380**	**100,00%**

In 2017, concentrations of insurance risk with respect to the company's annuity business was the highest in the over EUR 4,000 annual annuity payment bracket, while in 2016 the concentration was highest 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 2018.

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 1.8% 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 2017

The liability adequacy test (LAT) results of 31 December 2017, 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 2017 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 2017

As at 31 December 2017, 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 75,988. In this way, the Group ensured an adequate amount of provisions.

Sensitivity analysis

The Group performs the sensitivity analysis to measure the changes in performance indicators (parameters) set out below on its profit or loss as at the last day of the financial year.

Sensitivity test – parameters

Sensitivity factor	Description of sensitivity factor applied
Interest rate (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

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

Impact on net profit before tax generated by the Group

(in EUR)	31 Dec 2017	31 Dec 2016
Factor		
Costs/expenses +5 %	(3,424,254)	(3,624,243)
Costs/expenses -5 %	3,424,254	3,624,243
Interest rates +1 %	16,305,632	17,972,309
Interest rates -1 %	(15,427,105)	(15,798,773)
Assurance mortality +5 %	114,010	92,396
Annuitant mortality -5 %	(130,996)	(107,977)
Loss ratio +5 %	(14,606,551)	(14,640,919)
Loss ratio -5 %	14,606,551	14,640,919

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, homogeneity, 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 parent 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 2016 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 2017

Type of reinsurance in EUR	Reinsurance premium	Structure of reinsurance premium	Reinsurance policy fees	Written reinsurance claims/losses	Change in unearned premiums for reinsurance	Change in outstanding claims provisions for reinsurance	Impact of reinsurance result on profit
Motor QS	-	0.00%	795,306	254,739	-	(1,640,471)	(590,426)
Quota share reinsurance of earthquake risk	(1,743,249)	15.33%	488,110	1,547	5,377	153	(1,248,063)
Non-life Gross Risk XL reinsurance	(1,228,098)	10.80%	-	-	-	-	(1,228,098)
Engineering Risk XL reinsurance	(137,742)	1.21%	-	6,565	-	32,037	(99,139)
Non-life Cat XL reinsurance	(1,403,098)	12.34%	-	-	-	230,751	(1,172,347)
Non-life, i.e. annual aggregate Cat XL losses	(852,093)	7.49%	-	1,330,084	-	1,378,089	1,856,080
XL reinsurance motor vehicle liability insurance and green cards	(689,505)	6.06%	-	833,322	-	119,835	263,651
XL reinsurance of comprehensive automobile insurance (casco)	(37,028)	0.33%	-	50,000	-	130,000	142,972
Other non-life reinsurance	**(3,287,287)**	**28.91%**	**328,063**	**810,737**	**222,630**	**(281,896)**	**(2,207,754)**
Health reinsurance	**-**	**0.00%**	**-**	**-**	**-**	**-**	**-**
Life reinsurance	**(1,993,543)**	**17.53%**	**572,607**	**602,961**	**9,883**	**(56,321)**	**(864,414)**
Total reinsurance in the financial year	**(11,371,644)**	**100.00%**	**2,184,085**	**3,889,955**	**237,890**	**(87,824)**	**(5,147,538)**
Co-insurance provided	**(516,453)**	**0.00%**	**78,049**	**41,776**	**135,517**	**19,288**	**(241,824)**
Co-insurance received	**329,899**	**0.00%**	**(58,846)**	**(122,758)**	**61,664**	**47,417**	**257,376**
Reinsurance received		**0.00%**					
Total Re(co)insurance	**(10,912,859)**	**0.00%**	**2,114,296**	**3,733,322**	**375,340**	**(82,529)**	**(4,772,429)**

Reinsurance concentration in the financial year 2016

Type of reinsurance in EUR	Reinsurance premium	Structure of reinsurance premium	Reinsurance policy fees	Written reinsurance claims/losses	Change in unearned premiums for reinsurance	Change in outstanding claims provisions for reinsurance	Impact of reinsurance result on profit
Motor QS	-	0.00%	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)
Engineering 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 reinsurance	**(2,856,842)**	26.32%	**290,321**	**513,116**	**5,003**	**(117,596)**	**(2,165,999)**
Health reinsurance	**-**	0.00%	**-**	**-**	**-**	**-**	**-**
Life reinsurance	**(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)**

The above table shows the reinsurance concentration for all contracts.

In 2017, the reinsurance premium of EUR 11,371,644 was totalled or by 4.8% more compared to the previous year.

While in 2017 a somewhat lower reinsurance premium was achieved for XL-reinsurance than in 2016, the growth in the premium for facultative reinsurance continued in 2017. This is due to growth in liability insurance, increased risk sharing among Slovenian insurance companies in the form of co-insurance and reinsurance and the realization of the Cimos international reinsurance programme. As a part of this programme was coinsured, the provided co-insurance premium. Part of this program was co-insured and, therefore, the premium of the co-insurance paid in 2017 increased by 139%.

In 2017, the reinsurers' share in claims totalled EUR 3,889,955 (EUR 4,927,629 in 2016), of which EUR 254,739 came from car insurance quota (EUR 2,350,318 in 2016). The year 2017 was marked by several loss events due to storms, which did not exceed the threshold for enforcement of reinsurance protection for individual catastrophic claims, however annual aggregate Cat XL losses reinsurance had to be applied. With regard to storms that occurred in 2016 and 2017, in 2017 the reinsurers' share in claims totalled EUR 1,330,084, while claims provisions as of 31 December 2017 went up by EUR 1,608,840 compared to 31 December 2016.

In 2017, loss events in reinsurance of motor vehicle liability insurance were more moderate compared to 2016, which is reflected in lower reinsurers' share in claims and a minimal change of claims provisions. The release of IBNR claims provisions led to an improved loss ratio in the reinsurance of the car quota in the years 2012 to 2014, which partly influenced the increase of reinsurance fees and commissions in 2017.

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 2017, these assets totalled EUR 310,355,667 (2016: EUR 291,406,231). Of this total amount, EUR 304,978,130 (2016: EUR 287,601,433) are accounted for in the category of assets of policyholders who bear investment risk, and a part of the assets amounting to EUR 5,377,537 (2016: EUR 3,805,789) in other balance sheet categories of funds, where policyholders bear investment risk. These other assets derive from underwriting unit-linked insurance, however as at 31 December, these assets are not from policyholders who bear the investment risk and do not carry financial risk, and are therefore not included in the disclosures regarding the risks that the insurance company presents below. Other balance sheet items are specifically presented in the following table.

In EUR	2017	2016
Cash at bank	2,408,989	1,566,686
Financial receivables	1,677,412	1,051,054
Receivables from direct insurance operations	1,291,137	1,141,271
Short-term deferred acquisition costs	-	44,788
Total	5,377,537	3,803,798

The following tables show how the Group 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 balance of 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 2017 and 2016 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 2017

(in EUR)	Non-life insurance contracts, excluding health insurance	Health insurance contracts	Life insurance contracts	Financial contracts for pension saving	Other assets and liabilities	Total
ASSETS						
Financial assets at fair value through profit or loss	**3,795,626**	**(0)**	**3,573,500**	**839,694**	**-**	**8,208,820**
- listed	2,821,251	(0)	3,463,094	403,988	-	6,688,332
Government bonds	974,376	(0)	110,406	435,706	-	1,520,488
Held-to-maturity financial assets	**9,609,406**	**302,271**	**21,505,862**	**-**	**-**	**31,417,539**
- listed	9,609,406	302,271	9,805,032	-	-	19,716,709
Government bonds	0	-	11,700,830	-	-	11,700,830
Available-for-sale financial assets	**63,453,258**	**5,330,181**	**87,210,150**	**590,650**	**2,329,513**	**158,913,753**
- listed	19,149,484	(0)	8,045,907	-	2,329,513	29,524,904
- non-listed	3,969,183	-	-	-	-	3,969,183
Government bonds	40,334,590	5,330,181	79,164,244	590,650	-	125,419,665
Total debt financial instruments	**76,858,290**	**5,632,451**	**112,289,512**	**1,430,344**	**2,329,513**	**198,540,112**
Financial assets at fair value through profit or loss	0	-	856,426	4,846,613	141,999	5,845,038
- listed	0	-	856,426	4,846,613	141,999	5,845,038
Available-for-sale financial assets	26,286,008	670,697	6,722,269	1,647,658	1,390,178	36,716,810
- listed	11,196,200	(0)	6,061,257	1,647,658	1,390,178	20,295,293
- non-listed	15,089,808	670,697	661,012	-	-	16,421,517
Total equity financial instruments	**26,286,008**	**670,697**	**7,578,695**	**6,494,271**	**1,532,177**	**42,561,848**
Loans, deposits and financial receivables	25,905,904	2,913,112	6,213,181	3,585	426,637	35,462,420
Investments in associates	8,369,162	3,151,893	504,786	-	-	12,025,841
Derivatives	112,027	-	131,510	-	-	243,537
Total financial investments	**137,531,391**	**12,368,154**	**126,717,685**	**7,928,201**	**4,288,328**	**288,833,759**
Amount (technical provisions) transferred to reinsurers	17,420,257	-	283,933	-	-	17,704,190
Receivables from insurance business and other receivables	38,304,992	8,253,491	32,531,692	-	455,669	31,469,016
Cash and cash equivalents	7,810,917	3,512,902	4,711,578	962,132	1,666,802	18,664,332
Other assets	60,872,659	450,368	6,467,815	-	26,070,057	93,682,420
Total assets	**261,940,216**	**24,584,915**	**170,712,703**	**8,890,333**	**32,480,856**	**450,353,717**
Liabilities from insurance contracts	**146,686,492**	**12,253,257**	**-**	**-**	**-**	**158,939,749**
- non-current liabilities	56,428,150	46,653	-	-	-	56,474,803
- current liabilities	90,258,342	12,206,605	-	-	-	102,464,946
Liabilities from insurance contracts with DPF	**-**	**-**	**112,924,066**	**-**	**-**	**112,924,066**
- non-current liabilities	-	-	101,985,354	-	-	101,985,354
- current liabilities	-	-	10,938,712	-	-	10,938,712
Liabilities from investment contracts	**-**	**-**	**-**	**8,865,381**	**-**	**8,865,381**
- non-current liabilities	-	-	-	8,865,381	-	8,865,381
Equity capital	**68,397,225**	**7,480,434**	**18,917,709**	**42**	**3,007,502**	**97,802,913**
Bonds issued (Subordinated liabilities)	**22,781,568**	**-**	**26,743,579**	**-**	**-**	**49,525,147**
Other liabilities	**24,074,931**	**4,851,225**	**12,127,348**	**24,910**	**29,473,354**	**22,296,460**
- non-current liabilities	5,930,172	25,100	5,264,347	-	151,349	4,652,794
- current liabilities	18,144,760	4,826,125	6,863,001	24,910	29,322,005	17,643,666
Total liabilities	**261,940,217**	**24,584,917**	**170,712,703**	**8,890,333**	**32,480,856**	**450,353,718**

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 2016

(in EUR)	Non-life insurance contracts, excluding health insurance	Health insurance contracts	Life insurance contracts	Financial contracts for pension saving	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 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 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.

In the tables showing the classification of assets by maturity into non-current and current assets for 2017 and for 2016, 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 2017

(in EUR)	Non-life insurance contracts, excluding health insurance	Health insurance contracts	Life insurance contracts	Financial contracts for pension saving	Other assets and liabilities	Total
Non-current assets						
Debt securities	**75,883,915**	**5,632,451**	**111,877,220**	**1,026,356**	**-**	**194,419,943**
At fair value through profit or loss	2,821,251	-	3,161,208	435,706	-	6,418,165
- listed	2,821,251	-	3,161,208	435,706	-	6,418,165
Available for sale	63,453,258	5,330,181	87,210,150	590,650	-	156,584,239
- listed	59,484,075	5,330,181	87,210,150	590,650	-	152,615,056
- non-listed	3,969,183	-	-	-	-	3,969,183
Held to maturity	9,609,407	302,271	21,505,862	-	-	31,417,539
- listed	9,609,407	302,271	21,505,862	-	-	31,417,539
Equity securities	**26,286,008**	**670,697**	**6,722,269**	**1,671,074**	**(0)**	**35,350,048**
At fair value through profit or loss	-	-	(0)	23,417	(0)	23,417
- listed	-	-	(0)	23,417	(0)	23,417
Available for sale	26,286,008	670,697	6,722,269	1,647,658	-	35,326,632
- listed	11,196,200	(0)	6,061,257	1,647,658	-	18,905,115
- non-listed	15,089,808	670,697	661,012	-	-	16,421,517
Investments in subsidiary and associates	8,369,162	3,151,893	504,786	-	-	12,025,841
Loans, deposits and financial receivables	9,233,527	2,499,980	545,865	-	54,761	12,334,133
Derivatives	112,027	-	131,510	-	-	243,537
Total financial investments	**119,884,639**	**11,955,021**	**119,781,651**	**2,697,431**	**54,761**	**254,373,503**
Amount (technical provisions), transferred to reinsurers	8,816,188	-	-	-	-	8,816,188
Receivables from insurance business and other receivables	10,461,351	585,909	412,819	-	154,288	4,896,194
Other assets	34,804,350	309,869	3,221,653	-	25,448,925	63,784,797
Total assets	**173,966,529**	**12,850,799**	**123,416,122**	**2,697,431**	**25,657,974**	**331,870,682**
Current assets						
Debt securities	**974,375**	**(0)**	**412,292**	**403,988**	**2,329,513**	**4,120,169**
At fair value through profit or loss	974,375	(0)	412,292	403,988	-	1,790,655
- listed	974,375	(0)	412,292	403,988	-	1,790,655
Available for sale	-	-	-	-	2,329,513	2,329,513
- listed	-	-	-	-	2,329,513	2,329,513
Equity securities	0	-	856,426	4,823,197	1,532,177	7,211,800
At fair value through profit or loss	0	-	856,426	4,823,197	141,999	5,821,622
- listed	0	-	856,426	4,823,197	141,999	5,821,622
Available for sale	-	-	-	-	1,390,178	1,390,178
- listed	-	-	-	-	1,390,178	1,390,178
Loans, deposits and financial receivables	16,672,377	413,132	5,667,316	3,585	371,876	23,128,287
Total financial investments	**17,646,752**	**413,132**	**6,936,034**	**5,230,770**	**4,233,567**	**34,460,256**
Amount (technical provisions), transferred to reinsurers	8,604,069	-	283,933	-	-	8,888,002
Receivables from insurance business and other operating receivables	27,843,640	7,667,582	32,118,873	-	301,380	26,572,823
Cash and cash equivalents	7,810,917	3,512,902	4,711,578	962,132	1,666,802	18,664,332
Other assets	26,068,309	140,500	3,246,162	-	621,133	29,897,623
Total assets	**87,973,688**	**11,734,117**	**47,296,580**	**6,192,903**	**6,822,883**	**118,483,035**

As at the 2017 year-end, the non-current assets prevailed with a 74% share, leaving behind the Group's current assets accounting for 26% of total assets.

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 for pension saving	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**
At fair value through profit or loss	-	-	(0)	-	(0)	(0)
- listed	-	-	(0)	-	(0)	(0)
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 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
- non-listed	0	-	-	-	-	-
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**

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 75% share and the Group's current assets amounted to 25% 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.

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.

Disclosure includes unit-linked liabilities.

Overview of maturity of liabilities in 2017 – undiscounted cash flows

(in EUR)	Carrying amount	No maturity date	Up to 1 year	1-5 years	5-10 years	10-15 years	over 15 years	Total 2017
Debt financial instruments	**197,109,768**	**-**	**9,240,730**	**86,985,697**	**73,299,907**	**24,049,584**	**29,805,219**	**223,381,138**
Financial assets at fair value through income statement	7,369,127	-	568,225	3,111,625	3,968,756	-	220,500	7,869,106
Financial assets held to maturity	31,417,539	-	1,995,901	26,361,353	8,788,766	1,345,431	3,080,171	41,571,622
Financial assets available for sale	158,323,102	-	6,676,604	57,512,719	60,542,385	22,704,153	26,504,548	173,940,409
Equity financial instruments	**36,067,578**	**35,925,579**	**-**	**141,999**	**-**	**-**	**-**	**36,067,578**
Financial assets at fair value through income statement	998,425	856,426	-	141,999	-	-	-	998,425
Financial assets available for sale	35,069,153	35,069,153	-	-	-	-	-	35,069,153
Loans, deposits and financial receivables	**243,537**	**243,537**	**-**	**-**	**-**	**-**	**-**	**243,537**
Derivatives	**37,136,247**	**600,000**	**12,516,968**	**23,091,586**	**1,499,285**	**177,744**	**1,569,655**	**39,455,238**
Investments in associates	**12,025,841**	**12,025,841**	**-**	**-**	**-**	**-**	**-**	**12,025,841**
Assets of policyholders who bear investment risk	**304,978,130**	**231,383,976**	**3,435,285**	**5,073,253**	**49,929,888**	**7,974,513**	**6,710,903**	**304,507,818**
Investment properties	**24,119,759**	**24,119,759**	**-**	**-**	**-**	**-**	**-**	**24,119,759**
Assets from investment contracts	**8,890,333**	**7,459,984**	**21,900**	**283,700**	**1,137,500**	**-**	**-**	**8,903,084**
Investment properties	**620,571,194**	**311,758,677**	**25,214,884**	**115,576,235**	**125,866,580**	**32,201,841**	**38,085,777**	**648,703,994**
Total financial investments	17,704,190	-	8,888,002	5,682,716	2,131,923	876,471	125,079	17,704,191
Receivables from insurance business and other receivables	32,760,153	-	32,730,861	29,292	-	-	-	32,760,153
Operating and other receivables	20,111,188	1,309,194	18,801,994	-	-	-	-	20,111,188
Cash and cash equivalents	69,562,659	-	69,562,659	-	-	-	-	69,562,659
TOTAL ASSETS	**760,709,384**	**313,067,871**	**155,198,400**	**121,288,243**	**127,998,503**	**33,078,312**	**38,210,857**	**788,842,185**
Izdane obveznice (Podrejene obveznosti)	49,525,147	-	3,953,500	15,825,000	63,832,000	-	-	83,610,500
Non-life and health insurance	158,939,749	-	102,464,949	36,822,474	13,323,828	5,428,363	900,135	158,939,749
Unit-linked life insurance	302,379,792	-	16,320,401	42,782,154	79,563,484	47,667,481	116,046,272	302,379,792
Life insurance	112,924,066	-	6,476,420	8,572,787	25,391,909	21,341,261	63,279,906	125,062,283
Investment contracts	8,865,381	-	44,145	375,978	1,323,022	1,812,856	5,309,381	8,865,381
Other liabilities	30,115,372	-	30,099,741	15,631	-	-	-	30,115,372
TOTAL LIABILITIES	**662,749,507**	**-**	**159,359,157**	**104,394,024**	**183,434,242**	**76,249,961**	**185,535,693**	**708,973,077**

Overview of maturity of liabilities in 2016 – undiscounted cash flows

(in EUR)	Carrying amount	No maturity date	Up to 1 year	1-5 years	5-10 years	10-15 years	over 15 years	Total
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 income statement	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 income statement	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 investment 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**
Issued bonds (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
Investment 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**

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 2017[1]

(in EUR)	AAA-A	BBB-B	CCC-C	Not rated	Total 2017
Financial assets at fair value through profit or loss	**1,747,212**	**5,621,914**	**-**	**0**	**7,369,127**
Debt securities	1,747,212	5,621,914	-	0	7,369,127
Held-to-maturity financial assets	**8,958,029**	**19,947,323**	**-**	**2,512,188**	**31,417,539**
Debt securities	8,958,029	19,947,323	-	2,512,188	31,417,539
Available- for-sale financial assets	**35,777,088**	**112,770,399**	**-**	**9,775,615**	**158,323,102**
Debt securities	35,777,088	112,770,399	-	9,775,615	158,323,102
Loans, deposits and financial receivables	**13,891**	**15,803,171**	**-**	**19,641,773**	**35,458,835**
Assets from investment contracts	**-**	**1,430,344**	**-**	**-**	**1,430,344**
Debt securities	-	1,430,344	-	-	1,430,344
Total financial investments	**46,496,219**	**155,573,153**	**-**	**31,929,576**	**233,998,948**
Receivables from insurance business and other receivables	1,978,038	65,602	-	29,425,377	31,469,016
Reinsurers' share of technical provisions	17,431,072	88,826	-	184,292	17,704,190
Cash and cash equivalents	2,256	14,992,137	-	3,669,940	18,664,332
Total assets exposed to credit risk	**65,907,584**	**170,719,717**	**-**	**65,209,185**	**301,836,486**

Investments in debt securities which remained non-rated in 2017 comprise important Slovene state-owned or private companies which issued these securities. Given loans, deposits and financial receivables without a credit rating accounted for 56% of all loans, deposits and financial receivables. The maximum exposure to individual issuers without rating relating to given loans is represented by loans to KD Kapital d. o. o. and SRC Sistemske integracije d. o. o., accounting for 71% of all given loans without a rating. A share of 50% of loans without a rating are collateralized by bills of exchange and enforcement drafts, 30% by property and equity and the remaining 20% are secured by other types of collateral.

[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 2016[2]

(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 investment 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**

Bond investments portfolio without credit rating in 2016 relates to debt securities of important Slovene companies and banks, partially or completely owned by the state. Given loans accounted for 74% of loans, deposits and financial receivables where the issuer is not rated. 20% of loans without rating are collateralised by pledge on real estate or securities, 62% of loans without rating are collateralised by bills of exchange and the remaining 18% 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. and KD d.d. accounting for 59% of all given loans.

Exposure of investments

With the aim of diversifying investments and seeking higher returns adjusted for risk, the Group reduced its exposure to the Republic of Slovenia. With regard to the country of the issuer, the insurance company is mainly exposed to government bonds of EU members. The government bonds of the Republic of Italy, Slovenia, Spain, Portugal, France, Croatia and Romania account for a total of 36% of all investments.

Credit risk: Past-due and not past-due financial instruments as at 31 December 2017

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)	197,109,768	-	-	-	-	-	-	-	-	-	-	197,109,768
Assets from financial contracts	1,430,344	-	-	-	-	-	-	-	-	-	-	1,430,344
Loans and financial receivables	31,872,525	-	-	-	1,923,642	1,923,642	1,533,787	(1,097,054)	(16,423)	420,310	420,310	34,216,478
Amount (technical provisions) ceded to reinsurers	17,704,191	-	-	-	-	-	-	-	-	-	-	17,704,191
Receivables from Insurance contracts and other receivables	19,220,352	617,106	-	5,589	2,726	625,421	48,604,824	(34,048,002)	(2,990,830)	11,565,992	11,565,992	31,411,765
Insurance receivables	12,404,009	484,105	-	5,576	2,726	492,407	24,843,409	(14,330,965)	(2,736,547)	7,775,897	7,775,897	20,672,313
Recourse receivables	1,719	-	-	-	-	-	21,996,756	(18,243,622)	(208,582)	3,544,551	3,544,551	3,546,270
Other receivables	6,814,624	133,001	-	13	-	133,014	1,764,660	(1,473,415)	(45,701)	245,544	245,544	7,193,182
Total	267,337,181	617,106	-	5,589	1,926,368	2,549,063	50,138,611	(35,145,056)	(3,007,253)	11,986,302	11,986,302	281,872,546

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 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 reinsurers	17,399,320	-	-	-	-	-	-	-	-	-	-	17,399,320
Receivables from Insurance contracts and other receivables	20,361,781	523,679	-	-	289,021	812,700	53,346,330	(6,928,935)	(32,714,155)	13,703,239	13,703,239	34,877,720
Insurance receivables	12,933,623	2	-	-	273,131	273,133	26,667,831	(4,718,966)	(14,073,165)	7,875,700	7,875,700	21,082,456
Recourse receivables	-	-	-	-	0	0	24,405,189	(1,744,522)	(18,246,164)	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	54,773,333	(7,848,373)	(32,741,301)	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.

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 2017

	EUR	RSD	HRK	Other	Total 2017
ASSETS					
Financial assets measured at fair value through profit or loss	7,786,255	-	439,297	141,999	8,367,551
Equity securities	417,128	-	439,297	141,999	998,425
Debt securities	7,369,127	-	-	-	7,369,127
Derivatives	243,537	-	-	-	243,537
Held-to-maturity financial assets	31,417,539	-	-	-	31,417,539
Debt securities	31,417,539	-	-	-	31,417,539
Available-for-sale financial assets	182,880,964	-	1,748,776	8,762,516	193,392,255
Equity securities	28,801,167	-	-	6,267,986	35,069,153
Debt securities	154,079,796	-	1,748,776	2,494,530	158,323,102
Loans, deposits and financial receivables	35,404,074	-	-	54,761	35,458,835
Investments into associates	12,025,841	-	-	-	12,025,841
Assets from investment contracts	8,201,274	-	-	689,059	8,890,333
Total financial investment	**277,959,485**	**-**	**2,188,073**	**9,451,575**	**289,599,133**
Receivables from insurance business and other receivables	27,468,580	-	3,978,762	21,674	31,469,016
Amount (technical provisions) transferred to reinsurers	17,699,450	-	0	4,740	17,704,190
Cash and cash equivalents	16,204,011	-	759,735	738,453	17,702,199
Other assets	92,970,444	-	700,614	11,362	93,682,420
Total assets exposed to currency risk	**432,301,971**	**-**	**7,627,184**	**10,227,804**	**450,156,959**
LIABILITIES					
Izdane obveznice	49,525,147	-	-	-	49,525,147
Liabilities arising from insurance contracts	270,467,384	-	1,396,433	-	271,863,816
Liabilities from insurance contracts with DPF	-	-	-	-	-
Liabilities from investment contracts	8,865,381	-	-	-	8,865,381
Other liabilities	13,945,776	-	8,339,174	11,510	22,296,460
Total liabilities exposed to currency risk	**342,803,688**	**-**	**9,735,606**	**11,510**	**352,550,804**

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

Exposure to currency risk in 2016

	EUR	RSD	HRK	Other	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
Held-to-maturity financial assets	37,873,586	-	134,644	-	38,008,230
Debt securities	37,873,586	-	134,644	-	38,008,230
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 investment 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) transferred 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
Izdane obveznice	49,453,316	-	-	-	49,453,316
Liabilities arising from insurance contracts	269,308,826	-	750,092	-	270,058,918
Liabilities from investment 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.

The Group is subject to changes in foreign exchange rates, mostly with its business operations in Macedonia 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 mainly Croatian kuna (HRK) and Macedonian denar (MKD).

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 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 [3]

	Fixed interest rate		Variable interest rate		Total	
in EUR	2017	2016	2017	2016	2017	2016
ASSETS						
Debt securities	135,229,363	164,015,767	61,880,405	46,544,299	197,109,768	210,560,066
Loans and deposits	25,041,142	29,756,020	2,560,087	3,696,845	27,601,228	33,452,865
Cash and cash equivalents	17,702,199	9,353,484	-	-	17,702,199	9,353,484
Assets from financial contracts	8,063,423	1,178,300	826,910	573,183	8,890,333	1,751,483
Total	**186,036,127**	**204,303,571**	**65,267,402**	**50,814,328**	**251,303,529**	**255,117,898**
LIABILITIES						
Issued bonds	49,525,147	49,453,316	-	-	49,525,147	49,453,316
Total	**49,525,147**	**49,453,316**	**-**	**-**	**49,525,147**	**49,453,316**

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

Risk of guaranteed return

In 2017, 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.

The year 2017 was marked by the growth of capital markets and a markedly low year-on-year volatility. The fair value of financial assets in the first months of the year was mainly affected by the volatility of the required return on government bonds of European countries, where the Company has invested the majority of its financial investments. Due to the unstable political situation, above all the fear of the victory of European populist parties and the Eurosceptic option, the required returns increased primarily in the bonds of the peripheral countries of Europe. With the victory of a pro-European party in the Netherlands, and especially after Macron's victory in the French parliamentary and presidential elections, investors' fears began to slacken, while credit spreads began to decline. Despite the political tension over North Korea, the breaches of Brexit, the parliamentary elections in Germany and the referendum in Catalonia, this trend did not change significantly until the end of the year.

The Company ensured prudent management of portfolios to achieve optimum return in relation risk. In line with the existing portfolio structure, assets were invested primarily in European government bonds and, in life insurance, in European shares with a high dividend policy. In order to realize the return on equity, the Company sold a property in the amount of EUR 3,905,425 for the benefit of the life insurance fund. In 2017, the Fund secured a return that exceeded the guaranteed return.

With respect to the fund with a guaranteed return under the PN-A01 pension scheme, the insurance company did not change the portfolio structure. There were no premium inflows into the fund as it was closed for new payments in May 2016. In 2017, the fund achieved a return that exceeded the guaranteed return. The fund with a guaranteed return "Zajamčeni od 60" (Guaranteed over 60) started operating in February 2016, when the portfolio started to be built and set up. Following the diversification policies, new investments are made primarily in bond mutual funds and ETFs, as well as corporate and government bonds. In 2017, the fund achieved a return of 0.54%, which is somewhat lower than the guaranteed return (0.85%).

[3] Z vključenimi terjatvami iz kritnega sklada naložbenega tveganja.

Actual exposure to risk of guaranteed return

Pension insurance scheme/plan	2017	2016
LIFE INSURANCE		
Traditional life insurance		
Average return on investment for the period	4.41%	6.85%
Average guaranteed return	3.22%	3.36%
Difference in interest rates	1.19%	3.49%
PENSION INSURANCE		
Pension saving AS Zajamčeni od 60		
Average return on investment for the period	0.54%	1.11%
Required (guaranteed) return	0.85%	1.11%
Difference in interest rates	-0.31%	0.00%
Pension insurance PN-A01		
Average return on investment for the period	2.17%	5.03%
Required (guaranteed) return	0.85%	1.30%
Difference in interest rates	1.32%	3.73%

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).
Exchange rates	Effect of the ±5% change in exchange rates as at 31 December 2017
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 2017

Sensitivity analyses

Analysis of sensitivity to change in the interest rate

(in EUR)	Effect on profit	Effect on equity
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
31 December 2017		
Interest rate change of +50 bp	(200,952)	(6,909,918)
Interest rate change of -50 bp	166,401	6,107,282

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 2016		
Change in prices of equities +15%	**125,248**	**3,252,672**
Change in prices of equities -15%	**(125,248)**	**(3,252,672)**
31 December 2017		
Change in prices of equities +15%	876,756	5,507,522
Change in prices of equities -15%	(876,756)	(5,507,522)

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 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 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. 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 2017

in EUR 31 Dec 2017	Carrying amount	Fair value	Level 1	Level 2	Level 3
Financial assets measured at fair value through profit or loss, held for sale	**1,793,308**	**1,793,308**	**566,527**	**1,226,781**	**-**
Equity securities	141,999	141,999	-	141,999	-
Debt securities	1,084,782	1,084,782	-	1,084,782	-
Investment coupons of mutual funds	566,527	566,527	566,527	-	-
Financial assets measured at fair value through profit or loss, at initial recognition	**6,817,781**	**6,817,781**	**289,899**	**6,225,996**	**301,886**
Debt securities	6,284,345	6,284,345	-	5,982,459	301,886
Investment coupons of mutual funds	289,899	289,899	289,899	-	-
Derivatives	243,537	243,537	-	243,537	-
Available-for-sale financial assets	**176,976,598**	**176,976,598**	**23,726,295**	**148,995,696**	**4,254,607**
Equity securities	13,283,826	13,283,826	13,283,826	-	-
Debt securities	158,323,102	158,323,102	5,072,799	148,995,696	4,254,607
Investment coupons of mutual funds	5,369,670	5,369,670	5,369,670	-	-
Unit-linked investments of policyholders	**304,978,131**	**304,978,130**	**230,673,439**	**55,406,842**	**18,897,849**
Assets from investment contracts	**7,928,201**	**7,928,201**	**6,494,271**	**1,026,356**	**407,573**
Total financial assets measured at fair value	**498,494,018**	**498,494,017**	**261,750,430**	**212,881,671**	**23,861,915**
Held-to-maturity financial assets	**31,417,539**	**39,117,989**	**415,503**	**38,702,486**	**-**
Debt financial instruments	31,417,539	39,117,989	415,503	38,702,486	-
Available-for-sale financial assets	**16,415,657**	**-**	**-**	**-**	**-**
Equity securities	16,415,657	-	-	-	-
Assets from investment contracts	**962,132**	**-**	**-**	**-**	**962,132**
Deposits and loans	**37,329,839**	**37,329,839**	**-**	**-**	**37,329,839**
Financial investments in associates	**12,025,841**	**12,025,841**	**-**	**-**	**12,025,841**
Investment property	**24,119,759**	**22,449,032**	**-**	**-**	**22,449,032**
Total financial assets for which the fair value is disclosed	**122,270,768**	**110,922,701**	**415,503**	**38,702,486**	**72,766,844**
TOTAL ASSETS	**620,764,786**	**609,416,718**	**262,165,933**	**251,584,157**	**96,628,760**
Bonds issued (Subordinated liabilities)	49,525,147	49,228,200	-	49,228,200	-
Total liabilities for which the fair value is disclosed	**49,525,147**	**49,228,200**	**-**	**49,228,200**	**-**
TOTAL LIABILITIES	**49,525,147**	**49,228,200**	**-**	**49,228,200**	**-**

Financial assets categorised in the fair value hierarchy in 2016

in EUR as at 31 Dec 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 investment 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**
Bonds issued (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**	**-**

Level 3 assets and liabilities

Financial assets and liabilities categorised in the fair value hierarchy – Level 3 movement in 2017

(in EUR)	1. 1. 2017	Total profit/loss in profit or loss	Total profit/loss in comprehensive income	Purchase	Sale	Transfers (to) from Level 3	31 Dec 2017
Assets measured at fair value							
Financial assets measured at fair value through profit or loss, at initial recognition	**-**	**-**	**(7,394)**	**309,280**	**-**	**-**	**301,886**
Debt securities	-	-	(7,394)	309,280	-	-	301,886
Available-for-sale financial assets	**3,017,094**	**(1,135)**	**(51,351)**	**1,820,000**	**(530,000)**	**-**	**4,254,607**
Debt securities	3,017,094	(1,135)	(51,351)	1,820,000	(530,000)	-	4,254,607
Assets from investment contracts	**-**	**-**	**(4,451)**	**408,439**	**-**	**-**	**403,988**
Total assets	**3,017,094**	**(1,135)**	**(63,197)**	**2,537,720**	**(530,000)**	**-**	**4,960,481**

Financial assets and liabilities categorised in the fair value hierarchy – Level 3 movement in 2016

(in EUR)	1. 1. 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**

Until 31 December 2017, the Company did not reclassify financial asset groups due to the change in their intended use and did not reclassify financial assets due to the change in capital market conditions. The Group purchased debt securities, which belong to Level 3, under the following financial instrument groups

- assets measured at fair value through profit or loss, at initial recognition, EUR 309,280,
- assets available for sale, EUR 1,820,000.
- assets from investment contracts, EUR 408,439.

In 2017, the bond from the group of assets available for sale amounting to EUR 530,000 finally matured.

Fair value of the financial assets as at 31 December 2017 amounts to EUR 4,960,481.

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 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 2017

in EUR	Life insurance	Non-life insurance	Health insurance	Asset management	Intersegment eliminations on consolidation	Total
Assets	489,958,703	261,940,217	24,584,916	32,480,856	(48,255,309)	760,709,385
Intangible assets	**3,064,322**	**4,505,985**	**44,368**	**25,309,094**	**-**	**32,923,769**
Property, plant and equipment	**33,353**	**30,298,365**	**265,501**	**123,229**	**-**	**30,720,448**
Deferred tax assets	**408,506**	**3,718,198**	**582,709**	**154,288**	**-**	**4,863,701**
Investment properties	**2,156,414**	**21,932,486**	**30,860**	**-**	**-**	**24,119,759**
Financial investments in subsidiaries and associates	**504,786**	**8,369,162**	**3,151,893**	**-**	**-**	**12,025,841**
Financial investments	**127,890,311**	**129,162,229**	**9,216,261**	**4,288,328**	**-**	**270,557,129**
In loans and deposits	7,890,593	25,905,904	2,913,112	426,637	-	37,136,247
In held-to-maturity financial assets	21,505,862	9,609,406	302,271	-	-	31,417,539
In available-for-sale financial assets	93,932,420	89,739,265	6,000,878	3,719,692	-	193,392,255
In financial assets measured at fair value	4,561,436	3,907,654	(0)	141,999	-	8,611,088
Unit-linked investments of policyholders	**304,978,130**	**-**	**-**	**-**	**-**	**304,978,130**
Amounts of technical provisions ceded to reinsurers	**283,933**	**17,420,257**	**-**	**-**	**-**	**17,704,190**
Assets from financial contracts	**8,890,333**	**-**	**-**	**-**	**-**	**8,890,333**
Receivables	**33,414,322**	**34,586,794**	**7,670,782**	**301,380**	**(48,076,827)**	**27,896,452**
Receivables from direct insurance business	687,612	9,875,491	7,174,348	-	-	17,737,450
Receivables from reinsurance and coinsurance	288,868	1,876,831	-	-	-	2,165,699
Income tax receivables	1,522,771	2,630,224	151,125	-	(1,988,203)	2,315,916
Other receivables	30,915,072	20,204,247	345,310	301,380	(46,088,624)	5,677,386
Other assets	**1,213,726**	**4,135,824**	**109,641**	**637,734**	**(178,481)**	**5,918,444**
Cash and cash equivalents	**7,120,566**	**7,810,917**	**3,512,902**	**1,666,802**	**-**	**20,111,188**
Off-balance sheet items	**27,179,692**	**52,669,294**	**3,825,709**	**501,040**	**-**	**84,175,736**
Equity and liabilities	489,958,703	261,940,217	24,584,916	32,480,856	(48,255,309)	760,709,385
Equity	**19,074,715**	**68,397,225**	**7,480,434**	**3,007,502**	**-**	**97,959,877**
Majority equity interest	**19,074,715**	**68,397,225**	**7,480,434**	**2,796,203**	**0**	**97,748,578**
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	-	4,348,055	4,875,881	-	-	9,223,936
Translation differences	614	-	-	9,861	-	10,475
Reserve due to fair value measurement (Revaluation surplus)	(208,103)	766,508	108,186	62,084	-	728,676
Retained net earnings	4,924,399	24,344,870	(131,869)	639,551	164,028	29,940,979
Net profit or loss for the financial year	686,511	5,397,773	2,628,237	2,084,707	(164,028)	10,633,199
Minority equity interest	-	-	-	211,299	-	211,299
Subordinated liabilities	**26,743,579**	**22,781,568**	**-**	**-**	**-**	**49,525,147**
Technical provisions	**114,260,578**	**146,686,493**	**12,253,257**	**-**	**-**	**273,200,328**
Unearned premiums	355,159	42,396,717	6,774,128	-	-	49,526,004
Mathematical provisions	107,377,776	172,372	40,136	-	-	107,590,283
Outstanding claims provisions	6,527,643	103,620,257	5,406,298	-	-	115,554,198
Other technical provisions	0	497,148	32,695	-	-	529,843
Insurance technical provisions for unit-linked insurance	**301,043,281**	**-**	**-**	**-**	**-**	**301,043,281**
Other provisions	**5,449**	**4,493,296**	**-**	**126,518**	**-**	**4,625,262**
Deferred tax liabilities	**28,534**	**117,401**	**25,100**	**20,232**	**-**	**191,266**
Liabilities from financial contracts	**8,890,333**	**(0)**	**-**	**-**	**-**	**8,890,333**
Other financial liabilities	**136**	**429,061**	**0**	**-**	**-**	**429,198**
Operating liabilities	**3,912,646**	**3,164,084**	**2,299,104**	**51,687**	**(1,988,203)**	**7,439,318**
Liabilities from direct insurance contracts	1,596,503	1,552,723	2,076,132	-	-	5,225,359
Liabilities from reinsurance and coinsurance contracts	550,911	1,611,361	-	-	-	2,162,272
Income tax liabilities	1,765,231	0	222,972	51,687	(1,988,203)	51,687
Other liabilities	**15,999,453**	**15,871,089**	**2,527,021**	**29,274,917**	**(46,267,106)**	**17,405,374**
Off-balance sheet items	**27,179,692**	**52,669,294**	**3,825,709**	**501,040**	**-**	**84,175,736**

Balance sheet of the AS Group as at 31 December 2016

v EUR	Življenjska zavarovanja	Premoženjska zavarovanja	Zdravstvena zavarovanja	Upravljanje premoženja	Uskupinjevalne izločitve med segmenti	Skupaj
Sredstva	471,269,474	264,421,493	21,818,108	32,240,957	(52,442,795)	737,307,236
Neopredmetena sredstva	**4,277,529**	**4,188,778**	**21,350**	**25,395,781**	**-**	**33,883,437**
Opredmetena osnovna sredstva	**60,203**	**31,464,123**	**265,160**	**128,723**	**-**	**31,918,209**
Nekratkoročna sredstva namenjena za prodajo	**-**	**4,270**	**360,197**	**-**	**(360,197)**	**4,270**
Odložene terjatve za davek	**413,350**	**5,236,321**	**1,166,300**	**217,581**	**-**	**7,033,551**
Naložbene nepremičnine	**5,013,987**	**22,398,509**	**31,321**	**-**	**-**	**27,443,818**
Finančne naložbe v pridruženih družbah	**509,364**	**8,440,686**	**3,180,261**	**-**	**-**	**12,130,311**
Finančne naložbe:	**130,023,241**	**128,386,276**	**7,813,323**	**3,557,990**	**-**	**269,780,829**
V posojila in depozite	8,852,548	26,937,733	2,254,034	463,287	-	38,507,602
V posesti do zapadlosti	25,369,306	12,021,748	617,177	-	-	38,008,230
Razpoložljive za prodajo	93,175,878	82,815,008	4,939,001	3,094,703	-	184,024,591
Vrednotene po pošteni vrednosti	2,625,510	6,611,787	3,110	-	-	9,240,406
Sredstva zavarovancev, ki prevzemajo naložbeno tv	**287,601,433**	**-**	**-**	**-**	**-**	**287,601,433**
Znesek zavarovalno-tehničnih rezervacij prenesen p	**330,371**	**17,068,948**	**-**	**-**	**-**	**17,399,319**
Sredstva iz finančnih pogodb	**4,755,736**	**-**	**-**	**-**	**(2,546)**	**4,753,190**
Terjatve	**33,336,431**	**38,772,087**	**7,975,179**	**800,725**	**(51,901,572)**	**28,982,850**
Terjatve iz neposrednih zavarovalnih poslov	916,407	10,507,743	7,491,660	-	-	18,915,810
Terjatve iz pozavarovanja in sozavarovanja	408,196	1,364,801	-	-	-	1,772,997
Terjatve za odmerjeni davek	483,299	105,578	111,862	1,830	(624,902)	77,667
Druge terjatve	31,528,529	26,793,966	371,657	798,895	(51,276,670)	8,216,376
Druga sredstva	**1,379,976**	**3,906,838**	**230,376**	**117,141**	**(178,481)**	**5,455,850**
Denar in denarni ustrezniki	**3,567,855**	**4,554,657**	**774,641**	**2,023,017**	**-**	**10,920,169**
Zunajbilančne postavke	**2,542,152**	**18,376,126**	**3,806,461**	**674,098**	**-**	**25,398,837**
Kapital in obveznosti	471,269,474	264,421,493	21,818,108	32,240,957	(52,442,795)	737,307,236
Kapital	**20,043,063**	**72,102,612**	**5,152,751**	**1,242,952**	**(360,197)**	**98,181,182**
Kapital, ki pripada večinskim lastnikom	**20,043,063**	**72,019,013**	**5,152,751**	**933,087**	**(360,197)**	**97,787,718**
Osnovni kapital	11,973,787	34,193,760	-	-	(3,168,017)	42,999,530
Kapitalske rezerve	1,697,506	2,514,276	0	-	-	4,211,782
Rezerva iz dobička	-	4,348,055	4,875,881	-	-	9,223,936
Prevedbene razlike	558	(1,926,376)	-	(4,687)	-	(1,930,505)
Rezerve, nastale zaradi prevrednotenja po pošteni vre	(274,466)	503,531	98,993	27,013	-	355,071
Rezerve, nastale zaradi prevrednotenja po pošteni vre	-	-	-	-	-	-
Zadržani čisti poslovni izid	1,856,487	22,579,613	309,746	-	4,771,678	29,517,525
Čisti poslovni izid poslovnega leta	4,789,191	9,806,153	(131,869)	910,762	(1,963,858)	13,410,378
Manjšinski kapital	-	83,599	-	309,865	-	393,464
Podrejene obveznosti	**26,704,791**	**22,748,526**	**-**	**-**	**-**	**49,453,317**
Zavarovalno-tehnične rezervacije	**113,974,143**	**144,508,571**	**13,413,092**	**-**	**-**	**271,895,806**
Prenosne premije	380,444	41,972,463	7,029,965	-	-	49,382,872
Matematične rezervacije	107,124,136	118,305	8,082	-	-	107,250,524
Škodne rezervacije	6,458,257	101,444,788	6,194,080	-	-	114,097,125
Druge zavarovalno-tehnične rezervacije	11,307	973,015	180,965	-	-	1,165,286
Zavarovalno-tehnične rezervacije v korist življenjski	**282,619,438**	**-**	**-**	**-**	**-**	**282,619,438**
Druge rezervacije	**4,468**	**3,969,815**	**-**	**102,550**	**-**	**4,076,834**
Obveznosti vezane na nekratkoročna sredstva v po:	**-**	**-**	**-**	**-**	**-**	**-**
Odložene obveznosti za davek	**19,007**	**56,414**	**23,221**	**12,005**	**-**	**110,646**
Obveznosti iz finančnih pogodb	**4,755,736**	**(0)**	**-**	**-**	**(2,546)**	**4,753,190**
Druge finančne obveznosti	**343**	**985,204**	**0**	**31**	**-**	**985,578**
Obveznosti iz poslovanja	**2,201,228**	**3,300,931**	**1,568,058**	**138,205**	**(624,902)**	**6,583,521**
Obveznosti iz neposrednih zavarovalnih poslov	756,413	1,537,646	1,568,058	-	-	3,862,118
Obveznosti iz pozavarovanja in sozavarovanja	882,472	1,072,570	-	-	-	1,955,042
Obveznosti za odmerjeni davek	562,343	690,714	-	138,205	(624,902)	766,361
Ostale obveznosti	**20,947,257**	**16,749,420**	**1,660,985**	**30,745,213**	**(51,455,152)**	**18,647,723**
Zunajbilančne postavke	**2,542,152**	**18,376,126**	**3,806,461**	**674,098**	**-**	**25,398,837**

Income statement of the AS Group for the period from 1 January 2017 to 31 December 2017

in EUR	Life insurance	Non-life insurance	Health insurance	Asset management	Intersegment eliminations on consolidation	Total
NET PREMIUM INCOME	**59,207,673**	**130,538,125**	**102,385,228**	**-**	**-**	**292,131,025**
Gross written premiums	61,166,048	140,493,410	102,129,391	-	-	303,788,849
Premiums ceded to reinsurers and coinsurers	(1,993,543)	(9,894,554)	-	-	-	(11,888,097)
Change in unearned premiums	35,168	(60,732)	255,837	-	-	230,273
REVENUES FROM INVESTMENTS IN ASSOCIATES, of which	**4,582**	**189,939**	**157,507**	**-**	**(129,266)**	**222,762**
- profit from capital investments from associates and joint ventures, calculated using the equity method	4,582	71,127	28,241	-	-	103,950
INCOME FROM INVESTMENTS	**30,533,760**	**6,729,596**	**389,423**	**17,498**	**(847,229)**	**36,823,049**
OTHER INCOME FROM INSURANCE OPERATIONS, of which	**714,833**	**1,541,690**	**-**	**-**	**-**	**2,256,523**
- fee and commission income	714,833	1,541,690	-	-	-	2,256,523
OTHER INCOME	**3,132,877**	**5,030,941**	**639,293**	**11,326,514**	**(1,354,804)**	**18,774,821**
NET EXPENSES FOR CLAIMS AND BENEFITS PAID	**(49,752,509)**	**(83,064,469)**	**(89,367,441)**	**-**	**-**	**(222,184,419)**
Gross amounts of claims and benefits paid	(50,229,763)	(84,007,149)	(90,155,223)	-	-	(224,392,135)
Reinsurers'/coinsurers' shares	602,961	3,130,362	-	-	-	3,733,323
Change in claims provisions	(125,708)	(2,187,681)	787,782	-	-	(1,525,607)
CHANGE IN OTHER TECHNICAL PROVISIONS	**(200,528)**	**294,434**	**115,493**	**-**	**-**	**209,400**
CHANGE IN TECHNICAL PROVISIONS FOR THE BENEFIT OF UNIT-LINKED INSURANCE POLICYHOLDERS	**(18,423,843)**	**-**	**-**	**-**	**-**	**(18,423,843)**
EXPENSES FOR BONUSES AND DISCOUNTS	**-**	**127,367**	**723**	**-**	**-**	**128,090**
OPERATING EXPENSES, of which	**(18,296,818)**	**(43,391,871)**	**(10,652,158)**	**(8,562,986)**	**2,199,642**	**(78,704,191)**
- acquisition costs	(5,962,342)	(16,469,434)	(1,218,410)	-	12,275	(23,637,911)
EXPENSES INVESTMENTS, of which	**(231,875)**	**(298,268)**	**(1,378)**	**-**	**-**	**(531,521)**
- impairment losses of financial assets not measured at fair value through profit or loss	-	-	-	-	-	-
OTHER INSURANCE EXPENSES	**(173,231)**	**(3,217,550)**	**(414,414)**	**-**	**-**	**(3,805,195)**
OTHER EXPENSES	**(5,470,326)**	**(7,738,635)**	**(194,953)**	**(98,808)**	**2,391**	**(13,500,330)**
PROFIT/(LOSS) BEFORE TAX	**1,044,596**	**6,741,298**	**3,057,323**	**2,682,218**	**(129,266)**	**13,396,169**
CORPORATE INCOME TAX	**(295,727)**	**(1,223,740)**	**(655,439)**	**(519,396)**	**-**	**(2,694,301)**
NET PROFIT FOR THE REPORTING PERIOD	**748,869**	**5,517,559**	**2,401,885**	**2,162,822**	**(129,266)**	**10,701,868**
MINORITY INTEREST	**-**	**(9,480)**	**-**	**78,115**	**-**	**68,635**
INTEREST OF PARENT COMPANY	**748,869**	**5,527,039**	**2,401,885**	**2,084,707**	**(129,266)**	**10,633,233**

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**
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**

Statement of other comprehensive income of the AS Group for the period from 1 January 2017 to 31 December 2017

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	748,869	5,517,559	2,401,885	2,162,822	(129,266)	10,701,868
OTHER COMPREHENSIVE INCOME AFTER TAXATION	66,578	91,605	9,193	54,229	-	221,605
Items not to be allocated to profit or loss in subsequent periods	159	(174,716)	-	-	-	(174,557)
Actuarial net gain/loss for pension programmes	159	(174,716)	-	-	-	(174,557)
Items that may be allocated to profit or loss in subsequent periods	66,419	266,321	9,193	54,229	-	396,162
Net gain/loss from re-measurement of available-for-sale financial assets	79,752	319,995	9,889	43,298	-	452,935
Gain/loss, recognised in revaluation surplus	1,594,337	1,346,282	23,628	43,298	-	3,007,545
Transfer of gain/loss from revaluation surplus to income statement	(1,514,585)	(1,026,287)	(13,738)		-	(2,554,610)
Associated net gain/loss related to capital investments in associates and joint ventures, calculated using the equity method	192	2,979	1,183	-	-	4,354
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	(15,153)	(60,799)	(1,879)	(8,227)	-	(86,058)
Gain/loss from translation of financial statements of foreign operations	1,628	4,146	-	19,157	-	24,931
TOTAL COMPREHENSIVE INCOME FOR THE YEAR, AFTER TAXATION	815,447	5,609,164	2,411,078	2,217,051	(129,266)	10,923,473
- ATTRIBUTABLE TO MINORITY INTEREST	-	(9,480)	-	78,115	-	68,635
- ATTRIBUTABLE TO CONTROLLING COMPANY	815,447	5,618,644	2,411,078	2,138,936	(129,266)	10,854,838

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

v EUR	Life insurance	Non-life insurance	Health insurance	Asset management	Intersegment eliminations on consolidation	Total
ČISTI POSLOVNI IZID POSLOVNEGA LETA PO OBDAVČITVI	**3,005,420**	**9,791,185**	**(1,368,932)**	**918,462**	**-**	**12,346,134**
DRUGI VSEOBSEGAJOČI DONOS PO OBDAVČITVI	**(2,112,040)**	**(1,676,187)**	**40,618**	**20,757**	**-**	**(3,726,852)**
Postavke, ki v kasnejših obdobjih ne bodo prerazvrščene v poslovni izid	(486)	(138,643)	-	-	-	(139,130)
Čisti dobički/izgube, pripoznani v presežku iz prevrednotenja opredmetenih osnovnih sredstev	-	(141)	-	-	-	(141)
Aktuarski čisti dobički/izgube za pokojninske programe	(486)	(138,502)	-	-	-	(138,988)
Postavke, ki bodo v kasnejših obdobjih lahko prerazvrščene v poslovni izid	(2,111,554)	(1,537,543)	40,618	20,757	-	(3,587,722)
Čisti dobički/izgube iz ponovne izmere finančnih sredstev, razpoložljivih za prodajo	(2,533,013)	(1,754,095)	51,883	34,068	-	(4,201,158)
Dobički/izgube, pripoznani v presežku iz prevrednotenja	1,984,980	2,486,114	71,613	34,068	-	4,576,775
Prenos dobičkov/izgub iz presežka iz prevrednotenja v poslovni izid	(4,517,994)	(4,240,209)	(19,730)	-	-	(8,777,934)
Pripadajoči čisti dobički/izgube v zvezi z naložbami v kapital pridruženih in skupaj obvladovanih družb, obračunanih po kapitalski metodi	(17,741)	(8,187)	-	-	-	(25,928)
Davek od postavk, ki bodo v kasnejših obdobjih lahko prerazvrščene v poslovni izid	437,547	292,258	(11,264)	(7,055)	-	711,485
Dobiček/izguba iz pretvorbe računovodskih izkazov v tujini	1,654	(67,519)	-	(6,256)	-	(72,121)
VSEOBSEGAJOČI DONOS POSLOVNEGA LETA PO OBDAVČITVI	**893,380**	**8,114,998**	**(1,328,314)**	**939,218**	**-**	**8,619,283**
-KI SE NANAŠA NA MANJŠINSKI DELEŽ	**-**	**(14,968)**	**-**	**7,700**	**-**	**(7,268)**
-KI SE NANAŠA NA LASTNIKE OBVLADUJOČE DRUŽBE	**893,380**	**8,129,966**	**(1,328,314)**	**931,518**	**-**	**8,626,551**

Geographical segments

As at 31 December 2017, the Group operated in Slovenia and the following countries: Croatia, Macedonia and Serbia

Sales revenue

(in EUR)	1. 1. - 31. 12. 2017	1. 1. - 31. 12. 2016
Sales revenue*		
Slovenia	314,296,941	302,935,177
EU	5,474,993	3,780,027
Other countries	245,888	224,159
Total	**320,017,822**	306,939,363

Total assets

(in EUR)	31 Dec 2017	31 Dec 2016
Total assets		
Slovenia	513, 981,512	510,677,558
EU	229,670,172	218,241,116
Other countries	17,057,701	8,388,563
Total	**760,652,134**	737,307,236
Associates		
Slovenia	12,025,841	12,130,311
Total	**12,025,841**	12,130,311

Investments

(in EUR)	31 Dec 2017	31 Dec 2016
Capital expenditure analysis		
Slovenia	3,232,898	5,162,780
EU	17,115	63,927
Other countries	1,789	1,208
Total	**3,251,802**	5,227,915

10. NOTES TO INDIVIDUAL ITEMS OF FINANCIAL STATEMENTS

10.1 INTANGIBLE ASSETS

(in EUR)	Goodwill	Material in rights and licences	Software	ND assets in the process of acquisition	Total
AT COST					
Balance as at 1 Jan 31. 12 2016	**-**	**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, and property, plant and equipment	-	-	(51,441)	-	(51,441)
Other changes	(493)	(1,811)	1,212	-	(1,092)
Balance as at 31 Dec 31. 12 2016	**22,307,444**	**7,194,989**	**24,767,187**	**-**	**54,269,620**
New balance as at 1 Jan	**22,307,444**	**7,194,989**	**24,767,187**	**-**	**54,269,620**
Acquisition of subsidiary	318,783	-	-	-	318,783
Direct increases - investments	-	-	1,550,136	-	1,550,136
Decreases during the year	-	-	(514,256)	-	(514,256)
Other changes	1,582	5,751	3,759	-	11,092
Balance as at 31 Dec 2017	**22,627,809**	**7,200,740**	**25,806,826**	**-**	**55,635,375**
VALUE ADJUSTMENT					
Balance as at 1 Jan 31. 12 2016	**-**	**2,041,243**	**12,606,541**	**-**	**14,647,783**
Increases due to acquisition of companies	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 owing to impairment of assets	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 31. 12 2016	**32,930**	**2,905,311**	**17,447,942**	**-**	**20,386,183**
New balance as at 1 Jan	**32,930**	**2,905,311**	**17,447,942**	**-**	**20,386,183**
Depreciation during the year	-	26,756	2,039,812	-	2,066,568
Decreases during the year	-	-	(593,182)	-	(593,182)
Revaluation owing to impairment of assets	2,668	845,845	-	-	848,513
Other changes	539	302	2,683	-	3,524
Balance as at 31 Dec 2017	**36,137**	**3,778,215**	**18,897,255**	**-**	**22,711,607**
BOOK VALUE					
Balance as at 31 Dec 31. 12 2016	**22,274,514**	**4,289,678**	**7,319,245**	**-**	**33,883,437**
Balance as at 31 Dec 2017	**22,591,672**	**3,422,525**	**6,909,572**	**-**	**32,923,769**

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.

Compared to the year before, in 2017 the value of non-current intangible assets fell by EUR 959,669. These assets were lower in 2017 mainly due to depreciation and write-offs of software.

Major changes affecting the movement of non-current intangible assets in the direction of increase in 2017 include investments in software improvement in the amount of EUR 1,495,289 and a newly created goodwill upon acquisition of a 100% equity stake in the company Agent d.o.o. in the amount of EUR 318,783.

The intangible assets will be finally amortised by 2027 based on their determined useful lives and the applied amortisation rates. The Group uses the straight-line amortisation method and in 2017 it did not change the amortisation rates. Amortisation of intangible assets is posted in the income statement among operating costs.

The Group discloses material rights and licences among intangible assets. These contain a part of material rights with an indefinite useful life related to the taking over of the management of the Ilirika Umbrella Fund. As at 31 December 2017, the Group carried out an impairment test on the basis of the below assumptions and assessed that impairment was not necessary.

The assumptions for the valuation of the intangible assets used by the internal financial expert **in 2017**:

- the present value of the expected future free cash flows,
- the estimate was based on an analysis of past operations and future business opportunities,
- return on free cash flows was discounted with the appropriate required rate on return on equity capital
- for the calculation of the required rate of return on equity, the CAPM model was used,
- the CAPM assumptions: a 3.5% normalised return on risk-free investments, a 5.5% premium for capital risk, a 3.74 % premium for investment in small enterprises, a 1.84 % political risk factor, a 0.68 beta excluding debt,
- the required rate of return of equity capital is 12.58 %,
- the discount for the lack of marketability of 5.0 %,
- the planned profitability of individual funds in the explicit forecast period varies between 0.0% and 7.0%,
- growth in net cash flows after the explicit forecast period is 2.0%,
- the estimated cash flows for the 2018-2022 period.

The assumptions for the valuation of the intangible assets used by the internal financial expert **in 2016**:

- the present value of the expected future free cash flows,
- the estimate was based on an analysis of past operations and future business opportunities,
- return on free cash flows was discounted with the appropriate required rate on return on equity capital
- for the calculation of the required rate of return on equity, the CAPM model was used,
- the CAPM assumptions: a 3.5% normalised return on risk-free investments, a 5.5% premium for capital risk, a 3.74 % premium for investment in small enterprises, a 3.13 % political risk factor, a 0.63 beta excluding debt,
- the required rate of return of equity capital is 13.84 %,
- the discount for the lack of marketability of 5.0 %,
- the planned profitability of individual funds in the explicit forecast period varies between 0.0% and 7.0%,
- growth in net cash flows after the explicit forecast period is 2.0 %,
- the estimated cash flows for the 2017-2021 period.

The remaining part of the material rights with a defined useful life of 5 years, which expires in 2018, was decreased for 2017 in the amount of EUR 845,845 euros.

Goodwill

As at 31 December 2017, the Group has goodwill for EUR 22,591,672, with the largest part of goodwill (in the amount of EUR 22,209,093) arising from the investment in the subsidiary KD Skladi d.o.o. and its subsidiaries KD Locusta Fondovi d.o.o. and KD Fondovi AD Skopje. A part of the goodwill amounting to EUR 318,783 was acquired by the Group in 2017 upon the acquisition of the company Agent d.o.o. by the Group (see Section Acquisitions of subsidiaries for more details). In accordance with the accounting policies, as at the 2017 year-end the Group checked whether the goodwill in the segment of asset management would have to be impaired. As at the 2017 year-end, a certified business appraiser assessed the change in circumstances and values since the last valuation and ensured that the audits did not show any negative trends in comparison with 2016 and that the value of the equity capital of KD Skladi d. o. o. was at the level of the previous year.

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%

Due to a significant impact of the final value on the value from operations and a difficult forecasting of this value due to time distance, the certified business appraiser performed a simulation in which he changed both key variables that influence the assessment of the final value (the growth rate and WACC).

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%

On the basis of the goodwill impairment test carried out, the Group is not required to impair the goodwill related to the subsidiary KD Skladi, however it would be necessary if one of the scenarios contained in the sensitivity analysis became true.

The assumptions used in 2016 for the valuation of the remaining part of goodwill performed in 2017 by the internal financial expert:

- 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 (WACC);
- 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 5.0% premium for capital risk, a 3.74% premium for investment in small enterprises, a 3.46–4.15% political risk factor, a 0.68 beta excluding debt;
- the required rate of return of equity capital varies between 14.3% and 14.8%;
- the required rate of return of debt of 2.6%;
- the discount for the lack of marketability of 20.0%,
- the planned profitability of individual funds in the explicit forecast period varies between 0.8% and 7.0%;
- growth in net cash flows after the explicit forecast period of 2.0%;
- the estimated cash flows for the 2018–2022 period.

The assumptions used in 2016:

- 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 (WACC);
- 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.

In addition to the newly acquired goodwill upon the acquisition of the company Agent d. o. o. (for which there was no need for impairment at the end of 2017), the Group has a part of goodwill in the net value of EUR 63,796 from the subsidiary KD Locusta Fondovi d. o. o. referring to the customer list acquired when the ICF Balance Fund was acquired in 2010. The list of clients is intangible asset or right which does not have a certain useful life and is not depreciated. However, its value is checked quarterly in consideration of the number of investors, and then it is assessed whether there are objective signs of impairment. In the event that the recoverable amount exceeds the carrying amount, the goodwill is not impaired. After verifying the value, the need for impairment in the amount of € 22,668 was shown.

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 31. 12 2016	**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
Activation of assets in 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 INCA	6,981	(6,979)	-	-	2
Other changes	-	976	-	178	1,154
Balance as at 31 Dec 31. 12 2016	**29,720,231**	**18,671,618**	**393,646**	**110,708**	**48,896,202**
New balance as at 1 Jan	**29,720,231**	**18,671,618**	**393,646**	**110,708**	**48,896,202**
Acquisition of subsidiary	-	70,704	-	-	70,704
Direct increases - investments	376,475	1,107,866	217,324	-	1,701,665
Direct increases – advance payments	-	97,386	-	-	97,386
Decreases during the year	(1)	(1,805,385)	0	-	(1,805,386)
Transfers between intangible assets, investment property, and property, plant and equipment	(344,561)	-	(250,615)	-	(595,176)
Other changes	-	3,058	-	293	3,351
Balance as at 31 Dec 2017	**29,752,144**	**18,145,247**	**360,354**	**111,001**	**48,368,746**
VALUE ADJUSTMENT					
Balance as at 1 Jan 31. 12 2016	**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 31. 12 2016	**4,955,752**	**12,003,126**	**-**	**19,115**	**16,977,993**
New balance as at 1 Jan	**4,955,752**	**12,003,126**	**-**	**19,115**	**16,977,993**
Acquisition of subsidiary	-	66,715	-	-	66,715
Depreciation during the year	312,792	1,390,677	-	11,030	1,714,499
Decreases during the year	-	(1,574,540)	-	-	(1,574,540)
Revaluation owing to impairment of assets	0	529,296	-	-	529,296
Transfers between intangible assets, investment property, and property, plant and equipment	(68,028)	-	-	-	(68,028)
Other changes	-	2,139	-	225	2,364
Balance as at 31 Dec 2017	**5,200,516**	**12,417,412**	**-**	**30,370**	**17,648,298**
BOOK VALUE					
Balance as at 31 Dec 31. 12 2016	**24,764,479**	**6,668,492**	**393,646**	**91,593**	**31,918,209**
Balance as at 31 Dec 2017	**24,551,628**	**5,727,835**	**360,354**	**80,631**	**30,720,448**

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 2017 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 2017 compared to the 2016 year-end fell by EUR 1,214,774, mainly due to impairment of equipment by EUR 529,296. The lower value was further caused by depreciation carried out in the accounting period, write-offs and sale of equipment and the transfer of property intended for own use to investment property in the amount of EUR 344,165 (residual values) and the transfer of activated property, plant and equipment to investment property in the amount of EUR 153,229. The change in the movement of property, plant and equipment in terms of the increase was influenced by investments in the adaptation of buildings in the amount of EUR 370,504, and investments in the purchase of computer equipment in the amount of EUR 514,114, the purchase of other equipment in the amount of EUR 310,513 euros and the purchase of cars in the amount of EUR 254,235.

In 2017, the Group 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 or 5.3. The last appraisal of the recoverable amount of property intended for own use was performed by an external certified appraiser in December 2017.

The recoverable amount was assessed:

- using the method of fair value, decreased by costs of sale, defined based on the market approach,
- using the method of value in use, defined based on the income approach, and
- depending on the profitability of individual cash-generating unit of non-life insurance.

On the basis of the assessment, it was established that as at the 2017 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. 2017	1. 1. - 31. 12. 2016
AT COST VALUE		
Balance as at 1 Jan	**30,889,984**	**33,470,397**
Direct increases - investments	890,809	540,891
Decreases during the year	(3,277,103)	(394,650)
Transfer from/to property, plant and equipment	665,283	(2,460,534)
Other changes	-	(266,121)
As at 31 Dec	**29,168,973**	**30,889,984**
VALUE ADJUSTMENT		
Balance as at 1 Jan	3,446,167	2,634,958
Depreciation in the financial year	328,470	343,873
Decreases during the year	(121,832)	(106,007)
Impairment of cost	1,160,888	905,824
Transfer from/to property, plant and equipment	235,521	(332,481)
As at 31 Dec	**5,049,214**	**3,446,167**
BOOK VALUE		
As at 31 Dec	**24,119,759**	**27,443,817**

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 1.43 EUR/m² and in 2017 the average rent was 9.02 EUR/m².

The balance of investment property as at 31 December 2017 decreased by EUR 3,324,058, primarily due to sale of real property. At the end of 2017, the Group sold an investment property in Ljubljana for EUR 3,905,425. When the property was disposed of, a profit of EUR 578,090 (after paying real estate sales tax of EUR 39,958) was realized in 2017. Financial receivables arising from the sale of investment property will be fully due and payable in 2018.

In addition to the sale of property, the decrease in value of property was due to impairment. In 2017, the management assessed whether there were grounds for impairment of investment property in the way described in the policies given in Section 5.3. The last appraisal of the recoverable amount of investment property was carried out by an external certified appraiser in December 2017. 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 based on market data arising from comparable transactions of similar property.

In the **income approach** (the direct yield capitalisation method), the recoverable amount was assessed using the following assumptions:

- the capitalisation rate (discount rate) between 6.77% and 8.00% by applying:
- the real risk-free rate of return between 0.38% and -0.06%,
- liquidity premium between 1.50% and 2.50%,
- risk premium between 3.10% and 3.60%,
- investment management premium of 0.50%, and
- capital recovery premium between 1.49% and 1.46%.

The sensitivity analysis of the appraised real property on Loška 13, Maribor (Maribox)

	% 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 14.0/m2 to EUR 10.0/m2	-9.2%
Reduction of occupancy of premises to 80%	-22.4%
Increase in required return +1 p.p.	-11.5%
Increase in required return +2 p.p.	-23.4%

As at 31 December 2017, the carrying amount of investment property on Loška 13, Maribor was EUR 14,800,000. 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.

Based on the valuation and sensitivity analysis, as at the 2017 year-end the management assessed that impairments of one investment property must be made in the total amount of EUR 1,160,888.

The fair value of investment property as at 31 December 2017 was EUR 24,217,236, and was lower than the carrying amount of EUR 24,119,759.

Despite the decrease comparing with the previous year, in 2017 EUR 172,453 were invested in the adaptation of the investment property and EUR 570,000 in the acquisition of real property. The purchase of land and buildings was carried out under normal market conditions. The liabilities for the purchase of investment property in 2017 were fully settled.

The Group uses straight-line amortisation for investment property; in 2017 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

(in EUR)	1. 1. - 31. 12. 2017	1. 1. - 31. 12. 2016
Revenues from investment properties	**2,841,445**	**1,912,487**
Other revenues arising from rents charged on investment properties	2,244,319	1,871,619
Gains on the disposal of investment properties	578,090	-
Revenues from reversal of impairment of receivables	19,036	40,868
Expenses for investment properties	**(3,727,890)**	**(2,921,263**
Depreciation	(328,470)	(343,873)
Direct operating expenses for investment properties that generate rental income	(1,541,112)	(1,485,093)
Direct operating expenses for investment properties that do not generate rental income	(827)	-
Expenses from disposal of investment properties	-	(16,409)
Expenses from impairment of receivables from investment properties	(167,298)	(618)
Expenses from impairment of investment properties.	(1,690,184)	(905,825)

The expenses in the income statement included expenses from impairment of equipment located in the investment property in the amount of EUR 529,296 (see Section 10.2).

10.4 FINANCIAL INVESTMENTS IN ASSOCIATES

Investments in associate

Company name	Ownership interest*	Balance in the books of account in EUR
Nama trgovsko podjetje d.d., Slovenia	**0**	**-**
As at 31 Dec 31. 12 2016	48,51	12,130,311
As at 31 Dec 2017	48,51	12,130,311

* 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.

In 2017, external appraisers assessed the changes in circumstances and value since the last appraisal and ensured the insurance company that the assessment did not show any negative trends. This confirmed the adequacy of the appraisal performed in 2016. On the basis of the appraisal, the Group assessed that no impairments were required in 2017.

To this end, as at the 2017 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%

Movements in investments in the associate

(in EUR)	1. 1. - 31. 12. 2017	1. 1. - 31. 12. 2016
Associates		
As at 1 Jan	**12,130,311**	**11,997,562**
Interest (dividend) received	(212,773)	(77,175)
Impairments	103,949	235,852
Change in revaluation surplus	4,354	(25,928)
As at 31 Dec	**12,025,841**	**12,130,311**

In 2017, the parent company Adriatic Slovenica received EUR 212,712 of dividends from Nama d. d. They were reimbursed in full on 30 June 2017.

Information on property and financial position of the associate

Naziv družbe	Sredstva		Kapital		Prihodki		Poslovni izid	
Pridružena družba	2017	2016	2017	2016	2017	2016	2017	2016
Nama trgovsko podjetje d.d.	12.820.155	12.878.976	10.205.368	10.422.889	16.892.981	15.581.981	214.287	390.120

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 of 31 December 2016, property, plant and equipment of the subsidiary AS neživotno osiguranje a. d. o., Belgrade, are no longer disclosed among non-current assets for sale. The liquidation of the subsidiary company was completed in 2017.

10.6 FINANCIAL INVESTMENTS

The year 2017 was marked by the growth of capital markets and a markedly low year-on-year volatility. The fair value of financial assets in the first months of the year was mainly affected by the volatility of the required return on government bonds of European countries, where the Group has invested the majority of its financial investments. Due to the unstable political situation, above all the fear of the victory of European populist parties and the Eurosceptic option, the required returns increased primarily in the bonds of the peripheral countries of Europe. With the victory of a pro-European party in the Netherlands, and especially after Macron's victory in the French parliamentary and presidential elections, investors' fears began to slacken, while credit spreads began to decline. Despite the political tension over North Korea, the breaches of Brexit, the parliamentary elections in Germany and the referendum in Catalonia, this trend did not change significantly until the end of the year.

Robust economic growth in the euro area, falling unemployment, high consumer confidence and good business results support market growth and above-average valuations. These are slightly higher in the US markets, where despite the gradual tightening of the FED's monetary policy, the positive effects of the tax reform are expected to relieve companies.

The loose monetary policies of central banks, with the exception of the US Fed and the British central bank, which are gradually raising interest rates, has continued. In the light of the encouraging economic conditions in the euro area, notwithstanding weak inflationary expectations, the ECB's monetary policy remains unchanged at zero percent. The bond purchase programme will be reduced from 60 to 30 billion per month from January 2018. This will last until at least the end of September 2018.

In the following text, we are presenting the position of investments as at 31 December 2017 per groups and compared to 2016 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 2017	31 Dec 2016
Equity securities	**289,899**	**289,585**
Listed securities	289,899	289,585
Debt securities	**6,284,345**	**3,697,766**
Listed securities	6,284,345	3,697,766
Derivative financial instruments	**243,537**	**-**
Derivatives for cash flow hedge	243,537	-
Total	**6,817,781**	**3,987,351**

Financial assets measured at fair value through profit or loss – held for trading

(in EUR)	31 Dec 2017	31 Dec 2016
Equity securities	**708,526**	**545,402**
Listed securities	708,526	545,402
Debt securities	**1,084,781**	**4,707,653**
Listed securities	(0)	1,650,373
Government bonds	1,084,782	3,057,280
Total	**1,793,308**	**5,253,055**

The financial assets belonging to this group comprised on 31 December 2017 a derivative instrument (interest rate swap – IRS) amounting to EUR 243,537. This is intended to protect the variable portion of the interest rate issued by the Company (ADRIS Float 05/24/26) and is measured at fair value.

Available-for-sale financial assets

In 2017, 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. Based on the expert assessment and internal accounting policies, the management assessed that there was no requirement for permanent impairment of investments.

Available-for-sale financial assets

(in EUR)	31 Dec 2017	31 Dec 2016
Equity securities	**40,065,162**	**24,907,365**
Listed securities	18,764,971	16,356,037
Non-listed securities	21,300,192	8,551,328
Debt securities	**158,441,712**	**164,264,615**
Listed securities	29,643,514	33,937,902
Non-listed securities	3,969,183	138,363
Government bonds	124,829,015	130,188,350
Impairment of the value of securities	**(5,114,619)**	**(5,147,388)**
Total	**193,392,255**	**184,024,591**

As at 31 December 2017, available-for-sale assets were higher compared to the year before, mostly because of increased investment of the insurance company in equity non-listed securities. The amount of debt securities fell mainly due to sales and maturity.

Effective interest rates (in %) for debt instruments not measured at fair value:

As at 31 Dec	31 Dec 2017	31 Dec 2016
Debt securities	0	0
– held-to-maturity	5.65	5.65

For the market value of held-to maturity assets see Section 8, Table: Financial assets by fair value hierarchy.

Held-to-maturity financial assets

Held-to-maturity financial assets

(in EUR)	31 Dec 2017	31 Dec 2016
Debt securities	**31,417,539**	**38,008,230**
Listed securities	19,716,709	26,226,525
Non-listed securities	(0)	(0)
Government bonds	11,700,830	11,781,706
Total	**31,417,539**	**38,008,230**

The balance of debt securities of financial assets held to maturity decreased in 2017, mostly because of maturity of these financial assets.

Effective interest rates (in %) for debt instruments not measured at fair value:

As at 31 Dec	31 Dec 2017	31 Dec 2016
Debt securities		
– held-to-maturity	5.65	5.65

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 2017	31 Dec 2016
Loans	**26,358,871**	**31,032,684**
Long-term	11,431,643	14,931,727
Short-term	14,927,228	16,100,957
Deposits placed with banks	**1,242,357**	**2,420,182**
Long-term	902,490	1,107,286
Short-term	339,867	1,312,896
Financial receivables	**9,535,018**	**5,054,736**
Total	**37,136,247**	**38,507,602**

Compared to the year before, in late 2017 financial receivables increased by EUR 4,480,282, primarily due to receivables not yet due on 31 December 2017 in relation to the sale of the investment property in late 2017 for the amount of 3,905,425.

Effective interest rates on loans and deposits

in %	31 Dec 2017	31 Dec 2016
Long-term loans in		
- local currency	5	5
- local currency	4,98	4,98
Short-term loans in		
- foreign currency	0	0
- local currency	4,23	4,23
Deposits placed with banks		
Short-term deposits	1,72	1,72
Long-term deposits	1,98	1,98

Financial receivables

(in EUR)	31 Dec 2017	31 Dec 2016
Financial receivables arising from investment properties	5,551,130	1,486,213
Other financial receivables	3,983,888	3,568,523
Total	**9,535,018**	**5,054,736**

Movements in financial assets [4]

(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 31. 12 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	480,147	4,463,963	-	136,270,671	541,543,630	682,758,411
Change of fair value (+/-) through profit or loss (market rates)	101,593	20,617	-	1,374,749	-	1,496,960
Change of fair value (+/-) through revaluation surplus (market rates)	-	-	-	(4,732,780)	-	(4,732,780)
Increase due to interest	161,023	335,679	-	2,741,844	1,330,803	4,569,350
Decrease	(4,515,666)	(11,369,754)	(1,468,418)	(103,767,560)	(550,683,392)	(671,804,790)
Impairment to lower (fair) value – through profit or loss	-	-	-	(1,374,749)	-	(1,374,749)
Balance as at 31 Dec 31. 12 2016	**3,987,351**	**5,253,055**	**38,008,230**	**184,024,591**	**38,507,602**	**269,780,829**
Balance as at 1 Jan 2017	**3,987,351**	**5,253,055**	**38,008,230**	**184,024,591**	**38,507,602**	**269,780,829**
Acquisition of subsidiary	-	-	-	-	(1,587)	(1,587)
Exchange rate differences	(5,507,931)	67,660	8,012	(278,229)	1,182	(193,649)
Increase	8,049,437	7,086,612	463,739	114,739,448	454,174,378	579,288,465
Change of fair value (+/-) through profit or loss (market rates)	289,351	(3,465)	-	-	-	(4,624)
Change of fair value (+/-) through revaluation surplus (market rates)	-	-	-	495,098	-	495,098
Increase due to interest	3,473	171,038	1,963,942	2,482,511	1,281,333	5,902,296
Decrease	(3,900)	(10,781,592)	(9,026,384)	(108,071,164)	(456,826,660)	(584,709,700)
Balance as at 31 Dec 2017	**6,817,780**	**1,793,308**	**31,417,539**	**193,392,255**	**37,136,247**	**270,557,129**

Movements in loans, deposits and financial receivables mainly relate to the purchase and disposal of overnight framework deposits by means of an actual transaction account. Also, due to these transactions, higher value movements are also reflected in other current financial liabilities (see Section 10.19).

[4] The disclosure of movements in financial assets (excluding unit-linked insurance assets, financial assets from financial contracts and investments in subsidiaries and associates) comprise daily transactions of movements of investment.

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. Improvement of the global economic environment and increase of the profitability of companies have helped to ensure that almost all investment classes ended 2017 with a positive result. The end of the year was slightly worse for investors in more conservative investments and precious metals.

Structure of unit-linked life insurance assets

(in EUR)	31 Dec 2017	31 Dec 2016
Financial assets measured at fair value through profit or loss - at initial recognition	**286,080,281**	**270,183,073**
Equity securities	230,673,439	222,437,516
Listed securities	230,673,439	222,437,516
Debt securities	55,406,842	47,745,557
Listed securities	55,406,842	45,845,557
Government bonds	-	1,900,000
Loans and deposits with banks	**18,493,850**	**16,784,178**
Loans	18,493,850	16,784,178
Monetary assets - deposits redeemable at notice	**404,000**	**634,182**
Total	**304,978,131**	**287,601,433**

The investments made for the benefit of unit-linked life insurance policyholders amounted to EUR 304,978,131. 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 1,789,086 and assets invested in BNP Paribas products totalled EUR 53,617,755. 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. 1. - 31. 12. 2017	1. 1. - 31. 12. 2016
Balance as at 1 Jan	**287,601,433**	**263,760,340**
Increase	56,747,808	51,616,819
Decrease	(60,464,169)	(52,815,325)
Change of fair value (+/-) through profit or loss (market rates)	20,917,162	26,121,278
Deposit placement	49,270,147	64,873,617
Deposit withdrawal	(49,058,107)	(66,033,231)
Accrued interest	110,903	(6)
Exchange rate differences	(147,046)	77,941
Balance as at 31 Dec	**304,978,131**	**287,601,433**

10.8 AMOUNT OF INSURANCE TECHNICAL PROVISIONS TRANSFERRED TO REINSURERS

Reinsurers'/co-insurers' share in insurance technical provisions

(in EUR)	1. 1. - 31. 12. 2017	1. 1. - 31. 12. 2016
- from insurance contracts for incurred and reported claims	7,669,421	7,757,979
- from insurance contracts for incurred, but not reported claims	1,146,768	2,069,197
Total non-current part	**8,816,188**	**9,827,176**
- unearned premiums	1,013,968	640,562
- from insurance contracts for incurred and reported claims	7,049,266	5,906,588
- from insurance contracts for incurred, but not reported claims	824,768	1,024,994
Total current part	**8,888,002**	**7,572,143**
Total	**17,704,190**	**17,399,319**

10.9 ASSETS FROM FINANCIAL CONTRACTS

Assets from financial contracts

(in EUR)	31 Dec 2017	31 Dec 2016
Financial investments	7,928,201	3,574,846
Cash and cash equivalents	962,132	1,178,300
Other assets	-	44
Total assets from financial contracts	**8,890,333**	**4,753,190**

The assets from financial contracts at the 2017 year-end predominantly comprise investments in financial assets measured at fair value through profit or loss – at initial recognition.

Assets from financial contracts – assets structure

(in EUR)	31 Dec 2017	31 Dec 2016
Financial assets measured at fair value through profit or loss - at initial recognition	**5,686,307**	**-**
Equity securities	4,846,613	-
Listed securities	4,846,613	-
Debt securities	839,694	-
Listed securities	403,988	-
Government bonds	435,706	-
Available-for-sale financial assets	**2,238,308**	**3,574,058**
Equity securities	1,647,658	3,000,875
Listed securities	1,647,658	3,000,875
Debt securities	590,650	573,183
Government bonds	590,650	573,183
Financial receivables	**3,585**	**789**
Total financial assets	**7,928,201**	**3,574,846**

Movement of assets from financial contracts

(in EUR)	1. 1. - 31. 12. 2017	1. 1. - 31. 12. 2016
Balance as at 1 Jan	**3,574,846**	**-**
Increase (purchase)	6,241,286	4,960,974
Change of fair value (+/-) through profit or loss (market rates)	425,025	-
Change of fair value (+/-) through revaluation surplus (market rates)	67,276	63,467
Increase due to interest	10,933	-
Decrease (sale)	(2,464,198)	(1,449,595)
Exchange rate differences	73,034	-
Balance as at 31 Dec	**7,928,201**	**3,574,846**

10.10 RECEIVABLES

Balance of receivables

(in EUR)	As at 31.12.2017	As at 31. 12 2016
Receivables from direct insurance operations	**17,737,450**	**18,915,810**
gross value	34,554,722	37,475,308
value adjustment	(16,817,272)	(18,559,499)
Receivables from reinsurance and coinsurance	**2,165,699**	**1,772,997**
gross value	2,335,701	1,931,182
value adjustment	(170,002)	(158,185)
Income tax receivables	**2,315,916**	**77,667**
OTHER RECEIVABLES	**5,677,386**	**8,216,376**
Other current receivables from insurance operations	**1,039,683**	**896,860**
gross value	1,119,921	971,308
value adjustment	(80,238)	(74,448)
Recourse receivables	**3,546,270**	**4,414,503**
gross value	21,998,476	24,405,189
value adjustment	(18,452,206)	(19,990,686)
Operating receivables from the state	**296,153**	**519,119**
gross value	296,153	519,881
value adjustment	-	(762)
Operating receivables for advances given	**135,358**	**239,509**
gross value	162,756	263,625
value adjustment	(27,398)	(24,116)
Other current operating receivables	**627,429**	**2,112,261**
gross value	2,119,147	2,947,657
value adjustment	(1,491,718)	(835,395)
Long-term receivables	**32,493**	**34,125**
Total receivables	**27,896,452**	**28,982,850**

Compared to the year before, the balance of receivables as at 31 December 2017 was lower by EUR 1,086,398 (or by 4%). The majority of the various classes of receivables recorded a lower balance compared the end of the previous year, with the exception of income tax receivables which at the end of the reporting period amounted to EUR 2,315,916. The appearance of income tax receivables in 2017 was impacted by the completion of the liquidation of AS neživotno osiguranje a. d. o., Belgrade. Namely, after the liquidation, all impairments made in the previous years were recognized, which released the previously formed deferred tax receivables that were recognized in the income tax receivables group for the accounting year in net amount after payment of all liabilities in the reporting period and payment of the income tax prepayment in 2017.

In the structure of receivables, receivables from direct insurance operations prevail with a 64% share. These are receivables from policyholders due to contractual insurance premium. As at the end of 2017, these receivables dropped by EUR 1,178,359 compared to the previous year.

Other receivables are lower by EUR 2,538,990. The overall decrease was contributed mainly by other operating receivables, which were lower by EUR 1,484,832 compared with the previous year, due to the compensation made between receivables and liabilities under the contract for real estate purchases.

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 5.9.).

Movements in value adjustments of receivables

(in EUR)	Receivables from insurance operations	Subrogations	Other receivables	Total
Balance as at 1 Jan 31. 12 2016	**24,723,267**	**25,243,072**	**1,030,027**	**50,996,366**
Acquisition of subsidiary	-	-	2,097	-
Changes during the year	(5,931,135)	(5,252,386)	(171,851)	(11,353,275)
Balance as at 31 Dec 31. 12 2016	**18,792,131**	**19,990,686**	**860,274**	**39,643,091**
Balance as at 1 Jan 2017	**18,792,131**	**19,990,686**	**860,274**	**39,643,091**
Acquisition of subsidiary	-	-	2,097	-
Changes during the year	(1,724,620)	(1,538,481)	656,745	(2,604,258)
Balance as at 31 Dec 2017	**17,067,511**	**18,452,206**	**1,519,116**	**37,038,833**

10.11 OTHER ASSETS

Other assets – total balance

(in EUR)	31 Dec 2017	31 Dec 2016
Inventories	10,671	8,804
Deferred acquisition costs	4,651,474	4,709,121
Deferred expenses and accrued revenues	1,256,299	737,924
Total	**5,918,444**	**5,455,850**

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 31.12.2016	**121,160**	**4,806,954**
Utilised on 31.12.2016	13,962	3,590,202
Formed in 31.12.2016	24,608	3,360,564
Balance as at 31 Dec 31. 12 2016	**131,805**	**4,577,316**
Balance as at 1 Jan 2017	**131,805**	**4,577,316**
Utilised in 2017	73,481	3,762,457
Formed in 2017	82,256	3,696,035
Balance as at 31 Dec 2017	**140,580**	**4,510,895**

10.12 CASH AND CASH EQUIVALENTS

Cash and cash equivalents

(in EUR)	31 Dec 2017	31 Dec 2016
Cash on hand and cheques received	972	221
Balances on accounts	11,121,616	6,003,452
Short-term deposits redeemable on demand	500,003	750,046
Short-term deposits placed (maturity date up to 3 months)	8,320,206	3,969,995
Other cash	168,391	196,455
Total	**20,111,188**	**10,920,169**

At the end of 2017, the cash on the account was higher compared to the year before, as at the moment there was no business opportunity to purchase financial investments.

The effective interest rate in 2017 on call deposits was between 0.0% and 0.01% (2016: from 0.09% to 0.78%).

10.13 EQUITY

Balance of equity

(in EUR)	31 Dec 2017	31 Dec 2016
Share capital	**42,999,530**	**42,999,530**
Capital reserves	**4,211,782**	**4,211,782**
Reserves from profit	**9,223,936**	**9,223,936**
Legal reserves	1,519,600	1,519,600
Other reserves from profit	7,704,336	7,704,336
Other reserves from profit	7,704,336	7,704,336
Translation differences	**10,475**	**(1,930,505)**
Reserve due to fair value measurement (Revaluation surplus)	**728,676**	**355,071**
Retained net profit	**29,940,979**	**29,517,525**
Net profit for the financial year	**10,633,199**	**13,410,378**
TOTAL	**97,748,578**	**97,787,718**
Minority interest	211,299	393,464

Minority interest

Minority interest is the share capital of minority stakeholders of indirect subsidiaries in the amount of EUR 211,299, of which EUR 12,018 was accounted for by KD Fondovi and EUR 199,281 by AD KD Locusta Fondovi d.o.o.

Share capital

As at 31 December 2017, 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 2017.

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 30 May 2017, the direct owner of Adriatic Slovenica and the sole shareholder decided on the distribution of accumulated profits for 2016. A part of the accumulated profits in the amount of EUR 10,613,539 was used for dividend payments. The rest of accumulated profits in the amount of EUR 29,116,856 remained unallocated and was transferred to the accumulated profits for 2017. Dividends were paid in full.

Ownership structure

As at 31 December 2017, KD Group d.d. held 10,304,407 shares, i.e. 100% of Adriatic Slovenica. The ownership structure remained unchanged in 2017.

Distribution of accumulated profit and loss coverage

The Adriatic Slovenica Group ended 2017 with a profit before tax totalling EUR 13,396,169 and a net profit for the year amounting to EUR 10,701,868. 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.

On 31 December 2017, the management of the parent company used the current year profit from unit-linked investment insurance to cover a part of the loss of this insurance from previous years, in the amount of EUR 71,377.

In life insurance, the management of the parent company used the profit from previous years in the amount of EUR 9,053 to cover the loss for the current year. It also used the last year profit from health insurance in the amount of EUR 226,352 to cover the loss from the current year.

Accumulated profits

After covering the loss from the previous years and the current year by using the profit from the year and the profit from the previous years, the final balance of net profit for the year was EUR 10,633,199. Together with the unallocated profit brought forward from previous years amounting to EUR 29,940,979, the balance sheet profit as at 31 December 2017 to be distributed at the General Assembly amounted to EUR 40,574,178. EUR 10,407,451 of the unallocated profit was provided for the payout of dividends to the shareholders.

Other changes

Other changes in the parent company in 2017 include foreign exchange in the profit/loss carried forward of the Zagreb Branch in the amount of EUR 16,308.

Reserves and surplus 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 2017, the parent company did not change or form additional reserves from profit.

Capital reserves

As at 31 December 2017, the capital reserves of the parent 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 2017, 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 2017 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.

Revaluation surplus

(in EUR)	31 Dec 2017	31 Dec 2016
Specific revaluation of equity	728,676	355,071
exchange rate differences in associated companies	273,752	269,398
from reinforcement of property, plant and equipment	(0)	(0)
from reinforcement/impairment of available-for-sale financial assets	562,354	106,489
from adjustment for deferred taxes	(107,429)	(20,815)
Total revaluation surplus	**728,676**	**355,071**

Movements in revaluation surplus from available-for-sale financial assets with profit

(in EUR)	1. 1. - 31. 12. 2017	1. 1. - 31. 12. 2016
Balance as at 1 Jan	**355,071**	**3,830,832**
Change in revaluation surplus from net actuarial gains / losses for pension programs	**-**	**38,989**
Effect due to change in tax rate	**-**	**(86,129)**
Profits (losses) recognised in revaluation surplus	**2,442,839**	**3,966,267**
Net change due to revaluation	3,010,475	4,543,762
Change in deferred taxes due to revaluation	(571,991)	(603,124)
Change of a surplus arising from the revaluation of associated company	4,354	25,927
Gain/loss from translation of financial statements of foreign operations	-	(298)
Transfer of profits (losses) from revaluation surplus to profit or loss	**(2,069,234)**	**(7,394,887)**
Change in revaluation surplus transferred on disposal to profit or loss	(2,554,610)	(8,807,800)
Change in deferred taxes on realisation of revaluation surplus	485,376	1,668,557
Transfer of negative revaluation surplus to profit or loss on impairment	-	5,323
The change deferred taxes from impairments through profit or loss	-	(260,968)
Balance as at 31 Dec	**728,676**	**355,071**

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 2017 amounted to EUR 49,525,147. Bonds are recorded among non-life insurance in the amount of EUR 22,781,568 and life insurance in the amount of EUR 26,743,579. By 24 November 2017, the Group paid interest to the creditors in the amount of EUR 3,953,500.

Movements in issued bonds

(in EUR)	1. 1. - 31. 12. 2017	1. 1. - 31. 12. 2016
As at 1.1.	**49,453,316**	**50,000,000**
Costs related to the issue of bond	-	(947,772)
Accrued interest	4,025,330	2,394,088
Repayment interest	(3,953,500)	(1,993,000)
As at 31.12.	**49,525,147**	**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. Bonds may be recalled after five years.

10.15 INSURANCE TECHNICAL PROVISIONS

Insurance technical provisions (liabilities arising from insurance contracts) – gross and net

(in EUR)	Gross + received co-insurance as at 31.12.2017	Reinsurance + ceded co-insurance as at 31.12.2017	Net as at 31.12.2017	Gross + received co-insurance as at 31. 12 2016	Reinsurance + ceded co-insurance as at 31. 12 2016	Net as at 31. 12 2016
Unearned premiums	42,396,717	962,859	41,433,858	41,972,462	599,336	41,373,126
Claims provisions for	103,620,255	16,457,399	87,162,855	101,444,787	16,469,614	84,975,174
- reported claims	55,775,809	14,485,863	41,289,946	51,890,008	13,375,839	38,514,169
- not reported claims	47,844,446	1,971,536	45,872,909	49,554,779	3,093,774	46,461,005
Provisions for bonuses and discounts	453,746	-	453,746	581,113	-	581,113
Mathematical provisions	172,372	-	172,372	118,305	-	118,305
Other insurance technical provisions	43,402	-	43,402	391,903	-	391,903
Total non-life insurance	**146,686,491**	**17,420,258**	**129,266,233**	**144,508,570**	**17,068,949**	**127,439,621**
Unearned premiums	6,774,128	-	6,774,128	7,029,965	-	7,029,965
Claims provisions for	5,406,298	-	5,406,298	6,194,080	-	6,194,080
- reported claims	622,147	-	622,147	576,358	-	576,358
- not reported claims	4,784,151	-	4,784,151	5,617,722	-	5,617,722
Provisions for bonuses and discounts	109	-	109	832	-	832
Mathematical provisions	40,136	-	40,136	8,082	-	8,082
Other insurance technical provisions	32,586	-	32,586	180,132	-	180,132
Total health insurance	**12,253,257**	**-**	**12,253,257**	**13,413,092**	**-**	**13,413,092**
Unearned premiums	355,159	51,109	304,050	380,444	41,226	339,218
Claims provisions for	5,191,131	232,824	4,958,308	4,621,369	289,145	4,332,224
- reported claims	1,901,406	232,824	1,668,582	1,716,578	288,728	1,427,850
- not reported claims	3,289,725	0	3,289,725	2,904,791	417	2,904,374
Mathematical provisions	107,377,776	-	107,377,776	107,124,136	-	107,124,136
Other insurance technical provisions	0	-	0	11,307	-	11,307
Total life insurance with DPF	**112,924,066**	**283,933**	**112,640,133**	**112,137,256**	**330,371**	**111,806,885**
Total liabilities arising from insurance contracts	**271,863,814**	**17,704,191**	**254,159,623**	**270,058,918**	**17,399,320**	**252,659,598**

The disclosure of insurance technical provisions does not include claims provisions for unit-linked life insurance in the amount of EUR 1,336,513. 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. 1. - 31. 12. 2017	Reinsurance 1. 1. - 31. 12. 2017	Net 1. 1. - 31. 12. 2017	Gross 1. 1. - 31. 12. 2016	Reinsurance 1. 1. - 31. 12. 2016	Net 1. 1. - 31. 12. 2016
Movements in unearned premium						
Balance as at 1 Jan	**49,382,871**	**640,562**	**48,742,309**	**50,223,068**	**812,370**	**49,410,697**
Increase in liabilities	48,869,722	1,013,968	47,855,754	48,503,919	783,218	47,720,701
Decrease in liabilities	48,726,589	640,562	48,086,027	49,344,116	955,027	48,389,089
Balance as at 31 Dec	**49,526,004**	**1,013,968**	**48,512,036**	**49,382,871**	**640,560**	**48,742,310**
Movements in mathematical provisions						
Balance as at 1 Jan	107,250,524	-	107,250,524	102,765,143	-	102,765,143
Increase in the period	**15,210,091**	**-**	**15,210,091**	**16,054,294**	**-**	**16,054,294**
Decrease in the period	15,093,254	-	15,093,254	12,299,640	-	12,299,640
Change of current-year DPF part	222,923	-	222,923	730,727	-	730,727
Balance as at 31 Dec	**107,590,283**	**-**	**107,590,283**	**107,250,524**	**-**	**107,250,524**
Movements in claims outstanding						
Reported claims	**54,182,944**	**13,664,568**	**40,518,376**	**54,193,964**	**12,516,814**	**40,745,462**
Not reported claims	**58,077,294**	**3,094,191**	**54,983,102**	**62,711,688**	**4,689,602**	**57,577,554**
Balance as at 1 Jan	**112,260,238**	**16,758,759**	**95,501,479**	**116,905,651**	**17,206,417**	**98,323,016**
Decrease in provisions due to payments	36,627,890	2,297,717	34,330,173	41,104,638	5,211,965	34,261,204
Change in provisions from preceding years +/-	(7,767,965)	(373,014)	(7,394,951)	(9,914,043)	2,650,090	(12,564,133)
Increase in provisions in the current year	46,353,303	2,602,196	43,751,108	46,373,268	2,114,217	44,003,799
Reported claims	**58,299,362**	**14,718,687**	**43,580,675**	**54,182,944**	**13,664,568**	**40,518,376**
Not reported claims	**55,918,323**	**1,971,536**	**53,946,787**	**58,077,294**	**3,094,191**	**54,983,102**
Balance as at 31 Dec	**114,217,685**	**16,690,223**	**97,527,462**	**112,260,238**	**16,758,759**	**95,501,479**
Movements in other insurance technical provisions						
Balance as at 1 Jan	**1,165,286**	**-**	**1,165,286**	**1,340,922**	**-**	**1,340,922**
Increase in the period	495,617	-	495,617	968,350	-	968,350
Decrease in the period	1,131,060	-	1,131,060	1,143,985	-	1,143,985
Balance as at 31 Dec	**529,843**	**-**	**529,843**	**1,165,286**	**-**	**1,165,286**

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 31.12.2017	Reinsurance + ceded co-insurance as at 31.12.2017	Net as at 31.12.2017	Gross + received co-insurance as at 31. 12 2016	Reinsurance + ceded co-insurance as at 31. 12 2016	Net as at 31. 12 2016
Claims provisions	1,336,512	-	1,336,512	1,836,888	-	1,836,888
- reported claims	1,336,512	-	1,336,512	1,836,888	-	1,836,888
Provisions for unit-linked life insurance policyholders	301,043,281	-	301,043,281	282,619,438	-	282,619,438
Total unit-linked life insurance	**302,379,792**	**-**	**302,379,792**	**284,456,325**	**-**	**284,456,325**

The balance of claims provisions for unit-linked life insurance decreased compared to 2016 year-end due to the payment of endowments, which were still disclosed in claims provisions on that day. The endowment related to majority of the policies was on 1 December 2016.

Movements in insurance technical provisions for unit-linked life insurance

(in EUR)	Gross 1. 1. - 31. 12. 2017	Reinsurance 1. 1. - 31. 12. 2017	Net 1. 1. - 31. 12. 2017	Gross 1. 1. - 31. 12. 2016	Reinsurance 1. 1. - 31. 12. 2016	Net 1. 1. - 31. 12. 2016
Movements in claims outstanding						
Reported claims	**1,836,888**	**-**	**1,836,888**	**428,850**	**-**	**428,850**
Balance as at 1 Jan	**1,836,888**	**-**	**1,836,888**	**428,850**	**-**	**428,850**
Decreased provisions due to payments	1,304,409	-	1,304,409	181,932	-	181,932
Change in provisions from preceding years +/-	(8,839)	-	(8,839)	(48,559)	-	(48,559)
Increase in provisions in the current year	812,872	-	812,872	1,638,529	-	1,638,529
Reported claims	**1,336,512**	**-**	**1,336,512**	**1,836,888**	**-**	**1,836,888**
Balance as at 31 Dec	**1,336,512**	**-**	**1,336,512**	**1,836,888**	**-**	**1,836,888**
Movements in provisions for unit-linked life insurance policyholders						
Balance as at 1 Jan	**282,619,438**	**-**	**282,619,438**	**259,697,710**	**-**	**259,697,710**
Increase in the period	57,262,561	-	57,262,561	57,909,316	-	57,909,316
Decrease in the period	38,838,717	-	38,838,717	34,987,588	-	34,987,588
Balance as at 31 Dec	**301,043,281**	**-**	**301,043,281**	**282,619,438**	**-**	**282,619,438**

10.17 LIABILITIES ARISING FROM FINANCIAL CONTRACTS

Liabilities arising from financial contracts

(in EUR)	31 Dec 2017	31 Dec 2016
Liabilities to pension savers (policyholders)	8,865,381	4,735,916
Liabilities from financial contracts for payments	8,523,199	4,695,351
Liabilities from financial contracts for fund return	342,182	40,565
Other liabilities	24,952	17,274
Total liabilities from financial contracts	**8,890,333**	**4,753,190**

As at 31 December 2017, savers' payments amounted to EUR 8,523,199 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 2017, EUR 26,207 of entry/exit charges 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. 1. - 31. 12. 2017	1. 1. - 31. 12. 2016
As at 1 January	**4,735,916**	**-**
Increase in the period	**4,395,273**	**4,767,687**
for payments	4,091,488	4,727,130
for achieved return	303,785	40,557
Decrease in the period	**265,808**	**31,770**
for payouts (surrender)	263,640	31,770
for achieved return	2,168	-
As at 31 December	**8,865,381**	**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:

- 7.61% for the guarantee fund Pokojninsko varčevanje AS Drzni do 50 (pension fund),
- 3.24% for the guarantee fund Pokojninsko varčevanje AS Umirjeni med 50 do 60 (pension fund),
- 0.54% achieved (0.85% guaranteed) for the guarantee fund Pokojninsko varčevanje AS Zajamčeni od 60 (pension fund).

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 2017, the guaranteed return was 0.85%. Since the guaranteed return was not achieved in 2017, the parent company (as a pension insurance manager) formed provisions or long-term liabilities of EUR 11,131 charged to own fund life insurance assets, in line with the Pension and Disability Insurance Act (ZPIZ-2).

10.18 OTHER PROVISIONS

10.18.1 Other provisions

(in EUR)	1. 1. - 31. 12. 2017	1. 1. - 31. 12. 2016
Provisions for termination benefits	4,563,778	4,030,008
Provisions for jubilee benefits	61,484	46,826
Total	**4,625,262**	**4,076,834**

10.18.2 Provisions for employee benefits

Provisions for employee benefits

(in EUR)	31 Dec 2017	31 Dec 2016
Provisions for employee benefits	1,642,452	1,423,879
Other non-current provisions	2,921,326	2,606,129
Total	**4,563,778**	**4,030,008**

Movements in provisions for employee benefits

(in EUR)	1. 1. - 31. 12. 2017	1. 1. - 31. 12. 2016
As at 1.1.	**4,030,008**	**3,934,369**
Acquisition of subsidiary	-	48,446
Increase in current period	403,528	347,415
Decrease due to paid provisions for termination and jubilee benefits	(398,390)	(624,239)
Actuarial gains and losses	527,300	329,623
Adjustments arising from past experience	105,763	191,023
Effect of change of assumptions	421,537	138,599
Other changes	1,332	(5,605)
As at 31 December	**4,563,778**	**4,030,008**

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 2017 used different assumptions about the discount rate and expected increase in salaries than in the calculation for 2016, 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 1.007% (31 December 2016: 0.747%),
- the expected increase in salaries in the Company, including the expected increase in salaries due to promotions of 3.6% (31 December 2016: 2.2%),
- the expected mortality is determined based on Slovene mortality tables from 2007 (the same as at 31 December 2016),
- 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 2016).

The provision amounts in 2017 include taxes and contributions. The effect of changes in assumptions amounted to EUR 163,160.

Analysis of sensitivity to changes in parameters

Parameters	Parameter changes	1. 1. - 31. 12. 2017	1. 1. - 31. 12. 2016
Discount rate	discount curve move by +0,25%	(86,450)	(87,314)
	discount curve move by -0,25%	89,795	90,686
Salary increase	change in annual salary increase by +0,5%	164,617	165,810
	change in annual salary increase by -0,5%	(149,255)	(150,224)
Mortality	permanent increase in mortality by +20%	(34,427)	(34,707)
	permanent increase in mortality by -20%	35,061	35,343
Early termination of employment	expense curve move by +20%	(360,418)	(364,090)

10.18.3 Other long-term provisions

Movements in other long-term provisions

(in EUR)	1. 1. - 31. 12. 2017	1. 1. - 31. 12. 2016
As at 1.1.	**46,827**	**1,200,623**
Increase in current period (formation)	51,904	2,000
Decrease	(6,454)	(1,200,000)
Decrease (reversal)	(30,793)	44,204
As at 31.12.	**61,484**	**46,827**

10.19 OTHER FINANCIAL LIABILITIES

Movements in loans and other current financial liabilities

(in EUR)	1. 1. - 31. 12. 2017	1. 1. - 31. 12. 2016
Balance as at 1 Jan	**985,579**	**968,936**
Acquisition of subsidiary	-	31
Increase	741,022,139	765,153,175
Decrease	(741,578,519)	(765,136,563)
Balance as at 31 Dec	**429,198**	**985,579**

The major part (EUR 348,072) of these financial liabilities is the liabilities non past-due related to financing of investment properties (liabilities for the payment of real property transaction tax, utilities and similar).

10.20 OPERATING LIABILITIES

The Group has no secured liabilities.

Operating liabilities

(in EUR)	31 Dec 2017	31 Dec 2016
Liabilities arising from direct insurance contracts	5,225,359	3,862,118
Liabilities arising from reinsurance and co-insurance	2,162,272	1,955,042
Tax liability	51,687	766,361
Total	**7,439,318**	**6,583,521**

Compared to 2016, the operating liabilities as at 31 December 2017 increased by 13%, mainly as a result of higher liabilities arising from direct insurance contracts. Compared to 2016 year-end, these liabilities increased due to the marketing of a new investment insurance Aktivni AS in December 2017. The new product was activated on 1 January 2018 and the December liabilities for early payments were closed in January 2018 and moved to unit-linked life insurance assets.

For 2017, the Group accounted for the current tax liabilities at a 19% tax rate. The current tax liability is shown in the table above in the amount as charged at the Group level.

10.21 OTHER LIABILITIES

Other liabilities

(in EUR)	31 Dec 2017	31 Dec 2016
Other operating (trade) liabilities	11,611,091	12,640,611
Accrued costs/expenses and deferred revenues	5,414,284	6,007,112
Total	**17,025,374**	**18,647,723**

10.21.1 Other operating liabilities

Other operating liabilities

(in EUR)	31 Dec 2017	31 Dec 2016
Long-term operating liabilities	**20,230**	**33,651**
Long-term securities	4,600	4,600
Other long-term operating liabilities	15,630	29,051
Current operating liabilities	**11,970,861**	**12,606,960**
Current operating liabilities to suppliers	2,889,215	3,291,851
Liabilities for interest (suppliers)	0	0
Current operating liabilities to employees	2,736,733	2,879,661
Other current liabilities from insurance operations	4,119,014	5,107,321
Current operating liabilities to the state (except for income tax)	1,168,773	779,142
Current liabilities for received advances	3,287	6,472
Other current operating liabilities	1,053,838	542,513
Total	**11,991,091**	**12,640,611**

As at the 2017 year-end, other operating liabilities decreased by EUR 649,520 (5 %) compared to the previous year.

The decrease is mainly due to a decrease in other current liabilities from insurance operations of EUR 988,306. These liabilities represent the majority, 35% 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 922,246; last year: EUR 1,020,000),
- the liabilities for sales tax on insurance operations (in the amount of EUR 736,840; last year EUR 728,753),
- liabilities to other insurance companies from equalisation scheme for complementary health insurance (in the amount of EUR 599,614; no liabilities last year), and predominantly to
- liabilities for the repayment of reinsurance commissions advances (in the amount of EUR 1,443,742; last year: EUR 3,133,848).

The decrease at the end of 2017 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 2017 to 31 December 2017, the claims ratio of reinsurance (for which the liability for the advance was established in 2016) improved and the liability for the reinsurance commissions advances decreased by EUR 1,690,107.

The long-term operating liabilities include the long-term liability in the amount of EUR 11,131 formed in line with the Pension and Disability Insurance Act (ZPIZ-2) in favour of life-cycle pension insurance policyholders. These long-term liabilities may become due and payable also after the five-year period (see Section 10.17).

10.21.2 Accrued costs and deferred revenue

Accrued costs and deferred revenue

(in EUR)	31 Dec 2017	31 Dec 2016
Accrued expenses - operating	504,716	328,104
Accrued expenses - for unused annual holidays	1,460,932	1,448,157
Accrued expenses – acquisition costs and unexpired commissions	673,899	732,847
Accrued expenses from equalisation scheme for supplementary health insurance	767,478	904,604
Other deferred and accrued items	2,007,258	2,593,401
Total	**5,414,284**	**6,007,112**

10.22 REVENUE

10.22.1 Premium revenue from insurance contracts

Net premium revenue from insurance contracts in 2017

(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	39,501,418	(779,737)	(59,164)	1,233	38,663,750
Land motor vehicle insurance	34,350,324	(1,431,842)	10,845	-	32,929,326
Accident insurance	17,009,496	(489,073)	192,041	163,020	16,875,484
Fire and natural forces insurance	17,141,211	(3,848,282)	(117,659)	11,234	13,186,504
Other damage to property insurance	12,949,196	(1,497,639)	(106,992)	18,292	11,362,857
General liability insurance	9,171,451	(1,259,838)	(424,986)	154,241	7,640,868
Credit insurance	(2,653)	-	223,348	-	220,695
Other non-life insurance, excluding health insurance	10,372,967	(588,142)	(141,689)	15,504	9,658,640
Insurance contracts for non-life insurance, excluding health insurance	**140,493,410**	**(9,894,554)**	**(424,255)**	**363,523**	**130,538,125**
Health insurance contracts	**102,129,391**	**-**	**255,837**	**-**	**102,385,228**
Life insurance	22,044,449	(1,993,541)	25,285	9,883	20,086,076
Unit-linked insurance contracts	39,121,599	(3)	-	-	39,121,597
Life insurance contracts	**61,166,048**	**(1,993,543)**	**25,285**	**9,883**	**59,207,673**
Total	**303,788,849**	**(11,888,097)**	**(143,133)**	**373,406**	**292,131,025**

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**

10.22.2 Financial revenue and expenses from investments and investments in associates

Financial revenue and expenses from investments

(in EUR)	1. 1. - 31. 12. 2017	1. 1. - 31. 12. 2016
Income from financial investments measured at FVTPL	**25,050,171**	**27,166,596**
Held for sale	200,310	581,069
Dividends	69	1,452
Interest and net exchange differences	188,757	365,373
Net sales income	12	185,505
Revaluation income	11,473	28,738
At initial recognition	24,849,861	26,585,527
Dividends	110,903	88,397
Interest and net exchange differences	(133,102)	243,869
Net sales income	3,937,463	-
Revaluation income	20,934,597	26,253,261
Income from financial investments held to maturity (HTM)	**1,971,954**	**2,159,694**
Interest and net exchange differences	1,971,954	2,159,694
Income from financial investments available-for-sale (AFS)	**6,162,747**	**12,170,174**
Dividends	1,045,929	172,108
Interest and net exchange differences	2,209,228	2,779,600
Sales income	2,907,590	9,218,466
Income - derivatives	**-**	**45,700**
Income from loans and receivables	**3,638,177**	**3,430,161**
Interest	2,566,492	2,742,170
Net exchange differences	666,350	60,615
Other income	405,335	627,376
INCOME FROM INVESTMENTS	**36,823,049**	**44,972,324**
Income from investments - associates	103,950	255,182
Income from investments - subsidiaries	118,812	-
INCOME FROM INVESTMENTS IN SUBSIDIARIES AND ASSOCIATES	**222,762**	**255,182**
Expenses for financial investments measured at FVTPL	**(75,902)**	**(642,987)**
Held for sale	(57,309)	(8,120)
Net sales expenses	(42,371)	-
Revaluation expenses	(14,938)	(8,120)
At initial recognition	(18,594)	(634,867)
Net sales expenses	-	(604,477)
Revaluation expenses	(18,594)	(30,390)
Expenses for financial investments available-for-sale (AFS)	**(352,434)**	**(1,816,035)**
Realised losses	(352,434)	(441,285)
Impairment	-	(1,374,749)
Expenses - derivatives	**(103,185)**	**(42,000)**
EXPENSES FOR INVESTMENTS	**(531,521)**	**(2,501,022)**
Expenses for investments - associates	-	(19,330)
Expenses for investments - subsidiaries	-	(51,963)
EXPENSES FOR INVESTMENTS IN SUBSIDIARIES AND ASSOCIATES	**-**	**(71,293)**
Net financial result - investments measured at FVTPL	**24,974,269**	**26,523,609**
Net financial result - investments held to maturity (HTM)	**1,971,954**	**2,159,694**
Net financial result - available-for-sale investments (AFS)	**5,810,313**	**10,354,139**
Net financial result - derivatives	**(103,185)**	**3,700**
Net financial result from loans and receivables	**3,638,177**	**3,430,161**
Net financial result - investments in subsidiaries and associates	**222,762**	**183,890**
NET FINANCIAL RESULT FROM INVESTMENTS	**36,514,289**	**42,655,192**

Financial revenue and expenses also include net financial revenue/expenses for unit-linked insurance. In 2017, the net financial result of these investments was EUR 23,628,628. In the same period, the insurance technical provisions for these funds increased; it is therefore 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 2017 totalled EUR 18,423,843 and therefore decreased the final result in this amount.

Net gains/losses on held-for-trading financial assets

(in EUR)	1. 1. - 31. 12. 2017	1. 1. - 31. 12. 2016
Realised profits	24,254	330,632
Unrealised profits	37,842	132,796
Realised losses	(66,612)	(145,127)
Unrealised losses	(41,307)	(112,178)
Total	**(45,824)**	**206,123**

Net gains/losses on financial assets at initial recognition through profit or loss, excluding investment risk

(in EUR)	1. 1. - 31. 12. 2017	1. 1. - 31. 12. 2016
Realised profits	4,767,120	2,625,336
Unrealised profits	20,994,937	26,360,505
Realised losses	(829,657)	(3,229,814)
Unrealised losses	(78,933)	(137,634)
Total	**24,853,467**	**25,618,393**

Net gains/losses on financial assets at initial recognition through profit or loss pertaining to unit-linked life insurance amounted to EUR 23,452,940 (2016: EUR 25,643,613).

Impairment of securities of available-for-sale financial assets

(in EUR)	31 Dec 2017	31 Dec 2016
Equity securities	-	1,374,749
Total	**-**	**1,374,749**

Within the “available-for-sale financial assets” and the “held-to-maturity financial assets”, there were no permanent impairments of investments made in 2017.

10.22.3 Other insurance revenue

Revenue from management commission and other insurance revenue

(in EUR)	1. 1. - 31. 12. 2017	1. 1. - 31. 12. 2016
Revenue from insurance contracts	**2,224,846**	**1,698,758**
Revenues from reinsurance fees/commissions and from shares in positive technical result	2,114,297	1,680,153
Revenues from front-end/entry costs for insurance contracts	26,207	0
Other fee income for management of insurance contracts	84,342	18,605
Revenue from investment contracts	**31,677**	**42,252**
Revenue from investments contracts for administration (entry fees)	0	13,369
Other fee income for management of investment contracts	31,677	28,884
Total fee and commission revenue	**2,256,523**	**1,741,010**

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 increased in 2017 by EUR 526,088, due an improved underwriting result of quota car insurance at the expense of release of unreported claims provisions.

The second portion of other insurance revenue includes fees for concluding and managing financial contracts arising from Pokojninsko varčevanje AS (pension saving) in line with the investment policy of the life cycle.

10.22.4 Other revenue

Other revenue

(in EUR)	1. 1. - 31. 12. 2017	1. 1. - 31. 12. 2016
Net revenue from sales of goods and services	**1,428,179**	**1,111,316**
Revenue from the sale of services	1,428,179	1,111,316
Other net insurance revenues	**1,066,062**	**1,662,452**
Revaluation operating revenues	**753,577**	**488,130**
Reversal of provisions	**77,309**	**51,541**
Excess on acquisitions	**-**	**53,415**
Other financial and other revenues	**4,990,320**	**4,439,828**
Other operating revenues	**16,288**	**88,824**
Other commission revenue	**10,443,085**	**2,835,913**
Fund management fee and commission revenue	10,427,162	2,771,849
Revenues from asset management	15,923	64,064
Total	**18,774,821**	**10,731,420**

Other revenue in 2017 were higher by EUR 8,043,399, mainly due to management fees from fund management. The Group acquired these revenues in the last quarter of 2016 by acquiring the subsidiary KD Skladi d.o.o. In 2017, the company KD Skladi d. o. o. contributed to annual revenue from fund management, which thus increased by EUR 7,655,313 compared to the previous year.

Other net revenue from insurance operations is shown in a separate table below.

Other net insurance revenue

(in EUR)	1. 1. - 31. 12. 2017	1. 1. - 31. 12. 2016
Revenue for management of insurance contracts	58,643	47,062
Revenue from other services provided to KD Funds	-	386,976
Revenue from insurance services provided to foreign insurance companies	417,839	351,391
Revenue from rent on parking lot and cars	152,812	183,126
Revenue from Green Card sales	421,992	445,237
Revenue from other services	14,777	248,661
Total	**1,066,063**	**1,662,452**

Revaluation operating revenue

Revaluation operating revenue mostly originates from the reversal of impairment of receivables (of premium receivables, subrogation receivables, other receivables and financial receivables) in the amount of EUR 483,617 and from the write-off of liabilities from previous years in the amount of EUR 212,127 and the revenue from the sales of property, plant and equipment in the amount of EUR 41,256. In 2017, the Group had a number of such revenue items (higher by EUR 265,447), due to higher revenue from revaluation of receivables.

Other financial and other revenue

Compared to the previous year, other financial and other revenue increased by EUR 550,492, which was mainly contributed by rental revenue from investment property, revenue from disposal of investment property and recovered written-off receivables.

The predominant revenue in the structure of financial revenue is rental revenue from investment property which amounted to EUR 2,244,319 (in 2016: EUR 1,871,619) and are higher than last year by EUR 372,700 or 20%. This is followed by other financial revenue (in 2017: EUR 1,416,806 and in 2016: EUR 1,126,859), arising from revaluation of loans given to Fondpolica policyholders due to changes in rates.

10.23 NET CLAIMS INCURRED

Net claims incurred in 2017

(in EUR)	Gross claims settled	Revenues from recourse receivables	Share of reinsurance/ coinsurance in claims/ benefits paid	Change in gross outstanding claims provisions	Change in outstanding claims provisions for reinsurance/ coinsurance share	Expenses from equalisation scheme	Net expenses for claims/ benefits paid
Motor vehicle liability insurance	26,908,535	(849,528)	(1,260,097)	(1,638,937)	1,417,369	-	24,577,341
Land motor vehicles insurance	27,156,288	(433,470)	(190,757)	907,608	(316,232)	-	27,123,437
Accident insurance	7,995,152	-	(142,710)	71,804	95,113	-	8,019,359
Fire and natural disasters Insurance	7,622,159	(13,502)	(895,807)	1,602,919	(1,269,415)	-	7,046,354
Other damage to property insurance	7,883,101	(20,226)	(707,516)	425,071	(26,914)	-	7,553,516
General liability insurance	3,397,504	(12,809)	(53,833)	1,012,979	(31,715)	-	4,312,126
Credit insurance	100,243	(93,288)	-	(26,415)	-	-	(19,460)
Other non-life insurance, excluding health insurance operations	4,648,617	(83,219)	(78,051)	(179,561)	144,009	-	4,451,795
Non-life insurance contracts, excluding health insurance contracts	**85,711,600**	**(1,506,043)**	**(3,328,770)**	**2,175,467**	**12,214**	**-**	**83,064,469**
Health insurance contracts	**87,447,866**	**(176,880)**	**-**	**(787,782)**	**-**	**2,884,237**	**89,367,441**
Life insurance	15,760,107	-	(602,961)	569,762	56,321	-	15,786,410
Unit-linked insurance contracts	33,837,879	-	-	(500,376)	-	-	33,337,503
Additional pension insurance	631,776	-	-	-	-	-	631,776
Insurance contracts and investment life insurance contracts	**50,229,763**	**-**	**(602,961)**	**69,386**	**56,321**	**-**	**49,752,509**
Total	**223,389,229**	**(1,682,923)**	**(3,931,731)**	**1,457,071**	**68,536**	**2,884,237**	**222,184,419**

Net claims incurred in 2016

(in EUR)	Gross claims settled	Revenues from recourse receivables	Share of reinsurance/ coinsurance in claims/ benefits paid	Change in gross outstanding claims provisions	Change in outstanding claims provisions for reinsurance/ coinsurance share	Expenses from equalisation scheme	Net expenses for claims/ benefits paid
Motor vehicle liability insurance	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 classified into expenses for the current year and expenses for previous years

(in EUR)	Gross 1. 1. - 31. 12. 2017	Reinsurance 1. 1. - 31. 12. 2017	Net 1. 1. - 31. 12. 2017	Gross 1. 1. - 31. 12. 2016	Reinsurance 1. 1. - 31. 12. 2016	Net 1. 1. - 31. 12. 2016
Expenses for claims and benefits paid for current year	**233,047,799**	**4,236,209**	**228,811,590**	**226,918,392**	**2,587,208**	**224,331,184**
Claims and benefits paid	182,997,387	1,634,014	181,363,374	176,001,799	808,195	175,193,604
Change in outstanding claim provisions	47,166,175	2,602,196	44,563,980	47,421,342	1,779,013	45,642,329
Expenses from equalisation scheme	2,884,237	-	2,884,237	3,495,251	-	3,495,251
Expenses for claims and benefits paid for previous years	**(7,000,186)**	**(373,014)**	**(6,627,171)**	**(8,961,693)**	**2,666,636**	**(11,628,328)**
Claims and benefits paid	38,708,918	2,297,717	36,411,201	39,669,549	4,355,143	35,314,406
Change in outstanding claim provisions	(45,709,104)	(2,670,731)	(43,038,372)	(48,631,241)	(1,688,507)	(46,942,734)
Total	**226,047,614**	**3,863,195**	**222,184,419**	**217,956,699**	**5,253,844**	**212,702,856**

10.24 COSTS

10.24.1 Costs by natural group

(in EUR)	1. 1. - 31. 12. 2017	1. 1. - 31. 12. 2016
Operating costs for material	987,035	1,038,657
Acquisition costs	23,637,911	26,601,061
Operating costs for services	21,571,326	21,127,928
Depreciation/amortisation	3,552,201	3,111,246
Labour costs	**35,037,820**	**31,506,601**
Payroll – wages and salaries	24,841,458	22,621,789
Social security costs	2,003,227	1,731,841
Pension insurance costs	2,420,097	2,102,375
Other labour cost	4,883,043	4,271,472
Provisions for termination benefits and jubilee benefits	889,996	779,123
Total	**84,786,294**	**83,385,492**

Compared to the previous year, the operating costs are lower by EUR 1,400,802. This decrease was mainly contributed to by acquisition costs (lower by EUR 2,963,150) due to the decrease of insurance-related external representation costs (agencies and other).

10.24.2 Costs by functional group

(in EUR)	1. 1. - 31. 12. 2017	1. 1. - 31. 12. 2016
Costs related to acquisition of insurance and investment contracts	23,673,588	26,060,023
Costs related to financial asset management	1,826,369	2,445,067
Costs related to PPE management	375,899	777,282
Other costs for management fees	3,452,285	3,201,450
Costs of sale	24,981,166	22,890,526
Other costs/expenses	24,394,884	21,774,457
Total costs/expenses by functional groups	**78,704,191**	**77,148,806**

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 2017, these costs totalled EUR 6,082,103 (2016: EUR 6,197,681). Together with the transfer of a part of other expenses relating to direct claims handling costs in the amount of EUR 46,532 (2016: EUR 39,004), there were EUR 6,128,634 transferred to gross claims incurred (2015: EUR 6,236,685).

10.24.3 Labour costs of own agents

(in EUR)	1. 1. - 31. 12. 2017	1. 1. - 31. 12. 2016
Labour costs	8,232,943	8,154,716
Wages and salaries	6,240,851	6,135,404
Social security costs	419,372	402,093
Pension insurance costs	583,428	578,995
Other labour cost	989,293	1,038,224
Costs of services provided by private individuals	241,043	310,279
Total	**8,473,986**	**8,464,995**

10.24.4 Auditor’s remuneration

The audit of annual consolidated financial statements of the parent company Adriatic Slovenica for 2017, as well as 2016, was performed by the audit firm KPMG Slovenija d.o.o. Audit of the Zagreb Branch Office was performed by the audit firm Antares revizija d.o.o. The audit of the subsidiary KD Locusta Fondovi, Croatia was performed by the audit firm PricewaterhouseCoopers d.o.o. and the audit of the subsidiary KD Fondovi Makedonia by the audit firm B and Lj audit company, Skopje. Other non-audit services were performed by the audit firm KPMG poslovno svetovanje d. o. o.

Fees paid for auditor’s services

(in EUR)	1. 1. - 31. 12. 2017	1. 1. - 31. 12. 2016
Statutory audit of the annual report	111,529	134,897
Other audit services	70,877	45,770
Other non-audit services	19,564	23,515
Total fees for independent auditor's services	**201,971**	**204,182**

10.25 OTHER INSURANCE EXPENSES

Other insurance expenses

(in EUR)	1. 1. - 31. 12. 2017	1. 1. - 31. 12. 2016
Expenses for preventive activities	861,303	841,329
Contribution for covering losses caused by uninsured and unknown vehicles	145,205	(2,993)
Other net insurance expenses	2,798,688	3,254,806
Total	**3,805,195**	**4,093,142**

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 2017, 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 mainly generated by significant events, such as:

- insurance expenses for car assistance in the amount of EUR 1,180,942 (2016: EUR 1,700,673),
- subrogation receivables write-offs, receivables write-offs from insurance premiums and write-offs of other receivables in the amount of EUR 1,052,853 (2016: EUR 753.559) and ,

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 2017, compared to 2016, the amount of write-offs of receivables from insurance cases and subrogation of receivables is lower.

10.26 OTHER EXPENSES

Other expenses

(in EUR)	1. 1. - 31. 12. 2017	1. 1. - 31. 12. 2016
Revaluation operating expenses	**1,578,638**	**2,108,333**
Expenses for investment properties	**3,559,766**	**2,751,200**
Depreciation of investment properties	328,470	343,873
Impairment - investment properties	1,690,184	905,825
Losses-upon disposal of investment properties	-	16,409
Other expenses for investment properties	1,541,112	1,485,093
Depreciation of property, plant and equipment not intended for insurance activities	**231,536**	**169,446**
Other operating expenses	**2,786,974**	**1,981,813**
Finance expenses	**5,343,417**	**4,174,077**
Total	**13,500,330**	**11,184,868**

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 deferred expenses). Compared to the year before, these expenses were down by EUR 529,695 mainly due to lower impairments of premium receivables (by EUR 377,450) and lower impairments of subrogation receivables (by EUR 256,536).

Compared to the year before, investment property expenses were up by EUR 870,656 in 2017, mainly due to expenses for impairment of investment property totalling EUR 1,690,184 as at the 2017 year-end (see Section 10.2 and 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)	1. 1. - 31. 12. 2017	1. 1. - 31. 12. 2016
Payments for charity and cultural purposes	120,387	169,220
Benefits not depending on operating profit or loss	186,454	164,283
Financial penalties and compensations	1,068,242	423,644
Operating expenses	853,924	986,248
The rest of other operating expenses	557,968	238,419
Total	**2,786,974**	**1,981,813**

Compared to the previous year, other operating expenses went up by EUR 805,161, mainly due to financial penalties. In 2017, the parent company settled in an out-of court proceedings the compensation arising from commercial disputes in the amount of EUR 1,055,842, which had the greatest impact on the increase of financial penalties and compensations.

In addition to financial penalties, in 2017 operating expenses were significant. These comprised mainly administrative and court fees of EUR 337,243 (2016: EUR 309,443) and membership fees for the Slovene Chamber of Commerce and associations in the amount of EUR 178,016 (2016: EUR 192,047). The remaining smaller part of these expenses included expenses for motor vehicles (registration, vignettes and parking), administrative fees for AZN (Insurance Supervision Agency), scholarships for students, expenses for environmental protection and similar expenses.

Other operating expenses primarily include interest expenses relating to provisions for employee benefits (jubilee and post-employment benefits) in the amount of EUR 39,677 and extraordinary expenses in the amount of EUR 518,291.

Financial expenses compared to 2016 increased by 28% and are presented in more detail in the following text.

Financial expenses

(in EUR)	1. 1. - 31. 12. 2017	1. 1. - 31. 12. 2016
Finance expenses for interest - issued bonds	4,025,330	2,394,088
Finance costs - interest	5,486	51,661
Other financial expenses	1,312,600	1,728,327
Finance expenses arising from other financial liabilities	71,647	10,046
Finance expenses arising from other financial liabilities	1,666	-
Finance expenses arising from operating liabilities	1,239,287	1,718,281
Total	**5,343,417**	**4,174,077**

Financial expenses from other financial liabilities are higher compared to the previous year, mostly due to higher interest expenses regularly paid by the parent company to the creditors of subordinated debt. In 2016, these amounted to EUR 4,025,330 of accrued interest (2016: 2,394,088).

In 2017, other financial expenses were lower by EUR 415,727 mainly due to lower financial expenses from operating liabilities, generated mostly by negative foreign exchange difference from abroad, the investment expenses, such as purchasing commissions and other interest costs.

10.27 REINSURANCE RESULT

Reinsurance result for non-life insurance in 2017

Insurance class in EUR	Reinsurance premiums	Reinsurance claims	Changes in unearned reinsurance premiums	Changes in reinsurance claims	Reinsurance commissions	Net reinsurance result
Accident insurance	(489,073)	142,710	163,020	(95,113)	122,805	(155,651)
Land motor vehicle insurance	(1,431,842)	190,757	457	316,232	341,595	(582,801)
Marine loss insurance	(42,430)	-	-	(57,063)	-	(99,493)
Transportation (goods in transit) insurance	(223,190)	64,321	-	594	15,201	(143,074)
Fire and natural disaster insurance	(3,630,776)	871,118	15,333	1,288,437	572,020	(883,868)
Other damage to property insurance	(1,451,336)	626,287	19,936	31,009	50,533	(723,572)
Motor vehicle liability insurance (MTPL)	(779,737)	1,260,097	1,233	(1,417,369)	363,654	(572,123)
Aircraft liability insurance	(4,625)	-	(843)	-	729	(4,739)
Ship/boat liability insurance	(46,594)	-	(3,494)	(138,622)	-	(188,710)
General liability insurance	(1,203,022)	50,574	154,648	(2,359)	74,882	(925,278)
Suretyship insurance	(130,502)	24,317	15,045	(86)	43,944	(47,282)
Miscellaneous financial loss insurance	(124,592)	(13,360)	123	48,133	20,411	(69,285)
Legal expenses insurance	(6,934)	-	-	-	1,760	(5,174)
Insurance of assistance	-	(10,809)	-	-	23,146	12,337
Total non-life insurance	**(9,564,655)**	**3,206,012**	**365,457**	**(26,207)**	**1,630,681**	**(4,388,712)**

Reinsurance result for non-life insurance in 2016

Insurance class in EUR	Reinsurance premiums	Reinsurance claims	Changes in unearned reinsurance premiums	Changes in reinsurance claims	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
Insurance of assistance	-	-	-	-	12,565	12,565
Total non-life insurance	**(8,368,430)**	**4,541,959**	**121,229**	**(136,668)**	**1,178,364**	**(2,663,545)**

10.28 CORPORATE INCOME TAX

Taxes

(in EUR)	1. 1. - 31. 12. 2017	1. 1. - 31. 12. 2016
Corporate income tax charge	(529,375)	(2,531,179)
Deferred tax income/(expense)	(2,164,926)	3,565,666
Total	**(2,694,301)**	**1,034,488**

Adjustment between the actual and the calculated tax expense by applying the effective tax rate

(in EUR)	1. 1. - 31. 12. 2017	1. 1. - 31. 12. 2016
Profit or loss before taxation	**13,396,169**	**11,311,646**
Rate used for income tax calculation	23	18
Tax calculated by using official tax rate	(3,090,518)	(2,066,772)
Income excluded from the tax base and other reductions in the tax base	**4,187,460**	**1,195,877**
Expenses not recognised in the tax base and other increases in the tax base	**(1,805,744)**	**(1,735,057)**
Use of tax allowance in the current year	**218,487**	**131,974**
Effect of utilisation of tax loss	**751**	**(57,201)**
Current year tax losses	**(39,811)**	**-**
Changes in deferred taxes in the income statement	**(2,164,926)**	**3,565,666**
Increase of deductible temporary differences	975	3,049,612
Decrease of deductible temporary differences	(2,228,681)	-
Increase of tax loss carry forwards	-	61,878
Decrease of tax loss carry forwards	(35,444)	(10,269)
Increase of tax credits carry forwards	162,492	-
Decrease of tax credits carry forwards	(64,267)	464,445
Profit or loss after taxation	**(2,694,301)**	**1,034,488**
Effective tax rate (in %)	**20.11**	**9.15**

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 accrued tax) and the determined financial result before tax for 2017 is 20.11% (2016: the effective tax rate 9.15%).

According to local tax legislation in Slovenia, the tax rate was changed from 17% to 19% on 1 January 2017. Pursuant to the legislative amendment, the tax liability for 2017 was calculated at a 19% tax rate (compared to 17% tax rate in 2016). In the subsidiaries in Croatia, the base was calculated at a 20% tax rate (same as in 2016), as prescribed by the local legislation in Croatia and in the subsidiary in Macedonia the base was calculated at a 10% tax rate (same as in 2016).

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.

Recognised deferred tax amounts

(in EUR)	31 Dec 2017	31 Dec 2016
Deferred tax assets	**4,863,701**	**7,033,551**
– receivables for deferred tax to be recovered	4,863,701	7,033,551
Deferred tax liabilities	**191,266**	**110,646**
– liabilities for deferred taxes pending payment	191,266	110,646

Overview of bases for deferred tax receivables

(in EUR)	Base 1. 1. - 31. 12. 2017	Reinsurance 1. 1. - 31. 12. 2017	Base 1. 1. - 31. 12. 2016	Reinsurance 1. 1. - 31. 12. 2016
Due to impairment/value adjustments of receivables for premiums, for recourse receivables and for other current receivables	14,206,745	2,699,282	12,781,508	2,172,856
Due to impairment/value adjustments of financial investments	5,867,556	1,114,836	23,039,252	3,916,673
Due to impairment/value adjustments of provisions, provisions for relief and depreciation above the statutory rate	4,196,400	797,316	3,512,227	597,079
Unused tax losses and tax credits	1,327,726	252,268	2,040,845	346,944
Total	**28,610,008**	**4,863,701**	**41,373,832**	**7,033,551**

Deferred tax receivables

Compared to the year before, in 2017 deferred tax receivables went down by EUR 2,169,851 (or 31%), mainly due to the impact of the concluded liquidation of the company AS neživotno osiguranje a. d. o., Belgrade, and the consequent release of deferred tax receivables (in the amount of EUR 2,199,783) formed by the parent company over the previous years due to impairments of investments in the company AS neživotno osiguranje a. d. o., Belgrade (see also Section 10.10).

Overview of bases for deferred tax liabilities

(in EUR)	Base 1. 1. - 31. 12. 2017	Deferred tax liability 1. 1. - 31. 12. 2017	Base 1. 1. - 31. 12. 2016	Deferred tax liability 1. 1. - 31. 12. 2016
Due to reversal of impairment of financial investments	1,006,666	191,266	643,429	110,647
Total	**1,006,666**	**191,266**	**643,429**	**110,647**

Deferred taxes taken to equity in a given year

(in EUR)	31 Dec 2017	31 Dec 2016
Available-for-sale financial assets	(86,614)	706,472
Total	**(86,614)**	**706,472**

Movements in deferred taxes

(in EUR)	Total
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**
New balance as at 1 Jan 2017	**6,922,905**
Debited/credited to income statement	(2,164,925)
Debited/credited to equity	(86,614)
Exchange rate differences	1,070
Net balance of assets and liabilities as at 31 Dec 2017	**4,672,435**

Movements in deferred tax liabilities (without offsetting)

(in EUR)	Impairment reversal to fair value	Other	Total
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**
New balance as at 1 Jan 2017	**110,646**	**-**	**110,646**
Debited/credited to equity	80,620	-	80,620
Net balance of assets and liabilities as at 31 Dec 2017	**191,266**	**-**	**191,266**

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	Untaxed reliefs	Total
Balance as at 1 Jan 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 2016	**1,956,597**	**3,316,473**	**432,208**	**346,576**	**430**	**724,837**	**256,430**	**7,033,551**
Balance as at 1 Jan 2017	**1,956,597**	**3,316,473**	**432,208**	**346,576**	**430**	**724,837**	**256,430**	**7,033,551**
Acquisition of subsidiary								
Debited/credited to income statement	(6,132)	(2,206,088)	(60,145)	38,132	(105)	(88,042)	157,457	(2,164,925)
Debited/credited to equity	-	(5,994)	-	-	-	-	-	(5,994)
Exchange rate differences	-	1,064	-	2	3	-	-	1,069
Balance as at 31 Dec 2017	**1,950,465**	**1,105,454**	**372,064**	**384,709**	**328**	**636,795**	**413,886**	**4,863,701**

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 2017	31 Dec 2016
Net profit or loss for the financial year	10,633,233	12,353,402
Weighted average number of ordinary shares outstanding	10,304,407	10,304,407
Basic and adjusted net earnings / loss per share (in euros)	**1.03**	**1.20**

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. 1. - 31. 12. 2017	1. 1. - 31. 12. 2016
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 2017, the Adriatic Slovenica Group did not issue any subordinated bonds and it did not purchase or sell any equity securities

Dividend per share

(in EUR)	1. 1. - 31. 12. 2017	1. 1. - 31. 12. 2016
Amount of dividends (in euros)	10,613,539.21	13,246,819.60
Dividend per share (in euros)	1.03	1.29

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 30 May 2017, the General Meeting of Shareholders of the parent company adopted a resolution, referring to 2016, to allocate EUR 10,613,539 for dividend payments to the shareholders. The dividends were paid in full

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 2017, 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 2017, 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 2017 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 2017 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: 178
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 2017.
The tax rate applied in the calculation of the corporate income tax was 19%.
Adriatic Slovenica Group did not receive or give any loans to the subsidiary Nama in 2017.

In its consolidated financial statements, the Group 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. 1. - 31. 12. 2017	1. 1. - 31. 12. 2016
Shareholder of Adriatic Slovenica d.d	329,952	309,251
Associate of Adriatic Slovenica d.d.	68	68
Other associated/affiliated companies of Adriatic Slovenica d. d.	978,716	852,301
Total	**1,308,736**	**1,161,620**

Purchase of goods and services

(in EUR)	1. 1. - 31. 12. 2017	1. 1. - 31. 12. 2016
Shareholder of Adriatic Slovenica d.d	268,921	465,016
Associate of Adriatic Slovenica d.d.	468	8
Other associated/affiliated companies of Adriatic Slovenica d. d.	3,589,615	2,155,466
Total	**3,859,003**	**2,620,490**

Receivables of the Group from related parties

(in EUR)	31 Dec 2017	31 Dec 2016
Shareholder of Adriatic Slovenica d.d	7,001	5,395
Other associated/affiliated companies of Adriatic Slovenica d. d.	173,871	84,643
Total	**180,872**	**90,038**

Liabilities of the Group to related parties

(in EUR)	31 Dec 2017	31 Dec 2016
Shareholder of Adriatic Slovenica d.d	21,894	39,234
Associate of Adriatic Slovenica d.d.	9	9
Other associated/affiliated companies of Adriatic Slovenica d. d.	334,529	346,723
Total	**356,432**	**385,965**

Purchase of investment properties from related parties

In 2017, the Group did not purchase or sell any investment properties to its related parties.

Purchase of securities from related parties

(in EUR)	1. 1. - 31. 12. 2017	1. 1. - 31. 12. 2016
Other associated/affiliated companies of Adriatic Slovenica d. d.	5,787,639	37,559,054
Total	**5,787,639**	**38,104,044**

In the process of purchasing the shares of Jugopetrol AD for the amount of EUR 5,787,639, a sensitivity analysis was carried out using the present value of future cash flows method and the net asset value method under the following assumptions:

- Growth rate 3 %
- WACC 10,50 %

in %	weighted average cost of capital - WACC		
growth rate - g	**-1%**	**0%**	**1%**
-1%	7.5%	-5.3%	-15.3%
0%	15.3%	0.0%	-11.7%
1%	25.8%	6.8%	-7.1%

Bonds issued by the shareholder of the parent company

(in EUR)	1. 1. - 31. 12. 2017	1. 1. - 31. 12. 2016
At the beginning of year	**15,780,799**	**15,766,973**
Bonds purchased from third parties	463,739	-
Interest charged	1,085,482	1,119,698
Interest received	(860,028)	(970,388)
Valuation/measurement	(176,568)	(135,483)
At the end of the reporting period	**16,293,424**	**15,780,799**

Bonds issued by other related parties

(in EUR)	1. 1. - 31. 12. 2017	1. 1. - 31. 12. 2016
At the beginning of year	**7,014,935**	**6,973,577**
Maturing bonds	(6,859,000)	-
Interest charged	409,040	816,218
Interest received	(480,130)	(821,975)
Valuation/measurement	(84,845)	47,114
At the end of the reporting period	**(0)**	**7,014,935**

Shares of the shareholder of the parent company

(in EUR)	1. 1. - 31. 12. 2017	1. 1. - 31. 12. 2016
At the beginning of year	**537,372**	**125,550**
Valuation/measurement	-	411,822
At the end of the reporting period	**537,372**	**537,372**

Shares of the associate

(in EUR)	1. 1. - 31. 12. 2017	1. 1. - 31. 12. 2016
At the beginning of year	**11,705,901**	**11,705,901**
Dividends paid	212,833	77,175
Dividends received	(212,833)	(77,175)
At the end of the reporting period	11,705,901	11,705,901

Shares and shareholdings of other related parties

(in EUR)	1. 1. - 31. 12. 2017	1. 1. - 31. 12. 2016
At the beginning of year	**1,294,389**	**1,470,120**
Shares sold to third parties	-	(177,318)
Dividends paid	38,898	-
Dividends received	(38,898)	-
Valuation/measurement	303,404	5,263
Permanently impaired	-	(3,676)
At the end of the reporting period	**1,597,793**	**1,294,389**

Loans received and loans given

Loans given to the shareholder of the parent company

(in EUR)	1. 1. - 31. 12. 2017	1. 1. - 31. 12. 2016
At the beginning of year	**6,879,487**	**8,390,765**
Approved loans	16,555,300	21,400,000
Repaid loans	(13,500,000)	(22,919,185)
Interest accrued	472,043	367,378
Interest reduction	(417,024)	(359,472)
At the end of year	**9,989,805**	**6,879,487**
Paid interest	**340,458**	**363,717**

The new loans given are long-term and given at a 5% market interest rate. The loans are secured with blank bills of exchange.

Loans given to other related parties

(in EUR)	1. 1. - 31. 12. 2017	1. 1. - 31. 12. 2016
At the beginning of year	**14,413,459**	**21,563,957**
Approved loans	2,500,000	13,755,670
Repaid loans	(9,320,600)	(20,898,840)
Interest accrued	525,319	713,657
Interest reduction	(517,993)	(720,985)
At the end of year	**7,600,185**	**14,413,459**
Paid interest	541,204	747,689

The loans given to other related parties were given at market interest rate in the range between 4.5% and 6%. 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 7 years. The loans are collateralized with debt securities, blank bills of exchange, assignments, 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 2017

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	869,450	-	114,464	5,267,873
Bonuses and other remuneration	43,600	-	15,739	969,240
Meeting attendance fees	-	17,996	130,605	-
Total	**913,050**	**17,996**	**260,808**	**6,237,114**

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 2017 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 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., AGENT Zavarovalno zastopništvo 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 table below

Payments to the members of the management bodies in 2017

in EUR	Office	Gross salary	Variable part of remuneration	Holiday allowance	Reimburse ments of costs*	Insurance premiums	Commissions, bonuses and other fringe benefits	Remuneration for work in subsidiaries
Gabrijel Škof	President of the Management Board	159,627	-	1,115	1,896	4,646	5,100	-
Matija Šenk	Member of the Management Board	120,000	-	1,115	2,080	1,253	7,471	1,980

* Including travel expenses using own vehicle and daily allowance at home and abroad.

Payments to the members of the supervision bodies in 2017

in EUR	Office	Gross salary	Variable part of remuneration	Holiday allowance	Reimbursements of costs*	Fees for attending board sessions	Insurance premiums	Commissions, bonuses and other fringe benefits	Remuneration for work in subsidiaries
mag. Matjaž Gantar	Chairman	-	-	-	-	21,600	-	-	-
Aljoša Tomaž	Member	-	-	-	-	19,200	-	-	-
Tomaž Butina	Member	-	-	-	-	19,200	-	-	-
Aleksander Sekavčnik	Member	-	-	-	1,879	19,200	-	-	49,936
Matjaž Pavlin	Member, representative of employees	34,169	-	1,115	2,750	19,200	503	4,064	-
Borut Šuštaršič	Member, representative of employees	30,359	-	1,115	2,370	19,200	1,149	796	-

As at the 2017 year-end, the Group carries the following current operating receivables and liabilities related to the management of the parent company within the Group;

- EUR 98 of receivables and no liabilities from the members of the Management Board. The receivables arise from the insurance business (premiums due) and from rents of parking spaces,
- EUR 32,814 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 275, and receivables from exercised subrogation receivables in the amount of EUR 32,539 paid off in accordance with the agreement,
- EUR 8,844 of receivables and EUR 192 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 7,492 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 2017 year-end, the parent company within the Group carries receivables in the amount of EUR 23 and no liabilities related to members of management or supervision bodies of the associate.

In 2017, 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 2017, 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 564 of insurance premiums,
- the immediate family members of members of the Supervisory Board paid the aggregate amount of EUR 8,255 of insurance premiums. In 2017, EUR 208 claims were paid to the immediate family members.
- the immediate family members of members of the Audit Committee paid the aggregate amount of EUR 1,638 of insurance premiums

The insurance premiums 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 2017, based on the concluded insurance policies, the insurance company paid EUR 208 for claims to the immediate family members of members of the Supervisory Board whilst to the immediate family members of members of the Audit Committee and 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 2017, 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 14,407, received also EUR 635 of daily allowance for business trips.

The receivables carried in the books of account as at the 2017 year-end and arising from the senior management of the companies up to the highest parent company amounted to EUR 32,678. Outstanding receivables refer to the receivables arising from the insurance business (premiums) and rents for parking spaces in the amount of EUR 138, and receivables from exercised subrogation receivables in the amount of EUR 32,539. Receivables are paid regularly in line with the agreement on payment by instalments. As at 31 December 2017, 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

(in EUR)	31 Dec 2017	31 Dec 2016
Outstanding recourse receivables	5,859,265	5,930,790
Receivables from the state	-	3,225,338
Received pledged guarantees	26,975,508	11,947,676
Receivables for pension insurance premiums	164,627	232,291
Receivables for options	-	2,100,000
Other receivables	275,125	235,266
Contingent RECEIVABLES	**33,274,525**	**23,671,362**
Receivables - disputes and litigations (labour and insurance)	389,040	610,517
Liabilities for options	-	433,000
Liability for guaranteed return	11,131	9,861
Liabilities arising from futures contracts	501,040	674,098
Contingent LIABILITIES	**901,211**	**1,727,475**
Records under swap contracts	50,000,000	-
Total contingent receivables and liabilities	**84,175,736**	**25,398,837**

As at 31 December 2017, the balance of contingent receivables was higher than in the previous year due to guarantees with pledged securities increased by EUR 15,027,832 (received bill of exchange pledged as collateral for given loans). The balance of other receivables went up (by EUR 39,858 due to new commercial disputes), whilst the balance of unrealised subrogation receivables went down (by EUR 71,525) as also the balance of receivables from pension insurance premiums (by EUR 19,667). Among contingent liabilities the Group does not record receivables from the state, former Slovenica against the Republic of Slovenia (outstanding compensation for the loss incurred due to limitation in the motor vehicle insurance prices) since all legal remedies have been exhausted. Contingent receivables arising from options expired in 2017.

Contingent liabilities decreased by EUR 653,206 compared to the end of the previous year. The guarantee resulting from the umbrella agreement on the implementation of the transfer of the portfolio concluded between the assignor AS neživotno osiguranje a. d. o., Belgrade, and the acquirer of the portfolio, the subsidiary of Pozavarovalnica Sava in the amount of 157,750 euros expired. In April 2017, the contingent liability ceased to exist following the withdrawal of the claims. In addition to the termination of the guarantee, the reduction of liabilities (disputes and litigations) was largely impacted by the out-of-court settlement of the contingent liability arising from a commercial dispute in the amount of EUR 90,690 and, to a lesser extent, the payment made after the judgment for contingent liabilities for labour and insurance disputes.

Despite the overall decrease, the balance of contingent liabilities as at 31 December 2017 increased due to the failure to achieve the guaranteed return to the savers of the pension saving fund Zajamčeni od 60 (EUR 1,271). As the manager of pension savings, the Group records the same amount of contingent liabilities under outstanding liabilities in the balance sheet formed within own funds of fund manager, under other non-current liabilities for the Pension and Disability Insurance Act (ZPIZ – 2).

Contingent receivables and liabilities of option and futures contracts

In 2017, all contingent receivables and liabilities under futures contracts from 2016 expired.

Other changes

In 2017, the balance of off-balance sheet items increased by EUR 50,000,000 on the basis of the Interest Rate Swap concluded in the amount of the principal of EUR 50,000,000 and the date of termination on 24 May 2026. The contract was concluded with a view to hedge the variable part of the interest rate of the issued bond Adris Float 05/24/26 in the amount of EUR 50,000,000 and maturity on 24 May 2026.

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 502,646 is recorded in the off-balance sheet. The market prices of comparable stakes have not changed since the time of entering into agreements.

Important litigations in progress

- 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. In August 2015, the court issued a first instance judgement in favour of Pozavarovalnica Sava. AS lodged an appeal against the judgment and succeeded, in particular for procedural reasons. The case was returned for retrial to the first-instance court. After the retrial at the first instance court, in which the court remedied the procedural deficiencies, the court issued a new (for AS more favourable) judgment at the end of October 2016, according to which AS is obliged to pay EUR 696,926 of statutory default interest from 1 May 2012 onwards. The rest of the claim made by Pozavarovalnica Sava (for EUR 896,953 of statutory default interest from 1 May 2012 onwards) was rejected. Following the appeals lodged and the judgment of the High Court of October 2017 (which did not allow the appeal), this judgment became final. On this basis, Adriatic Slovenica paid to Pozavarovalnica Sava on 27 October 2017 the awarded part of the claim (after offsetting the legal costs to which Adriatic Slovenica was entitled due to a partial failure of Pozavarovalnica Sava, Zavarovalnica Adriatic Slovenica paid a total of EUR 1,001,402). Both parties filed an appeal on a point of law against the final judgment. 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 1,756,640) based on its own assessment and taking into account the prudence principle. After the payment was made pursuant to the judgement, the Company released EUR 1,001,402 and allocated the remaining EUR 755,238 to deferred expenses and accrued revenues, more precisely to short-term deferred expenses. As part of the dispute continues pursuant to the appeal on a point of law (the claim is still open and the interest is still ongoing), the amount of EUR 755,238 is accounted for under short-term deferred expenses in the balance sheet while the amount of EUR 291,753 is accounted for under off-balance contingent liabilities.
- On the basis of the Bank of Slovenia's decisions on extraordinary measures in five Slovenian banks (NLB, NKBM, Abanka, Factor banka, Probanka) in 2013 and in one bank (Banka Celje) in 2014, debt instruments held by the Company in total nominal value of EUR 14,634,800, as well as 123,416 shares of Probanka d.d., 2,085 shares of NLB d.d. and 5 shares of Banka Celje d.d. The Company immediately initiated all procedures to protect its rights and brought an action against the bank which issued the erased financial instruments. In October 2016, the Constitutional Court decided that part of the Banking Act, on the basis of which decisions on extraordinary measures were issued, was in contravention of the Constitution in so far as it was not possible for the holder of eligible liabilities to have adequate judicial protection. The Constitutional Court ordered the legislator to remedy the unconstitutionality and, until the remedy of the unconstitutionality, all proceedings that are pending in this respect have been interrupted with the limitation period beginning six months after the entry into force of the law which will remedy the unconstitutionality. When the National Assembly adopts an act regulating the right to judicial protection of holders of erased eligible liabilities, the Company will initiate appropriate procedures for the protection of its rights in accordance with the new legislation.
- Adriatic Slovenica d. d. (AS) received on 7 February 2018 an enforcement order issued by the District Court in Ljubljana under no. In 1400/2008 on 5 February 2018. The order was issued on the proposal of the Creditor, which was filed in 2001 (!) on the basis of an enforceable deed - judgment of the Labour Court in Koper, no. Pd 650/99, the defendant being Slovenica d. d. The order now requires AS to invite the creditor back to work (which he performed until the unlawful termination in 1989) and pay him salary compensation starting from the final judgment in 2001 until the actual return to work, in the amount of the difference between the creditor's income and the wage he would have had if he had been employed by Slovenica d. d., plus default interest. The penalty of EUR 250.000 was provided in the event that the creditor is not invited back to work within 8 days, or EUR 100.000 if contributions have not been calculated within 8 days after the order becomes final. An appeal against the order was filed by AS for several reasons: AS cannot comply with the judgment since only the defendant - Slovenica d. d. could; that there was no succession in relation to the (non-monetary and irreplaceable) fulfilment of the judgment; that Slovenica had already offered the return to work and the creditor did not accept it; and, consequently, that the creditor is not entitled to salary compensation for the contested period. The amount of salary compensation, which the creditor merely calculated in a lay manner, as well as the amount of the fines

that the court threatens to apply against the debtor AS in case of failure to comply with the obligations, was also contested. The objection also criticized the inactivity of the court, which took 17 years to make a decision, thus causing great damage. In order to avoid the penalty of EUR 250,000, AS invited the creditor to work, and the key elements of the return to work have already been coordinated with the creditor. Despite the clear standpoint reflected in the objection reading that AS is not the debtor in relation to the above obligation, AS proceeded in this way because of the previous inappropriate behaviour of the court, which was explained in detail in the objection against the enforcement order. Once the court has ruled on the objection, it will be clear whether AS is obliged to pay the sums claimed; however, the proceeding may continue in a lawsuit to deal with the contested facts relating to the proposal. The Group estimated that the liability arising from this dispute amounted to about EUR 380,000, and consequently recognized the amount of EUR 380,000 in other expenses in the financial statements.

13. EVENTS AFTER THE BALANCE SHEET DATE

No events occurred after the reporting period and until the approval of the consolidated financial statements for publication, which would impact the compiled financial statements and tax obligations of the Group for 2017.

Events after the balance sheet date, important for business operations in 2018

1. The Management Board of Adriatic Slovenica d.d. as the sole shareholder of the subsidiary KD IT, informacijske storitve d. o. o. adopted a decision on 11 December 2017 to commence the activities related to the exit of the company from the AS Group and to the simplified merger by absorption of the company KD IT, informacijske storitve d. o. o. with the company Adriatic Slovenica d. d. on the accounting date of merger 31 December 2017. The company KD IT d. o. o. adopted on 11 January 2018 a decision to implement all procedures related to the exit of the company from the AS Group and to the simplified merger by absorption of KD IT, informacijske storitve d. o. o. with the company Adriatic Slovenica d. d. On the basis of these decisions, the companies will proceed to activities that will result in the registration of the merger by absorption in the court register by and not later than the end of September 2018. Pursuant to the registration, KD IT d. o. o. as the transferor company, will be dissolved without going into liquidation. By entering the merger into the court register, all assets and liabilities of the transferor company will be transferred to Adriatic Slovenica d.d. as the transferee company. Prior to the registration in the court register and in accordance with Article 125 of the Insurance Act (ZZavar-1), Adriatic Slovenica d.d. will have to obtain the authorisation of the Insurance Supervision Agency (AZN) to the merger of the two companies.,
2. On 18 October 2017, an inspection of the period from the merger of the subsidiary KD životno osiguranje, Zagreb with the parent company Adriatic Slovenica d. d. until the end of the first year of operation was launched by the Croatian Tax Administration. At the time of completion of the Annual Report for 2017, the tax investigation was still ongoing.

of Adriatic Slovenica d.d. for

APPENDIX TO THE ANNUAL REPORT

2017

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	Gross written premium in previous year	Year 2017	Gross written premium in current year	Gross written premium in previous year	Year 2016
	in euros	in euros	index	in euros	in euros	index
1	2	3	4=2/3*100	5	6	7=5/6*100
Results by class of insurance:						
1. Accident insurance	17,009,496	17,276,547	**98**	17,276,547	16,728,573	**103**
2. Health insurance	102,129,391	100,783,826	**101**	100,783,826	100,643,709	**100**
3. Land vehicle insurance	34,350,324	34,357,934	**100**	34,357,934	34,161,119	**101**
5. Aircraft insurance	3,524	4,182	**84**	4,182	6,054	**69**
6. Ship insurance	501,861	524,112	**96**	524,112	527,960	**99**
7. Goods in transit insurance	1,528,487	1,443,674	**106**	1,443,674	1,499,391	**96**
8. Fire and natural forces insurance	17,141,211	16,743,620	**102**	16,743,620	15,997,825	**105**
9. Other damage to property insurance	12,949,196	12,493,060	**104**	12,493,060	12,024,662	**104**
10. Vehicle liability insurance	39,501,418	39,635,867	**100**	39,635,867	40,069,385	**99**
11. Aircraft or other flying machine liability insurance	5,717	8,315	**69**	8,315	11,796	**70**
12. Liability for ship insurance	645,596	629,499	**103**	629,499	560,344	**112**
13. General liability insurance	9,171,451	8,341,384	**110**	8,341,384	7,425,674	**112**
14. Credit insurance shall be insurance covering:	(2,653)	(5,863)	**45**	(5,863)	(144)	**-**
15. Suretyship insurance	183,462	175,621	**104**	175,621	206,304	**85**
16. Miscellaneous financial loss insurance	839,069	827,377	**101**	827,377	695,625	**119**
17. Legal expenses insurance	102,253	115,625	**88**	115,625	134,159	**86**
18. Tourist assistance	6,562,998	5,988,943	**110**	5,988,943	5,742,416	**104**
19. Life assurance	22,044,449	21,471,815	**103**	21,471,815	20,161,409	**106**
21. Life assurance linked to units of investment fund or to units of funds	39,121,599	37,080,206	**106**	37,080,206	35,440,281	**105**
23. Capital redemption insurance	4,050,660	5,631,924	**72**	5,631,924	4,612,407	**122**
Non-life insurance contracts	144,547,753	141,585,446	**102**	141,585,446	138,359,806	**102**
Life insurance contracts	65,216,708	64,183,946	**102**	64,183,946	60,214,098	**107**
Complementary health insurance	98,075,048	97,758,276	**100**	97,758,276	98,075,048	**100**
Total	**307,839,510**	**303,527,668**	**101**	**303,527,668**	**296,648,952**	**102**

Net written premiums as % of gross written premiums	Net written premiums	Gross written premiums	Year 2017	Net written premiums	Gross written premiums	Year 2016
	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	16,520,423	17,009,496	**97**	17,155,034	17,276,547	**99**
2. Health insurance	102,129,391	102,129,391	**100**	100,783,826	100,783,826	**100**
3. Land vehicle insurance	32,918,482	34,350,324	**96**	32,857,214	34,357,934	**96**
5. Aircraft insurance	3,524	3,524	**100**	4,182	4,182	**100**
6. Ship insurance	459,431	501,861	**92**	477,154	524,112	**91**
7. Goods in transit insurance	1,305,297	1,528,487	**85**	1,215,499	1,443,674	**84**
8. Fire and natural forces insurance	13,292,929	17,141,211	**78**	12,866,417	16,743,620	**77**
9. Other damage to property insurance	11,451,557	12,949,196	**88**	11,029,377	12,493,060	**88**
10. Vehicle liability insurance	38,721,681	39,501,418	**98**	38,900,949	39,635,867	**98**
11. Aircraft or other flying machine liability insurance	1,092	5,717	**19**	1,956	8,315	**24**
12. Liability for ship insurance	599,002	645,596	**93**	578,881	629,499	**92**
13. General liability insurance	7,911,613	9,171,451	**86**	7,383,433	8,341,384	**89**
14. Credit insurance shall be insurance covering:	(2,653)	(2,653)	**100**	(5,863)	(5,863)	**-**
15. Suretyship insurance	52,960	183,462	**29**	54,535	175,621	**31**
16. Miscellaneous financial loss insurance	705,267	839,069	**84**	665,123	827,377	**80**
17. Legal expenses insurance	95,255	102,253	**93**	115,625	115,625	**100**
18. Tourist assistance	6,562,998	6,562,998	**100**	5,988,943	5,988,943	**100**
19. Life assurance	20,050,908	22,044,449	**91**	19,677,624	21,471,815	**92**
21. Life assurance linked to units of investment fund or to units of funds	39,121,597	39,121,599	**100**	37,076,807	37,080,206	**100**
23. Capital redemption insurance	4,050,660	4,050,660	**100**	5,631,924	5,631,924	**100**
Non-life insurance contracts	150,084,567	144,547,753	**104**	147,428,603	141,585,446	**104**
Life insurance contracts	63,223,165	65,216,708	97	62,386,356	64,183,946	97
Complementary health insurance	82,643,681	98,075,048	84	82,643,681	97,758,276	85
Total	**295,951,412**	**307,839,510**	**96**	**292,458,639**	**303,527,668**	**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 2017 in %	Gross claims and benefits paid in current year in euros	Gross claims and benefits paid in previous year in euros	Year 2016 in %
1	2	3	4=2/3*100	5	6	7=5/6*100
Results by class of insurance:						
1. Accident insurance	7,500,731	7,495,229	**100**	7,495,229	7,536,194	**99**
2. Health insurance	86,980,049	86,429,588	**101**	86,429,588	84,470,174	**102**
3. Land vehicle insurance	25,611,538	26,667,823	**96**	26,667,823	26,030,750	**102**
5. Aircraft insurance	-	-	**-**	-	-	**-**
6. Ship insurance	244,988	322,975	**76**	322,975	647,384	**50**
7. Goods in transit insurance	789,622	526,454	**150**	526,454	464,092	**113**
8. Fire and natural forces insurance	7,213,266	5,718,819	**126**	5,718,819	5,926,758	**96**
9. Other damage to property insurance	7,224,797	7,511,637	**96**	7,511,637	7,623,584	**99**
10. Vehicle liability insurance	25,373,954	28,615,925	**89**	28,615,925	27,547,083	**104**
11. Aircraft or other flying machine liability insurance	-	-	**-**	-	15,840	**-**
12. Liability for ship insurance	43,684	67,506	**65**	67,506	44,971	**150**
13. General liability insurance	3,132,225	2,590,100	**121**	2,590,100	2,756,611	**94**
14. Credit insurance shall be insurance covering:	98,657	139,251	**71**	139,251	405,882	**34**
15. Suretyship insurance	46,739	25,000	**187**	25,000	12,884	**194**
16. Miscellaneous financial loss insurance	367,205	309,798	**119**	309,798	335,455	**92**
17. Legal expenses insurance	-	-	**-**	-	877	**-**
18. Tourist assistance	2,921,716	2,681,921	**109**	2,681,921	2,384,923	**112**
19. Life assurance	15,523,015	14,561,154	**107**	14,561,154	14,951,226	**97**
21. Life assurance linked to units of investment fund or to units of	33,581,474	26,881,141	**125**	26,881,141	23,520,448	**114**
23. Capital redemption insurance	856,325	431,503	**198**	431,503	850,060	**51**
Non-life insurance contracts	84,905,489	84,820,716	**100**	84,820,716	83,559,782	**102**
Life insurance contracts	49,960,814	41,873,798	**119**	41,873,798	39,321,734	**106**
Complementary health insurance	82,643,681	84,281,312	**98**	84,281,312	82,643,681	**102**
Total	**217,509,984**	**210,975,826**	**103**	**210,975,826**	**205,525,197**	**103**

Claims ratio	Gross claims and benefits paid in euros	Gross written premiums in euros	Year 2017 coefficient	Gross claims and benefits paid in euros	Gross written premiums in euros	Year 2016 coefficient
1	2	3	4=2/3	5	6	7=5/6
Results by class of insurance:						
1. Accident insurance	7,500,731	17,009,496	**0.44**	7,495,229	17,276,547	**0.43**
2. Health insurance	86,980,049	102,129,391	**0.85**	86,429,588	100,783,826	**0.86**
3. Land vehicle insurance	25,611,538	34,350,324	**0.75**	26,667,823	34,357,934	**0.78**
5. Aircraft insurance	-	3,524	**0.00**	-	4,182	**0.00**
6. Ship insurance	244,988	501,861	**0.49**	322,975	524,112	**0.62**
7. Goods in transit insurance	789,622	1,528,487	**0.52**	526,454	1,443,674	**0.36**
8. Fire and natural forces insurance	7,213,266	17,141,211	**0.42**	5,718,819	16,743,620	**0.34**
9. Other damage to property insurance	7,224,797	12,949,196	**0.56**	7,511,637	12,493,060	**0.60**
10. Vehicle liability insurance	25,373,954	39,501,418	**0.64**	28,615,925	39,635,867	**0.72**
11. Aircraft or other flying machine liability insurance	-	5,717	**0.00**	-	8,315	**0.00**
12. Liability for ship insurance	43,684	645,596	**0.07**	67,506	629,499	**0.11**
13. General liability insurance	3,132,225	9,171,451	**0.34**	2,590,100	8,341,384	**0.31**
14. Credit insurance shall be insurance covering:	98,657	(2,653)	**-**	139,251	(5,863)	**-**
15. Suretyship insurance	46,739	183,462	**0.25**	25,000	175,621	**0.14**
16. Miscellaneous financial loss insurance	367,205	839,069	**0.44**	309,798	827,377	**0.37**
17. Legal expenses insurance	-	102,253	**0.00**	-	115,625	**0.00**
18. Tourist assistance	2,921,716	6,562,998	**0.45**	2,681,921	5,988,943	**0.45**
19. Life assurance	15,523,015	22,044,449	**0.70**	14,561,154	21,471,815	**0.68**
21. Life assurance linked to units of investment fund or to units of funds	33,581,474	39,121,599	**0.86**	26,881,141	37,080,206	**0.72**
23. Capital redemption insurance	856,325	4,050,660	**0.21**	431,503	5,631,924	**0.08**
Non-life insurance contracts	84,905,489	144,547,753	**58.74**	84,820,716	141,585,446	**59.91**
Life insurance contracts	49,960,814	65,216,708	**0.77**	41,873,798	64,183,946	**0.65**
Complementary health insurance	82,643,681	98,075,048	**0.84**	84,281,312	97,758,276	**0.86**
Total	**217,509,984**	**307,839,510**	**0.71**	**210,975,826**	**303,527,668**	**0.70**

Operating expenses as % of gross written premiums	Operating expenses in euros	Gross written premiums in euros	Year 2017 in %	Operating expenses in euros	Gross written premiums in euros	Year 2016 in %
1	2	3	4=2/3*100	5	6	7=5/6*100
Results by class of insurance:						
1. Accident insurance	5,313,465	17,009,496	**31**	4,840,743	17,276,547	**28**
2. Health insurance	10,420,161	102,129,391	**10**	12,543,697	100,783,826	**12**
3. Land vehicle insurance	8,600,220	34,350,324	**25**	9,403,256	34,357,934	**27**
5. Aircraft insurance	9,977	3,524	**283**	11,005	4,182	**263**
6. Ship insurance	208,138	501,861	**41**	225,676	524,112	**43**
7. Goods in transit insurance	395,576	1,528,487	**26**	397,391	1,443,674	**28**
8. Fire and natural forces insurance	7,016,435	17,141,211	**41**	7,004,762	16,743,620	**42**
9. Other damage to property insurance	5,211,170	12,949,196	**40**	4,985,491	12,493,060	**40**
10. Vehicle liability insurance	10,427,078	39,501,418	**26**	10,125,889	39,635,867	**26**
11. Aircraft or other flying machine liability insurance	9,634	5,717	**169**	9,845	8,315	**118**
12. Liability for ship insurance	211,871	645,596	**33**	224,305	629,499	**36**
13. General liability insurance	2,715,902	9,171,451	**30**	2,575,155	8,341,384	**31**
14. Credit insurance shall be insurance covering:	28,284	(2,653)	**-**	30,327	(5,863)	**-**
15. Suretyship insurance	78,995	183,462	**43**	79,725	175,621	**45**
16. Miscellaneous financial loss insurance	281,768	839,069	**34**	253,225	827,377	**31**
17. Legal expenses insurance	45,399	102,253	**44**	60,242	115,625	**52**
18. Tourist assistance	1,825,953	6,562,998	**28**	1,542,852	5,988,943	**26**
19. Life assurance	9,218,195	22,044,449	**42**	10,545,904	21,471,815	**49**
21. Life assurance linked to units of investment fund or to units of	7,723,249	39,121,599	**20**	8,537,559	37,080,206	**23**
23. Capital redemption insurance	857,873	4,050,660	**21**	767,109	5,631,924	**14**
Non-life insurance contracts	41,370,815	144,547,753	**29**	42,884,373	141,585,446	**30**
Life insurance contracts	17,799,316	65,216,708	**27**	19,850,573	64,183,946	**31**
Complementary health insurance	11,429,212	98,075,048	**12**	11,429,212	97,758,276	**12**
Total	**70,599,342**	**307,839,510**	**23**	**74,164,158**	**303,527,668**	**24**

Acquisition costs as % of gross written premiums	Insurance acquisition costs in euros	Gross written premiums in euros	Year 2017 in %	Insurance acquisition costs in euros	Gross written premiums in euros	Year 2016 in %
1	2	3	4=2/3*100	5	6	7=5/6*100
Results by class of insurance:						
1. Accident insurance	1,701,468	17,009,496	10	1,614,184	17,276,547	9
2. Health insurance	1,158,545	102,129,391	1	2,143,480	100,783,826	2
3. Land vehicle insurance	3,003,907	34,350,324	9	3,157,764	34,357,934	9
5. Aircraft insurance	65	3,524	2	153	4,182	4
6. Ship insurance	78,555	501,861	16	78,825	524,112	15
7. Goods in transit insurance	112,981	1,528,487	7	113,673	1,443,674	8
8. Fire and natural forces insurance	3,716,760	17,141,211	22	3,802,013	16,743,620	23
9. Other damage to property insurance	2,718,165	12,949,196	21	2,500,165	12,493,060	20
10. Vehicle liability insurance	3,385,758	39,501,418	9	3,444,133	39,635,867	9
11. Aircraft or other flying machine liability insurance	294	5,717	5	1,059	8,315	13
12. Liability for ship insurance	82,509	645,596	13	81,896	629,499	13
13. General liability insurance	1,121,376	9,171,451	12	1,155,905	8,341,384	14
14. Credit insurance shall be insurance covering:	0	(2,653)	-	56	(5,863)	-
15. Suretyship insurance	2,046	183,462	1	2,497	175,621	1
16. Miscellaneous financial loss insurance	94,032	839,069	11	67,567	827,377	8
17. Legal expenses insurance	10,222	102,253	10	12,683	115,625	11
18. Tourist assistance	834,427	6,562,998	13	584,740	5,988,943	10
19. Life assurance	3,753,589	22,044,449	17	5,096,901	21,471,815	24
21. Life assurance linked to units of investment fund or to units of funds	1,992,432	39,121,599	5	2,570,876	37,080,206	7
23. Capital redemption insurance	63,516	4,050,660	2	62,622	5,631,924	1
Non-life insurance contracts	6,591,900	144,547,753	5	7,331,581	141,585,446	5
Life insurance contracts	5,809,538	65,216,708	9	7,730,399	64,183,946	12
Complementary health insurance	11,429,212	98,075,048	12	11,429,212	97,758,276	12
Total	**23,830,650**	**307,839,510**	**8**	**26,491,192**	**303,527,668**	**9**

Net claims ratio	Net claims paid + change in claims provisions in euros	Net written premium + change in unearned premiums in euros	Year 2017 coefficient	Čiste zavarovalne odškodnine + sprememba škodnih rezervacij in euros	Obračunane čiste zavarovalne premije + sprememba prenosnih premij in euros	Year 2016 coefficient
1	2	3	4=2/3	5	6	7=5/6
Results by class of insurance:						
1. Accident insurance	7,524,938	16,875,484	**45**	8,300,989	16,957,321	**49**
2. Health insurance	86,015,387	102,385,228	**84**	85,879,691	101,024,827	**85**
3. Land vehicle insurance	25,578,687	32,929,326	**78**	26,298,471	32,774,696	**80**
5. Aircraft insurance	42	3,708	**1**	(32)	4,942	**-**
6. Ship insurance	226,800	459,992	**49**	331,067	479,161	**69**
7. Goods in transit insurance	764,632	1,309,663	**58**	696,180	1,232,576	**56**
8. Fire and natural forces insurance	6,637,461	13,186,504	**50**	5,184,043	12,830,877	**40**
9. Other damage to property insurance	6,895,211	11,362,857	**61**	8,041,272	10,929,191	**74**
10. Vehicle liability insurance	23,045,201	38,663,750	**60**	27,297,931	39,188,088	**70**
11. Aircraft or other flying machine liability	-	1,414	**0**	-	2,360	**0**
12. Liability for ship insurance	(131,086)	601,755	**-**	73,439	568,680	**13**
13. General liability insurance	4,046,847	7,640,868	**53**	4,348,255	7,345,810	**59**
14. Credit insurance shall be insurance	(21,046)	220,695	**-**	52,128	294,879	**18**
15. Suretyship insurance	(20,443)	48,462	**-**	77,138	56,173	**137**
16. Miscellaneous financial loss insurance	329,082	704,684	**47**	229,905	644,364	**36**
17. Legal expenses insurance	23,382	96,040	**24**	2,666	125,533	**2**
18. Tourist assistance	3,024,724	6,432,922	**47**	2,716,141	5,941,973	**46**
19. Life assurance	15,546,138	20,086,076	**77**	14,380,210	19,708,218	**73**
21. Life assurance linked to units of	33,081,098	39,121,597	**85**	25,473,103	37,076,807	**69**
23. Capital redemption insurance	856,325	4,050,660	**21**	431,503	5,631,924	**8**
Non-life insurance contracts	82,270,538	134,673,183	**61**	85,578,850	132,387,718	**65**
Life insurance contracts	49,483,561	63,258,333	**78**	40,284,816	62,416,949	**65**
Complementary health insurance	81,669,280	98,250,169	**83**	83,950,433	98,013,734	**86**
Total	**213,423,379**	**296,181,686**	**72**	**209,814,099**	**292,818,401**	**72**

Combined claims ratio	(Gross claims incurred + operating expenses) v EUR	Earned premium v EUR	Year 2017 koeficient	(Gross claims incurred + operating expenses) v EUR	Earned premium v EUR	Year 2016 koeficient
1	2	3	4=2/3	5	6	7=5/6
Non-life insurance contracts	226,157,929	242,454,383	**93**	229,762,540	239,664,099	**96**

Expense ratio	Operating expenses in euros	Premium income in euros	Year 2017 in %	Operating expenses in euros	Premium income in euros	Year 2016 in %
1	2	3	4=2/3*100	5	6	7=5/6*100
Life insurance contracts	17,663,567	65,241,994	**27**	19,698,559	64,242,960	**31**

Undewriting profitability ratio	(Life insurance claims paid + change in technical provisions) in euros	Written gross premium for life insurance in euros	Year 2017 in %	(Life insurance claims paid + change in technical provisions) in euros	Written gross premium for life insurance in euros	Year 2016 in %
1	2	3	4=2/3*100	5	6	7=5/6*100
Life insurance contracts	72,658,680	63,223,165	**115**	73,550,488	62,386,356	**118**

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 2017 in %	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 %
1	2	3	4=2/3*100	5	6	7=5/6*100
Investments from Non-life insurance	2,254,214	133,739,605	**1.7**	1,619,527	135,327,058	**1.2**
Life insurance investments	5,843,735	131,275,990	**4.5**	7,988,869	122,132,086	**6.5**
Unit-linked life insurance investments	24,275,614	299,641,713	**8.1**	26,665,018	277,934,344	**9.6**
Complementary health insurance investments	244,193	6,222,928	**3.9**	(27,481)	6,206,105	**-0.4**
Investments from other lines of business, for which mathematical provision is formed	20,288	499,887	**4.1**	38,424	720,556	**5.3**
Investments which are not financedfrom technical provisonos	5,927,400	89,256,058	**6.6**	943,374	78,649,095	**1.2**
Total insurance	**38,565,443**	**660,636,181**	**5.8**	**37,227,732**	**620,969,245**	**6.0**

Claim provsions, net of reinsurance as % of earned premium	Net provisions for claims outstanding in euros	Net earned premiums in euros	Year 2017 in %	Net provisions for claims outstanding in euros	Net earned premiums in euros	Year 2016 in %
1	2	3	4=2/3*100	5	6	7=5/6*100
Results by class of insurance:						
1. Accident insurance	9,821,344	16,875,484	**58**	9,654,427	16,957,321	**57**
2. Health insurance	5,406,298	102,385,228	**5**	6,194,080	101,024,827	**6**
3. Land vehicle insurance	7,664,497	32,929,326	**23**	7,073,122	32,774,696	**22**
5. Aircraft insurance	5,586	3,708	**151**	5,544	4,942	**112**
6. Ship insurance	258,869	459,992	**56**	277,057	479,161	**58**
7. Goods in transit insurance	244,343	1,309,663	**19**	204,165	1,232,576	**17**
8. Fire and natural forces insurance	3,853,369	12,896,512	**30**	3,519,865	12,830,877	**27**
9. Other damage to property insurance	4,074,806	11,206,742	**36**	3,676,649	10,929,191	**34**
10. Vehicle liability insurance	44,271,029	38,663,750	**115**	44,492,598	39,188,085	**114**
11. Aircraft or other flying machine liability insurance	-	1,414	**0**	-	2,360	**0**
12. Liability for ship insurance	185,724	507,274	**37**	360,494	568,680	**63**
13. General liability insurance	15,997,349	7,613,657	**210**	15,016,086	7,345,810	**204**
14. Credit insurance shall be insurance covering:	5,278	220,695	**2**	31,693	294,879	**11**
15. Suretyship insurance	1,238	48,462	**3**	1,864	56,173	**3**
16. Miscellaneous financial loss insurance	175,687	627,143	**28**	213,588	644,364	**33**
17. Legal expenses insurance	25,684	96,040	**27**	2,302	125,533	**2**
18. Tourist assistance	578,051	6,432,922	**9**	445,720	5,941,973	**8**
19. Life assurance	4,958,308	20,086,076	**25**	4,332,224	19,708,218	**22**
21. Life assurance linked to units of investment fund or to units of funds	1,336,512	39,121,597	**3**	1,836,888	37,076,807	**5**
23. Capital redemption insurance	-	4,050,660	**0**	-	5,631,924	**0**
Non-life insurance contracts, excluding health insurance	87,549,614	133,772,386	**65**	85,175,314	131,929,738	**65**
Life insurance contracts	6,294,819	63,258,333	**10**	6,169,111	62,416,949	**10**
Complementary health insurance	5,019,540	98,505,626	**5**	5,993,941	98,471,711	**6**
Total	**98,863,973**	**295,536,346**	**33**	**97,338,366**	**292,818,398**	**33**

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 2017 in %	Gross profit, or loss, of the current year in euros	Net written premiums in euros	Year 2016 in %
1	2	3	4=2/3	5	6	7=5/6
Non-life insurance contracts	7,001,531	150,084,567	**5**	10,130,282	147,428,603	**7**
Life insurance contracts	2,435,279	63,223,165	**4**	2,902,449	62,386,356	**5**
Complementary health insurance	4,092,000	82,643,681	**5**	(2,078,999)	82,643,681	**-**
Total	**13,528,810**	**295,951,412**	**5**	**10,953,732**	**292,458,639**	**4**

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 2017 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 2016 in %
1	2	3	4=2/3	5	6	7=5/6
Non-life insurance contracts	11,093,531	76,245,503	**15**	8,051,283	77,637,310	**10**
Life insurance contracts	2,435,279	20,158,056	**12**	2,902,449	20,785,355	**14**
Total	**13,528,810**	**96,403,559**	**14**	**10,953,732**	**98,422,664**	**11**

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 2017 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 2016 in %
1	2	3	4=2/3	5	6	7=5/6
Non-life insurance contracts	11,093,531	285,238,259	**4**	8,051,283	279,545,790	**3**
Life insurance contracts	2,435,279	474,979,933	**1**	2,902,449	436,504,235	**1**
Total	**13,528,810**	**745,570,619**	**2**	**10,953,732**	**699,284,588**	**2**

Gross profit or loss, of the current year per share	Gross profit in euros	Number of shares	Year 2017 in euros	Gross profit in euros	Number of shares	Year 2016 in euros
1	2	3	4=2/3	5	6	7=5/6
Non-life insurance contracts	11,093,531	10,304,407	**1.1**	8,051,283	10,304,407	**0.8**
Life insurance contracts	2,435,279	10,304,407	**0.2**	2,902,449	10,304,407	**0.3**
Total	**13,528,810**	**10,304,407**	**1.3**	**10,953,732**	**10,304,407**	**1.1**

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 2017 in %	The insurer's capital in euros	Receivables from reinsurance and technical provisions attributable to reinsurers in euros	Year 2016 in %
1	2	3	4=2/3	5	6	7=5/6
Non-life insurance contracts	19,009,429	76,522,229	**25**	18,269,776	75,968,777	**24**
Life insurance contracts	580,715	20,369,717	**3**	738,567	19,946,395	**4**
Total	**19,590,143**	**96,891,946**	**20**	**19,008,343**	**95,915,172**	**20**

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 2017 in %	Gross written premium, net of reinsurance in euros	Average capital + average balance of technical provisions in euros	Year 2016 in %
1	2	3	4=2/3	5	6	7=5/6
Non-life insurance contracts	232,728,248	234,676,208	**99**	230,072,284	236,791,575	**97**
Life insurance contracts	63,223,165	426,106,776	**15**	62,386,356	405,627,831	**15**
Total	**295,951,412**	**660,782,984**	**45**	**292,458,639**	**642,419,406**	**46**

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 2017 in %	Average balance of technical provision, net of reinsurance in euros	Net revenues from insurance contracts in euros	Year 2016 in %
1	2	3	4=2/3	5	6	7=5/6
Non-life insurance contracts	141,186,101	232,278,013	**61**	142,150,979	230,401,449	**62**
Life insurance contracts	405,641,568	63,258,333	**641**	384,538,428	62,416,949	**616**
Total	**546,827,669**	**295,536,347**	**185**	**526,689,407**	**292,818,398**	**180**

Equity as % of total equity and liabilities	Equity in euros	Total equity and liabilities in euros	Year 2017 in %	Equity in euros	Total equity and liabilities in euros	Year 2016 in %
1	2	3	4=2/3	5	6	7=5/6
Non-life insurance contracts	76,522,229	286,324,640	**27**	75,968,777	284,151,878	**27**
Life insurance contracts	20,369,717	487,936,748	**4**	19,946,395	462,023,119	**4**
Total	**96,891,946**	**757,926,662**	**13**	**95,915,172**	**733,214,576**	**13**

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 2017 in %	Technical provisions, net of reinsurance in euros	Total equity and liabilities in euros	Year 2016 in %
1	2	3	4=2/3	5	6	7=5/6
Non-life insurance contracts	141,519,490	286,324,640	**49**	140,852,713	284,151,878	**50**
Life insurance contracts	415,019,926	487,936,748	**85**	400,999,126	462,023,119	**87**
Total	**556,539,416**	**757,926,662**	**73**	**541,851,839**	**733,214,576**	**74**

Net provisions (mathematical provisions) as % of net technical provisions	Net provisions (mathematical reserves) in euros	Net technical provisions in euros	Year 2017 in %	Net provisions (mathematical reserves) in euros	Net technical provisions in euros	Year 2016 in %
1	2	3	4=2/3	5	6	7=5/6
Life insurance contracts	415,019,926	556,539,416	**75**	400,999,126	541,851,839	**74**

Gross written premium as % of number of full-time employees	Gross written premiums in euros	Number of full-time employees	Year 2017 in euros	Gross written premiums in euros	Number of full-time employees	Year 2016 in euros
1	2	3	4=2/3	5	6	7=5/6
Aggregate insurance business - total	307,839,510	1,076	**286,096**	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
Covering fund for supplementary pension insurance during annuity payout under Pension and Disability Act (ZPIZ-2)	5063361038

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. 2017	Unit-linked life insurance – FOND POLICA 31 Dec. 2017	Unit-linked life insurance 31 Dec. 2016	Unit-linked life insurance – FOND POLICA 31 Dec. 2016
ASSETS	**23,930,128**	**224,092,339**	**26,529,777**	**212,052,883**
A. Investment property and financial investments	**23,795,166**	**220,909,977**	**26,452,657**	**209,957,596**
III. Other financial investments	23,795,166	220,909,977	26,452,657	209,957,596
3. Investment funds	23,795,166	220,909,977	26,452,657	209,957,596
B. Receivables	**134,444**	**1,736,274**	**76,643**	**1,685,267**
I. Receivables from insurance business	55,066	154,293	61,610	234,880
1. Receivables from policyholders	55,066	154,293	61,610	234,880
II. Other receivables	79,378	1,581,982	15,033	1,450,387
C. Other assets	518	1,446,087	476	410,008
I. Cash and cash equivalents	518	1,446,087	476	365,231
II. Other assets	-	0	-	44,777
D. Short-term deferred expenses and accrued revenues	**-**	**-**	**-**	**12**
2. Short-term deferred acquisition costs	-	-	-	12
LIABILITIES	**23,610,517**	**224,254,614**	**26,322,479**	**212,480,003**
A. Revaluation surplus	**-**	**(0)**	**-**	**(0)**
B. Gross insurance technical provisions	**179,012**	**1,031,362**	**30,508**	**1,318,594**
III. Gross claims provisions	179,012	1,031,362	30,508	1,318,594
C. Gross insurance technical provisions for unit-linked life insurance contracts	**23,273,088**	**216,750,076**	**26,098,893**	**204,980,382**
E. Other liabilities	**101,835**	**6,283,303**	**129,953**	**5,915,707**
I. Liabilities from insurance business	20,220	1,050,582	25,961	970,719
1. Liabilities to policyholders	20,196	688	491	354
3. Other liabilities from insurance business	24	1,049,894	25,470	970,365
II. Liabilities from co-insurance and reinsurance business	-	-	-	6,741
III. Other liabilities	81,616	5,232,722	103,992	4,938,247
F. Accrued expenses and deferred revenues	**56,580**	**189,872**	**63,125**	**265,321**

Income statement of unit-linked funds

(in EUR)	Unit-linked life insurance 2017	Unit-linked life insurance – FOND POLICA 2017	Unit-linked life insurance 2016	Unit-linked life insurance – FOND POLICA 2016
I. Gross written premium	**1,843,344**	**23,007,454**	**2,167,080**	**23,475,635**
II. Investment revenue	**1,769,822**	**34,039,732**	**3,832,501**	**41,172,294**
1. Revenues from dividends and shares	**-**	**-**	**-**	**-**
2. Revenue from other investments	**1,769,822**	**34,039,732**	**3,832,501**	**41,172,294**
2.1. Revenue from land and buildings	-	-	-	-
2.2. Interest revenue	-	-	-	18
2.3. Other investment revenue	1,769,822	34,039,732	3,832,501	41,172,276
2.3.1. Revaluation financial revenues	1,769,822	33,828,423	3,832,501	41,172,276
2.3.2. Other financial revenues	-	211,309	-	-
3. Value re-adjustments on investments	**-**	**-**	**-**	**-**
4. Gains on the realisation on investments	**-**	**-**	**-**	**-**
III. Expenses from payments of sum insured or surrender value	**(5,767,075)**	**(24,065,121)**	**(5,542,528)**	**(19,061,184)**
1. Ordinary termination (maturity)	**(4,414,165)**	**(11,196,524)**	**(4,303,120)**	**(6,539,941)**
2. Extraordinary termination	**(1,352,910)**	**(12,868,597)**	**(1,239,409)**	**(12,521,243)**
2.1 Withdrawal from contract	(1,291,483)	(12,557,361)	(1,174,252)	(12,199,151)
2.2 Cancellation of contract	-	(3,274)	-	-
2.3 Death of policyholder	(61,427)	(307,962)	(65,157)	(322,092)
V. Change in other insurance technical provisions, net of reinsurance (+/–)	**2,677,301**	**(11,482,463)**	**1,644,108**	**(20,866,626)**
1. Change in mathematical provisions (+/–)	**2,677,301**	**(11,769,695)**	**1,644,108**	**(19,934,337)**
2. Change in other insurance technical provisions, net of reinsurance (+/–)	**-**	**287,231**	**-**	**(932,289)**
VI. Expenses and commissions	**(257,982)**	**(5,343,543)**	**(261,266)**	**(5,608,186)**
1. Entry fees	**(682)**	**(1,710,466)**	**-**	**(1,889,783)**
2. Exit fees	**(242,755)**	**(182,130)**	**(15,178)**	**(192,930)**
3. Management fees	**(14,544)**	**(3,450,948)**	**(246,088)**	**(3,525,473)**
VII. Investment expenses	**(126,750)**	**(15,816,202)**	**(1,708,606)**	**(19,246,100)**
1. Depreciation of assets not used in operations	**-**	**-**	**-**	**-**
2. Expenses arising from asset management, interest expenses and other financial expenses	**-**	**(162,730)**	**-**	**-**
3. Financial expenses from revaluation	**(126,750)**	**(15,653,472)**	**(1,708,606)**	**(19,246,100)**
4. Losses on the realisation of investments	**-**	**-**	**-**	**-**
VIII. Profit/loss of unit linked fund (I + II - III + IV + V - VI - VII)	**138,659**	**339,856**	**131,289**	**(134,167)**

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	**10,343,657**	**24,706,306**	**8,802,480**	**9,663,148**	**22,524,066**	**9,470,762**
1. Financial assets at fair value through profit or loss	10,343,657	24,706,306	8,802,480	9,663,148	22,524,066	9,470,762
IV. Receivables	**233,040**	**-**	**-**	**-**	**-**	**-**
4. Other receivables	233,040	-	-	-	-	-
V. Cash and cash equivalents	**185,556**	**(192,965)**	**131,352**	**342,744**	**(123,218)**	**183,070**
VII. TOTAL ASSETS	**10,762,253**	**24,513,341**	**8,933,832**	**10,005,892**	**22,400,848**	**9,653,832**
LIABILITIES	-	-	-	-	-	-
I. Operating liabilities	**9,019**	**11,195**	**10,927**	**9,194**	**11,107**	**12,906**
3. Liabilities to custodian	9,019	11,195	10,927	9,194	11,107	12,906
II. Financial liabilities	**-**	**-**	**-**	**-**	**-**	**-**
III. Liabilities to policyholders from insurance contracts	**9,836,928**	**22,733,185**	**8,179,153**	**9,364,064**	**21,223,006**	**9,255,860**
1. Nominal value of premiums paid	6,103,250	19,401,394	6,403,387	6,263,020	19,057,951	7,865,159
3. Net profit/loss brought forward from previous years	3,733,679	3,331,791	1,775,766	3,101,044	2,165,055	1,390,701
IV. Undistributed net profit/loss for the financial year	**916,305**	**1,768,961**	**743,751**	**632,635**	**1,166,736**	**385,066**
V. TOTAL LIABILITIES	**10,762,253**	**24,513,340**	**8,933,832**	**10,005,892**	**22,400,848**	**9,653,832**
-	-	-	-	-	-	-
NET ASSETS OF THE INTERNAL FUND = ASSETS-OPERATING LIABILITIES-FINANCIAL LIABILITIES	**10,753,233**	**24,502,146**	**8,922,905**	**9,996,698**	**22,389,742**	**9,640,926**

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 2016	Internal unit-linked fund – AKTIVNI NALOŽBENI PAKET 2016	Internal unit-linked fund – VRHUNSKI 2016
A. Income statement for the internal fund	**-**	**-**	**-**	**-**	**-**	**-**
I. Financial revenues	**1,173,675**	**1,988,389**	**1,004,293**	**952,994**	**1,725,406**	**881,027**
1. Revenues from dividends and shares	54,795	-	56,108	38,860	-	42,514
3. Realised gains on financial investments	121,602	300,636	137,042	148,831	97,944	233,355
4. Net unrealised gains and losses from financial investments, measured at fair value through profit and loss	993,881	1,687,753	806,164	679,679	1,627,461	534,451
5. Other financial revenue	**3,397**	**-**	**4,978**	**85,623**	**0**	**70,707**
IV. Financial expenses	**141,982**	**78,408**	**110,439**	**216,176**	**438,186**	**334,843**
2. Realised loss on financial investments	-	72,545	15,527	120,625	432,885	197,924
3. Net gains from the change in fair value of financial investments, recognised at fair value through profit or loss	12,564	5,862	6,736	33,811	5,301	76,103
4. Other financial expenses	129,419	-	88,176	61,740	(0)	60,815
VI. Management and operating expenses	**115,388**	**141,020**	**150,102**	**104,183**	**120,484**	**161,119**
1. Expenses relating to custodian	115,388	141,020	150,102	104,183	120,484	161,119
VII. Net profit/loss for the period	**916,305**	**1,768,961**	**743,751**	**632,635**	**1,166,736**	**385,066**

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 31.12.2017	AS -UMIRJENI 31.12.2017	AS - ZAJAMČENI 31.12.2017	Lifecycle group	AS - DRZNI 31.12.2016	AS -UMIRJENI 31.12.2016	AS - ZAJAMČENI 31.12.2016	Lifecycle group
ASSETS	4,263,071	2,604,080	2,034,309	8,901,459	1,995,355	1,429,468	1,340,774	4,765,596
Financial investments	3,886,463	2,391,438	1,646,715	7,924,616	1,640,230	1,198,155	735,672	3,574,058
available for sale:	920,812	816,599	500,897	2,238,308	1,640,230	1,198,155	735,672	3,574,058
– debt securities	354,390	236,260	-	590,650	343,910	229,273	-	573,183
– equity securities	566,422	580,339	500,897	1,647,658	1,296,321	968,882	735,672	3,000,875
measured at fair value:	2,965,651	1,574,839	1,145,818	5,686,307	-	-	-	-
– debt securities	-	201,994	637,700	839,694	-	-	-	-
– equity securities	2,965,651	1,372,845	508,118	4,846,613	-	-	-	-
Receivables	248,961	145,756	61,102	455,819	284,404	200,269	552,403	1,037,076
Other receivables	248,961	145,756	61,102	455,819	284,404	200,269	552,403	1,037,076
Cash and cash equivalents	127,647	66,885	315,361	509,894	70,720	31,044	42,838	144,602
Off-balance-sheet assets	-	-	11,131	11,131	-	-	9,861	9,861
Other off-balance-sheet assets	-	-	11,131	11,131	-	-	9,861	9,861
LIABILITIES	4,263,059	2,604,064	2,034,303	8,901,425	1,995,355	1,429,468	1,340,774	4,765,596
Insurance technical provisions	4,252,755	2,596,187	2,016,439	8,865,381	1,986,741	1,423,242	1,325,933	4,735,916
Mathematical provisions for payable net premiums	-	-	-	-	-	-	-	-
Mathematical provisions for attributed return on assets covering mathematic	263,126	70,284	8,771	342,182	40,139	6,631	(6,205)	40,565
Technical provisions where the assets covering mathematical provisions are split to units (VEP)	3,989,629	2,525,903	2,007,668	8,523,199	1,946,602	1,416,611	1,332,138	4,695,351
Operating liabilities	5,728	3,302	2,158	11,188	4,954	2,566	1,320	8,839
Liabilities to the managing company of the assets covering mathematical pro	5,491	3,099	2,056	10,647	4,724	2,421	1,204	8,349
Other operating liabilities	237	203	102	541	230	145	116	490
Other liabilities	4,575	4,575	4,575	13,725	3,660	3,660	3,660	10,980
Off-balance-sheet liabilities	-	-	11,131	11,131	-	-	9,861	9,861
Other off-balance-sheet liabilities	-	-	11,131	11,131	-	-	9,861	9,861

Income statement of ring-fenced lifecycle pension insurance funds – Pokojninsko varčevanje AS

in EUR	AS - DRZNI 2017	AS - UMIRJENI 2017	AS - ZAJAMČENI 2017	Lifecycle group	AS - DRZNI 2016	AS - UMIRJENI 2016	AS - ZAJAMČENI 2016	Lifecycle group
Payments or premiums	1,796,732	908,024	372,282	3,077,038	1,176,095	570,695	244,188	1,990,978
Financial revenue	363,727	144,018	61,455	569,201	17,449	4,540	19	22,007
Revenue from dividends and shares	24,397	10,202	-	34,599	2,239	551	-	2,790
Interest revenue	(24,005)	(7,905)	8,551	(23,359)	(209)	183	1	(26)
Gains on disposals of financial investments	106,224	40,373	4,302	150,899	13,369	2,746	18	16,134
Revaluation financial revenue arising from a change in the fair value of a financial asset through profit and loss	257,925	102,036	48,596	408,557	-	-	-	-
Other financial revenue	(814)	(688)	6	(1,496)	2,050	1,060	(0)	3,110
Expenses from payment of surrender values	(79,802)	(66,572)	(99,358)	(245,731)	(243)	(245)	(1,194)	(1,682)
Ordinary termination	-	(24,185)	(27,193)	(51,378)	-	-	(402)	(402)
Extraordinary termination	(79,802)	(42,387)	(72,164)	(194,353)	(243)	(245)	(792)	(1,280)
– withdrawal from contract	(79,180)	(42,387)	(60,302)	(181,869)	(243)	-	-	(243)
– death of policyholder	(622)	-	(11,862)	(12,484)	-	(245)	(792)	(1,037)
Assets transfer from or to other provider of pension insurance (+/–)	340,223	274,840	406,954	1,022,017	779,074	849,832	1,090,543	2,719,449
Assets transfer from the other provider	343,881	274,840	406,954	1,025,675	779,344	850,641	1,090,543	2,720,529
Assets transfer to the other provider	(3,658)	-	-	(3,658)	(270)	(810)	-	(1,080)
Change in insurance technical provisions net of reinsurance (+/–)	(2,043,027)	(1,109,292)	(675,530)	(3,827,848)	(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)
Change in provisions for insurance where the assets covering mathematical provisions are split to units (VEP)	(2,043,027)	(1,109,292)	(675,530)	(3,827,848)	-	-	-	-
Expenses charged by fund manager	(46,988)	(27,791)	(19,927)	(94,706)	(14,339)	(7,407)	(4,087)	(25,833)
Entry fees	(16,095)	(7,346)	(2,766)	(26,207)	(8,474)	(3,502)	(1,392)	(13,369)
Exit fees	(806)	(636)	(1)	(1,443)	(2)	(2)	-	(5)
Management fees	(30,088)	(19,808)	(17,160)	(67,056)	(5,863)	(3,902)	(2,694)	(12,459)
Expenses relating to custodian bank	(5,971)	(4,645)	(3,624)	(14,241)	(2,094)	(1,757)	(1,572)	(5,423)
Other expenses charged to the pension fund in accordance with fund management rules	(8,756)	(7,031)	(5,568)	(21,355)	(6,698)	(5,148)	(3,779)	(15,624)
Financial expenses	(130,843)	(68,135)	(31,015)	(229,993)	(7,406)	(3,630)	(387)	(11,422)
Interest expenses	-	-	-	-	(78)	(52)	-	(131)
Losses on disposal of financial investments	(23,021)	(8,635)	(2,292)	(33,948)	(7,327)	(3,577)	(387)	(11,291)
	(107,822)	(59,500)	(28,723)	(196,045)	-	-	-	-
VII. Net profit/loss for the period	185,295	43,417	5,670	234,382	(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 2017	31 Dec 2016
ASSETS	**11,609,625**	**12,023,260**
Financial investments	**11,170,816**	**11,802,293**
held to maturity:	2,186,512	2,394,817
– debt securities	2,186,512	2,394,817
available for sale:	8,682,418	9,407,477
– debt securities	8,214,130	8,907,038
– equity securities	468,288	500,439
measured at fair value:	301,886	(0)
– debt securities	301,886	(0)
Receivables	**40,051**	**43,037**
Other receivables	40,051	43,037
Cash and cash equivalents	**398,758**	**175,558**
Off-balance-sheet assets	**-**	**2,371**
Other off-balance-sheet assets	-	2,371
LIABILITIES	**12,023,260**	**12,023,260**
Insurance technical provisions	**12,004,082**	**12,004,082**
Mathematical provisions for paid net premiums	10,170,436	10,170,436
Mathematical provisions for attributed return on assets covering mathematical provisions	1,833,645	1,833,645
Operating liabilities	**13,100**	**13,100**
Liabilities to the managing company of the assets covering mathematical provisions	10,008	10,008
Liabilities to members of the fund, arising from surrender value	2,363	2,363
Other operating liabilities	729	729
Other liabilities	**3,707**	**3,707**
Off-balance-sheet liabilities	**2,371**	**2,371**
Other off-balance-sheet liabilities	2,371	2,371

Income statement of the PNA01 ring-fenced pension insurance guarantee fund

(in EUR)	2017	2016
Payments or premiums	**(52,052)**	209,950
Financial revenue	**372,516**	387,048
Interest revenue	368,426	379,598
Gains on disposals of financial investments	-	6,425
Revaluation financial revenue arising from a change in the fair value of a financial asset through profit and loss	4,139	-
Other financial revenue	(49)	1,024
Expenses from payment of surrender values	**(586,122)**	(367,832)
Ordinary termination	(160,844)	(155,281)
Extraordinary termination	(425,278)	(212,551)
– withdrawal from contract	(423,376)	(196,894)
– death of policyholder	(1,902)	(15,658)
Assets transfer from or to the other provider of pension insurance (+/–)	**(20,813)**	649,559
Assets transfer from the other provider	-	710,468
Assets transfer to the other provider	(20,813)	(60,909)
Change in insurance technical provisions net of reinsurance (+/–)	**550,338**	(565,941)
Change in mathematical provisions without the profit of the current year (+/–)	550,338	(565,941)
Expenses, charged by fund manager	**(121,815)**	(126,231)
Entry fees	-	(1,446)
Exit fees	(5,065)	(3,504)
Management fees	(116,750)	(121,280)
Expenses relating to custodian bank	**(9,612)**	(10,819)
Other expenses charged to the pension fund in accordance with fund management rules	**(4,567)**	(6,106)
Financial expenses	**(28,979)**	(131)
Interest expenses	-	(19)
Losses on disposal of financial investments	(17,873)	(112)
Revaluation financial expenses from changes in the fair value of financial investments through the income statement	(11,106)	-
VII. Net profit/loss for the period	98,893	169,497

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 2017	31 Dec 2016
ASSETS	**572,510**	**612,173**
A. Investment property and financial investments	560,263	603,636
I. Investment property	23,046	23,546
III. Other financial investments	537,218	580,090
2. Debt securities and other securities with fixed return	537,218	580,090
B. Receivables	**3,051**	**1,803**
II. Other receivables	3,051	1,803
C. Other assets	**9,195**	**6,734**
I. Cash and cash equivalents	9,195	6,734
	-	-
LIABILITIES	**496,846**	**527,456**
A. Fair value reserve	**(4,383)**	**(7,340)**
B. Gross insurance technical provisions	**471,624**	**504,212**
II. Gross mathematical provisions	471,624	504,212
E. Other liabilities	**29,605**	**30,584**
I. Liabilities from direct insurance operations	3,010	12
1. Liabilities to policyholders	3,010	-
3. Other liabilities to direct insurance operations	-	12
III. Other liabilities	26,595	30,572

Income statement of the ring-fenced pension insurance fund during the annuity payout period

(in EUR)	2017	2016
I. Transfer of funds from the pension scheme of additional pension insurance	**28,550**	**81,025**
1. this legal entity	28,550	81,025
II. Investment revenue	**23,519**	**46,818**
1.1. Revenue from dividends and shares in subsidiaries	23,519	24,667
1.2. Revenues from dividends and shares in associated companies	3,639	4,367
1.3. Revenues from dividends and shares in other companies	19,531	19,831
2. Revenue from other investments	349	469
2.2. Interest revenue	-	22,151
2.3. Other investment revenue	(43,285)	(36,063)
2.3.1. Revaluation financial revenues	(43,285)	(36,063)
3. Value re-adjustments on investments	(11,034)	(61,673)
4. Gains on the realisation on investments	(11,034)	(61,673)
1. Claims paid	(1,011)	(2,252)
2. Change in claims provisions	-	(1,433)
1. Change in mathematical provisions (+/–)	(1,011)	(819)
VI. Investment expenses	(7,037)	(5,163)
1. Depreciation of assets not used in operations	**(501)**	**(501)**
2. Expenses arising from asset management, interest expenses and other financial expenses	(156)	(103)
3. Revaluation operating expenses	(5,082)	(3,507)
4. Losses on the realisation of investments	(1,299)	(1,052)
VII. Profit/loss of guarantee fund (I. + II. - III. + IV. - V. - VI.)	**(10,298)**	**22,693**
VII.a. Profit/loss of guarantee fund (I. + II. - III. + IV. - Va. - VI.)	**(9,287)**	**24,944**

Assets and liabilities of the ring-fenced covering fund for supplementary pension insurance during annuity payout under Pension and Disability Act (ZPIZ-2)

(in EUR)	31 Dec 2017	31 Dec 2016
ASSETS	**98,522**	-
A. Investment property and financial investments	55,574	-
III. Other financial investments	55,574	-
2. Debt securities and other securities with fixed return	55,574	-
B. Receivables	**893**	-
II. Other receivables	893	-
C. Other assets	**42,055**	-
I. Cash and cash equivalents	42,055	-
LIABILITIES	**98,522**	-
A. Revaluation surplus	**430**	-
B. Gross insurance technical provisions	**97,990**	-
I. Gross provisions for unearned premium	13,986	-
II. Gross mathematical provisions	84,005	-
E. Other liabilities	**101**	-
III. Other liabilities	101	-

Statement of the ring-fenced covering fund for supplementary pension insurance during annuity payout under Pension and Disability Act (ZPIZ-2)

(in EUR)	2017	2016
I. Transfer of funds from the pension scheme of additional pension insurance	**43,568**	-
1. this legal entity	**43,568**	-
II. Investment revenue	**174**	-
2. Revenue from other investments	**174**	-
2.2. Interest revenue	174	-
III. Claims expenses	**(2,787)**	-
1. Claims paid	**(2,787)**	-
IV. Change in other net insurance technical provisions (+/–)	**(40,383)**	-
1. Change in mathematical provisions (+/–)	**(40,383)**	-
V. Expenses included in policies	**(1,450)**	-
1. Entry fees	**(1,351)**	-
3. Costs of claims settlement	**(99)**	-
2. Expenses arising from asset management, interest expenses and other financial expenses	**(156)**	-
4. Losses on the realisation of investments	**(1,299)**	-
VII. Profit/loss of guarantee fund (I. + II. - III. + IV. - V. - VI.)	**(879)**	-
VII.a. Profit/loss of pension fund (I. + II. - III. + IV. - Va. - VI.)	**572**	-