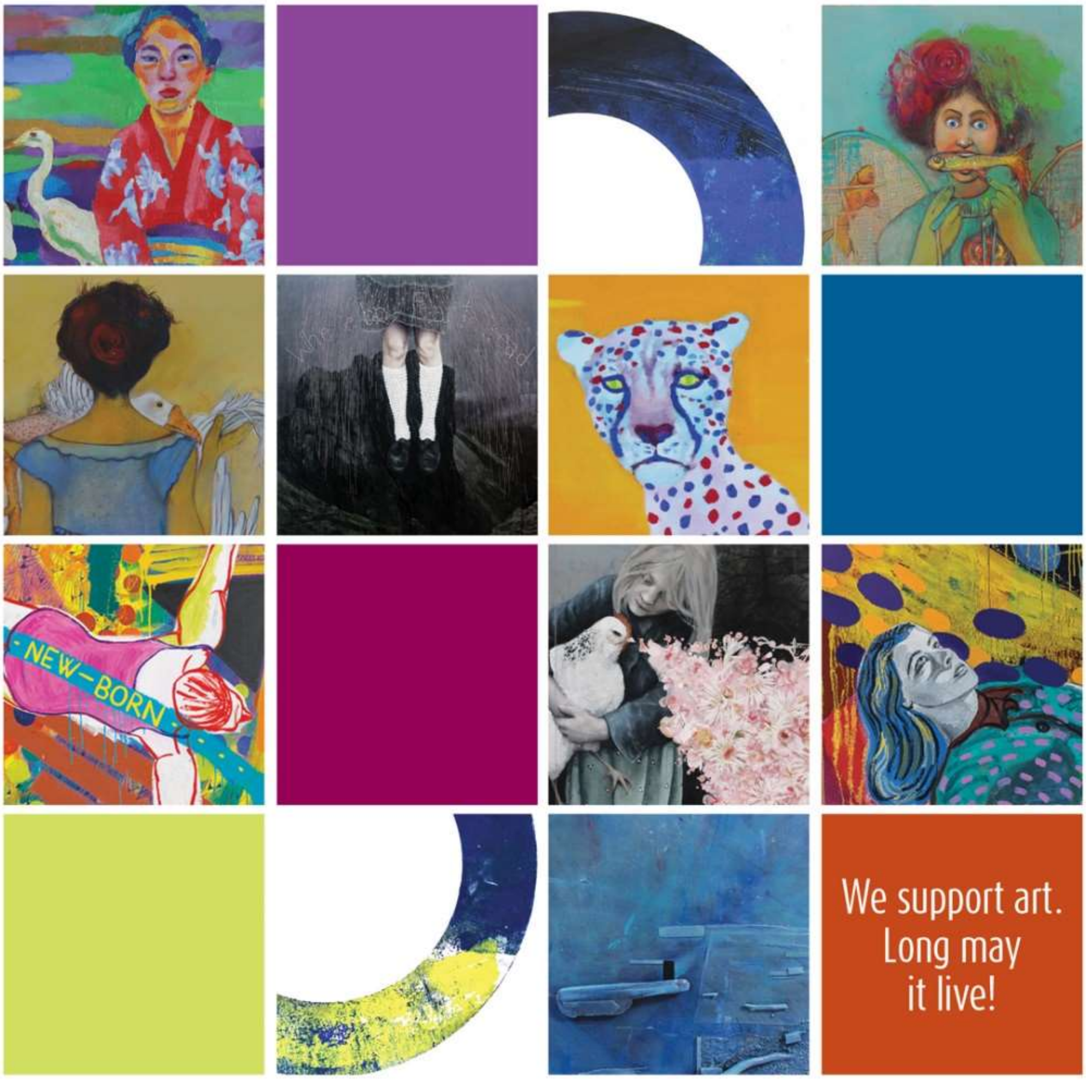

ANNUAL REPORT 2018

AUDITED

Adriatic Slovenica and Adriatic Slovenica Group

For the fourth consecutive year, the Gallery at Dunajska 63 in Ljubljana is hosting an exhibition of the collection of works of art that the insurance company acquired in 2012. This rich collection, initiated and founded by Matjaž Gantar, former Chairman of the Supervisory Board of the insurance company, today contains some thousand items and is continuously complemented and enriched by the Company with new purchases of works created by the exhibited authors. Under the direction of the curator, art historian Petra Bizilj Silva, we presented a series of interesting, mostly domestic authors at 17 independent and group exhibitions staged from 2014 to 2018. A high quality selection of art and photographic creations is reflected in the increasing media attention and recognition of the AS Gallery among art lovers.
All exhibitions presented to the public since 2014 are available in online galleries. Six purchased paintings by contemporary Slovenian authors or details of their works are shared with you on the pages of the Annual Report for 2018.

We support
art. Long
may it live!

AS Gallery

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I. About Adriatic Slovenica and the Adriatic Slovenica Group

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

1.1 STATEMENT BY THE PRESIDENT OF THE MANAGEMENT BOARD

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

In 2018, the Insurance Company AS and the AS Group continued their operations in line with the set strategy, fulfilled key business goals and operated successfully despite the slowdown in the growth of economic activity in Slovenia and the international environment.

The most important event of the year is the beginning of the sale of the Company when on 23 May the long-term owner of the KD Group Insurance Company concluded the contract for the sale of the Company Adriatic Slovenica d. d. with Generali CEE Holding, BV, which is part of the International Generali Group. The sales process was completed after the end of the financial year 2018, and we became part of the reputable international Generali Group on 13 February 2019.

The business year was also marked by adapting to European directives, in which we recognized new opportunities for clients and an increased confidence in the Insurance Company. An important milestone of the past year was the adjustment of the business to the GDPR, the new European Regulation on the protection of personal data providing individuals with more rights and more freedom in decision-making. IDD, the new Directive on the distribution of insurance products, effective from 1 October 2018, provides greater transparency in the development, sales of insurance and customer information while strengthening consumer protection.

Gabrijel Škof: "We are proud of our development and the achieved trust of our customers."

Results and Trends

The most important goals, namely sustainable and profitable operations, better balance of the insurance offer, risk segmentation, risk management to strengthen capital adequacy and maintenance of the credit rating, were successfully achieved. We ended 2018 with a net profit of EUR 8.9 million and recorded a 9.2% return on equity. Adriatic Slovenica generated a positive operating result in all three areas of operations, 79% of gross profits of the company in non-life insurance, 16% in health insurance and 5% in life insurance.

The results confirm a successful implementation of the adopted strategy. We posted a total of EUR 300.4 million of gross insurance premiums (excluding pension funds inflows) and recorded growth in the most important non-life insurance products. The most visible sales results were achieved by Croatia's branch office (almost 40% growth) and the Wiz website, which increased sales by 30% in key insurance products Wiz Car, Wiz Health and Wiz Abroad. By doing this, we have consolidated our position in the insurance market, since we are comparable to the best in the industry by both market share and reputation. The safety and efficiency of operations are also evidenced by the improvement of the credit rating to BBB+ received by the Company in mid-February 2019 with the entry into the Generali Group.

The Company paid a total of EUR 221 million in damages and benefits. This is 2.4 million less than the year before, which was achieved through the consistent implementation of the strategy, orientation towards more profitable segments with better risk selection. Nonetheless, we recorded a 38% increase in goods transport claims, a 9% increase in fire and natural disasters insurance, and a 2% increase in motor third party liability claims, just to highlight the most important classes of insurance. We also note that in the last decade in Slovenia, mass environmental disasters, windstorms, hailstorms and floods have increased significantly. Nevertheless, in the field of natural disasters, 2018 was fairly lenient.

Successes and Opportunities

New insurance and assistance products are better in all respects than before, however we are trying to recognize new opportunities to increase confidence in the Company. We tailor our offer to our customers' needs and social needs. We are also proud of our achievements: Life Insurance *Moj življenjski kasko* (My Comprehensive Life Insurance), Migimigi Vitality Programme and the reward for the BEST risk life insurance won in all categories. We received the Family-Friendly Enterprise full certificate and were awarded the highest organizational energy in the financial industry award for the third consecutive year.

The Company KD Skladi, which has been an important part of the Group for three years now, has again won a number of awards for quality asset management and our colleague Primož Cencelj received the flattering title of the best manager. The first purchases of office buildings were carried out within the framework of Adriatic Value Fund, the first alternative real estate investment fund in Slovenia. In this way, we have successfully added funds for institutional investors to the sub-funds for retail investors managed within the framework of the KD Umbrella Fund.

We strive for long-term sustainable health care and financial security for the elderly, as we estimate that, due to negative demographic trends, the conditions in the area of healthcare and financial security of the population will be further aggravated. Systemic changes, a more stimulating tax policy for pension savings and a comprehensive reform of the health system will be necessary. We are always ready to provide professional support and to co-create solutions in the areas that are important in providing a greater security for all of us, for a better future for Slovenia.

In order to succeed in the market, different ideas need to be heard and taken into account

We invest a lot of energy into development, flexible selling methods and new information ecosystems, while also preserving the appreciated traditional sales channels and direct customer advising. We are actively offering them opportunities for digital collaboration, while at the same time giving them enough time to become acquainted with new technologies. Thus, the next step - the introduction of even more digital solutions into the everyday life of the insurance company - does not represent a barrier any more, but an advantage. However, regardless of the changes, indisputable quality remains the basis of everything. We strive every day for our customers and business partners to recommend us to their friends for the high quality offer and professional and friendly services.

Nowadays, a single professionally qualified individual is not enough. It is important that we act as in a sports team, where success is achieved by the team and could not be achieved by an individual without the team support. In the AS Group, we managed to link competencies and experience into one interdisciplinary team, where motivated individuals act as team players on their way to a common goal. We are therefore convinced that the set objectives will be successfully implemented in 2019. I sincerely thank the colleagues, our clients and business partners for their trust and the Shareholder for the support in the implementation of the strategy.

Sincerely,

Gabrijel Škof
President of the Management Board

Koper, 22 February 2019

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 2018, the Supervisory Board was composed of Matjaž Gantar as Chairman, Aljoša Tomaž as Deputy Chairman, Aleksander Sekavčnik and Tomaž Butina as members, Matjaž Pavlin as member and employee representative and Borut Šuštaršič as member and employee representative. Following the death of the Chairman Matjaž Gantar on 18 March 2018, in its 101st session held on 20 March 2018, the Supervisory Board appointed Aljoša Tomaž Chairman of the Supervisory Board and Aleksander Sekavčnik Deputy Chairman. The Supervisory Board ended the year 208 in the following compositions: Aljoša Tomaž as Chairman, Aleksander Sekavčnik as Deputy Chairman, Tomaž Butina as member, Matjaž Pavlin as member and employee representative and Borut Šuštaršič as member and employee representative.

The Supervisory Board performed its activities in accordance with the agreed model of supervision over the operation of the Management Board. In 2018, the Supervisory Board held six regular sessions and one session by correspondence. In the course of the 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. Therefore, the Supervisory Board considered reports delivered by the commission for regular implementation of the strategy and achievement of the target business model.

The Supervisory Board approved the Annual Reports of Adriatic Slovenica d.d. and Adriatic Slovenica Group for 2017 as well as reviewed the report on the relationship with the controlling company in 2017. The Supervisory Board also examined the reports prepared by the actuarial function with regard to non-life and life insurances for 2017 and approved the Supervisory Board functions activity report and compliance report for 2017. Furthermore, the Supervisory Board approved the Solvency and Financial Condition Report (SFCR) for 2017 and the Own Risk and Solvency Assessment (ORSA) of the insurance company Adriatic Slovenica. In addition to Company's performance reports, the Supervisory Board also examined and gave its consent to the business policy and financial plan for 2019 and the plans for the work of the internal audit key function and of the monitoring of compliance key function for 2019.

In 2017, the Supervisory Board also discussed the following significant issues: it conducted a regular annual review of the management policies of the insurance company, following the resignation of Mojca Kek, it appointed Tomaž Butina member and Deputy Chairman of the Audit Committee and consented to the appointment of new members of the actuarial function in charge of non-life and life insurances. 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 2017.

Pursuant to the Insurance Act, one of the duties of the Supervisory Board is the monitoring of the functioning of Internal Audit. In 2018 and until the date of this report, the Supervisory Board examined the report on the activities of Internal Audit in the second half of 2017 and the entire 2017 and the report on Internal Audit activities in the first half of 2018. 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. IN its 106th session held on 12 December 2018, the Supervisory Board gave its consent to the Internal Audit Work Plan for 2019.
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.

Review and approval of the Annual Report

At its 110th session held on 8 April 2018, the Supervisory Board examined the Annual Report and Consolidated Annual Report of Adriatic Slovenica for 2018 along with the corresponding reports of the certified auditor Ernst & Young 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 2018 as well as of financial results and cash flows in the business year 2018 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 took note of the report on the activities of Internal Audit in the second half of 2018 and the annual report for 2018. The Supervisory Board issued a positive opinion on the annual report on the activities of Internal Audit in 2018. Furthermore, the Supervisory Board took note of the report by the Management Board on the relationship with the controlling company in 2018 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 2018, the Supervisory Board:

- approves the Annual Report of Adriatic Slovenica d.d. for 2018,
- approves the Consolidated Annual Report of the Adriatic Slovenica Group for 2018,
- gives a positive opinion on the reports of the auditor Ernst & Young 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:

  The distributable profit of the Company as at 31 December 2018 amounts to EUR 38,511,895.29 and shall be allocated in the following manner:

  1. a part of the distributable profit amounting to EUR 8,140,481.53 shall be used for dividend payments of EUR 0.79 gross per share. The dividend shall be paid on 27 May 2019 to all shareholders registered in the Share Register as at 24 May 2019;
  2. the rest of the distributable profit amounting to EUR 30,371,413.76 shall remain undistributed and the decision on its use shall be made in the coming years.

Koper, 8 April 2019

Chairman of the Supervisory Board
Gregor Pilgram

1.3 REPORT OF THE AUDIT COMMITTEE OF THE SUPERVISORY BOARD

Report of the Audit Committee of the Supervisory Board on its activities in 2018 and on the review of materials for the approval of the Annual Report for 2018

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 2018.
The Audit Committee provides the Supervisory Board with expertise required for the implementation of supervision over the management of the Company.

The audit Committee started the year 2018 in the following composition: Matjaž Pavlin as the Chairman, Mojca Kek as the Deputy Chairman and Vera Dolinar as member. Mojca Kek resigned from the Audit Committee on 30 March 2018 and the Supervisory Board, in its 102nd session held on 26 April 2018, appointed Tomaž Butina as Deputy Chairman and member of the Audit Committee.
The Committee held six regular sessions and one sessions by correspondence at which members focused on 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 December, the Audit Committee examined the work plans of the key functions Internal Audit and Compliance for 2019 and proposed that the Supervisory Board approve the plans.

Operating efficiency of Internal Audit
In 2018, the Audit Committee regularly monitored 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. The Internal Audit carried out its activities on the basis of the Annual Work Programme, which was fully implemented. The Internal Audit Team performed 12 regular audits. In the audit reports for 2018, the Internal Audit Team issued 124 recommendations thus creating added value and improving the company. Auditees were successful in implementing the recommendations thus redressing the deficiencies and irregularities. The Director of the Internal Audit regularly reported on the implementation of recommendations issued to the auditees. In addition to auditing and monitoring the implementation of the recommendations, the Internal Audit Team provided advisory services and regularly monitored the company's operations, including exposure to risks. 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. The Audit Committee also discussed the report on the performed external audit of the quality of the Internal Audit performance operation in which the auditor gave a positive opinion. In view of all the above, the Audit Committee is of the opinion that the Internal Audit Team performed its auditing activities in 2018 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 Ernst & Young d.o.o. 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 business year 2018 and the corresponding audit reports by Ernst & Young 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 Ernst & Young 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 2018 and the annual report on the activities of Internal Audit in 2018;
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 2018 in their proposed form.

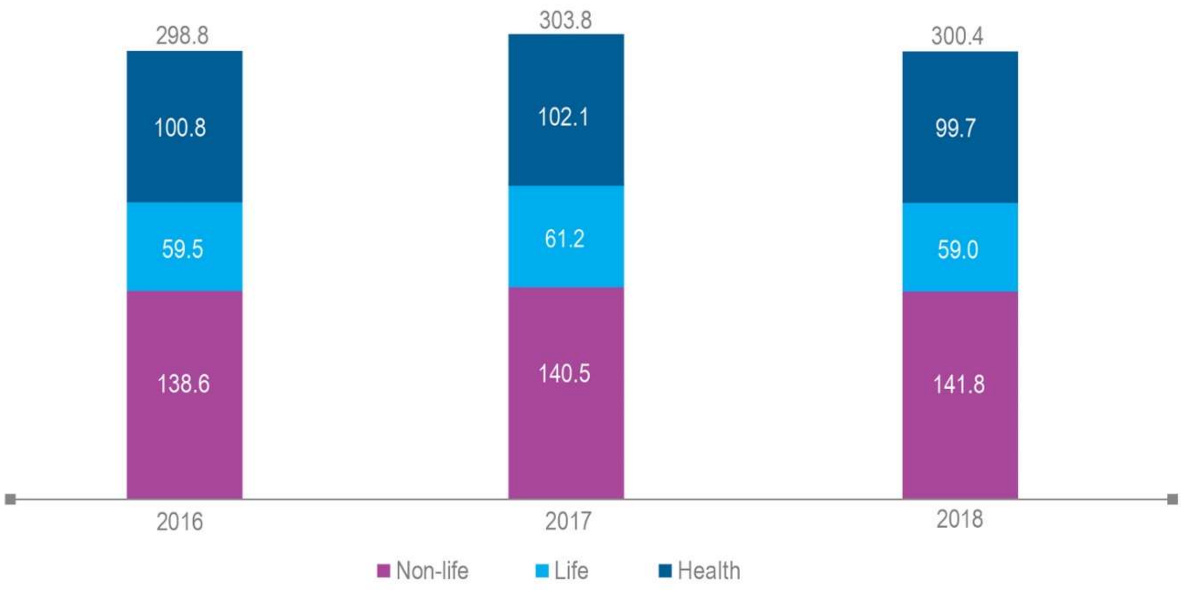
Koper, 5 April 2019

Matjaž Pavlin
Chairman of the Audit Committee

1.4 HIGHLIGHTS OF THE COMPANY IN 2018

	2018	2017
Gross written premium (in EUR million)	300.4	303.8
Gross claims paid (in EUR million)	221.0	223.4
Market share	12.8 %	14.0 %
Combined ratio (other insurance)	94.3 %	95.8 %
Combined ratio (health insurance)	98.8 %	97.4 %
Profit before tax (in EUR million)	10.3	13.5
Net profit (in EUR million)	8.9	11.4
Return on equity	9.2 %	11.9 %
Return on investment	-2.0 %	5.8 %
	31. 12. 2018	31. 12. 2017
Financial investments, cash and cash equivalents (in EUR million)	652.0	674.8
Gross liabilities from insurance contracts (in EUR million)	548.4	574.2
Number of employees	1,057	1,076
Carrying amount of capital (in EUR million)	95.2	96.9
Carrying amount of share (in EUR million)	9.24	9.40
Credit rating (18.02.2019)	BBB+stabilna (Fitch Ratings)	BBB- stabilna (Fitch Ratings)

Gross written premium for the 2016–2018 period (in EUR million)



1.5 HIGHLIGHTS OF THE AS GROUP IN 2018

	2018	2017
Gross written premium (in EUR million) – insurance activity	300.4	303.8
Gross claims paid (in EUR million) – insurance activity	221.0	223.4
Market share (in Slovenia) - insurance activity	12.8 %	14.0 %
Operating profit (in EUR million)	15.2	17.4
Profit before tax (in EUR million)	11.1	13.4
Net profit (in EUR million)	9.2	10.7
Return on equity	9.5 %	10.9 %
	31. 12. 2018	31. 12. 2017
Assets (in EUR million)	732.5	760.7
Book value of equity (in EUR million)	96.2	98.0
Financial liabilities (in EUR million)	0.5	0.4
Subordinated issued bonds (in EUR million)	49.6	49.5
Credit rating	BBB+stabilna (Fitch Ratings)	BBB-stabilna (Fitch Ratings)
Assets under management (in EUR million) - asset management	478.1	531.6
Market share (in Slovenia) - asset management	19.4 %	20.0 %

In **insurance business**, the Company provides comprehensive insurance protection through non-life, life, pension and health insurances in Slovenia and 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. whose main activity is management of investment funds and other portfolios. The Company is one of the leading Slovene management companies, which as at 31 December 2018 managed KD Krovni sklad with its 16 sub-funds and KD Adriatic Value Fund, a special investment fund, the first regulated real estate alternative investment fund (AIF) in Slovenia, managed in co-operation with Peakside Capital, a real estate firm. Another two management companies operate outside Slovenia, together managing 17 investment funds, of which 13 mutual funds in Croatia and 4 mutual funds in Macedonia. Furthermore, KD Skladi manages investments of guarantee funds of Pokojninsko varčevanje AS and life insurance investments.

Support is provided by the following small companies of the Group operating in Slovenia: VIZ d. o. o., Prospera, družba za izterjavo d. o. o., Zdravje AS d. o. o. in Agent d. o. o. Two subsidiaries operate outside Slovenia: KD Locusta Fondovi d. o. o. Zagreb and KD Fondovi a. d. Skopje are subsidiaries of KD Skladi. The winding up of the Croatian company Permanens d. o. o. was concluded in early January 2019.

1.6 STRATEGY AND PLANS OF THE AS 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 savings products

Mission
Our mission is to provide comprehensive insurance protection and to identify risks in order to guarantee a higher level of security to our clients. We offer 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. We stand by our clients and aim to exceed their expectations as we provide new dimensions of security by offering modern and transparent services.

Vision
The Group aims to become one of the leading insurance and financial groups. The Insurance Company will sell life, non-life and health insurance products complemented by high-quality asset management and investment products. Clients are at the very centre of our activities, with competitive solutions – products, services and sales channels being developed to satisfy their needs.

Values
In their operations, all employees pursue five core values. This is also true for the Company management, who live 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 2018

The Company continued with the implementation of the 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.

Within the framework of the set strategic guidelines, worth highlighting is the improved profitability of operations in the most important insurance classes. The Company managed to achieve this by appropriately selecting risks, focusing on profitable segments and managing costs, thereby achieving the planned claims and expense ratios. In the area of non-life insurance, the Company achieved a combined ratio of 94% and exceeded the plan. In the field of health insurance, despite the increased cost of healthcare services, it managed to remain profitable by applying an appropriate cost management and risk selection, reaching the combined ratio of 99%.

Within the strategic direction of improving sales results and profitable sales growth in other sales channels, the results of the direct sales channel Wiz (30% growth compared to 2017) should be highlighted – sales growth of all key product groups Wiz Car, Wiz Health and Wiz Abroad and a close to 40% growth in the Croatia branch office. The latter posted 4.7 million premiums, of which 58% in the life insurance segment and 42% in the non-life insurance segment.

The Company thus managed to consolidate its position on the Slovene and Croatian insurance markets, reaching as the fourth largest insurance group a 13% market share on the Slovenian insurance market. With EUR 8.9 million of net profit, the Company achieved the return on equity (ROE) of 9.2 %. 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 the credit rating “BBB–" (Fitch Ratings) last year. The credit rating (Fitch Ratings) improved to "BBB +" after Generali's acquisition in February 2019.

1.6.3 Plans of the AS Group for 2019

The key objective for 2019 is achieving an adequate level of profit, as outlined in the Strategy and The Annual Business Plan of the Company for 2019, 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 2019, the return on equity (ROE) will reach 14.4 %. 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 2019, it is expected that the Company will operate under challenging market conditions and in a low interest rate environment on financial markets. The insurance market in Slovenia will continue to grow, but growth rates will decline in 2019.

The Company plans premium written at over EUR 316 million (including premiums for received reinsurance and co-insurance and inflows into pension funds) while preserving a favourable claims experience. The combined ratio in non-life insurance is expected to reach 93%, while the combined ratio in health insurance is planned at 97.3%. Furthermore, in 2019, the Group will pursue all other goals set by the Company Strategy

1.6.4 Business Strategy

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 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

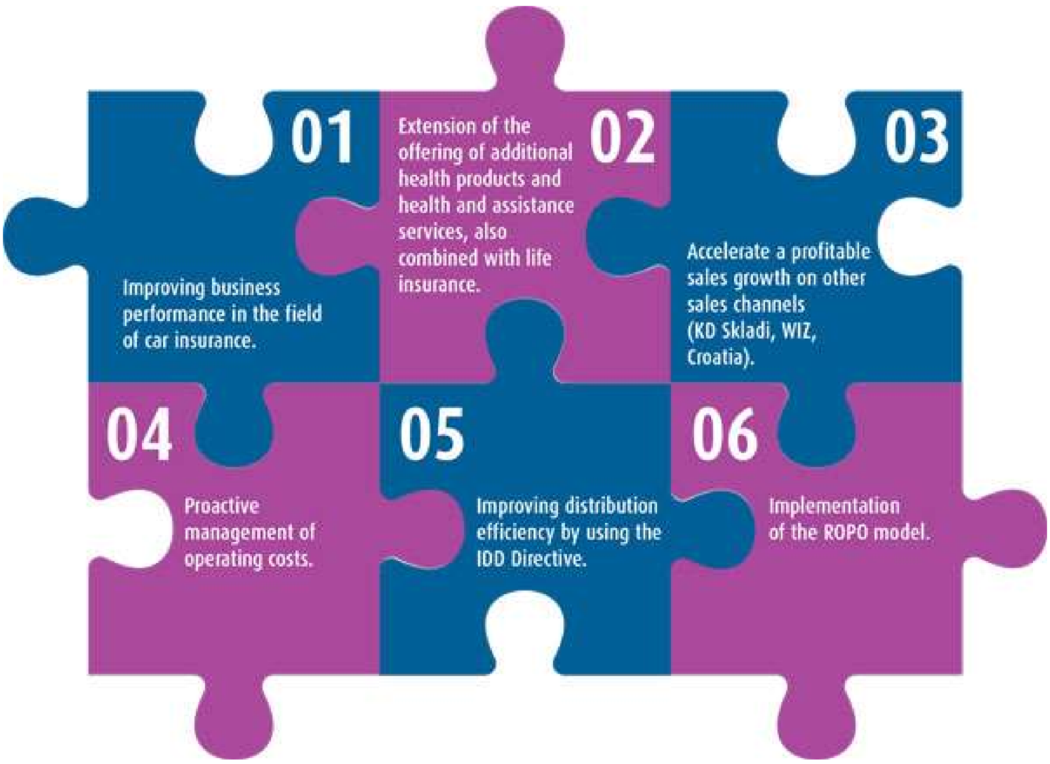
In order to achieve strategic goals, the AS will focus on key strategic initiatives that jointly enable the assessment of the financial impact that is the basis of the sustainability of the repositioning of the AS business model between 2017 and 2022.

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 long 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.



Bojan Bensa / Visit of the Dumb Animal / 2017

The exhibition "Visit of the Dumb Animal", displayed at the AS Gallery in September 2017, featured a very personal artistic confession by graduated artist Bojan Bensa. The space of his paintings virtually erases the border between the outer and the inner, while revealing inner feelings and experiences.

II. Management Report

2. MAJOR BUSINESS EVENTS OF THE COMPANY AND THE AS GROUP IN 2018

- On 18 March 2018, after a long-term illness, Matjaž Gantar, Chairman of the Supervisory Board of Adriatic Slovenica and Chairman of the Board of Directors of KD Group, passed away.
- On 20 March 2018, the Supervisory Board of Adriatic Slovenica appointed Aljoša Tomaž Chairman of the Supervisory Board and Aleksander Sekavčnik Deputy Chairman.
- On 21 March 2018, the 54th General Meeting of Shareholders of Adriatic Slovenica was held. The shareholder passed the resolution that part of the accumulated profit (EUR 40,063,857.62) amounting to EUR 10,304,407 would be allocated for dividend payments in the gross value of EUR 1 per share. The Company paid the dividend on 28 March 2018, while the remaining part of accumulated profit of EUR 29,759,450.62 remained undistributed.
- On 9 April, KD Skladi obtained the approval of the Securities Market Agency to change the rules for managing the KD Umbrella Fund, the license to publish the prospectus of the KD Umbrella Fund and the authorization to conclude the contract on custodian services.
- On 13 April, the KD Adriatic Value Fund, a special investment fund, the first regulated Real Estate Alternative Investment Fund (AIF) in Slovenia, managed by KD Skladi in cooperation with Peakside Capital, completed the acquisition of the Tivoli Centre, the first such purchase in Slovenia. The companies joined forces to interweave the knowledge of the local real estate market with the global experience of managing real estate investments by institutional investors. In July a second purchase was completed - the southern part of the Stekleni dvor business complex in Ljubljana, and in October the shopping centre Arkadia in Dob pri Domžalah.
- On April 16, Jure Kvaternik became a member of the Management Board, after having received the authorization of the Insurance Supervision Agency to perform the function of the member of the Management Board of Adriatic Slovenica.
- On 26 April 2018, on the basis of a resolution of the Supervisory Board, Tomaž Butina was appointed member and Deputy Chairman of the Audit Committee, with the mandate until the end of the term of office in the Supervisory Board.
- On 23 May 2018, KD Group concluded a contract with Generali CEE Holding, BV on the sale of 100% of the shares of Adriatic Slovenica d. d., for the purchase price of 245 million euros
- On 18 June 2018, the subsidiary KD IT d. o. o. merged with Adriatic Slovenica.
- On 9 August 2018, the rating agency Fitch Ratings reassigned the Company a "BBB–" insurer financial strength rating. The rating reflects the view that the acquisition of Adriatic Slovenica by Generali CEE Holding B.V., which manages the business of Assicurazioni Generali S. p. A. (IFS A-/Stable credit rating) will further improved AS's financial strength.
- On 11 September, KD Skladi informed investors of the KD Umbrella Fund that on 31 August 2018 they received a license from the Securities Market Agency to amend the Custodian Services Agreement for the KD Umbrella Fund and, on the basis of this license, an Annex to the Custodian Services Agreement for KD Umbrella Fund was concluded with Abanka d. d. Ljubljana.
- On 21 November 2018, at the 55th General Meeting of Shareholders of Adriatic Slovenica, the audit company Ernst & Young d. o. o. from Ljubljana was appointed to conduct audits of annual reports for the financial years 2018, 2019 and 2020.
- On 10 December 2018, the company Generali CEE Holding, B. V. received the consent of the European Commission for the purchase of the insurance company Adriatic Slovenica.

3. MAJOR BUSINESS EVENTS OF THE COMPANY AND THE AS GROUP AT THE BEGINNING OF 2019

- On 15 January 2019, the winding up of the company Permanens d. o. o. was completed. The company was deleted from the registry and is no longer part of the AS Group.
- On 15 January 2019, the Supervisory Board of Adriatic Slovenica appointed Matija Šenk member of the Management Board for a new five-year term (as of 31 January 2019).

- On 13 February 2019, the Company took note of the notice issued by KD Group, finančna družba d.d., a finance company having its registered office at Dunajska cesta 63, Ljubljana, Republic of Slovenia (hereinafter referred to as "KD Group") that on 13 February 2019 KD Group disposed of 100% of the shares of the subsidiary Adriatic Slovenica, Zavarovalna družba, d.d. and that the transfer of all shares of Adriatic Slovenica to the new holder, the company Generali CEE Holding, B.V., concluded the sales procedure under the Agreement regarding the sale of 100% of the shares of the Company Adriatic Slovenica dated 23 May 2018.
- On 13 February 2019, members of the Supervisory Board of the Company resigned: Chairman of the Supervisory Board Aljoša Tomaž, Deputy Chairman of the Supervisory Board Aleksander Sekavčnik and Supervisory Board member Tomaž Butina. At the same time, the mandate of Tomaž Butina as member of the Supervisory Board's Audit Committee expired.
- On 13 February 2019, the transactions agreed under the Agreement on the Sale of Adriatic Slovenica insurance company d. d., made between KD Group and Generali CEE Holding B.V., were completed, namely: the insurance company disposed of the investment property in Loška cesta 13 in Maribor (Maribox); KD Group repaid all loans to the insurance company, the shares of KDHR (issued by KD Group d.d.) and SKDR (issued by KD d.d.) and bonds of KDHR were purchased.
- On 18 February 2019, at the 56th General Meeting of Shareholders of Adriatic Slovenica was held. Four new members of the Supervisory Board, namely Gregor Pilgram, Luciano Cirinà, Miroslav Bašta and Miroslav Singer, were appointed.
- On 18 February 2019, the international rating agency Fitch increased the Company's insurer financial strength rating from "BBB-" to "BBB +" and changed the assessment of the future outlook of the Company to "stable". The improvement of the rating is a consequence of the publication by Assicurazioni Generali S.p.A (IFS: A-/Negative) that it acquired the insurance company Adriatic Slovenica d. d.

4. 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 2018 to 31 December 2018.

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 2018, Adriatic Slovenica committed again 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) at 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 8.2.

External Audit

The audit of the financial statements is performed by the audit firm Ernst & Young 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 6.1 of the Management Report contained in the Annual 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;
- amendments 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 by 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 2018

- In 2018, the General Meetings of Shareholders was convened on two occasions.
- The 54th General Meeting of Shareholders was held on 21 March 2018. The General Meeting of Shareholders took note of the adopted Annual Report of Adriatic Slovenica and the AS Group for 2017, including the auditor's opinion, the Supervisory Board's Report on the Annual Report and the report of the Supervisory Board on the Annual Internal Audit Report for 2017, including the opinion of the Supervisory Board. Moreover, the shareholders passed the resolution that as on 31 December 2017 the

accumulated profit was EUR 40,063,857.62, that on 28 March 2018 a part of accumulated profit of EUR 10,304,407 would be allocated for dividend payments to the shareholders registered with the Central Securities Clearing Corporation as on 27 March 2018, in the gross value of EUR 1 per share, while the remaining part of accumulated profit of EUR 29,759,450.62 would remain undistributed and will be decided on in future years. Discharge was granted to both the Management Board and the Supervisory Board for 2017.
- The 55th General Meeting of Shareholders was held on 18 November 2018. It adopted a resolution on the appointment of the audit company Ernst & Young d.o.o., registered at Dunajska cesta 111, Ljubljana, to carry out audits of annual reports for the financial years 2018, 2019 and 2020.

The 56th General Meeting of Shareholders was held on 13 February 2019. The GMS appointed new members of the Supervisory Board (referred to in Chapter 2). A further General Meeting of Shareholders of AS is planned 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 2018
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 Work Council of the Company, which then informs the General Meeting of Shareholders of its decision. Members of the Supervisory Board are appointed for a maximum five-year term with the possibility of reappointment.

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

Composition of the Supervisory Board as at 31 Dec. 2018*	Office	Started serving as the SB member	Term of office
Matjaž Gantar	Chairman	from 30 Dec 2016 to 18 March 2018	5
Aljoša Tomaž	Deputy-Chairman	from 7 Sept 2017 to 19 March 2018	5
Aljoša Tomaž	Chairman	from 20 March 2018	5
Tomaž Butina	Member	from 7. Sept 2017	5
Aleksander Sekavčnik	Member	from 7. Sept 2017	5
Aleksander Sekavčnik	Deputy-Chairman	from 20 March 2018	5
Borut Šuštaršič	Member - employee representative	2 from 8. Sept 2015	4
Matjaž Pavlin	Member- employee representative	from 7. April 2016	5

*The composition of the Supervisory Board changed on 13 February 2019 and on 18 February 2019. The new composition of the SB is referred to in Section 2 (Major business events of the AS Company and the AS Group in 2018 and the beginning of 2019).

SHAREHOLDER REPRESENTATIVES

The term of office of **Matjaž Gantar**, Chairman of the Supervisory Board, was concluded on the day of his death on 18 March 2018. The Supervisory Board then appointed Aljoša Tomaž, the former Deputy-Chairman of the Supervisory Board as Chairman, while the former Supervisory Board member Aleksander Sekavčnik took over the position of Deputy-Chairman of the Supervisory Board. The new composition of the SB is referred to in Section 2 and 3 (Major business events of the AS Company and the AS Group in 2018 and the beginning of 2019).

Aljoša Tomaž, 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 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 acted as the CEO of KD Banka d.d.

Aleksander Sekavčnik, Deputy-Chairman of the Supervisory Board
Aleksander Sekavčnik holds an MSc in Economics and has a year-standing experience in the financial industry. Aleksander Sekavčnik is the Deputy 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 an MSc 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 a degree in economics and has been employed at the Adriatic Slovenica and before that at Slovenica 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 14 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 a degree in traffic technology engineering and has been employed at the Adriatic Slovenica and previously at Slovenica 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. In 2018, he was reappointed member of the Works Council, while serving his third term as Employee Representative in the Supervisory Board.

Remunerations, reimbursements and other benefits
Data on earnings of the Supervisory Board members are disclosed in more detail in Section 11.4 of the Financial 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.

4.1.1 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 2018, 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 for audit committees).

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 2018

The Audit Committee has 3 members. After the resignation of Mojca Kek, the Supervisory Board appointed Tomaž Butina Member and Deputy-Chairman.

Composition of the Audit Committee as at 31 Dec 2018	Office	Start date of term of office
Matjaž Pavlin	Chairman – SB Member	12 Dec 2016
Tomaž Butina	Deputy-Chairman – Independent Expert	26 April 2018
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 Financial 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 the 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 Committee as at 31 Dec 2018	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. The Committee regularly reported on its results to the Supervisory Board.

Payments, reimbursements and other benefits

Data on earnings of the Committee members are disclosed in Section 11.4 of the Financial Report included in the Annual Report. Remuneration of the members is in line with the resolution passed by the 43rd General Meeting of Shareholders held on 3 September 2012.

4.1.2 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.

Competences and major tasks of the Management Board:

- 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 2018

In 2018, the company continued to be headed by Gabrijel Škof as President of the Management Board, with Matija Šenk as the Member of the Management Board. Upon obtaining the authorisation of the ISA to perform this function, Jure Kvaternik became new Member of the Management Board on 16 April 2018.

Composition of the Management Board as at 31 Dec 2018	Office	Start date of term of office	Term of office
Gabrijel Škof	President	1 Oct 2017	5 years
Matija Šenk*	Member	30 Jan 2014	5 years
Jure Kvaternik	Member	16 April 2018	5 years

*New 5-year appointment starting on 31.1.2019

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

Gabrijel Škof, President of the Management Board

Gabrijel Škof, LL.M., was born in 1960. After graduating from the Faculty of Law and passing the bar exam, he has been active in the insurance business since 1989, when he was employed by ZavarovalnicaTriglav, where he held various managerial posts. In his career, he was a member of different supervisory and managerial bodies in Slovenia and abroad. He was a Member of the Supervisory Board of Triglav Osiguranje, Croatia, a Member and Chairman of the Supervisory Board of the DDOR 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 AS neživotno osiguranje insurance company, 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 (he resigned from this position on 13 February 2019, the resignation will take effect on 17 April 2019, on the date of the 25th General Meeting of Shareholders of KD Group)
- a member of the Council of the Slovenian Insurance Association;
- a member of the Supervisory Board of Jedrski pool GIZ;
- Chairman of the Organising Committee for the preparation and implementation of Insurance Days;
- A member of the Managers' Association.

Matija Šenk, Member of the Management Board

Matija Šenk graduated in mathematics, while after graduating from the Faculty of Mathematics, in cooperation with this Faculty and the Faculty of Actuaries from Great Britain, he also became a certified actuary. He 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 Slovenica, a member of the Management Board of Adriatic Slovenica, a long-serving President of the Management Board of KD Življenje and CEO of KD Group. He was a longtime Deputy-Chairman of the Slovenian Actuarial Society, Chairman of the Board of Directors of KD Life Romania, KD Life Bulgaria, Member of the Supervisory Board of KD Finančna točka, Chairman of the Supervisory Board KD Life Ukraine, Deputy-Chairman of the Council of the Slovenian Insurance Company, Chairman and member of the Supervisory Board of KD Životno osiguranje Croatia, member and deputy chairman of the Supervisory Board KD Skladi, while at Gea College the chairman he was Chairman of the Supervisory Board. His five-year term of office in the Management Board of Adriatic Slovenica commenced on 30 January 2014, he has been a member of the Management Board of the Company ever since then.

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

- Deputy Chairman of the Supervisory Board of KD Skladi Group (he resigned from this position on 13 February 2019, the resignation will take effect on 17 April 2019, on the date of the 25th General Meeting of Shareholders of KD Group)
  - a Member of the Strategic Board of the European Actuarial Academy;
  - a regular lecturer at Gea College Ljubljana,
  - a member of numerous insurance and actuarial associations and federations;
  - a lecturer, author and co-author of books and a rich array of articles on insurance business and risk management.

Jure Kvaternik, Member of the Management Board

Jure Kvaternik, born in 1973, is an economics graduate specialised in banking and finance. His five-year term of office in the Management Board of Adriatic Slovenica commenced on 16 April 2018 when he was granted approval by the Insurance Supervision Agency to perform this function. He has over 20 years of experience in accounting and in 2010 he obtained the title Qualified Accountant.

Prior to joining the Group KD Group, he served as chief accountant at the company Elan, d. d. In 2008, he joined the Group as Assistant to the Executive Director for Finance, Accounting and Controlling. He held the leading managerial positions in the companies of the KD Group, among these Chairman of the Supervisory Board and the Audit Committee of KD Življenje, member of the Supervisory Board and the Audit Committee of Adriatic Slovenica and Executive Director of KD Group for Business Finance, Accounting and Controlling. From 1 October 2017 until the appointment as Member of the Management Board, he was employed as the Chief Executive Officer of Adriatic Slovenica responsible for finance and accounting, controlling and managing general matters. He is a Member of the Supervisory Board of KD Skladi d. o. o., Member of the Supervisory Board Zdravje AS d. o. o. and Member of the Supervisory Board of DBS d. d.

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 Financial Report included in the Annual Report.

Equity shares

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

Koper, 6 March 2019

Jure Kvaternik,
Member of the Management Board

Matija Šenk,
Member of the Management Board

Gabrijel Škof,
President of the Management Board

5. NON-FINANCIAL STATEMENT

Adriatic Slovenica and Adriatic Slovenica Group Business Model

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 to a certain extent in Croatia through its branch. **Asset management** or investment funds management in Slovenia is performed by the subsidiary KD Skladi and its subsidiaries KD Locusta Fondovi and KD Fondovi.

Since mid-2017, the AS Insurance Company has been implementing the 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. In that regard, it is important that 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 10.1. 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 events 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 10.2. 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. 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. The overall basis is the trust that clients, shareholders, employees and the public have in the business and the fairness/integrity of the Company. 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 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 As 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 AS 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 AS 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 AS 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, 6 March 2019

Jure Kvaternik, Member of the Management Board	Matija Šenk, Member of the Management Board	Gabrijel Škof, President of the Management Board

Tina Dobrajc / Chick Flick / 2014

Graduated artist Tina Dobrajc presented at the AS Gallery in December 2016. She exhibited her exploration of women's and feminist themes in contemporary space, having as its main motif is the female figure and traditional Slovenian environment, at the exhibition On the Shady Side of the Alps.

6. GENERAL INFORMATION ABOUT ADRIATIC SLOVENICA AND THE AS GROUP

6.1 AS

Adriatic Slovenica Zavarovalna družba d. d. (AS insurance company)	
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; Jure Kvaternik, Member
Credit rating	Fitch Ratings: BBB- (31 Dec 2018) and BBB+ (18 Feb 2019)

Share capital and shareholders of Adriatic Slovenica as at 31 December 2018*:

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 2018, the share capital of the Company amounted to EUR 42,999,529.80. On 13 February 2019, Generali CEE Holding B. V. became the 100% Shareholder.

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 of office 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.

6.2 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 (since 1 January 2019 within three regions) and in the Zagreb Branch which adapts its processes to the parent company.

Organisational scheme of Adriatic Slovenica and the AS Group with subsidiaries (31 Dec 2018):

Internal organization is constantly adapting to the Company's strategy. That is why on 1 January 2019 we changed the Company organizational units creating three regions through which the basic process of sales will be carried out in a geographical area. However, these three regions will preserve the local regional centres (9 business units). The 3 new regional units are the Western, Central and Eastern regions (with units in Koper, Nova Gorica and Postojna; Ljubljana, Novo mesto and Kranj; Maribor, Celje and Murska Sobota).

At the beginning of 2019, we joined the three existing development teams in a single R&D team, bringing together all product and service development focused on customer needs. The BI (data) team, formerly part of the IT framework, has now been transformed into the corporate Business Intelligence Team, which will ensure the interpretation, quality and interdisciplinary nature of data for a more effective decision-making at all levels of the Company. Furthermore, the Customer Care Centre was extended to the Customer Centre, adapted to the new customer requirements. The new centre will connect and take care of all key communication points with the customer, while also carrying out research and improving the user experience and customer satisfaction.

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), adapting to the needs of customers and new ways of consultative selling. The sale of insurance in Slovenia is organized according to target customers groups, covering both sales to large legal entities and sales 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 dealing with 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. Underwriting is dealt with by key account managers and our own agent network and agency sales network. 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. Digital channels are being intensively developed via the WIZ sales website, which is currently under intensive optimization. WIZ is still predominantly used for searching and for informing customers about insurance, while clients usually take out insurance over one of the traditional sales channels. Among the largest traditional sales channels within AS are an external agency sales network, our own agent network and key account managers, supplemented by 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, health and non-life insurance and special agents specializing in the sale of personal insurance.

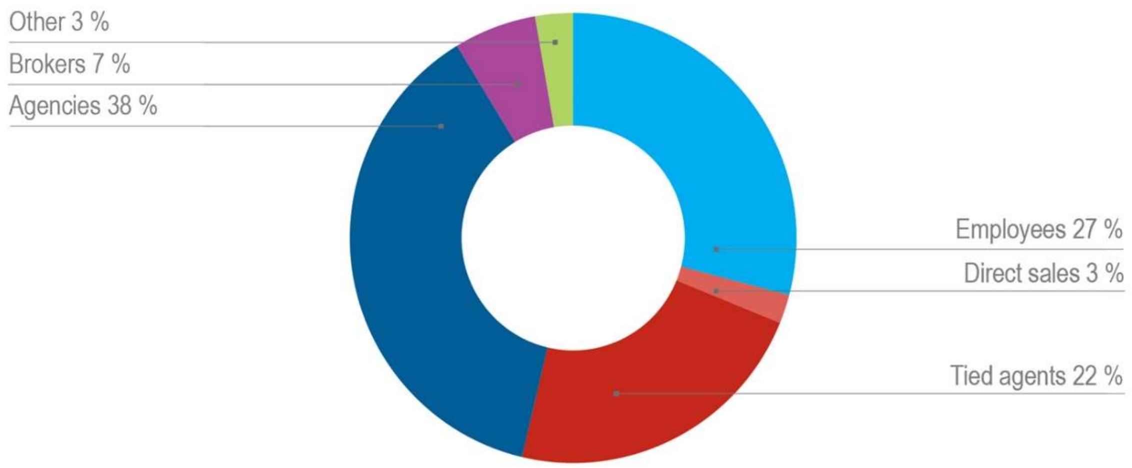
We provide services at 395 points of sale throughout Slovenia, in all major regional centres of Slovenia – business units are in Koper, Postojna, Nova Gorica, Ljubljana, Kranj, Novo mesto, Celje, Maribor and Murska Sobota. The Company also provides its services in another five branch offices in Domžale, Idrija, Krško, Slovenj Gradec and Ribnica, 34 representative offices and one additional point of sale operating under branch. Natural persons can also take out insurance online. They can also choose simple insurance solutions on our web site and complete the purchase on our WIZ online point of sale.

In 2018, we centralized the sales support with the newly established Sales Support Centre Team, which ensures effective support to the sales network during underwriting, provides analytical assistance in channelling sales and enables sales managers to focus on achieving sales targets. With a view to support strategic activities, we set up a Sales Efficiency Centre, which carries out internal training developing sales competencies of the sales staff, adapted to their career development and the goals of each salesperson and sales manager in a new role.

The sales network of the Zagreb Branch in Croatia consists of the own agent network (thirty marketers in Zagreb, Varaždin and Split) and forty external agencies widespread throughout Croatia. The Branch Office sales network features a Call Centre, with approximately 10 employees in 2018.

In 2017, KD Skladi began to develop alternative funds, aimed primarily at institutional investors and better-off individuals. In 2018, the first alternative real estate fund, KD Adriatic Value Fund, a special investment fund, invested in three commercial real estates in Slovenia. The field of alternative funds being interesting for the development of the Company, the Company is planning to launch, in the future, new funds that will invest their assets in alternative investment classes. With the intention to optimize its business, KD Skladi constantly develops new digital solutions that contribute to the efficiency of operations and improvement of the user experience of investors. At the end of 2018, KD Skladi launched a new, flexible savings package Moj izbor (My Choice), which allows investors to change funds in which they invest with periodic payments within the savings plan.

Breakdown of the gross written premium by main sales channels in 2018 (in %):



A brief history of Adriatic Slovenica

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 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. 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 2013, as part of the division by acquisition process, Adriatic Slovenica took over the employees and the entire portfolio of its sister insurance company KD Življenje. In 2015, the cross-border merger of Adriatic Slovenica with the then daughter company KD Životno Osiguranje took place, while in 2018 a minor subsidiary KD IT d.o.o. merged with acquisition. Adriatic Slovenica and its subsidiaries became part of the Generali Group on 13 February 2019.

6.3 THE AS GROUP

In addition to the parent company Adriatic Slovenica, Zavarovalna družba d.d., the Group consists of the direct subsidiaries KD Skladi d.o.o., Prospera d.o.o., VIZ d.o.o., Zdravje AS d.o.o. and Agent d.o.o., all wholly owned by Adriatic Slovenica. The subsidiary KD Skladi holds a 94.6% stake in the indirect subsidiary KD Fondovi a.d. Skopje and 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, the latter is therefore considered an associate. The minor subsidiary KD IT d. o. o. of Ljubljana was acquired by the parent company on 18 June 2018, the voluntary liquidation of Permanens d. o. o. of Zagreb was closed with the company's removal from the Companies Register on 15 January 2019.

KD Skladi

KD Skladi, družba za upravljanje d. o. o.	
Address	Dunajska cesta 63, 1000 Ljubljana, Slovenia
Company registration number	5834457
VAT identification number	SI 56687036
Activity:	- activity of custody funds and other funds and similar financial entities - financial fund management
Share capital	EUR 1,767,668
Equity attributable to the controlling company:	100%
Date of entry into the Companies Register:	11 March 1994 under No. Srg 1392/94
Management:	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 2018 year-end, the Company managed KD Krovni sklad (Umbrella Fund) with 16 sub-funds that invests in different types of securities (shares, bonds, deposits) on various global capital markets and in different branches, and KD Adriatic Value Fund, a special investment fund, the first regulated Real Estate Alternative Investment Fund (AIF) in Slovenia, managed in cooperation with Peakside Capital, an international real estate consulting firm.

The Company managed the following sub-funds 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).

In over two decades of operation, KD Skladi has received numerous awards for the successful asset management. In 2018, asset manager Primož Cencelj of KD Skladi received the highest award given by the magazine Moje Finance (My Finance Magazine) in the field of management in Slovenia and became the Best Asset Manager in 2017. In the eight years of awarding, the Best Asset Manager of The Year award went to the company KD Skladi for the fifth time, with Primoz Cencelj receiving the prize for the third time. Among the seven best managers, Aleš Lokar, also of KD Skladi, was ranked foruth. KD Skladi received four *Zvezdonos* statuettes – the highest score of 5 stars, which show the quality of fund management. The winning mutual funds awarded with the highest score, five stars, for the last three and five years' period were KD Bond s in the bond – European category and KD Rastko in the equity – European category.

Excellence in the management of the sub-funds of KD Krovni sklad (Umbrella Fund) is also monitored by an independent international agency, the Morningstar. As at 31 December 2018, 3 out of 14 sub-funds of the KD Umbrella Fund, received the highest score of 5 stars (KD Prvi izbor (KD First Selection) and KD Bond (KD Bond)) or 4 stars (KD Vitalnost (KD Vitality)).

Outside Slovenia, two fund management subsidiaries manage together 17 investment funds, of which 13 mutual funds in Croatia and 4 in Macedonia. As at 31 December 2018, 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 90% 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 2018
Number of (UCITS) funds	16
Assets under management of (UCTIS) funds	EUR 478 million
Number of alternative funds	1
Assets under management of alternative funds *	EUR 30 million
No. of employees in asset management	11
Total no. of employees	53
Assets under management (including management)	EUR 691 million
Croatia	**31 Dec 2018**
Number of (UCITS) funds	8
Assets under management of (UCTIS) funds	EUR 32 million
Number of alternative funds	5
Assets under management of alternative funds	EUR 8 million
No. of employees in asset management	3
Total no. of employees	9
Total assets under management	EUR 40 million
Macedonia	**31 Dec 2018**
No. of funds	4
No. of employees in asset management	3
Total no. of employees	6
Assets under management	EUR 21 million

Prospera

The Prospera subsidiary has operated since 2011 specialising in debt recovery, in particular bad debt recovery and recovery under judicial recovery procedures. As a part of the AS Group, it is included in the consolidated financial statements of the controlling company. In addition to optimizing debt recovery, it adjusts recovery procedures to help implement the parent company's strategy.

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:	Bojana Merše, Managing Director

Viz

WIZ is AS's digital point for the sale of transparent and modern insurance products and provides customers with a friendly user experience. That is why we are developing and enriching the offer of online insurance, we are updating the underwriting applications in order to improve the user experience and to increase conversions, while through various communication channels we provide support to clients in the underwriting and the after-sales processes. With this goal in mind, we have enabled our clients to enter the self-service portal MOJ WIZ (My WIZ), where they have a comprehensive overview of their insurance status and communication with the Company. In order to increase brand visibility and build trust in WIZ products that meet the needs and desires of certain customer segments, we carry out a number of activities primarily on social networks (Google, YouTube, Instagram, Facebook profile and closed FB groups, LinkedIn ...). AS's online brand WIZ achieved higher visibility in 2018, which is also reflected in sales growth and the fact that WIZ is one of AS's fastest growing sales channels.

Viz zavarovalno zastopništvo d. o. o.	
Address	Ljubljanska cesta 3a, 6000 Koper, Slovenia
Free toll phone:	080 11 24
E- mail:	info@wiz.si
Web page:	www.wiz.si
Company registration number:	6161456000
VAT identification number:	SI87410206
Activity:	Activities of insurance agents and brokers
Share capital:	EUR 560,000
Equity attributable to the controlling company:	100 %
Date of entry into the Companies Register:	14 May 2012
Management:	Marko Štokelj, Managing Director (until 31 January 2018); Karmen Škoda Piško (from 1 February 2018 to 5 March 2018), Gašper Bračič (from 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 Company established a key advantage for its customers who can now benefit from the specialist clinic at Vojkova 48 in Ljubljana. It was granted the license to provide private health services at the end of 2016.

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

AGENT

The Company Agent d. o. o. has be an AS's long-standing business partner (since 1991) providing insurance 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 the arrival of the agents 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:	EUR 45,184.01
Equity attributable to the controlling company:	100 %
Date of entry into the Companies Register:	25 February 1991
Management:	Marjan Šavron, Managing Director

Arshak Sarkissian / Girl Holding Birds / 2016

In April 2016, the AS Gallery housed an exhibition, Contemporary Man, by its first foreign artist, the Armenian painter Arshak Sarkissian. This established artist presented parallel worlds living in his creativity. He says that they can be as real as the physical dimension is real.

7. PERFORMANCE IN 2018

7.1 OVERVIEW OF DEVELOPMENTS IN THE ECONOMY AND THE INSURANCE MARKET

Slovenia's macroeconomic environment in 2018

Despite the uncertainties in the international environment, Slovenia's economic growth in 2018 greatly exceeded the growth of the Euro area and is projected to be 4.4%. Building investments significantly contributed to the growth of gross domestic product, which is in line with the country's investment cycle. In spite of the weaker dynamics of merchandise exports, due to a lower growth in the Euro area (especially in Germany), the contribution of international net trade to the growth of gross domestic product was very high, as import growth was even further reduced. This was largely due to weak private consumption, which can, at least partially, be associated with lower household confidence and lower real wage growth in the recent period. High growth was achieved by most of the main groups of services, especially services in professional, scientific and technical activities, which coincides with the high growth in building activities.

In the face of high economic growth and structural imbalances in the labour market, the share of enterprises experiencing a shortage of adequate labour has increased. Nevertheless, the employment growth has remained relatively high due to the increased inflow of foreign workers. The number of registered unemployed persons fell sharply in 2018, but with a slower growth of transition from unemployment to employment than in 2017. At the end of December, there were 78,534 unemployed people, which is 7.7% less than a year before. The growth of salaries is mainly recorded in the private sector, owing to favourable business results of enterprises, a relatively low unemployment and a gradual productivity growth.

Inflation reached on average 1.9% in 2018, which is an increase of 0.3 percentage points compared to 2017. The structure of price movements was dominated by contributions to the growth of food and energy prices in the first quarter, while by the end of the year the impact of domestic factors, in particular the growth in the prices of insurance products, increased significantly. Increased operations of domestic insurance companies were 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.

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

The Slovene insurance market was again last year marked by a high concentration rate. The four largest insurance companies held a 70% share of the insurance market. Adriatic Slovenica ranked fourth among the insurance companies on the market by holding a 12.8% market share.

Slovenia's balance of payments situation remains strong, despite a reduction in the surplus in trading of goods, and exceeds 7% of gross domestic product. The reason for the decline was the stagnation of merchandise exports in September and the sharp increase in imports in October. The surplus in trading of services was strengthening over the course of the year, with the main reason being high revenues from tourism.

In favourable cyclical conditions and following a reduction in interest expenses, the country's public finances continued to improve and in 2018 reached a surplus of 0.8% of gross domestic product. Revenue growth remained solid mainly due to higher tax inflows, but on the other hand, expenditure growth increased due to higher investments. One-off events such as the receipt of part of the retained funds from the EU budget for the past financial perspective, the payments of current profit and retained earnings of the NLB and the transfer to public health institutions that perform health activities at the secondary and tertiary level significantly increased non-tax revenues.

The Slovene insurance market in 2018

22 (re)insurance, pension and other companies having their registered seat operated in the Slovenian insurance market. Of the insurance companies, eight are composite, five life and five non-life insurance companies. In 2018, new members of the Slovenian Insurance Association became Croatia zavarovanje d. d., Branch Ljubljana, and Allianz Zagreb, d. d.

The improved macroeconomic environment had beneficial effects on the operation of insurance companies. According to data collected by the Slovenian Insurance Association, gross written premium showed a growth in demand for insurance products in 2018. A premium of EUR 2.4 billion was accumulated in total, which represents an increase of 7.7% compared to 2017.

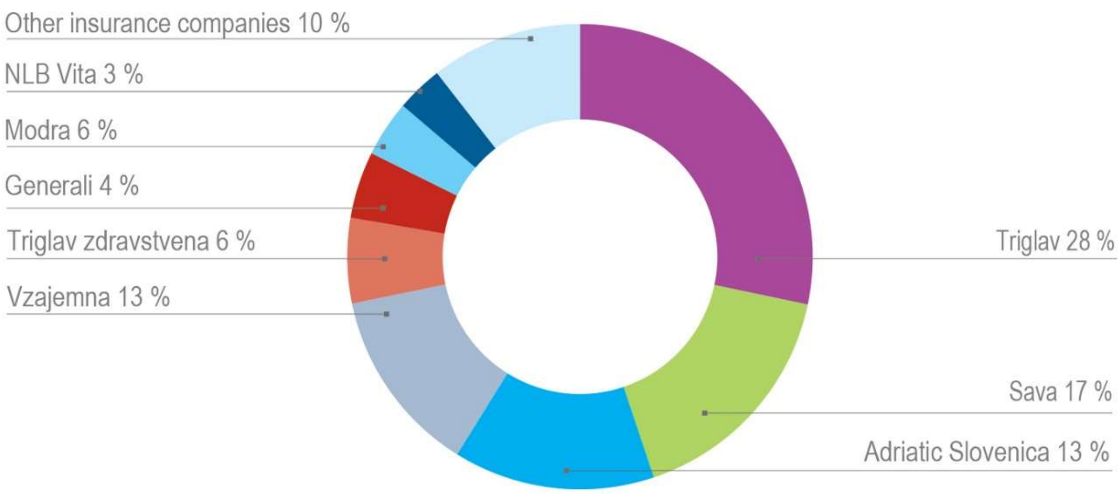
Written premium from non-life insurance totalled EUR 1,651 million (70 %), while written premium from life insurance amounted to EUR 714 million (30 %). Growth was recorded in all insurance segments. Other insurance grew by 7.4%, health insurance by 6.2%, and life insurance by 9.3%.

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 (and consequently 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 other damage to property insurance, comprehensive insurance, general liability insurance, motor third party liability insurance and accident insurance. In the segment of life and pension insurance, pension insurance showed the greatest level of growth.

The Slovene insurance market was again last year marked by a high concentration rate. The four largest insurance companies held a 70% share of the insurance market. Adriatic Slovenica ranked fourth among the insurance companies on the market by holding a 12.8% market share.

The structure of the Slovene insurance market in 2018:



The Croatian macroeconomic environment in 2018

In 2018, the Croatian economy recorded a stable but relatively low economic growth, which is projected to be 2.7%. In the first half of the year growth was predominantly influenced by personal consumption, while in the second half of the year the effects of a good tourist season and a slight increase in the dynamics of merchandise exports growth were shown.

Relatively favourable economic trends also influenced the further reduction of unemployment, which is expected to be 9.9% in 2018, while the rate of registered unemployment is expected to decrease to 8.8% in 2019. The increase in the average nominal wage in 2018 is estimated at 5.3%, mainly due to wage growth in the private sector related to the lack of adequate labour force.

The consumer price index is estimated to be 1.5% in 2018, mainly due to significantly higher energy prices, which is the result of the rise in crude oil prices on the world market. In addition, strengthened inflation pressures arise from the increase in unit labour costs. The average annual inflation rate is expected to moderate to 0.9% in 2019, mainly due to the planned reduction of the VAT rate on certain products and the expected fall in crude oil prices on the world market.

The Croatian insurance market in 2018

The Croatian insurance market achieved a growth of 8.8%. In total, insurance companies collected premiums of EUR 1,329.6 million, which is EUR 107.9 million more than in the previous year. Growth was mainly driven by non-life insurance, representing 68.2% or EUR 906.8 million of written premiums, which shows an increase of its extent by 9.9%. Life insurance segment totalled premiums of EUR 422.8 million, with emphasis on traditional insurance products.

The non-life insurance structure did not change over the last period. In 2018, motor vehicle insurance again prevailed with 22.1%, comprehensive motor vehicle insurance premium accounted for 10.7% of total written premium, while the rest of the premium was evenly divided between other insurance subclasses.

There were 20 insurance companies in the market. The insurance company Erste osiguranje d.d. merged with the insurance company Wiener osiguranje VIG d.d. The market can be described as concentrated as 3 insurance companies held a market share of 51.1% at the end of the year.

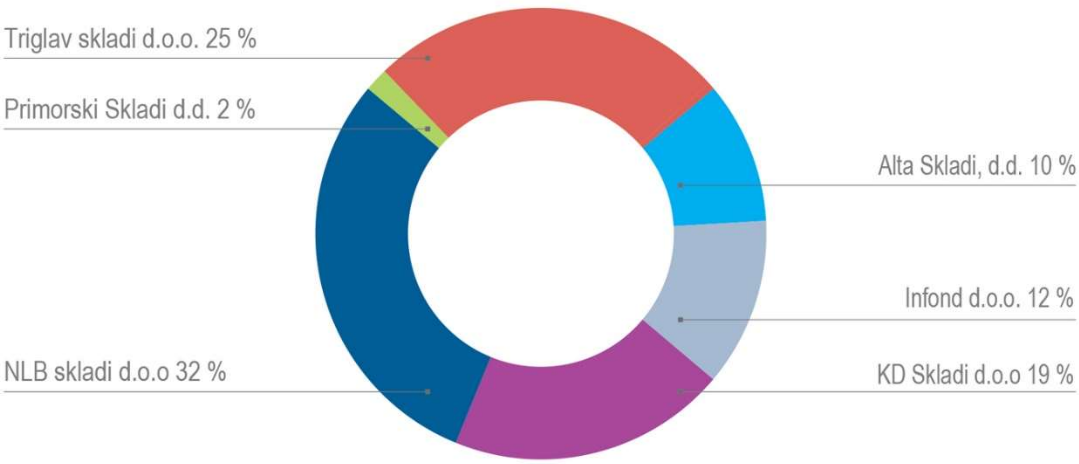
7.2 CAPITAL MARKETS AND THE INDUSTRY OF MUTUAL FUNDS

At the 2018 year-end, the Slovene market featured six Slovene management companies, which had - according to the data of the Securities Market Agency - assets amounting to EUR 2.469 billion from 444,899 investors. Compared to 2017 year-end, the assets managed within mutual funds fell by 7% at the 2018 year-end, i.e. by EUR 187 million.

With regard to the value of net assets managed within mutual funds, at the 2018 end-year most were managed by NLB Skladi, i.e. EUR 792.7 million, which represents a market share of 32.1%. It is followed by Triglav skladi with EUR 606.1 million and a market share of 24.6% and KD Skladi ranking third with EUR 478 million from 53,581 investors and a market share of 19.4%.

Compared to the end of 2017, the assets managed within the KD Krovni sklad (Umbrella Fund) were down by 10.1% or EUR 53.5 million. The decrease in assets is a consequence of a fall in capital markets and, consequently, a negative impact of 7.65% or EUR 40.5 million and a negative net flow of 2.45% or EUR 13 million. In 2018, payments into the KD Umbrella Fund totalled EUR 35.2 million while payouts amounted to EUR 48.1 million.

Market shares of individual management companies as at 31 December 2018, measured by value of net assets managed by mutual funds:



Capital markets in 2018

Global stock markets closed out 2018 down. The global MSCI World Index lost almost 7 %, measured in euro. Shares of European companies and companies from emerging countries have fallen more than those of American companies. In the US stock market, after the high growth of exchange rates in 2017, the first quarter saw a slight correction. However, the growth and optimism on the stock market raised the prices to new historical peaks. A more substantial drop in indices, which erased all yearly growth, occurred in the last quarter. Stock investments in Europe lost about 13 percent over the year. During the reporting period, the euro lost about 4.5% to the dollar, which is also one of the reasons for a sharp decline in prices in Europe than in the US, from the viewpoint of the European investor. Emerging markets fell by around 11 %, measured by the MSCI index, expressed in euros. Among the BRIC countries, the fall was the largest in China. Bond markets in Europe gained 0.4 %, measured by the Iboxx Europe index. Monetary policy in Europe was still expansive, but the central bank announced the end of purchases on the secondary debt securities market.

Developed markets

According to the latest figures, annual economic growth in the US was 3%, the labour market continued to grow, while the unemployment rate was at a low 3.7%. This is the lowest unemployment rate in the United States in the last 49 years. According to the University of Michigan, consumer confidence was at high levels. On the other hand, the outlook for companies deteriorated slightly, especially in the second half of the year. Most of the sectors fell in US stock markets in 2018. Positive returns was brought to investors by investments in the health sector, which gained about 4% and 0.5% in the local currency. The biggest decrease was in the sectors of energy companies and the material industry. A significant drop in stock prices in the energy sector is the result of a fall in crude oil prices in the last quarter. At the 2018 year-end, the barrel of crude oil was more than 30 % cheaper than at the beginning of the year. A more substantial downturn was also in the financial sector, about 15 %. The US Federal Reserve (FED), headed by Governor Powell, raised the interest rate four times, each time by 25 basis points. The ceiling of the target interest rate now stands at 2.5%. The FED will continue to reduce the balance as per the plan. At the December session, they downgraded their announcement of raises in 2019. Central bankers now expect that they will have to raise the interest rate in 2019 only twice. This has reduced the expectation of the market and as a result, the required yield to maturity on US sovereign debt fell. It was about 2.7 % on the 10-year US government bond at the end of the year. In Europe, investments in the financial sector faced the greatest value loss. The stocks of European banks suffered a major drop in May, when Italy failed to form a government after the election. The required yield on Italian government debt also increased significantly. This will increase budget expenditure on interest, which in Italy, where the government debt is more than 130 % of GDP, constitutes a large part of the Treasury. The German Chancellor Merkel successfully composed the government. Germany thus obtained a large coalition consisting of the central right-wing CDU/CSU and the central left-wing Social Democratic Party SDP. At the June session, the ECB announced the end of the monetary easing program after December 2018. In the last quarter of 2018, the central bank made monthly purchases worth 15 billion euros. At the end of the purchases, the central bank will maintain the balance sheet. No rise in interest rates is planned in the first half of 2019. Economic growth on the old continent has cooled slightly and, according to recent data, it was 1.6 % at the annual level. Unemployment in the euro area declined by 0.5 of a percentage point in 2018 and according to Eurostat's latest figures it was 8.1 %. British Prime Minister May reached an agreement with the European Commission on the withdrawal of the UK from the EU, but did not receive sufficient support for the implementation at home. This added to the market volatility.

Emerging markets

Among the BRIC countries, China suffered the greatest decrease, more than 16%. According to recent data, the Chinese economy grew 6.5 % on an annual level, which was below the market expectations. This was the weakest growth since the global financial crisis. The PMI indices also point to the weak prospects of Chinese companies. This was also affected by a trade conflict with the United States. The central bank thus repeatedly lowered the level of bank reserves. Russian shares lost almost 1%. In Russia, the central bank lowered the key interest rate twice in the first quarter. However, the fall of the ruble against the dollar and a higher inflation in the third quarter gave the central bank sufficient reasons for the first rise in the key interest rate after 2015. In December, the key interest rate was raised again. Consumer confidence in the country remains at a high level. Standard & Poor's upgraded the Russian foreign currency-denominated debt credit rating to grade BBB-. Only Brazil's investments, measured by the MSCI index, expressed in euros, went up among the BRIC countries. The Brazilian market fell by more than 16% in the first half of the year. The change in mood occurred when the right-wing candidate, Bolsonaro, won the presidential election. In the last half of the year, the market compensated for the loss faced at the beginning of the year. Unemployment in Brazil fell and, according to recent figures, it was 11.6 %. After the elections, company prospects and consumer confidence also improved. On the Indian stock market, rates went up, but the devaluation of the domestic currency erased the positive return, viewed from the euro investor viewpoint.

Slovenia and the Balkans

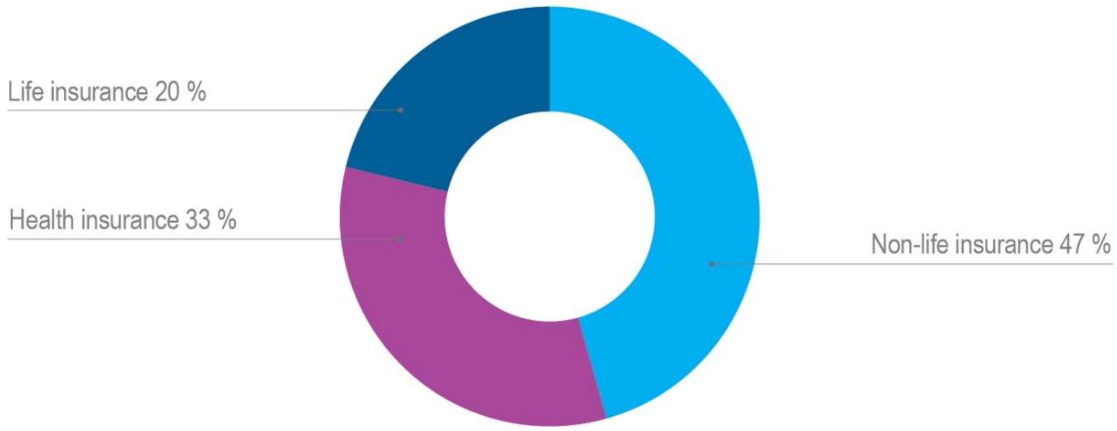
The markets in the region lost about 2.5 % in 2018, measured by the STOXX Balkan ex Greece and Turkey. The Slovenian share index SBITOP remained fairly unchanged. In the first half of the year, exchange rates were significantly influenced by the takeover activity. The Chinese group Hisense took over the Velenje Gorenje at a price of 12 euros per share. In June, the SBITOP exceeded the value of 900 index points for the first time after 8 year. The largest Slovenian bank, NLB d. d., became a new member of the stock index. The fall in rates in the domestic market was experienced in the second half of the year. Investments in Telekom Slovenia and Cinkarna Celje suffered the greatest fall. Other markets in the region suffered a fall, with the exception of Serbia. The biggest downturn was recorded on the Bulgarian market, where the SOFIX index at the end of the year fell by more than 12 % compared to the level at the beginning of the year.

7.3 ANALYSIS OF OPERATIONS OF ADRIATIC SLOVENICA

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

In the reporting period, the written premium totalled EUR 300.4 million, which represents a decrease of 1.1% 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 and life insurance.

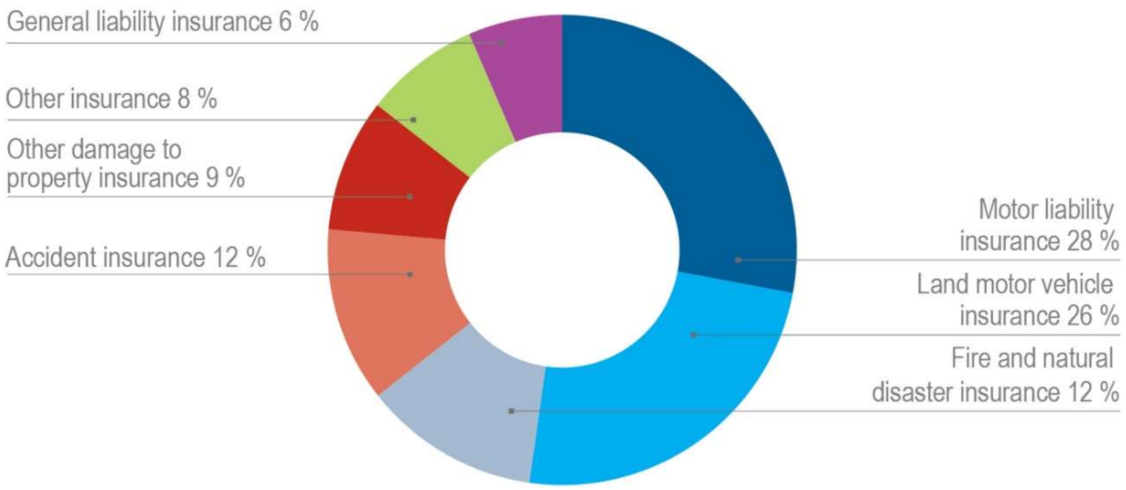
The structure of written premium by insurance class in 2018:



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

in EUR thousand	2018	2017	Index 2018/2017	Structure 2018
Accident insurance	17,658	17,009	103.8	5.9
Land motor vehicle insurance	36,232	34,350	105.5	12.1
Fire and natural disaster insurance	17,471	17,141	101.9	5.8
Other damage to property insurance	13,102	12,949	101.2	4.4
Motor third party liability insurance	39,455	39,501	99.9	13.1
General liability insurance	9,214	9,171	100.5	3.1
Other insurance	8,637	10,370	83.3	2.9
Total non-life (other) insurance	**141,768**	**140,493**	**100.9**	**47.2**
Mixed and term life insurance	22,403	22,044	101.6	7.5
Unit-linked life insurance	36,582	39,122	93.5	12.2
Pension insurance	0	0	0.0	0.0
Total life and pension insurance	**58,984**	**61,166**	**96.4**	**19.6**
Health insurance	**99,694**	**102,129**	**97.6**	**33.2**
TOTAL	300,446	303,789	98.9	100.0

The structure of written premium in non-life (other) insurance in 2018:



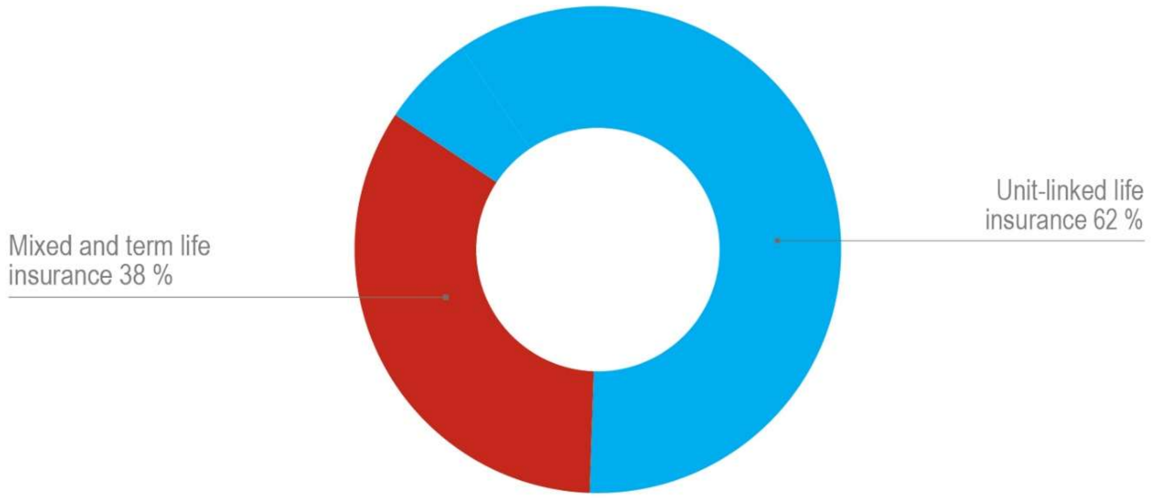
In 2018, non-life insurance grew by 0.9% compared to the previous year. The written premium amounted to EUR 141.8 million and went up in all non-life insurance classes, excluding marine insurance and assistance insurance. The fall in the latter is related to the discontinued cooperation with the external company which concluded a large share of the assistance insurance premium for the Company. Last year, AS began to underwrite a new assistance insurance product called Tujina AS (AS Abroad), in cooperation with a new assistant partner.

In the reporting period, motor-vehicle insurance, accident insurance, fire and natural disaster insurance and other damage to property insurance recorded above-average. Despite a stricter policy of granting exceptional discounts and cleaning the non-profitable portfolio, we managed to achieve a 2.5% growth in motor-vehicle insurance (motor-third-party liability insurance and land motor-vehicle insurance).

Accident insurance was up 3.8% thanks to the growth of all major insurance sub-classes (occupational accident, car accident and accident insurance for children and youth) and reflects the growth in the number of new contracts and an increase in average premiums.

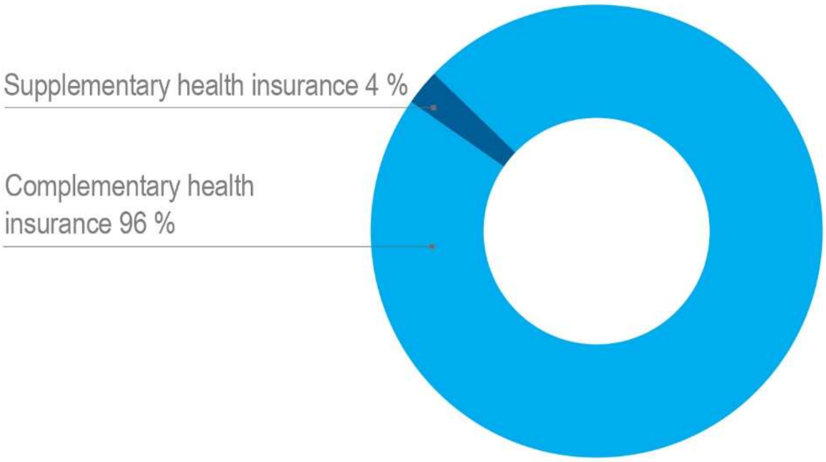
In 2018, fire and natural disaster insurance premium also went up (2.4% growth), which is related to the acquisition of new fire insurance policyholders, as well as to the growth of the DOM AS product. The latter also contributed significantly to the growth of other damage to property insurance (1.2% growth) and reflects the successful sale of premium standard packages with additional cover (legal protection and housing assistance) and an excellent trend in increasing insurance contract renewal.

The structure of written premium in life insurance in 2018:



In the reporting period, the life insurance premium decreased by 3.6% compared to the previous year. The unit-linked life insurance fell by 6.5%, while risk insurance and additional life insurance increased by 1.6%.

The structure of written premium in health insurance in 2018:



Compared to 2017, health insurance premium was lower by 2.4 % and amounted EUR 99.7 million.

Complementary health insurance premium totalled EUR 95.9 million and is in decline in comparison with previous years, mainly due to the higher number of surrenders. This is chiefly 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 increased in 2018 and amounted EUR 3.8 million, which is 14.7% more than in the previous year. Within this group of health insurance, the bestselling product was the Specialist with Assistance, which was supplemented with additional coverage in 2018.

The number of policyholders and insurance contracts by insurance class in 2018:

	Adriatic Slovenica d. d.	
Insurance class	The number of insured persons 2018	The number of insurance contracts issued 2018
Accident insurance	3,662,212	442,737
Health insurance	338,546	336,502
Land motor vehicle insurance	150,404	150,404
Railway rolling stock insurance	0	0
Aircraft insurance	5	5
Marine loss insurance	1,525	1,525
Transportation (goods in transit) insura	2,372	2,372
Fire and natural disaster insurance	85,164	85,164
Other damage to property insurance	106,607	106,607
Motor vehicle liability insurance (MTP	291,844	291,844
Aircraft liability insurance	12	12
Ship/boat liability insurance	5,386	5,386
General liability insurance	13,773	13,773
Credit insurance	0	0
Suretyship insurance	371	371
Miscelaneous financial loss insurance	3,148	3,148
Legal expenses insurance	7,147	7,147
Insurance of assistance	169,563	169,563
Life insurance	68,016	66,693
Unit-linked life insurance	74,729	72,406
Insurance with capitalised payments	6,843	6,843

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.

7.3.2 Gross claims paid

Gross claims paid went down by 1.1% in 2018 and totalled EUR 221 million throughout the year. The largest share is due to the claims in the non-life and health insurance segments.

Gross claims paid of Adriatic Slovenica by insurance class:

in EUR thousand	2018	2017	Index 2018/2017	Structure 2018
Accident insurance	7,996	7,995	100.0	3.6
Land motor vehicle insurance	27,000	27,156	99.4	12.2
Fire and natural disaster insurance	8,329	7,622	109.3	3.8
Other damage to property insurance	7,940	7,883	100.7	3.6
Motor third party liability insurance	27,464	26,909	102.1	12.4
General liability insurance	2,985	3,398	87.8	1.4
Other insurance	5,630	4,746	118.6	2.5
Total non-life (other) insurance	**87,344**	**85,712**	**101.9**	**39.5**
Mixed and term life insurance	13,546	15,760	86.0	6.1
Unit-linked life insurance	32,818	33,838	97.0	14.9
Pension insurance	634	632	100.4	0.3
Total life and pension insurance	**46,998**	**50,230**	**93.6**	**21.3**
Health insurance	**86,642**	**87,448**	**99.1**	**39.2**
TOTAL	220,984	223,389	98.9	100.0

Non-life (other) insurance

Gross claims paid in the non-life insurance segment went up by 1.9% in comparison with 2017. The biggest gross claim rise was recorded by fire and natural disaster insurance, mainly due to some major individual claims and storms in May and June. With regard to other classes of insurance, there was a rise in claims in the area of cargo insurance (by 38%) related to single cases of cargo damage during transport. Lower claims paid were also recorded in general liability insurance and land motor vehicle insurance.

Life and pension insurance

Claims paid in 2018 totalled EUR 47 million, which represents a decline of 6.4% compared to last year. The number and volume of claims experience went down in 2018, both in investment and in traditional classes of insurance. A lower surrender rate, in particular in traditional classes of insurance, was recorded.

Health insurance

In 2018, claims paid from health insurance, excluding the equalisation scheme expenses, were lower than in the previous year, totalling EUR 86.6 million. Lower claims were noted in the area of complementary health insurance due to a reduction in the number of such insurance contracts in the Company portfolio and due to measures undertaken to limit the growth of claims in order to prevent and manage frauds and scams.

In addition to supplementary health insurance, the insurance company also managed the loss event also with the Centre Zdravja AS, which already in the past year stepped aside in establishing reference prices and standards for procedures for other contractors.

In the area of additional health insurance, the Company managed claims experience also through Centre Zdravja AS (AS health Centre), with whom the Company broke new ground last year by setting benchmark prices and standards for procedures for other contractors.

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

Financial result

The Company Adriatic Slovenica ended 2018 with a net profit of EUR 8.9 million and net return on equity of 9.2%.

Income statement:

	2018				2017				
in EUR thousand	Non-life	Life	Health care	Total	Non-life	Life	Health care	Total	Index 18/17
REVENUES	142,885	65,946	100,998	309,829	143,045	95,208	103,345	341,598	90.7
Net premium revenue	**132,221**	**56,835**	**100,141**	**289,197**	**130,538**	**59,208**	**102,385**	**292,131**	**99.0**
Gross written premium	141,768	58,984	99,694	300,446	140,493	61,166	102,129	303,789	98.9
Ceded written premium	-8,124	-2,131	0	-10,255	-9,895	-1,994	0	-11,888	86.3
Change in unearned premium	-1,423	-19	448	-994	-61	35	256	230	-431.7
Commissions receivable	**1,084**	**777**	**0**	**1,862**	**1,542**	**715**	**0**	**2,257**	**82.5**
Other revenue	**4,616**	**438**	**402**	**5,456**	**4,329**	**2,533**	**383**	**7,245**	**75.3**
Other operating revenue	2,932	232	401	3,566	2,335	157	370	2,861	124.6
Rental revenue from investment property	1,680	171	1	1,852	1,847	1,107	12	2,967	62.4
Other financial revenue	3	34	0	37	147	1,269	1	1,417	2.6
Investment revenue	**4,964**	**7,896**	**454**	**13,315**	**6,560**	**31,896**	**576**	**39,032**	**34.1**
Revenue from shares in associates	156	1,403	21	1,581	715	1,400	129	2,244	70.4
Investment revenue	4,808	6,493	433	11,734	5,844	30,496	447	36,788	31.9
EXPENSES	-134,703	-65,486	-99,352	-299,541	-135,198	-92,773	-100,098	-328,069	91.3
Net claims incurred	**-82,363**	**-46,385**	**-88,857**	**-217,605**	**-83,067**	**-49,753**	**-89,367**	**-222,187**	**97.9**
Gross claims paid	-84,880	-46,998	-88,519	-220,397	-84,010	-50,230	-90,155	-224,395	98.2
Reinsurers' and co-insurers' share	4,412	682	0	5,094	3,130	603	0	3,733	136.4
Changes in claims provisions	-1,896	-68	-339	-2,302	-2,188	-126	788	-1,526	150.9
Change in insurance technical provisions for unit-linked insuranc	**0**	**29,073**	**0**	**29,073**	**0**	**-18,424**	**0**	**-18,424**	**-157.8**
Change in other insurance technical provisions and liabilities	**-70**	**-2,716**	**-5**	**-2,791**	**422**	**-201**	**116**	**337**	**-826.9**
Change in other insurance technical provisions	-16	-2,716	-5	-2,736	294	-201	115	209	-1,306.7
Expenses for bonuses and discounts	-54	0	0	-54	127	0	1	128	-42.5
Operating expenses	**-41,625**	**-17,016**	**-10,009**	**-68,650**	**-41,755**	**-17,664**	**-10,238**	**-69,657**	**98.6**
Costs of services	-24,145	-9,764	-4,736	-38,645	-24,712	-10,509	-5,262	-40,484	95.5
of which: Acquisition costs	*-16,883*	*-5,388*	*-1,379*	*-23,650*	*-16,689*	*-5,975*	*-1,218*	*-23,882*	*99.0*
Labour costs	-14,834	-6,389	-4,687	-25,911	-14,614	-6,437	-4,461	-25,512	101.6
Costs of material and energy	-516	-183	-119	-819	-515	-161	-105	-781	104.8
Depreciation and amortisation	-2,130	-679	-467	-3,275	-1,913	-557	-410	-2,880	113.7
Other expenses from insurance operations	**-1,926**	**-418**	**-259**	**-2,604**	**-3,218**	**-173**	**-414**	**-3,805**	**68.4**
Other expenses	**-4,686**	**-2,562**	**-221**	**-7,469**	**-5,347**	**-3,296**	**-193**	**-8,836**	**84.5**
Revaluation operating expenses	-137	-230	-2	-370	-277	-876	0	-1,153	32.1
Investment property expenses	-1,688	-71	-2	-1,761	-3,636	-305	-2	-3,942	44.7
Other operating expenses	-2,577	-154	-216	-2,948	-1,102	-1,213	-191	-2,506	117.6
Other financial expenses	-284	-2,107	-1	-2,391	-332	-903	0	-1,235	193.6
Investments expenses	**-2,178**	**-23,285**	**0**	**-25,463**	**-382**	**-1,089**	**-1**	**-1,472**	**1,729.6**
Investments expenses	-2,178	-23,285	0	-25,463	-305	-232	-1	-539	4,726.3
Financial expenses for interest	**-1,855**	**-2,178**	**0**	**-4,033**	**-1,852**	**-2,174**	**0**	**-4,026**	**100.2**
PROFIT BEFORE TAX	8,182	460	1,646	10,288	7,847	2,435	3,247	13,529	76.0
TAX	-1,308	179	-302	-1,432	-1,159	-294	-626	-2,079	68.9
Income tax	-829	145	-269	-952	352	-295	-72	-15	6,297.4
Deferred tax	-480	34	-34	-480	-1,511	1	-554	-2,064	23.3
NET PROFIT/LOSS	6,873	638	1,344	8,856	6,688	2,141	2,621	11,449	77.3

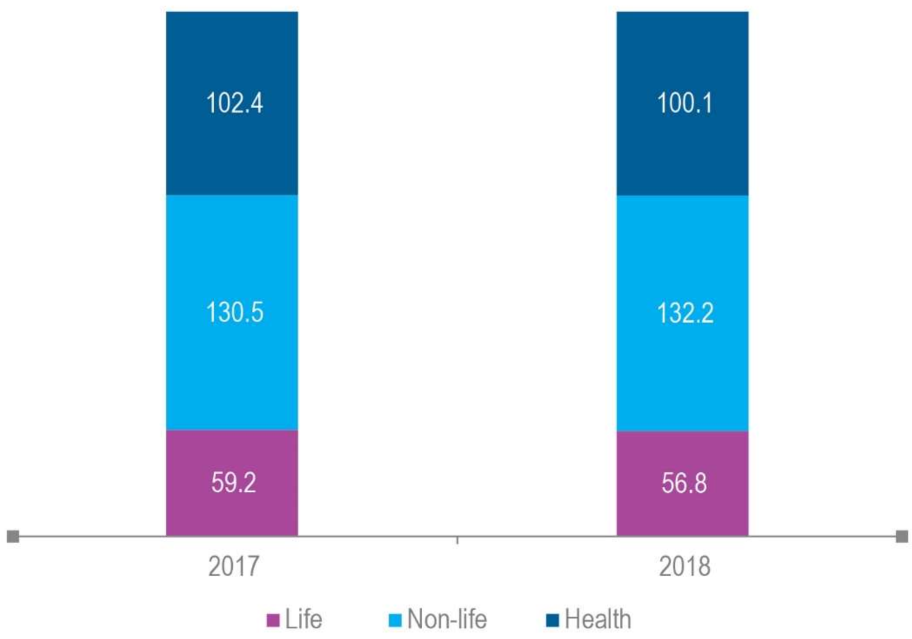
Net premium revenue

In the reported period, gross written premium amounted to EUR 300.4 million or 1.1% less than the comparable period a year before. In non-life insurance, growth was observed for all insurance classes, with the exception of MTPL insurance, marine liability insurance and assistance insurance. The fall in the latter is related to the discontinued cooperation with the external company which concluded a large share of the assistance insurance premium for the Company. In 2018, AS began to underwrite a new assistance insurance product called Tujina AS (AS Abroad), in cooperation with a new assistant partner. Single premium insurance contracts, which enable to retain holders of matured policies inside the portfolio for a longer period, were also successful. In the life insurance segment, the successfully-marketed supplementary insurance went up, paralleled by lower benefits from complementary health insurance. The premium arising from complementary health insurance was in decline in 2018.

The Company collected EUR 289.2 million in net premium in 2018, which is 1% less than in the previous year. The ceded reinsurance premium was 13.7% lower and amounted to EUR 10.3 million, while the change in the value of unearned premiums in 2018 had a negative effect equal to EUR 1 million on the total net operating revenue.

The predominant segment in the net premium revenue structure was non-life insurance accounting for a 45.7% share. In 2018, it reached EUR 132.2 million, which is 1.3% more than in 2017. Non-life insurance is followed by the health insurance segment with EUR 100.1 million of net revenue or 2.2% less than in 2017 and life insurance revenue with EUR 56.8 million and a 19.7% share in the revenue structure.

The structure of net premium revenue by business segment in 2018 and 2017 (in EUR million):



Net claims incurred

In 2018, net claims incurred, taking into consideration the changes in claims provisions, reached EUR 217.6 million, which represents a 2.1% fall compared to the previous year. The net claims incurred are lower by EUR 4.6 million, which is attributable to better risk selection and the consistent implementation of the strategy, focusing on profitable segments. The lowering is connected to both gross claims settled and lower reinsurers' shares. Lower reinsurers' shares amounted to EUR 5.1 million in 2018, which is 36.4% higher than the year before. Claims provisions increased by EUR 2.3 million in 2018, while their recognised provisioning (increase) amounted to EUR 1.5 million in 2017 (net effect of EUR -0.8 million).

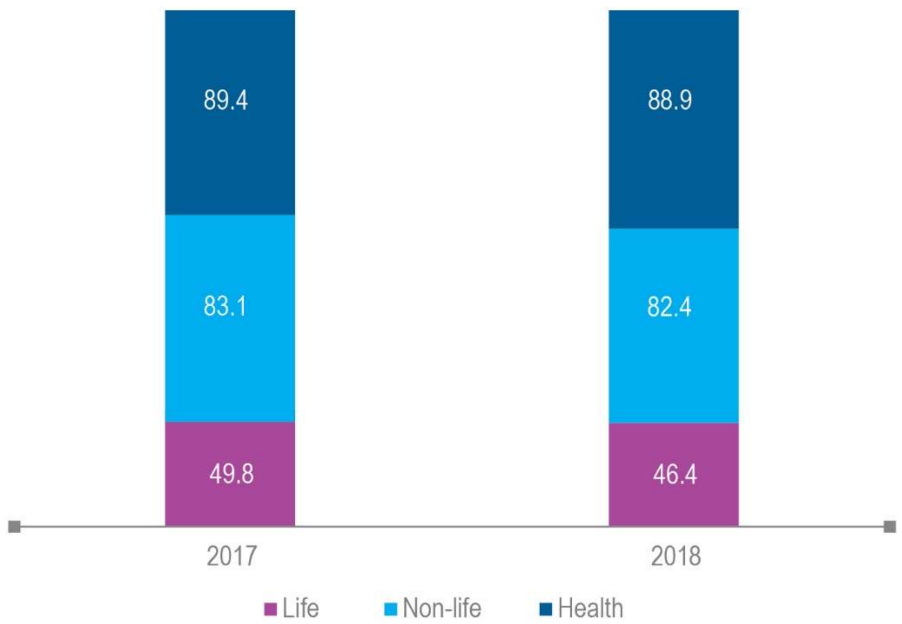
In the non-life insurance segment, the reinsurers' share and the change in claims provisions contributed to the positive imbalance of net claims incurred. The loss ratio is more favourable primarily in the case of accident insurance, land motor vehicle insurance, fire and natural disasters insurance, and other damage to property insurance, and is lower in motor third party liability insurance, general liability insurance and assistance insurance.

In the life insurance segment, the year was marked by the consequences of a lower volume of maturities. The lower net claims incurred in the area of health insurance in 2018, compared to 2017, are mainly the result of a decline in the portfolio of complimentary health insurance, but at a higher loss ratio.

The ratio between net claims incurred and net premium revenue improved last year by 1.1% or 0.8 percentage point, down from 76.1% to 75.2%.

In the structure of net claims incurred, health insurance is the prevailing segment with a 40.8% share, which decreased due to the decline in the number of complementary insurance policyholders by 0.6% in 2018 compared to 2017 and totalled EUR 88.9 million.
In the second place, net claims incurred in the non-life segment faced a downturn by 0.8% and amounted to EUR 82.4 million. Net claims incurred in life insurance stood at EUR 46.4 million with a 21.3% share of total net claims incurred.

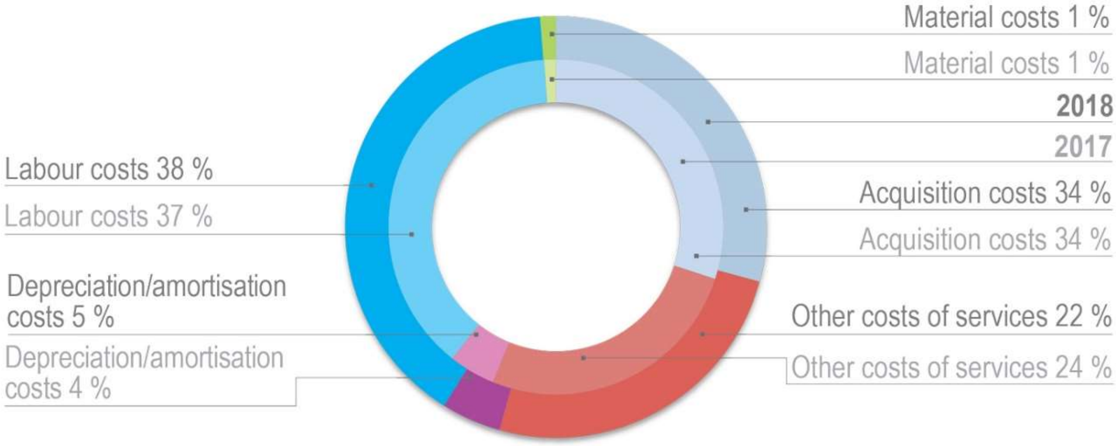
The structure of net claims incurred by business segments in the 2017-2018 period (in EUR million):



Operating expenses

Operating expenses (excluding claim settlement costs, which are recorded under gross claims incurred) amounted to EUR 68.7 million and decreased by 1.4% i.e. by EUR 1 million in 2018. The decrease resulted from the 4.5% change in service costs, which include a significant share of acquisition and marketing costs (EUR 26.2 million, which is lower by EUR 1 million). Amortisation/depreciation costs (EUR 3.3 million) exceeded last year's values by 13.7% from the long-term intangible assets of the merged company's long-term assets. Labour costs rose by 1.6 %. Material costs remained at the level of last year's comparable period.

The structure of operating expenses in 2018 and 2017 (in %):



Changes in other insurance technical provisions (excluding claims provisions)

In 2018, the volume of mathematical/insurance technical provisions for unit-linked insurance decreased by EUR 29.1 million due to maturities, surrenders and lower unit value of policyholders' assets (on the revenue side under this heading, the revenue of unit-linked life insurance investments increased leading to a neutral impact on the net profit in life insurance).

Other insurance technical provisions were provisioned in the amount of EUR 2.8 million, mainly in the life insurance segment (EUR 2.7 million), while mathematical provisions were provisioned for insurance contracts with discretionary participation feature

Investment revenue and expenses

The Company achieved a net financial result from investing activities in the amount of EUR -12.1 million, which is less than in 2017 by EUR 50.6 million.

This was mainly contributed by investment revenue, which was lower by EUR 26.6 million and investment expenses, which were higher by EUR 24 million. Financial revenue and expenses also include net financial revenue/expenses from unit-linked insurance. In 2018, the net financial result of these investments was negative and amounted to EUR -20.2 million (in 2017 the positive net financial result reached EUR 23.6 million).

After excluding the impact of investment revenue/expenses 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 dropped by EUR 3.2 million compared to 2017. The main reason for the lower net revenue is the smaller volume of realized capital gains, the negative change in the value of the derivative financial instrument hedging the subordinated debt interest rate and the permanent impairment of market shares and mutual funds.

All of the above mentioned reasons also influenced the lower net income from non-life insurance, which amounted to EUR 2.8 million in 2018 and were lower by EUR 3.5 million than in 2017. Net investment revenue from health insurance amounted to EUR 0.4 million or EUR 0.1 million less against to the comparable period.

Other (insurance) revenue and (insurance) expenses and financial expenses for interest

In 2018, the net result of other revenue and expenses (including other insurance revenue and expenses) totalled EUR -6.8 million and was EUR 0.4 million higher than in the previous comparable period. Among the major items is the net result of investment property, which in 2018 amounted to EUR 100 thousand euros and is more favourable for EUR 1.1 million, mainly due to the rationalization of costs regarding two investment properties. As part of the fees and commission income, the value of the reinsurance fees and commission was lower by EUR 0.4 million. Other net insurance expenses were more favourable by EUR 0.9 million, mainly owing to the product of assistance abroad, whose expenses are recorded under appraisal costs as of 2018. Financial expenses for issued bonds remained at the level of the previous year.

Net profit or loss

Detailed financial statements show that the Company operated positively in all insurance segments. The net operating result in the amount of EUR 8.9 million consists of positive results in life insurance (EUR 0.6 million), non-life insurance (EUR 6.9 million), and health insurance amounting to EUR 1.3 million. The decrease in the net operating result in 2018 compared to the previous periods was influenced primarily by the lower investment outcome (excluding the effects of insurance with investment risk). On the other hand, the insurance-technical result improved by more than EUR 1.6 million, which is mainly due to the improvement of claims ratio in the non-life insurance segment. In the area of non-life insurance, the Company achieved a combined ratio of 94%, which is a significant improvement against the comparable year. The combined ratio in health insurance in 2018 was 99%, which is a decrease against the comparable year due to the growth in the costs of health services.

Financial result ratios for the 2017-2018 period:

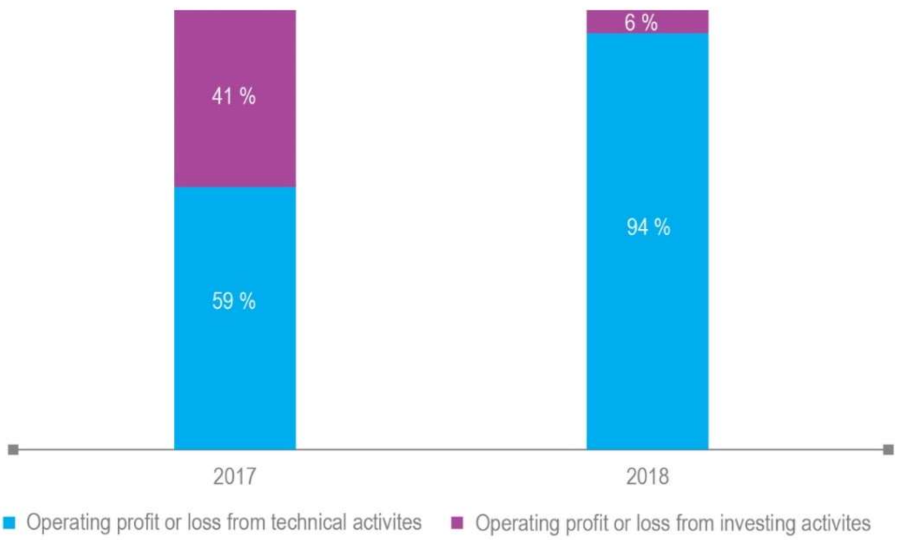
	2018		2017	
	Non-life	Health care	Non-life	Health care
Net expense ratio	30.7%	10.0%	30.8%	10.0%
Net loss result	62.3%	88.7%	63.6%	87.3%
Expense ratio	32.0%	10.1%	32.2%	10.1%
Combined ratio	94.3%	98.8%	95.8%	97.4%

Profit/loss before taxation by segments for 2018 and 2017*:

	2018				2017			
	Non-life	Life	Health care	Total	Non-life	Life	Health care	Total
Operating profit or loss from technical activities	7,539	919	1,193	9,651	5,419	-84	2,660	7,995
Operating profit or loss from investing activities	643	-459	453	637	2,428	2,519	587	5,534
Profit before tax	**8,182**	**460**	**1,646**	**10,288**	**7,847**	**2,435**	**3,247**	**13,529**

*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 2018 and 2017:



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

in EUR thousand	2018	
Name of insurance class	Revenue	Expenses
Accident insurance	17,861	(13,578)
Health insurance	100,456	(98,878)
Land motor vehicle insurance	36,987	(36,911)
Aircraft insurance	4	(12)
Marine insurance	559	(463)
Cargo insurance	1,858	(2,168)
Fire and natural disaster insurance	17,676	(18,177)
Other damage to property insurance	13,288	(14,021)
Motor third party liability insurance	42,907	(37,789)
Aircraft liability insurance	7	(15)
Marine liability insurance	523	(333)
General liability insurance	9,424	(8,756)
Credit insurance	238	(230)
Suretyship insurance	473	(367)
Miscellaneous financial loss insurance	623	(700)
Legal expenses insurance	118	(38)
Assistance insurance	5,211	(5,576)
Life insurance	34,770	(33,804)
Unit-linked life insurance	64,074	(65,509)
Capital redemption insurance	1,174	(1,952)

7.3.4 Financial position

As at 31 December 2018, total assets of the Group stood at EUR 730 million, representing a 3.7% decrease compared to the previous year. The decrease resulted from decline in unit-linked insurance assets. The bulk of assets at 2018 year-end was accounted for by life insurance assets (63.1%), 35.5% by non-life insurance assets and the rest was intended for the implementation of health insurance activities.

The structure of assets:

in EUR thousand	2018	in %	2017	in %	Index 18/17
ASSETS	729,927	100.0%	757,927	100.0%	96.3
Intangible assets	6,503	0.9%	4,667	0.6%	139.3
Property, plant and equipment	28,132	3.9%	28,126	3.7%	100.0
Deferred tax assets	3,496	0.5%	4,015	0.5%	87.1
Investment property	26,065	3.6%	26,287	3.5%	99.2
Financial assets and financial investments in subsidiaries and associated companies	46,826	6.4%	50,817	6.7%	92.1
Financial investments	274,133	37.6%	266,215	35.1%	103.0
- loans and deposits	43,134	5.9%	36,655	4.8%	117.7
- held to maturity	29,629	4.1%	31,418	4.1%	94.3
- available for sale	191,976	26.3%	189,673	25.0%	101.2
- recognised at fair value through profit and loss	9,394	1.3%	8,469	1.1%	110.9
Unit-linked insurance assets	274,128	37.6%	304,978	40.2%	89.9
Reinsurers' and co-insurers' share of insurance technical provisions	14,904	2.0%	17,704	2.3%	84.2
Assets from financial contracts	11,913	1.6%	8,890	1.2%	134.0
Receivables	19,590	2.7%	23,321	3.1%	84.0
- receivables from direct insurance operations	15,583	2.1%	16,433	2.2%	94.8
- receivables from reinsurance and co-insurance operations	1,170	0.2%	2,166	0.3%	54.0
- current tax receivables	0	0.0%	2,262	0.3%	0.0
- other receivables	2,838	0.4%	2,461	0.3%	115.3
Other assets	5,305	0.7%	5,276	0.7%	100.6
Cash and cash equivalents	18,933	2.6%	17,631	2.3%	107.4

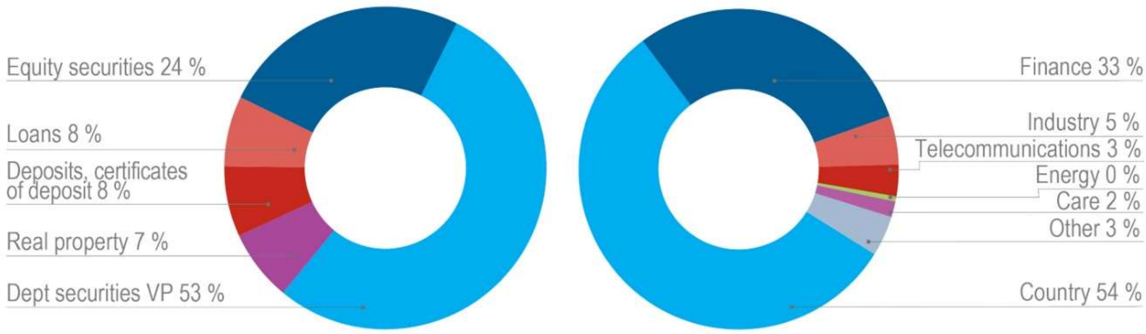
Investments accounted for EUR 652 million or 89.3% of total assets (31 December 2017: EUR 674.8 million). Compared to the previous year, the volume of investments diminished by 3.4%.

As at the 2018 year-end, EUR 274.1 million was accounted for by unit-linked insurance assets, EUR 274.1 million by other financial investments, EUR 46.8 million by financial investments in Group members, EUR 26.1 million by investment property, EUR 11.9 million by financial contracts (pension insurance) and EUR 18.9 million by cash and cash equivalents.

Due to maturities, surrender and decline of unit value of unit-linked insurance assets, the unit-linked insurance assets decreased by 10.1 % (37.6% share of total assets) compared to the previous year. The volume of financial investments increased by 3.0 %, and at the 2018 year-end, the Company had a great volume of assets invested in money market instruments (EUR 18.9 million).

Most of the Company investments (excluding unit-linked insurance assets) are investments in debt securities (52.6 %) and equity securities (24.4 %), which in most cases are related to the government (54.4 %) and the financial sector (32.4 %).

The structure of AS financial assets by type as at 31 December 2018 (excluding unit-linked insurance assets):



As at 31 December 2018, receivables amounted to EUR 19.6 million, accounting for 2.7% of total assets, and, compared to the year before, they retained their share. A decrease in the value of receivables for current tax, receivables from reinsurance and co-insurance, and receivables from direct insurance operations (totalling EUR 4.1 million) were noted, while other receivables increased by EUR 0.4 million

As at 31 December 2018, property, plant and equipment and long-term intangible assets totalled EUR 34.6 million. The former accounted for 3.9% and long-term intangible assets for 0.9% of total assets. The latter increased by EUR 1.8 million as a result of the merger of KD IT d.o.o.

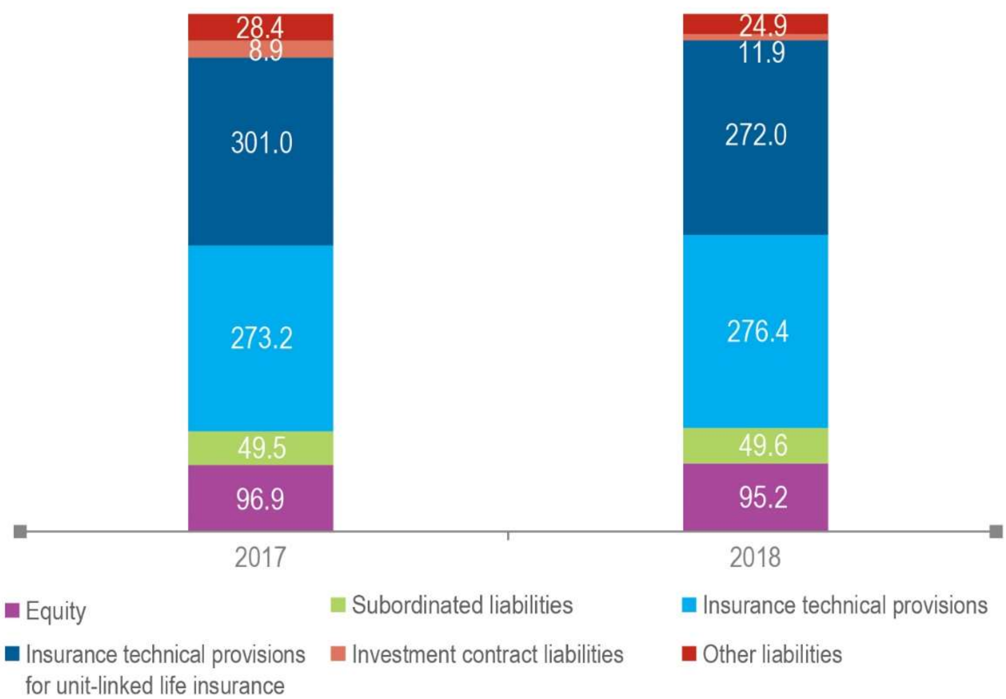
The amount of insurance-technical provisions ceded to reinsurance/coinsurance decreased by EUR 2.8 million to EUR 14.9 million.

The structure of liabilities:

in EUR thousand	2018	in %	2017	in %	Index 18/17
LIABILITIES	**729,927**	**100.0%**	**757,927**	**100.0%**	**96.3**
CAPITAL	**95,176**	**13.0%**	**96,892**	**12.8%**	**98.2**
Capital and reserves attributable to majority shareholders of the Company	**95,176**	**13.0%**	**96,892**	**12.8%**	**98.2**
Called-up capital	*43,000*	*5.9%*	*43,000*	*5.7%*	*100.0*
Share premium	*4,212*	*0.6%*	*4,212*	*0.6%*	*100.0*
Reserves from profit	*9,224*	*1.3%*	*9,224*	*1.2%*	*100.0*
Fair value revaluation reserve	*229*	*0.0%*	*393*	*0.1%*	*58.3*
Net profit brought forward	*29,656*	*4.1%*	*28,614*	*3.8%*	*103.6*
Net profit or loss for the period	*8,856*	*1.2%*	*11,449*	*1.5%*	*77.3*
Subordinated issued bonds	**49,582**	**6.8%**	**49,525**	**6.5%**	**100.1**
Insurance technical provisions	**276,383**	**37.9%**	**273,200**	**36.0%**	**101.2**
Unearned premium	50,006	6.9%	49,526	6.5%	101.0
Insurance technical provisions for life insurance	110,294	15.1%	107,590	14.2%	102.5
Claims provisions	115,570	15.8%	115,554	15.2%	100.0
Other insurance technical provisions	514	0.1%	530	0.1%	97.0
Insurance technical provisions for unit-linked life insurance	**271,970**	**37.3%**	**301,043**	**39.7%**	**90.3**
Other provisions	**4,805**	**0.7%**	**4,432**	**0.6%**	**108.4**
Deferred tax liabilities	**0**	**0.0%**	**171**	**0.0%**	**0.0**
Investment contract liabilities	**11,913**	**1.6%**	**8,890**	**1.2%**	**134.0**
Financial liabilities	**483**	**0.1%**	**431**	**0.1%**	**112.1**
Operating liabilities	**7,103**	**1.0%**	**7,429**	**1.0%**	**95.6**
Other liabilities	**12,511**	**1.7%**	**15,912**	**2.1%**	**78.6**

As at the end of the reporting period, total equity amounted to EUR 95.2 million, or 1.8% less than the previous year. The proportion of equity in total assets went up by 0.3 percentage points and stood at 12.9% as at 31 December 2018. The share capital, consisting of 10,304,407 ordinary registered no-par value shares, remained unchanged in 2018 and totalled EUR 43 million at the year-end.

The structure of liabilities of the Company as at 31 December 2018 (in EUR million):



On the liabilities side, the insurance-technical provisions totalled EUR 548.4 million as at 2018 year-end when compared to the year before, decreasing their volume in parallel to the decline of their total share in total assets to 75.1%. Within the insurance-technical provisions, the insurance technical provisions for unit-linked insurance diminished by 9.7% to EUR 272.0 million, whereas other insurance technical provisions rose to EUR 276.4 million. With the issuance of the subordinate debt in the first half of 2018, the financial liabilities of the Company increased to EUR 49.6 million.

As at 31 December 2018, operating liabilities stood at EUR 7.1 million. At the same time, liabilities from financial contracts were recognized in the amount of EUR 11.9 million (formation from 2016 in connection to pension insurance contracts). Based on other short-term liabilities from insurance operations, other liabilities decreased by EUR 3.4 million to EUR 12.5 million.

7.4 ANALYSIS OF OPERATIONS OF THE AS GROUP

Consolidated financial statements of the AS 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 (whose winding up was concluded on 15 January 2018.). The majority of the value of economic categories of the Group includes the assets, liabilities, revenue and expenses of the parent company Adriatic Slovenica.

Financial result

The Adriatic Slovenica Group operated well in 2018, ending the reporting year with a positive outcome. In 2018, the net profit amounted to EUR 9.2 million and return on equity was 9.5%.

Operating results:

in EUR thousand	2018						2017						Index
	Non-life	Life	Health care	Manage-ment	Consoli-dation	Total	Non-life	Life	Health care	Manage-ment	Consoli-dation	Total	
REVENUES	144,515	64,545	101,372	10,881	-1,517	319,795	144,030	93,594	103,571	11,344	-2,331	350,208	91.3
Net premium revenue	**132,221**	**56,835**	**100,141**	**0**	**0**	**289,197**	**130,538**	**59,208**	**102,385**	**0**	**0**	**292,131**	**99.0**
Gross written premium	141,768	58,984	99,694	0	0	300,446	140,493	61,166	102,129	0	0	303,789	98.9
Ceded written premium	-8,124	-2,131	0	0	0	-10,255	-9,895	-1,994	0	0	0	-11,888	86.3
Change in unearned premium	-1,423	-19	448	0	0	-994	-61	35	256	0	0	230	-431.7
Commissions receivable	**1,084**	**777**	**0**	**0**	**0**	**1,862**	**1,542**	**715**	**0**	**0**	**0**	**2,257**	**82.5**
Other revenue	**5,411**	**438**	**781**	**10,872**	**-715**	**16,786**	**5,031**	**3,133**	**639**	**11,327**	**-1,355**	**18,775**	**89.4**
Other operating revenue	3,743	232	780	101	-193	4,664	3,040	757	626	432	-762	4,093	114.0
Rental revenue from investment property	1,664	171	1	0	-146	1,691	1,844	1,107	12	0	-141	2,822	59.9
Other financial revenue	3	34	0	0	0	37	147	1,269	1	0	0	1,417	2.6
Other fee and commision income	0	0	0	10,771	-377	10,394	0	0	0	10,894	-451	10,443	-
Investment revenue	**5,799**	**6,495**	**449**	**9**	**-802**	**11,951**	**6,920**	**30,538**	**547**	**17**	**-976**	**37,046**	**32.3**
Revenue from shares in associates	40	3	16	0	0	58	190	5	158	0	-129	223	26.1
Investment revenue	5,759	6,493	433	9	-802	11,893	6,730	30,534	389	17	-847	36,823	32.3
EXPENSES	-136,244	-65,491	-99,913	-8,546	1,517	-308,677	-137,289	-92,549	-100,514	-8,662	2,202	-336,812	91.6
Net claims incurred	**-82,363**	**-46,385**	**-88,857**	**0**	**0**	**-217,605**	**-83,064**	**-49,753**	**-89,367**	**0**	**0**	**-222,184**	**97.9**
Gross claims paid	-84,880	-46,998	-88,519	0	0	-220,397	-84,007	-50,230	-90,155	0	0	-224,392	98.2
Reinsurers' and co-insurers' share	4,412	682	0	0	0	5,094	3,130	603	0	0	0	3,733	136.4
Changes in claims provisions	-1,896	-68	-339	0	0	-2,302	-2,188	-126	788	0	0	-1,526	150.9
Change in insurance technical provisions for un	**0**	**29,073**	**0**	**0**	**0**	**29,073**	**0**	**-18,424**	**0**	**0**	**0**	**-18,424**	**-157.8**
Change in other insurance technical provisions	**-70**	**-2,716**	**-5**	**0**	**0**	**-2,791**	**422**	**-201**	**116**	**0**	**0**	**337**	**-826.9**
Change in other insurance technical provisions	-16	-2,716	-5	0	0	-2,736	294	-201	115	0	0	209	-1,306.7
Expenses for bonuses and discounts	-54	0	0	0	0	-54	127	0	1	0	0	128	-42.5
Operating expenses	**-42,183**	**-17,017**	**-10,498**	**-8,475**	**1,516**	**-76,656**	**-43,392**	**-18,297**	**-10,652**	**-8,563**	**2,200**	**-78,704**	**97.4**
Costs of services	-23,757	-9,765	-5,026	-4,608	1,516	-41,639	-25,367	-10,625	-5,478	-4,919	2,200	-44,191	94.2
of which: Acquisition costs	*-15,606*	*-5,385*	*-1,379*	*0*	*2*	*-22,369*	*-16,469*	*-5,962*	*-1,218*	*0*	*12*	*-23,638*	*94.6*
Labour costs	-15,731	-6,389	-4,812	-3,651	0	-30,582	-15,556	-6,543	-4,592	-3,406	0	-30,096	101.6
Costs of material and energy	-528	-183	-148	-65	0	-924	-521	-161	-129	-72	0	-883	104.6
Depreciation and amortisation	-2,168	-679	-513	-152	0	-3,511	-1,947	-968	-453	-167	0	-3,535	99.3
Other expenses from insurance operations	**-1,926**	**-418**	**-259**	**0**	**0**	**-2,604**	**-3,218**	**-173**	**-414**	**0**	**0**	**-3,805**	**68.4**
Other expenses	**-5,669**	**-2,562**	**-221**	**-55**	**0**	**-8,508**	**-5,887**	**-3,296**	**-193**	**-94**	**0**	**-9,470**	**89.8**
Revaluation operating expenses	-1,034	-230	-2	-3	0	-1,269	-702	-876	0	-1	0	-1,579	80.4
Investment property expenses	-1,571	-71	-2	0	0	-1,643	-3,485	-305	-2	0	0	-3,791	43.3
Other operating expenses	-2,781	-154	-216	-48	0	-3,199	-1,295	-1,213	-191	-88	0	-2,787	114.8
Other financial expenses	-284	-2,107	-1	-4	0	-2,396	-405	-903	0	-5	0	-1,313	182.6
Investments expenses	**-2,178**	**-23,288**	**-71**	**0**	**0**	**-25,537**	**-298**	**-232**	**-1**	**0**	**0**	**-532**	**4,804.6**
Expenses for shares in associates	0	-3	-71	0	0	-75	0	0	0	0	0	0	-
Investments expenses	-2,178	-23,285	0	0	0	-25,463	-298	-232	-1	0	0	-532	4,790.5
Financial expenses for interest	**-1,855**	**-2,178**	**-1**	**-16**	**1**	**-4,048**	**-1,852**	**-2,174**	**-2**	**-5**	**2**	**-4,031**	**100.4**
PROFIT BEFORE TAX	8,271	-945	1,458	2,335	0	11,118	6,741	1,045	3,057	2,682	-129	13,396	83.0
TAX	-1,346	179	-323	-441	0	-1,932	-1,224	-296	-655	-519	0	-2,694	71.7
Income tax	-894	145	-269	-450	0	-1,468	294	-296	-72	-456	0	-529	277.4
Deferred tax	-452	34	-55	9	0	-464	-1,518	0	-584	-63	0	-2,165	21.4
NET PROFIT/LOSS	6,925	-767	1,135	1,893	0	9,186	5,518	749	2,402	2,163	-129	10,702	85.8
Minority interest	0	0	0	41	0	41	-9	0	0	78	0	69	59.7
Interest of parent company	6,925	-767	1,135	1,852	0	9,145	5,527	749	2,402	2,085	-129	10,633	86.0

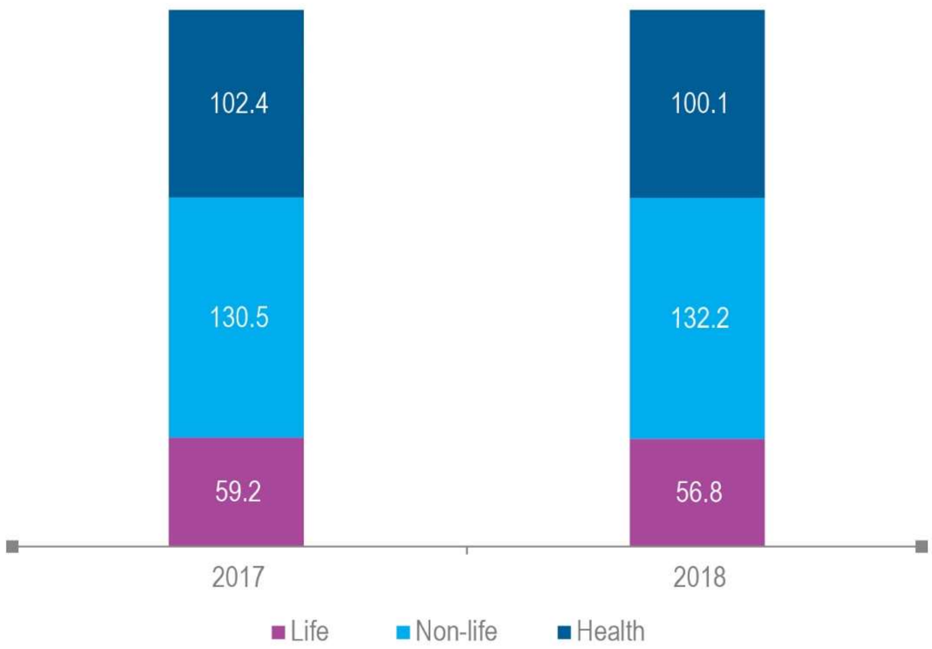
Net premium revenue

In the reporting period, the gross written premium of the Group was 1.1% lower than the year before, amounting to a total of EUR 300.4 million. In non-life insurance, growth was observed for all insurance classes, with the exception of MTPL insurance, marine third-party liability insurance and accident insurance. Namely, collaboration with an external company, which used to conclude a large number of assistance insurance contracts for the AS

Company, was terminated in 2018. In the life insurance segment, decline in investment insurance and a slight growth in mixed and term insurance were recorded. In the health insurance segment, complementary health insurance experienced a decrease of 3%, while all other insurance classes saw an increase of 14.7%. By taking into account the premiums ceded to reinsurers and changes in unearned premiums, the Company collected EUR 289.2 million in net premium, which is 1% less than in the previous year. The ceded reinsurance premium was 13.7% lower and amounted to EUR 10.3 million.

The predominant segment in the net premium revenue structure was non-life insurance. In 2018, it reached EUR 132.2 million, accounting for a 45.7% share, which is EUR 1.7 million (1.3%) more than in 2017. The other two segments experienced a decrease of net premium revenue, 2.2% in health insurance segment and 4% in life insurance segment. The health insurance segment thus totalled EUR 100.1 million of net revenue, or a 34.6% share of total net premium revenue, while the life insurance segment totalled EUR 56.8 million and a 19.7% share of total net premium revenue

The structure of net premium revenue by business segment in 2018 and 2017 (in EUR million):



Net claims incurred

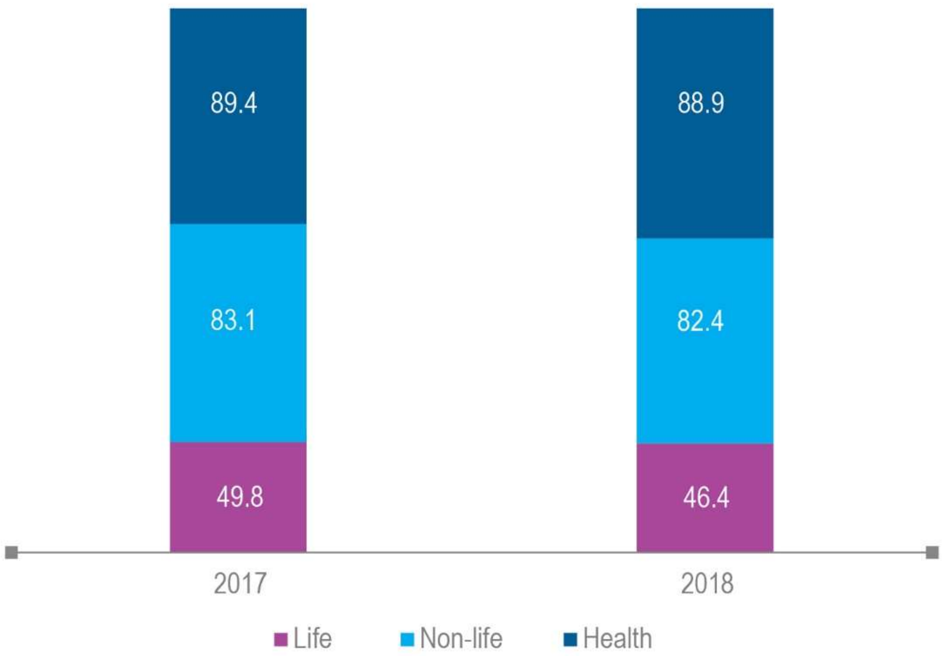
In 2018, net claims incurred, taking into consideration the changes in claims provisions, reached EUR 217.6 million, which represents a 2.1% decline compared to the previous year. This was significantly connected to both gross claims settled and higher reinsurers' shares. Reinsurers' shares amounted to EUR 5.1 million in 2018, which is 36.4% higher than the year before (mainly in non-life insurance). Claims provisions (including changes in reinsurance claims provisions) increased in 2018 by EUR 0.8 million, to EUR 2.3 million.

In non-life insurance, a more favourable net relevant loss ratio was achieved, mainly related to accident insurance, land motor vehicle insurance fire and natural disaster insurance and other property damage insurance. At the same time, life insurance was marked by the consequences of a lower volume of maturities. Compared to last year, a decline in the volume of claims in the health insurance segment is mainly due to the reduction of the complementary health insurance portfolio, however with a higher relevant loss ratio

In the structure of net claims incurred, health insurance is the prevailing segment with a 40.8% share, which decreased due to the decline in the number of complementary insurance policyholders by 0.6% in 2018 compared to 2017 and totalled EUR 88.9 million. In the second place, net claims incurred in the non-life segment faced a downturn by 0.8% and amounted to EUR 82.4 million. Net claims incurred in life insurance stood at EUR 46.4 million with a 21.3% share of total net claims incurred.

The ratio between net claims incurred and net premium revenue improved by 1.1% or 0.8 percentage point, down from 76.1% to 75.2%.

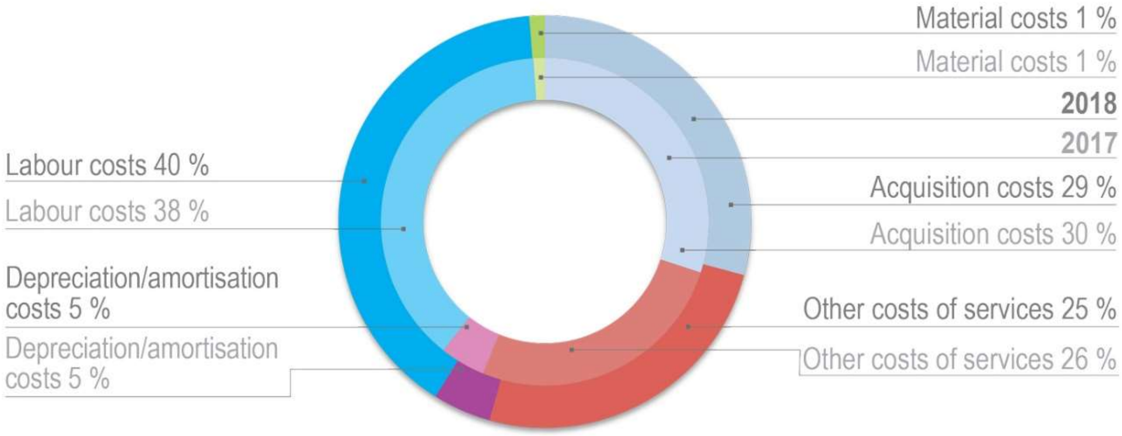
The structure of net claims incurred by business segments in 2018 and 2017 (in EUR million):



Operating expenses

Operating expenses (excluding claim settlement costs, which are recorded under gross claims incurred) amounted to EUR 76.7 million and decreased by 2.6% i.e. by EUR 2 million in 2018. The largest decrease in expenses is recorded in the cost of services, which fell by 5.8% to EUR 41.4 million and consist of a significant share of acquisition costs, which fell by 5.4 percent to EUR 22.5 million. Compared to the previous year, labour costs increased by 1.6% to EUR 30.6 million, while costs of material and goods increased by 4.6% and depreciation and amortisation costs fell by 0.7%.

The structure of operating expenses in 2018 and 2017 (in %):



Changes in insurance technical provisions

In 2018, the volume of mathematical/insurance technical provisions for unit-linked insurance decreased by EUR 29.1 million due maturities, surrenders and the decreased unit value of policyholders' assets (on the expenses side under this heading, the expenses for unit-linked life insurance investments increased leading to a neutral impact on the net profit in life insurance). Under other insurance technical provisions, provisions worth EUR 2.8 million were set up, mainly in the life insurance segment (EUR 2.7 million).

Investment revenue and expenses

The Company achieved a net financial result from investing activities in the amount of EUR -13.6 million, which is less than in 2017 by EUR 50.1 million. This was mainly contributed by investment revenue, which was lower by EUR 25.1 million and investment expenses, which were higher by EUR 25 million. Financial revenue and expenses also include net financial revenue/expenses from unit-linked insurance. In 2018, the net financial result of these investments was negative and amounted to EUR -20.2 million (in 2017 the positive net financial result reached EUR 23.6 million).

After excluding the impact of investment revenue/expenses 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 dropped by EUR 3.3 million compared to 2017. The main reason for the lower net revenue is the smaller volume of realized capital gains, the negative change in the value of the derivative financial instrument hedging the subordinated debt interest rate and the permanent impairment of market shares and mutual funds.

All of the above mentioned reasons also influenced the lower net income from non-life insurance, which amounted to EUR 3.6 million in 2018 and were lower by EUR 3 million than in 2017. Net investment revenue from health insurance amounted to EUR 0.4 million or EUR 0.2 million less against to the comparable period.

Other revenue and expenses and financial expenses for interest

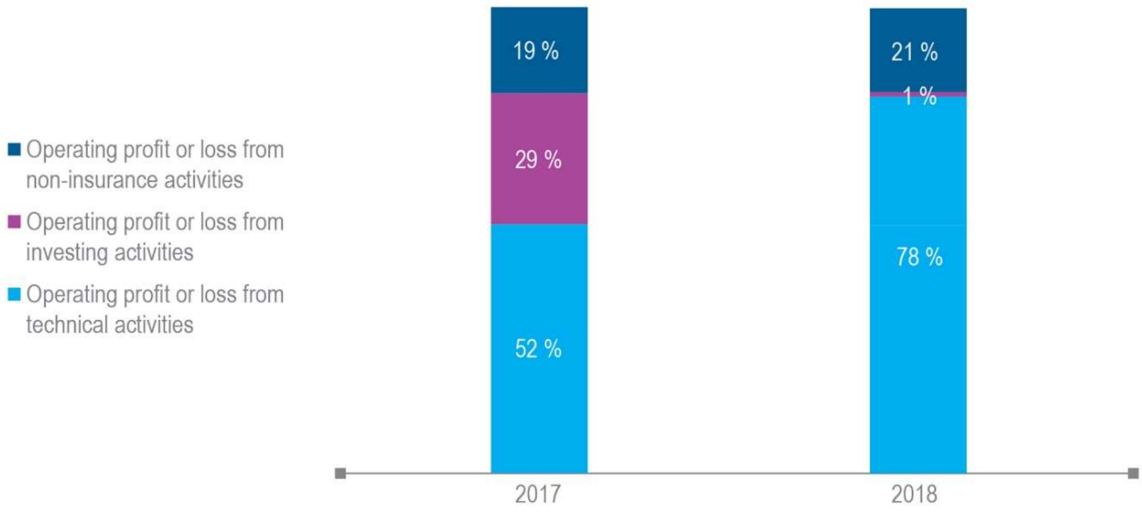
In 2018, the net result of other revenue (including fee and commission revenue or insurance revenues) and expenses (including financial expenses for interest) totalled EUR 3.5 million and was EUR 0.2 million lower than in the previous comparable period. This result is based on lower other revenue, which in 2018 amounted to EUR 18.6 million (lower revenues from investment property, lower reinsurance fees and commissions). The effect of

KD Skladi brings an additional EUR 10.8 million of revenues at the Group level. Total other expenses were lower than the year before by EUR 2.1 million, amounting to EUR 15.2 million. Their decrease was mostly the result of decreased other operating expenses (arising from the assistance abroad product, whose expenses are recorded under claims handling costs as of 2018) and investment property expenses. Financial expenses for bonds issued remained at the same level as in the past period.

Net profit or loss

Detailed financial statements of the Company show that net operating result in the amount of EUR 9.2 million consists of positive results in the non-life insurance (EUR 6.9 million), life insurance (EUR 1.1 million) and asset management (EUR 1.9 million) segments, while the health insurance segment showed a negative net result of EUR 0.8 million. The following factors had an impact on the decreased net profit in 2018 when compared to the previous years: lower financial results from investing activities, while a positive impact was played by improved insurance-technical result in non-life and partly life insurance.

The structure of profit before tax for 2018 and 2017:



Financial position

As at 31 December 2018, total assets of the Group stood at EUR 732.5 million, representing a 3.7% decrease compared to the previous year. The decrease resulted from decline in unit-linked insurance assets, which fell by 10.1% to EUR 274.1. The bulk of assets at the 2018 year-end was accounted for by life insurance assets (62.9%), by non-life insurance assets (35.4%) and the rest was intended for the implementation of health insurance activities and asset management.

The structure of assets:

in EUR thousand	31.12.2018	in %	31.12.2017	in %	Index
ASSETS	732,509	100.0%	760,709	100.0%	96.3
Intangible assets	32,253	4.4%	32,924	4.3%	98.0
Property, plant and equipment	30,854	4.2%	30,720	4.0%	100.4
Deferred tax assets	4,251	0.6%	4,864	0.6%	87.4
Investment property	23,757	3.2%	24,120	3.2%	98.5
Financial assets and financial investments in subsidiaries and associated companies	12,062	1.6%	12,026	1.6%	100.3
Financial investments	278,033	38.0%	270,557	35.6%	102.8
- loans and deposits	42,998	5.9%	37,136	4.9%	115.8
- held to maturity	29,629	4.0%	31,418	4.1%	94.3
- available for sale	195,805	26.7%	193,392	25.4%	101.2
- recognised at fair value through profit and loss	9,601	1.3%	8,611	1.1%	111.5
Unit-linked insurance assets	274,128	37.4%	304,978	40.1%	89.9
Reinsurers' and co-insurers' share of insurance technical provisions	14,904	2.0%	17,704	2.3%	84.2
Assets from financial contracts	11,913	1.6%	8,890	1.2%	134.0
Receivables	22,887	3.1%	27,896	3.7%	82.0
- receivables from direct insurance operations	16,668	2.3%	17,737	2.3%	94.0
- receivables from reinsurance and co-insurance operations	1,170	0.2%	2,166	0.3%	54.0
- current tax receivables	34	0.0%	2,316	0.3%	1.5
- other receivables	5,015	0.7%	5,677	0.7%	88.3
Other assets	5,756	0.8%	5,918	0.8%	97.3
Cash and cash equivalents	21,712	3.0%	20,111	2.6%	108.0

As at 31 December 2018, on the assets side, investments were recognised as the most important category. They accounted for EUR 599.9 million or 81.9% of total assets (31 December 2017: EUR 620.6 million). Compared to the previous period under examination, the volume of investments weakened by 3.3%. As at the end of 2018, EUR 274.1 million was accounted for by unit-linked insurance assets, EUR 278 million by other financial investments, EUR 12.0 million by financial investments in Group members, EUR 23.8 million by investment property, EUR 11.9 million by financial contracts and EUR 21.7 million by cash and cash equivalents.

Due to maturities, surrenders and the fall in unit value of unit-linked insurance assets, the unit-linked insurance assets decreased by 10.1% compared to the previous year, and accounted for a 37.4% share of total assets as at 31 December 2018 (31 December 2017: a 10.1% share).

As at 31 December 2018, receivables amounted to EUR 22.9 million, accounting for 3.1% of total assets, and, owing to the decrease by 18% (compared to the previous reporting period), they lost their share. The decrease in the value of all groups of receivables, with the major decrease occurred in the current tax assets.

As at 31 December 2018, property, plant and equipment and long-term intangible assets totalled EUR 63.1 million. The former accounted for 4.2% and the latter for 4.4% of total assets.

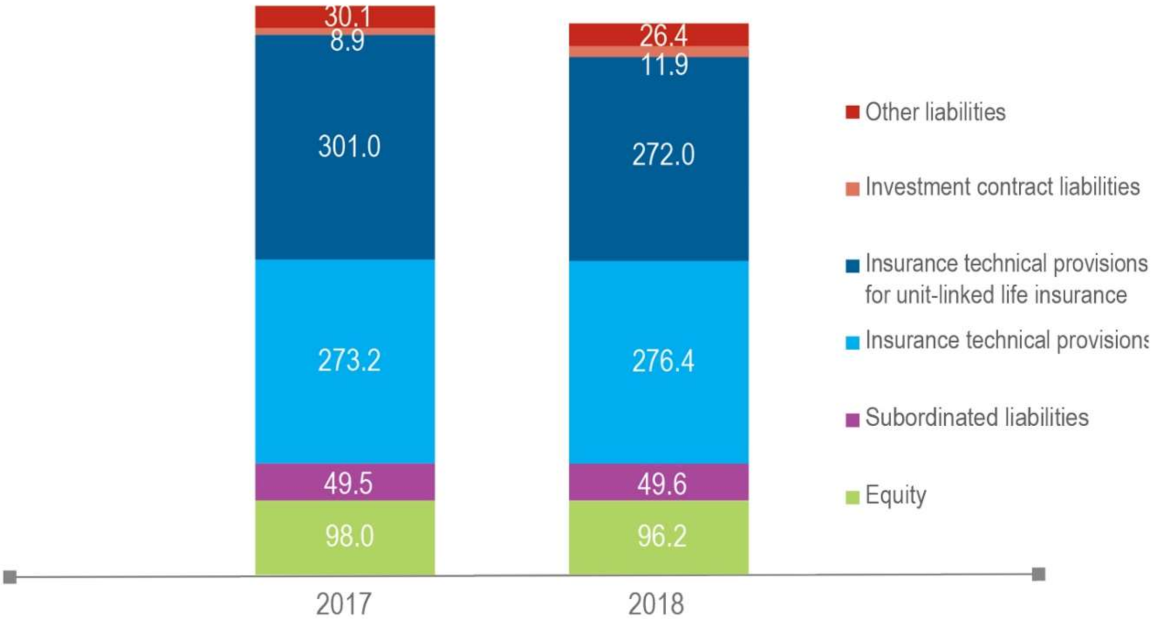
The amount of insurance technical provisions ceded to reinsurance/coinsurance decreased by EUR 2.8 million to EUR 14.9 million.

The structure of liabilities:

in EUR thousand	31.12.2018	in %	31.12.2017	in %	Index
LIABILITIES	**732,509**	**100.0%**	**760,709**	**100.0%**	**96.3**
CAPITAL	**96,218**	**13.1%**	**97,960**	**12.9%**	**98.2**
Capital and reserves attributable to majority shareholders of the Company	**96,112**	**13.1%**	**97,749**	**12.8%**	**98.3**
Called-up capital	*43,000*	*5.9%*	*43,000*	*5.7%*	*100.0*
Share premium	*4,212*	*0.6%*	*4,212*	*0.6%*	*100.0*
Reserves from profit	*9,224*	*1.3%*	*9,224*	*1.2%*	*100.0*
Translation reserves	*13*	*0.0%*	*10*	*0.0%*	*121.4*
Fair value revaluation reserve	*549*	*0.1%*	*729*	*0.1%*	*75.3*
Net profit brought forward	*29,970*	*4.1%*	*29,941*	*3.9%*	*100.1*
Net profit or loss for the period	*9,145*	*1.2%*	*10,633*	*1.4%*	*86.0*
Minority interest	**106**	**0.0%**	**211**	**0.0%**	**50.1**
Subordinated issued bonds	**49,582**	**6.8%**	**49,525**	**6.5%**	**100.1**
Insurance technical provisions	**276,383**	**37.7%**	**273,200**	**35.9%**	**101.2**
Unearned premium	50,006	6.8%	49,526	6.5%	101.0
Insurance technical provisions for life insurance	110,294	15.1%	107,590	14.1%	102.5
Claims provisions	115,570	15.8%	115,554	15.2%	100.0
Other insurance technical provisions	514	0.1%	530	0.1%	97.0
Insurance technical provisions for unit-linked life insurance	**271,970**	**37.1%**	**301,043**	**39.6%**	**90.3**
Other provisions	**4,984**	**0.7%**	**4,625**	**0.6%**	**107.8**
Deferred tax liabilities	**0**	**0.0%**	**191**	**0.0%**	**-**
Investment contract liabilities	**11,913**	**1.6%**	**8,890**	**1.2%**	**134.0**
Financial liabilities	**525**	**0.1%**	**429**	**0.1%**	**122.2**
Operating liabilities	**7,157**	**1.0%**	**7,439**	**1.0%**	**96.2**
Other liabilities	**13,777**	**1.9%**	**17,405**	**2.3%**	**79.2**

As at 31 December 2018, total equity amounted to EUR 96.2 million, i.e. 1.8% less than at the 2017 year-end. The proportion of equity in total assets went up by 0.2 percentage points and stood at 13.1% as at 31 December 2018.

The structure of liabilities of the Company as at 31 December 2018 (in EUR million):



On the liabilities side, the insurance technical provisions totalled EUR 548.4 million at the 2018 year-end when compared to the year before, decreasing their volume in parallel to decreasing their total share in total assets to 74.9%. The insurance technical provisions for unit-linked insurance fell by 9.7% to EUR 272 million, whereas other insurance technical provisions rose only slightly to EUR 276.4 million.

The financial liabilities of the Group resulting from the issuance of the subordinate debt in the first half of 2016 stood at EUR 49.6 million.

As at 31 December 2018, operating liabilities stood at EUR 7.2 million. At the same time, liabilities from financial contracts were recognized in the amount of EUR 11.9 million (set up in 2016 in connection to pension insurance premium), which represents a 34% increase compared to 2017 year-end. Based on other short-term liabilities from insurance operations, other liabilities decreased by EUR 3.6 million to EUR 13.8 million.

Leon Zakrajšek / Untitled (Enso) / 2016

In March 2017, the AS Gallery hosed the exhibition of the graduated artist Leon Zakrajšek together with photographer Janez Vlachy. The Hatsu yuki (First Snow) exhibition is closely associated with Japan, eastern aesthetics and philosophy. The symbolic title reminds them of children's joy at the first snow and the joy of enjoying small things.

8. RISK MANAGEMENT AND INTERNAL AUDIT

8.1 RISK MANAGEMENT

In April 2018, AS published its 2017 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, present the new disclosure requirements in accordance with the third pillar of Solvency II. The Report, reviewed by an independent external auditor, shows that at the 2017 year-end the Company showed a surplus of eligible own funds above the required capital. In 2018, the risk profile of the company (estimated at the end of each quarter as a capital requirement) did not change significantly, while owing to the increased eligible own funds, the capital adequacy ratio improved. The capital adequacy ratio for 2018 will be disclosed in the revised Solvency and Financial Position Report for 2018, which will be published on the Company corporate website.

In the last quarter of 2018, own risk and solvency assessment for 2018 was carried out based on the adopted medium-term business strategy, the business plan for 2019 deriving from it, and the projections until 2023. In the framework of the own risk and solvency assessment, the sustainability of the 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. 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 2023. In its own assessment of risks and solvency, the negative shocks and scenarios tested would not jeopardize the company's capital adequacy. 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 2019, the Company will continue to provide faster and easier acquisition of the data necessary for the calculation of capital adequacy and regulatory reporting. In the future, the Company will continue to focus primarily on monitoring and managing the underwriting, market and operating risks.

8.1.1 Risk management system

Risk management is understood by the Management Board as the first line of defence or as a way to avoid the occurrence of a 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.

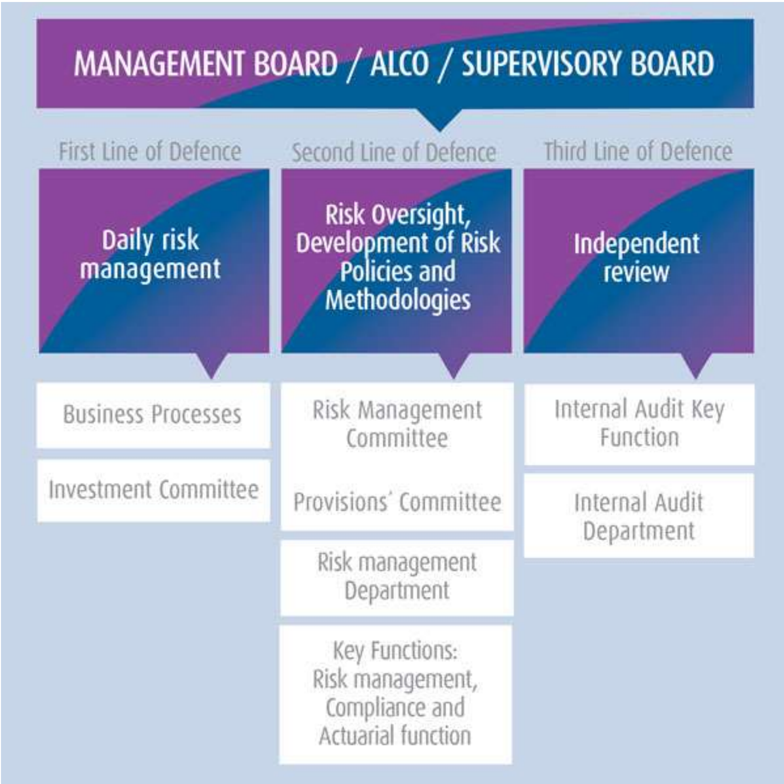
The risk management system of the Company is a comprehensive process, managed and supervised by the Management Board and designed not only to identify potential events that may have a negative impact on the operations of the Company, but also to manage risks based on the risk appetite by giving reasonable 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.

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 system:



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

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

8.1.2 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, the Company 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 key 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.

8.1.3 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 financial part of the Report.

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

Risk management begins with the Company strategy, as is the case with all the other activities related to the operations of the Company. After the strategy is created, the supervisory mechanisms are 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.

8.1.5 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.

Furthermore, 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.

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 affecting 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, namely whether the Company could even afford them, considering the scope and the quality of its own funds.

8.1.6 IT-related safety risk management

In order to improve the quality, safety and reliability of IT, several safety tests were carried out in 2018 with regard to major changes that pose a safety risk to the Company and customers. As a rule, tests were carried out before the transition of new information solutions into production. In addition, a major security overview of the internal network was carried out to raise security on the internal network.

The Company actively participated, throughout the year, in the implementation of the mechanisms ensuring compliance with the GDPR legislation.

8.2 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 and based on the risk assessment, the Internal Audit Team performed 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.

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

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 and that the Internal Audit Team operates efficiently and effectively. They also expressed the opinion that the Internal Audit Team adds value to the Company and makes a significant contribution to the Company's performance

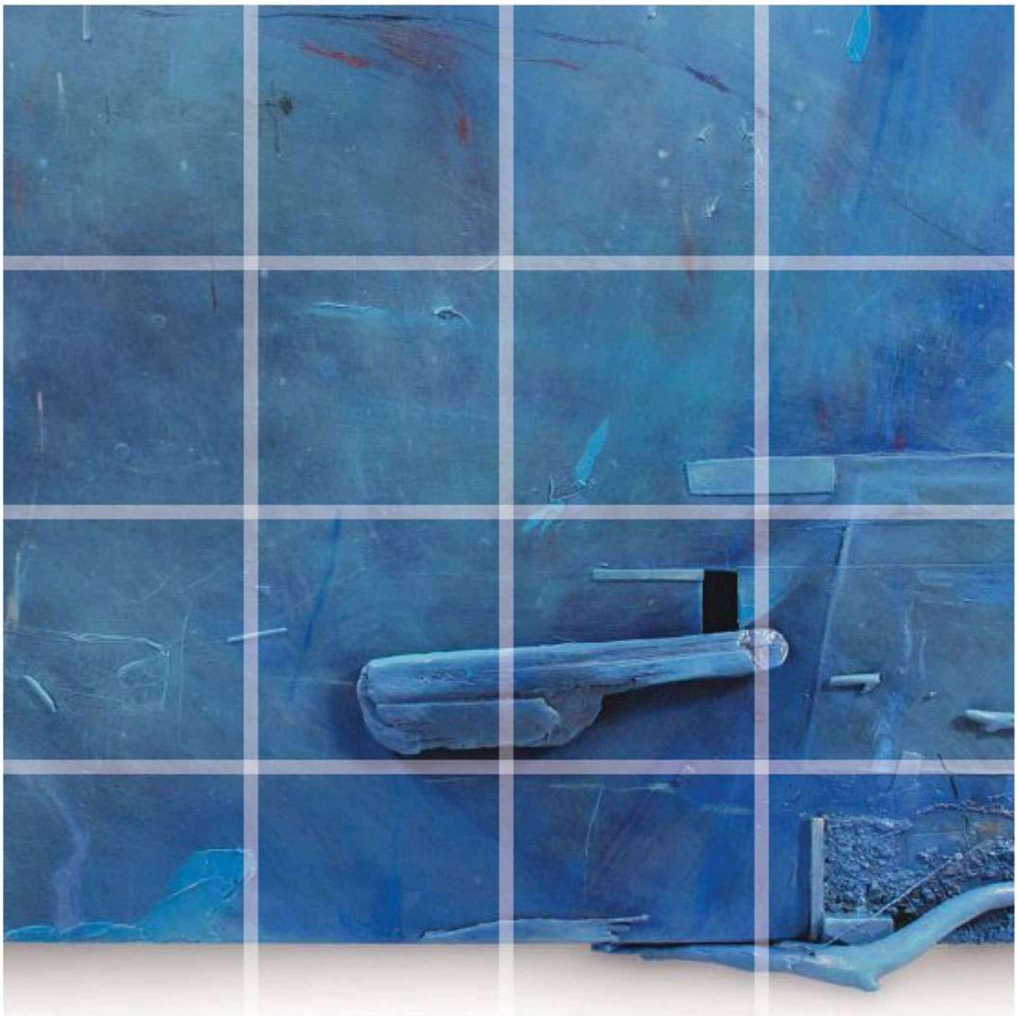
The Internal Audit Team carried out internal audit activities on the basis of the annual work plan for 2018, which was adopted by the Management Board of the Company after receiving the approval of the Supervisory Board. An important part of auditing was devoted to carrying out audits, monitoring the 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, the focus was on auditing those areas that represent higher risks for the Company and consequently a greater potential damage (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 by the Internal Audit Team 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 issued by the Internal Audit Team.

As a result of active monitoring of the corrective measures of the auditees by the Internal Audit Team, a high share of implemented recommendations was achieved again in 2018.

After being examined by the Management Board, all internal audit reports were also sent to the Audit Committee. Two half-yearly and an annual report were produced and examined by the competent bodies of the Company.



Marko Tušek / Sarovar / 2008

In November 2018, we saw the exhibition Geometry of Hope by the painter Marko Tušek at the AS Gallery. The artist's research takes the viewer into a deeper, more intimate world. The openings in the paintings convey the impression of three-dimensionality and invite us to open them and discover what they hide inside.

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

9.1 IMPORTANT CUSTOMER SERVICES

Every customer contact with the Company is important to us as it improves satisfaction with the user experience. For this reason the Company is developing simple, easy and increasingly transparent services and implementing the offer of insurance and services. We pay special attention to innovative insurance and financial products, quality advising, insurance protection and rapid assistance in claim settlement. Sales and service channels have been linked with internal processes in the Company and the AS Group. In this, building on considerations on our development, we monitor customer satisfaction and regularly carry out internal and external surveys.

Zavarovalniški monitor (Insurance Monitor)* (by Gfk Slovenia), which we have been following already since 2001, is among the most important regular surveys performed by external independent institutions. The survey continuously monitors the insurance market in Slovenia, examines the name recognition and likeability of insurance companies, insurance coverage of the general public, information sources, policyholder satisfaction, the increasingly important Net Promoter Score (NPS), etc. The results confirm a high satisfaction rate of policyholders in both insurance underwriting and claim settlement, while internal surveys confirm satisfaction of policyholders with communication in the Customer Care Centre.

According to a survey conducted by Zavarovalniški monitor, AS ranked among the best three insurance companies regarding their name recognition, visibility and reputation in 2018. Policyholders estimated us even better than in 2017. The high satisfaction rate of customers is endorsed by an average score of 4.2 (on a rating scale from 1 to 5) or by 87%, of satisfied policyholders, which means 5% more satisfied customers compared to 2017 (82%). Moreover, a positive NPS recommendation index was recorded with 40 % of promoters (36% in 2017). This means that 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?”. Customers appreciated mostly the wide range of insurance products, innovation and stable and safe business.

9.1.1 MOJ AS (MY AS)

The Moj AS (My AS) Portal enables the customers to independently view their insurance policies, check payments, change payment methods, report claims and monitor claim settlement progress on their computers, tablets or mobile phones. The portal was continuously upgrading, non-commercial notifications are now sent to customers via the portal (e-notification, e.g. on the progress of insurance, payment orders, pension notices and investment values). There is also a new section called Moje zdravje (My Health), which currently allows customers to ask for second opinion and the "Moje naložbe" (My Investments) section, where users can find links to KD Funds applications. By the end of the year, over 32,000 users have been registered on the portal, and on average, there are almost 200 viewers per day.

To show our appreciation to the customers, the application for drivers ASfalt (ASphalt), which offers drivers the monitoring of traffic information on stored routes in Slovenia and abroad and the quick call of Car Assistance if they find themselves in trouble, remains free.

9.1.2 WIZ ONLINE BRAND

The WIZ Website is AS's digital point of sale of simple and modern insurance products. The development of the online point of sale WIZ is receiving undivided attention, the existing products (Wiz Avto – Wiz Car, Wiz Zdravje – WIZ Health, Wiz Kolo – Wiz Bicycle) are being upgraded with a new range (WIZ KUŽA – WIZ DOG, WIZ TUJINA – WIZ ABROAD, WIZ SMUČAR - WIZ SKIER …), static website is undergoing search engine optimisation, while landing page and underwriting applications are being redesigned to ensure excellent user and shopping experience.

9.1.3 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 a total of 10,686 specialist services (47% more than in 2017) in orthopaedics, dermatology and surgery, 3,904 of which were diagnostic examinations and 1,342 physiotherapy services, and provided 105 services under transitional care insurance, which provided our complementary health insurance policyholders the possibility of free complementary services until 31 March 2018.

In 2018, we carried out 1,377 (26,3% up from 2017) 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, which is slightly less than the year before. The reduced number of calls can be attributed to an increasing number of customers registering via the My AS personal portal where up-to-date information about their insurance can be found.

In December 2018, we automated our internal customer satisfaction survey at the Health Centre AS. We are now following their satisfaction with the "Povej šefu" (Tell the Boss) survey, where the customer evaluates our services by sending a text from a mobile phone. Regardless of the new way of establishing satisfaction, customers rated our services and staff at the Centre with the highest. 53 % would also recommend them to friends (NPS 31%).

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

9.1.4 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, a quality and quick repair and free-of-charge use of a replacement vehicle during car repair (up to 3 days and up to 100 km/day). Clients are rewarded for having chosen the MOJ SERVIS AS (My AS Service) with a coupon enabling them to purchase a new or to renew car insurance. Policyholders can select this Service in the network of authorized and all-brand garages throughout Slovenia. Owing to the good experience of policyholders, MY SERVICE is becoming more and more popular and exceeds 40% of all motor vehicle damage repairs.

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

As many as 72 % of the policyholders believe that their loss or accident event was settled quickly.

9.1.5 CUSTOMER CARE

We treat customers comprehensively, regardless of which way they contact the Company, and try to meet their expectations. Direct contact with them, monitoring of their satisfaction and sales support are implemented via a series of channels, the central toll-free 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 in the area of life insurance where advice is provided on insurance management and asset management, while customers are assisted when purchasing insurance. The Customer Care Centre carries out recovery of unpaid premiums and conducts user experience satisfaction surveys. In 2018, 698,875 communications with clients via all communications channels were recorded.

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

9.1.6 AS KLUB (AS CLUB)

The AS Club offers its members and their families a range of benefits that enable them to make significant savings. The Club's activity play an important role in supporting sales for individuals and businesses. More than 117,000 people have joined the AS Club (founded in 2006). In 2018, the changes dictated by the GDPR Regulation were incorporated into all 4 subscription channels.

9.1.7 MIGIMIGI PROGRAMME

Migimigi is the concept of a modern lifestyle that promotes movement, healthy eating and the importance of a balance for a high quality of life. At the same time, members of the community are constantly challenged, motivated, rewarded and encouraged to better understand how their activities can lead to a healthy lifestyle; how to improve the quality of life with simple challenges that become part of their everyday life; how to protect themselves against the risks that cannot be avoided in their everyday life.

"Eat, Sleep, Love ... Move!" is the motto of the Migimigi program, launched on 1 April 2018 at www.migimigi.si. It consisted of four healthy challenges, which were extended in autumn with new challenges in the field of healthy eating, relaxation in the workplace and saving lives in case of heart attack. By the end of the year, the challenge was accepted by as many as 25,000 people, while 200,000 people visited the migimigi.si website.

9.2 INSURANCE AND SERVICES DEVELOPMENT

9.2.1 Non-Life Insurance Products

In the first quarter of 2018, we developed two new products, which are intended for online sales only - WIZ Kuža (WIZ Dog) and WIZ Smučar (WIZ Skier). We continued with the product “Podjetnik AS PLUS” (AS PLUS Entrepreneur), where several property products were combined on the same policy. In the last quarter, the insurance bases for the insurance of solar power plants were updated.

In order to comply with the minimum statutory sums insured for compulsory motor third party liability insurance in Slovenia and Italy, we issued a new Scale of Premium for shipowners' liability insurance and accident insurance cover for persons on board.

Moreover, due to the amended Consumer Protection Act, at the end of the year, we prepared a new form of suretyship insurance for tour operators, which, in addition to the coverage of their liquidity problems, also includes assistance services related to compensation of passengers.

We participated in the preparation of the "Insurance Product Information Document" (IPID) regarding all non-life products and we took part in the preparation of other activities related to the introduction of the IDD Directive, such as drawing up of questionnaires for the "Customer demands and needs requirements ".

A renewed strategy in the field of motor vehicle insurance, the improvement of scales of premium and the segmentation of insurance of passenger cars and trucks have contributed to the more positive results of this insurance class. We have continued the intensive data analysis for an even more in-depth target segmentation of the portfolio for admission to insurance. On 1 January 2019, in accordance with the legislation, we increased the minimum sums insured for compulsory MTPL insurance, which now amounts to EUR 5,240,000 for damage caused by death, bodily injury and damaged health, and EUR 1,050,000 for damage to property for a particular loss event. On 1 January 2018, Adriatic Slovenica offered its updated AS Tujina (AS Abroad) assistance insurance enabling 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.

9.2.2 Life and Pension Insurance Products

In March, Adriatic Slovenica began to conclude a new innovative insurance Moj življenjski kasko (My Comprehensive Life Insurance). This is a life insurance product covering the case of death (term life insurance), which provides clients with protection plan for all life situations. The needs for insurance protection over a longer lifetime period chosen by a customer when underwriting life insurance can change significantly, therefore constant sums insured are often not the best solution. As a result, My Comprehensive Life Insurance offers a flexible sum insured in case of death, because it meets clients' needs for insurance protection over time, which means that the sum insured is adjusted to individual life periods. The sum insured is determined on the basis of four groups of insurance protection needs (household expenses, loans and debts, costs of schooling of children, legacy) and the degree of importance of a particular need that the client can define as high, higher, medium, low or irrelevant. In this way, clients obtain the appropriate amount of protection, while paying a more favourable premium.

My Comprehensive Life Insurance combines a wide range of covers that provide a policyholder and his family with protection in case of illness, accident, unemployment and death (with covers such as payment for treatment of critical illnesses, health and accident annuity, one-time payment for permanent invalidity, exemption from premium payment during unemployment, work incapacity or permanent disability, bone fracture, child accident cover, daily accident compensation, preventive health service ...). As a novelty, My Comprehensive Life Insurance also provides health insurance Specialists offering assistance and other second opinion from experts from abroad. All covers can be changed by policyholders throughout the duration of the insurance and adapted to their needs. An additional advantage is that in the last third of the duration of the insurance premium, the monthly premium to cover death needs not to be paid if the sum insured in the last year is 30% of the sum insured in the first year or less. At the introduction of My Comprehensive Life Insurance, we revitalized the Življenjski kasko – Asistenca življenja (Comprehensive Life Insurance – Life Assistance) scheme and converted it into life insurance with a declining sum insured and a one-time premium payment. It is intended for customers raising a loan.

Moje finance (My Finance) magazine awarded Moj življenjski kasko (My Comprehensive Life Insurance) the first prize for BEST term-life insurance in all categories! In May 2018, it compared death insurance products among seven insurance companies in the Slovenian market. As the magazine said, customers would pay up to 26 % more expensive monthly premiums to other providers for comparable life insurance.

In early 2018, the marketing network transitioned to a fully electronic underwriting system via the underwriting application Skleni AS (AS Underwrite). This enabled online receipt and underwriting of life insurance to all agents and clients. In exceptional cases (for example, in rare cases of failed online connection), underwriting of current life insurance can be made via a physical offer.

In December 2018, we prepared a new-year campaign to pay additional one-off premiums to investment-linked life insurance. We wanted to encourage customers to pay additional amounts under favourable conditions, thus obtaining higher savings and untaxed returns after ten years of insurance.

In the case of **pension savings**, we successfully continued the marketing activities launched last year. We have enabled our business partners to securely communicate and share confidential business files through the AS B2B web portal. We also provided them with adequate professional support, since training for key account managers and personal advisors on voluntary additional pension scheme was organized throughout the year.

In order to be even more accessible to our policyholders for explanations and questions, in September we formed a team of account managers specialized in answering questions made by policyholders about the exercise of rights arising from voluntary additional pension schemes and surrenders.

The advantages of Pokojninsko varčevanje AS (Pension Savings AS) schemes and the tax deductions related to it were regularly communicated to the visitors of our website as.si and Facebook with regular articles, while the presentation of the Pokojninsko varčevanje AS – individualno (Pension Savings AS – Individually) was also published in the form of a short video. Moj AS (My AS) portal provided the policyholders with quick and easy access to the calculation of the indicative amount of their maximum tax deduction.

9.2.3 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.

Both individuals and companies were provided with the possibility of taking out modern health, accident and life insurance packages, as we are aware of the importance of continuous monitoring of the needs and wishes of our policyholders. In 2018, we upgraded the Insurance Specialists product to cover psychological help, expert consultation on the phone, a post-accident treatment plan and second opinions from renowned experts from abroad, and named it Specialisti z asistenco (Specialists with assistance). In the second half of the year, we began to offer health insurance updates (Specialists with assistance) to all our existing policyholders.

Quality and efficient assistance services are based on the development of information support and the upgrade of the Health Centre AS, which is developing into a key contact point to assist policyholders in solving health problems. In 2018, we paid great attention to the contracted network of health service providers and continued the standardization of the procedures for the most frequent activities of health services implemented by providers for voluntary health insurance policyholders. In order to meet insurance events (orthopaedics, physiotherapy, dermatology, surgery ...), we build business relationships with recognized professionals and select the best and professionally most qualified providers of these services.

We also continued with activities that improve the concentration of procurement of health services in order to reduce the number of contractors in the contractual network. Great attention is devoted to the business processes that need to be managed among the stakeholders of the self-paying healthcare market, which requires the development of digital solutions in particular. For this purpose, the company Medifit was founded. The company will offer technological solutions for the integration of all stakeholders: insurance companies, healthcare providers and patients within the framework of creating a business system in the field of health.

9.2.4 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 fulfil 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.

9.2.5 Sales Network

The sales network intensively developed several new, user-friendly underwriting applications enabling easy and more effective insurance underwriting and actively educated the network. 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 centre. In addition, we organized training sessions with internal coaches and sales promoters to increase the productivity of insurance. The Zagreb Branch intensified its conventional and digital sales of motor vehicle and investment-related life insurance. In 2018 it offered the new “Moj Življenjski kasko” (My Comprehensive Life Insurance) insurance product and paid more attention to customer service in their own call centre. The Branch plan to start the sale of life insurance “Varna leta” (Safe Years) and intensively continue the marketing of the Fond polica, My Comprehensive Life Insurance and in 2018 a very successful sale of motor vehicle insurance. The sales agency network increased by a third in 2018.

In 2017, KD Skladi began to develop the field of alternative funds, aimed primarily at institutional investors and well-off individuals. In 2018, the first alternative real estate fund, KD Adriatic Value Fund, a special investment fund, invested in three commercial real estates in Slovenia. The company estimates that the field of alternative funds is interesting for its development and plans to set up new funds in the future. These will invest their assets in alternative investment classes. In order to optimize the business, KD Skladi constantly develops new digital solutions that contribute to the efficiency of operations, improvement of user experience and experience for investors. At the end of 2018, a new, flexible savings package “Moj izbor” (My Choice), allowing investors to exchange funds in which they invest by making periodic payments within the savings plan, was launched.

9.2.6 Information Technology

The IT Team Tim IT continuously follows the initiatives under the Company Strategy, monitors the business environment, IT trends, professional demands and good IT management practices. The key driver of all the activities was to establish a modern ecosystem that will enable a rapid and efficient development of modern digital solutions and applications. Companies within the AS and KD Groups were provided with information support and hosting in the AS private cloud. Own agents and partners were enabled to acquire survey questions to ensure compliance with the IDD Directive, which also includes the acquisition of a digitized handwritten signature. With regard to the product “Tujina AS” (AS Abroad), we have enabled the external partner to use web services through which he obtains data on valid insurance for display in their own information systems. In order to meet the requirements of the GDPR, the process of obtaining client permissions for notification, maintenance of audit trails and the process of granting requests for data removal and transmission was computerized. We have continuously upgraded existing information systems with additional functionalities related to sales, claims and accounting processes. Among other things, we supported the modified and optimized billing process.

In the area of IT infrastructure, the main switch was replaced, the central database backup system was upgraded, the application server of the key backend system was switched to a higher version and the system to access the company's information systems was upgraded. The architecture of the data warehouse was updated, in the field of ETL new servers were installed both for the production and test environment. In 2018, by providing support to and education of users throughout the group, we contributed to a more efficient use of information solutions and customer satisfaction. In the area of information security, an internal network penetration test was carried out to identify and eliminate security vulnerabilities.

The redesign of the architecture of the Company data warehouse has continued and the scope and quality of the data were increased. In QlikView applications IDD data, basic information from NetResult - solutions for potential customers and basic data of the sales funnel were captured. Basic versions of QlikView applications for KPIs for motor vehicles, sales and WIZ were developed. Company portals were upgraded with additional content and services to come even closer to our customers. The preparation of data required for reporting to the regulator and the legislator (e.g. regarding Solvency II) was continuously automated and the tools enabling a more efficient insurance were upgraded.

In order to successfully launch the business strategy, especially in the fields of digitalization and digital transformation, technologies were established and competencies within the IT developed to 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.

The information system for online sales of the Branch in Croatia was integrated via APIs interfaces to new partners. The main back office information system was upgraded in line with business needs. Consequently, the process of posting was automated and SEPA requirements computerized. In the area of IT infrastructure, the transient voice router was replaced, the central database backup system was upgraded and the system of connecting smaller locations into the Company's IT environment was introduced. The architecture of the data warehouse was updated and the data required by the Solvency II Directive automated. A new information system, CRS, is being introduced in the IT environment to provide the functionality required by the compliance with the GDPR.

9.2.7 Process Development

Process management is the basis for streamlining costs and one of the key factors for increasing productivity. It facilitates to meet the needs of internal and external customers with the lowest consumption of resources and through a continuous optimization and automation of steps in the business process, variability and flexibility. It focuses on improving the business performance of the company as a whole.

In 2018, the Project and Process Management Team developed a methodology for the management, inventory and visualization of business processes. It was designed in order to ensure, in this rapidly changing business environment, a suitable model which will make it easier and clearer to manage and document processes.

The methodology was the starting point for the preparation of regulations on the management and implementation of Company business processes and of instructions for the drawing up of business processes. These two documents define uniform recommendations for the inventory and visualization of processes to achieve a unified listing of all processes of the Company.

9.3 MARKETING AND SALES ACTIVITIES

9.3.1 Brand management and marketing communication

Continuous surveys (IMDS, Zavarovalniški monitor (Insurance Monitor)) are applied to regularly monitor the reputation of the AS brand at the corporate and product level. In 2018, the Company maintained the high visibility in the general public, and an increased unaided recall was recorded (50% or more). 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 adapted to every customer through its marketing and sales activities, representing the Company as a partner that understands the needs of its policyholders and helps them find optimum solutions. By doing so, the policyholders are provided full expert support in selecting suitable covers and searching for investment opportunities.

9.3.2 Communication with the broad social environment

The AS Group is closely linked to the environment in which we operate. We support numerous projects and activities of national and regional importance, most visibly in the fields of sport, culture and health promotion projects (more details can be found in Section 10.2 Sustainable Development). An important part of the communication with the environment is through public media and is up to date, regular and two-way. A total of 1,548 commentaries were recorded, which is 20% more compared to 2017. AS has also appeared on the forefront of journalistic reporting several times. The national media reported the most on the insurance company, nearly a third of the posts were positive, the rest were neutral, and in 2018 no negative announcements were recorded. AS appeared on the forefront of journalistic reporting several times. The national media reported on the Company the most. Nearly a third of the commentaries were positive, the rest were neutral, and no negative commentaries were recorded in 2018.

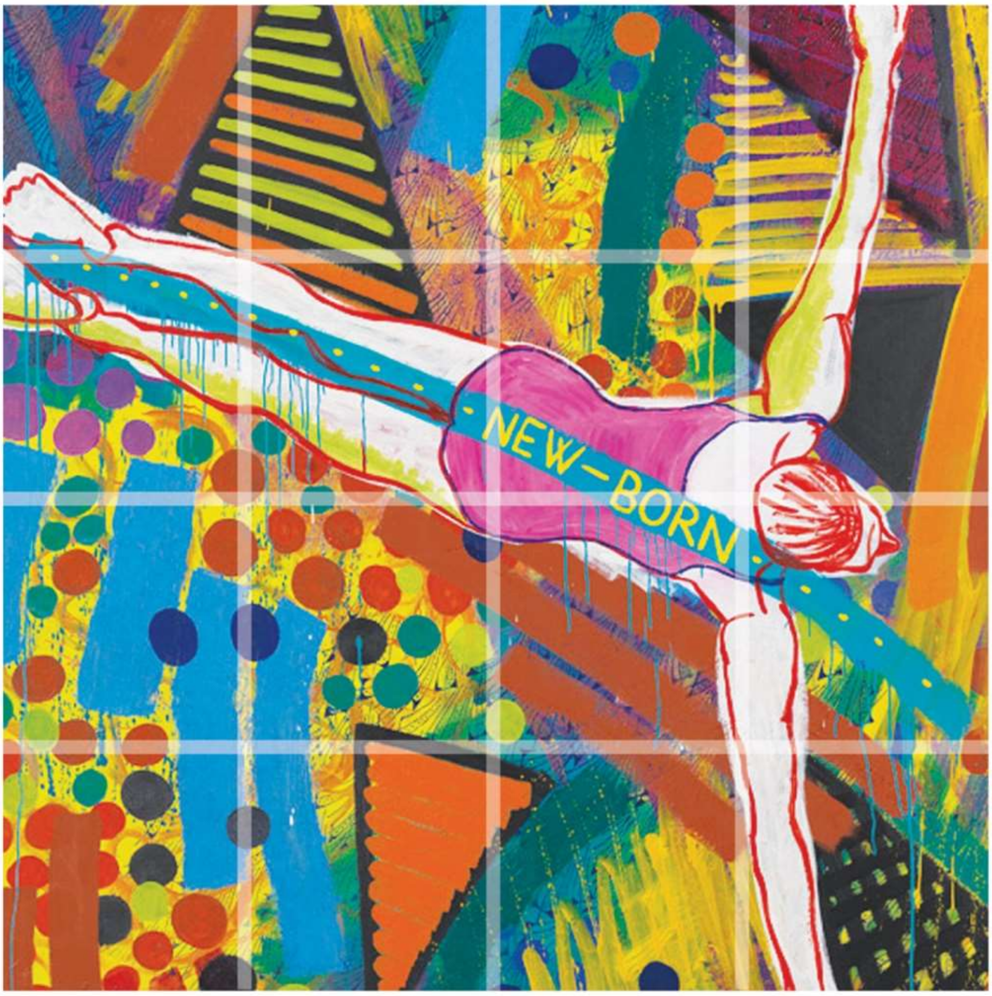
Individual companies and teams prepare professional and other meetings and events for business partners and other stakeholders in their regions. The Company is also active at various professional events of other organizers. However, communication with the wider environment is in line with the strategy of the parent company.

9.3.3 Sales activities

All target groups are addressed through constantly innovating sales promotions and activities. In 2018, we began to systematically implement the ROPO model - for personal insurance - the Migimigi project, the AS Abroad (Full Suitcase), the Home AS (Furnish the children's bedroom) and the insurance product configurator for medium-sized enterprises.

At the beginning of the year, due to the replacement of the assistant operator, the renewal of the brand Tujina AS (AS Abroad) was carried out to preserve existing and acquire new policyholders. Business agreements for the promotion of insurance products Tujina AS (AS Abroad) and Tujina AS plus (AS Abroad Plus) were concluded with the main tourist agencies. Through the ROPO campaign Poln kufer (Full Suitcase) the advantages of taking out a permanent family insurance are highlighted and sales leads for agents are generated. Upon receipt of the certificate awarded by the Moje finance (My Finances) magazine for Best term life insurance "Moj življenjski kasko", a series of activities both for the sales network and for the promotion in the general public were undertaken. Together with the popular singer Trkaj and WIZ, the HIP Hop junak (HIP Hop Hero) campaign communicating accident insurance for children and young people was continued.

Successful promotional activities are performed at major events. We were present at the Migimigi Day at Volčji Potok Arboretum, at the biggest cycling marathon – the Franja Marathon, at the Olympic Festival and at the Original Lake Bled Run.



Silvester Plotajs Sicoe / New Born / 2011

Lust for Life, staged in April 2015, was the first exhibition of the graduated artist Silvester Plotajs Sicoe in AS Gallery, but the painting New Born was bought earlier. The artist enraptures with colours, with energy and light flowing through his paintings. Even darkness receives a positive message in his works.

10. EMPLOYEES AND SUSTAINABLE DEVELOPMENT IN THE AS GROUP

10.1 EMPLOYEES OF AS AND THE AS GROUP

The annual verification and assessment of competences was also performed in 2018 and serves as the basis for the drawing up of educational development programmes. The performance of staff management systems was also monitored by measuring the organisational climate, management systems and employee satisfaction, as well as by observing key HR indicators.

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

On 31 December 2018, the entire AS Group had 1,184 employees. Taking into account the employment share in individual companies, 1,138 employees worked in the AS Group. AS had 1,057 employees as at the end of 2018, which is 19 less than in the previous year. Considering the employment share in individual companies, 997 employees or 94% worked full-time, while 60 employees or 6% worked part-time.

The number of employees in AS and the AS Group:

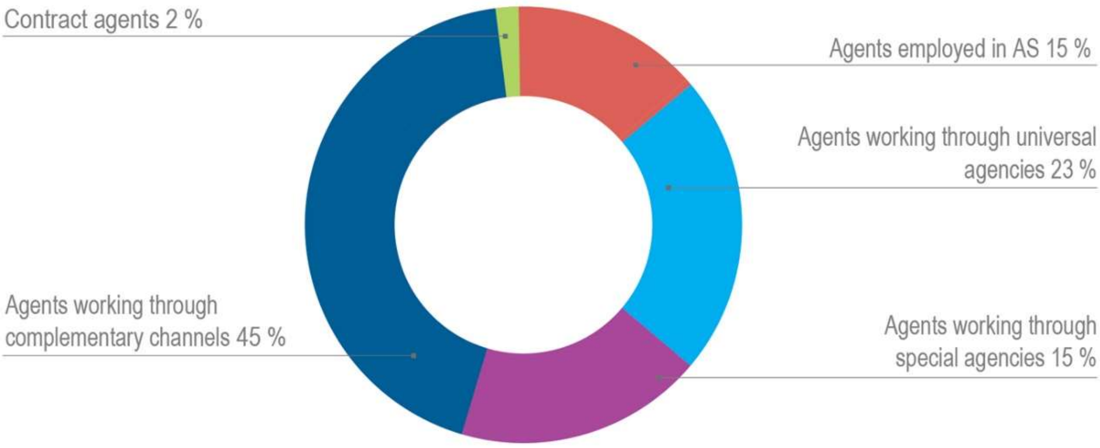
	Number of employees				Difference	
	2018		2017		2018/2017	
The parent company and subsidiaries	per person	FTE	per person	FTE	per person	FTE
Adriatic Slovenica d.d.	1,057	1,037.2	1,076	1,055.5	-19	-18.3
Prospera, družba za izterjavo, d .d.	31	8.5	36	12	-5	-3.5
VIZ, zavarovalno zastopništvo, d. o. o.	3	2.25	2	2	1	0.25
Zdravje AS, zdravstvene storitve, d. o. o.	6	4.275	4	1,4	2	2.875
KD IT, informacijske storitve, d. o. o.*	0	0	1	1	-1	-1
KD Skladi, družba za upravljanje, d. o. o.	55	53.75	55	52.4	0	1.35
KD Fondovi AD, Skopje	6	6	6	6	0	0
KD Locustra Fondovi d.o.o.	9	9	9	9	0	0
Agent d. o. o.	17	17	19	19	-2	-2
TOTAL	**1,184**	**1,138,0**	**1,208**	**1,158.3**	**-24**	**-20.3**

* The Company KD IT merged with AS in.
**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 45.2 years. The proportion of fixed-term employees was 3%.

In the AS's wide sales network in all regions, insurance products were sold by 285 insurance agents employed in AS, 629 agents working through authorized universal and special agencies, 835 agents working through complementary channels and 25 contract agents.

Number of agents in the marketing network in 2018:



The largest share (as much as 47%) of AS and subsidiary employees, has completed level VII or higher education. Due to the nature of the insurance business, employees with level V technical education account for an important share of AS staff—as much as 36%—since the statutory requirement for insurance agents is completed secondary education.

Level of education	2018 Share (in %)	2017 Share (in %)
Level I–IV	3,0	3,0
Level V	35,7	35,0
Level VI	14,2	15,0
Level VII	43,6	43,0
Level VIII–IX	3,5	4,0
Total	100,0	100,0

10.1.2 Employee care in AS

The basic certificate "Family-Friendly Enterprise" (obtained in 2015), by which the Company strives for a better work-life balance of its employees, was upgraded to "Family-Friendly Enterprise" Full Certificate in 2018. We have set up an additional set of measures, which will be gradually implemented by 2021. The starting point for the new measures was in particular the findings and suggestions obtained by means of a survey carried out among the employees.

AS offers numerous benefits to its employees. 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. All employees are included in the group accident insurance and they can also join the voluntary supplemental pension insurance scheme co-financed by the Company. As many as 97% of all employees were included in the AS group supplementary pension insurance scheme.

The employees can take out accident insurance for their pre-school and schoolchildren under more favourable terms. The Company provides a special bonus to all its employees when underwriting the additional insurance Specialists with assistance, “Zdravje AS” – Težke bolezni in operacije” (AS Health – Critical illness and surgery insurance), and favourable insurance terms for their family members. This latter insurance was taken out by

1,046 employees and 364 members of their families. At Christmas season, the Company has been handing gifts to children of employees since its establishment. In 2018, gifts were given to 491 children.

10.1.3 Quality of life in the Company

A healthy lifestyle gives us élan, socializing and exercising bring us together. Therefore, we took advantage of numerous events organized by our Sports and Culture Club Pravi Asi (True AceS) to meet with colleagues from different teams. 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 outside working hours. One of the major objectives of the Club is creating a positive atmosphere in the Company. Seeing that the Club offers many opportunities for exercising and socializing, it is an attractive opportunity to spend free time for family members and retired employees. The Club is also open to outside members, family and friends of employees and any other ordinary lover of sport and healthy life.

In 2018, numerous new members joined the Club. We are proud that the Club already has 523 members. The Sports and Culture Club operates in several sections (running, hiking, cycling and culture) and takes part in winter and summer sports games organized by financial organizations.

Events where employees socialize 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 AS employees from 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.

10.1.4 Health and Safety

A safe and healthy work environment was provided for the employees. A positive climate was also promoted through health promotion activities. The Company was dedicated to 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. As part of the Health Promotion in the Company project, additional workshops were organised for AS Health Promoters - to our ambassadors of recreation at the workplace and of a healthy lifestyle.

In line with the applicable legislation on safety and health at work, the Company tends to the health and well-being of its employees - 320 employees were referred to preliminary, periodic or targeted check-ups. Vaccination against seasonal influenza, provided by the Company for its employees since 2006, was organised. 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 in the reduction of injuries, health disorders and diseases of the employee.

10.1.5 Adriatic Slovenica and the Diversity Charter of Slovenia

The Diversity Charter of Slovenia was officially established in 2017 when it was signed by 59 Slovenian organisations, including Adriatic Slovenica. It is a charter of principles that the organization follows when promoting diversity, non-discrimination and equal opportunities in the workplace. As such, it encourages the acceptance, respect and integration of diversity in Slovenian organizations as an innovation potential for sustainable organization solutions. In 2018, more signatories joined the Charter, which today brings together 102 organizations and more than 14,000 employees.

10.1.6 Effective age management strategy

The Company ensures that all generations of employees feel good in the working environment, as intergenerational cooperation is of key importance for quality workplace relations and the stability of the organization. In order to enable everyone to participate in modern processes and to master new technologies, the

Company provides employees with education and training, while intergenerational cooperation is included in our HR strategy.

In 2018, the efficient age management strategy was formulated as the starting point for the implementation of the project within the ASI Public Call, and in the medium and long term as a basis for a planned, organized and systematic management of the active ageing of employees. The Company has been very successful in obtaining European grants in the field of education. In addition to the ASI Public Call, we also cooperated with the Munera Consortium and with an external contractor within the framework of the public project for acquiring basic and professional competences.

EUROPEAN UNION
EUROPEAN SOCIAL FUND

10.1.7 Adriatic Slovenica obtained again the Certificate of Good Organisational Energy

The intensity of organizational energy is closely linked to the success of the company and its performance. That is why the Company participated again joined the national survey measuring both organizational climate, which takes into account the motivation, satisfaction and commitment of employees and intellectual, emotional and behavioural potential.

We first took part in the survey in 2016 and scored the best index of organizational energy in the financial services category. In 2017, the single index of organizational energy was optimum or higher. We are extremely proud of the year 2018, when we again proved that our organizational energy remains excellent. Due to the high index of organizational energy, the Company again received the Certificate of Good Organizational Energy; however, since we scored the highest index of organizational energy among financial organizations, the Company received the award for the best index of organizational energy in the industry for the third time.

10.1.8 Employee training

The Company wants to keep up with numerous developments in the insurance market and become familiar with new modern approaches, therefore the development of employees is considered the recognizable value of our Company. The Company enables its employees the best conditions to develop competencies and to achieve continuous personal growth, greater creativity, a sense of teamwork as well as the ability to adapt to the changes in the market and facilitate business decision-making.

All this is supported and provided by the in-house training system Akademija AS (AS Academy). When organising the AS Academy training courses, the Academy begins with knowledge right at its source, which is then upgraded with experience of different teams.

The Company is extremely proud of the internal transfer of knowledge provided by the in-house instructors who share their knowledge with enthusiasm. All training programmes provided by the AS Academy are implemented systematically for different target groups. 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, therefore 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, webinars and examinations. Individual content of educational programmes was supplemented with training in cooperation with external coaches and internal trainers. The company awarded the fourth Top Lecturer of the Year prize with great pride to Damjana Trtnik.

Special attention was dedicated to the education on the Regulation on the protection of personal data - GDPR and to preparation for the implementation of the provisions of the Insurance Distribution Directive, which obligates all participants in the distribution of insurance products to continuous professional training lasting at least 15 hours a year.

Training was received by 98 % of employees. Each employee attended 6 training modules on average and totalled up 32 hours. Adriatic Slovenica supports employees in studying at work and gaining a higher level of formal education.

The Company also implements social responsibility with the development of young fellows, enabling them to acquire experience during their studies. The Company collaborates with various secondary schools and allows students to complete compulsory training and obtain their first work experience. The Company organized meetings of students from various faculties where the field of insurance, our good practices and business models were presented in detail.

10.1.9 Employee development systems

Employee development systems that are implemented in the Company ensure employees potential and environment that will enable to achieve the set business goals by committed and satisfied employees. The most important are:

AS Dialogue – Annual development interviews are carried out once a year to verify and assess competencies of the employees and to plan and monitor their career development.

Management by Objectives - The management by objective process involves the entire management structure (from the first to the fourth level of management) and expert specialists. The implementation has brought about an increased efficiency of direct management of employees at all levels and thus achievement of Company business goals and strategies.

AS Onboarding process – involves all new (employed) co-workers and is intended for a systematic induction and integration of new employees into the work environment and social systems.

AS Perspective – the implementation of the development system AS Perspective continued. The system enables promising individuals to acquire new knowledge with the help of their mentors and external lecturers, training for managerial or professional careers as part of a two-year programme.

AS Mentorship - is implemented for the various target groups, according to the needs of AS employee development models.

10.1.10 Intranet KompAS

The intranet site KompAS has become the main access point enabling employees to access information and education. It was further enhanced with new functionalities. Among the major innovations is the “Počitniške kapacitete” (Holiday Facilities) for simple reservation of holiday facilities. There are also notifications on the portal, which inform users about publication-related activities. The Company also enabled the use of KompAS on mobile devices, where after entering the user name and password, one can browse the news and other publications. The upgrade plan in 2018 foresees the upgrading of the AS Academy and the facilitation of personalized storage of certificates on My KompAS, the establishment of the “Pri nAS dogaja” calendar, where employees will be kept informed of important events, and the establishment of a system for sending AS Academy news from KompAS.

10.1.11 Work-related injuries

One of the main principles of a safe working environment in AS is to prevent injuries at work. In accordance with the regulations and normative acts, the Company continuously works on improving the safety culture, technical and organizational measures, education of employees and effective health promotion. 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.

In 2018, only one work-related injury was recorded, it occurred during fieldwork – at client's premises. The injury was minor, however causing a long absence from work. The absence of employees from work was thus significantly lower than in the previous two years.

Work-related injuries in AS - The number and share of injuries	2016		2017		2018	
	number	share in %	number	share in %	number	share in %
At work	4	67	2	25	0	0
On business trips	2	33	7	75	1	100
TOTAL	6	100	9	100	1	100

Lost work days due to injuries at work	2016	2017	2018
	number	number	number
	106	170	81

10.2 SUSTAINABLE DEVELOPMENT

Adriatic Slovenica pays constant attention to cooperation with the environment. In 2018, over 300 various projects across Slovenia were supported. The Company is proud of its cooperation with the environment and long-term supporting of sports, healthy lifestyle, preservation of natural and cultural heritage and culture.

Major sponsorships and donations

Sport has been supported by the Company ever since its establishment, at the same time developing insurance products and adapting services for athletes of all categories. Top-level athletes have been provided support of the Company as the official insurer of the Olympic national teams (Team Slovenia) since 1993. AS supports the Handball Federation of Slovenia and the national handball team and it will continue to do so in 2019. The Company continued to sponsor Vasilij Žbogar (for the19th year), the greatest Slovene sailor of all time.

The Alpine Association of Slovenia and its more than 50,000 of its members, are offered affordable accident insurance and foreign rescue costs insurance with 24-hour assistance and medical assistance abroad as well as liability insurance.

The Company continued the project which provides for the installation of marking panels for 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 also supports sport. It has been the general sponsor of the sailing duo Tina Mrak and Veronika Macarol 470 Slovenia Sailing Team since 2017. KD Skladi is also a long-standing supporter of the Slovenian Chess Federation.

The **AS Gallery** in Dunajska 63 in Ljubljana organised 19 exhibitions so far, mostly by Slovenian authors. In 2018, the Gallery presented the painters Aleksij Kobal, Marko Tušek and the Irwin Group and photographers Jošt Franko and Arne Hodalič. The extensive art collection, acquired by the Company in 2012, has been on display since 2014, while exhibitions present new pieces of contemporary artists. The Gallery therefore features an increasing number of visitors and a growing media profile. The company systematically complements its art collection. In 2018, it was enriched with 9 paintings by Slovenian artists.

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). 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.

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 2018, 6 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 17th time as the main sponsor. "Moj zdravnik" is an annual nomination of the most respected Slovene doctors, organised by the Viva Magazine, to promote development and reputation of the health profession. The Company has been rewarding blood donors through the Red Cross regional branches in Izola and Koper since 1995.

A part of the responsible attitude towards the environment has been the reduction of the carbon footprint and a long-standing practice of the Company and its employees. More than EUR 600 thousand was invested in the energy recovery and renovation of the office building at Celovška 206 in Ljubljana (5 thousand square meters) and the renewal of the fleet by purchasing more environmentally friendly cars. Heating with a modern heat pump was installed in the business building in Nova Gorica. Due to the renovation of the tower in Ljubljana, larger quantities of separate waste, mainly paper and computer equipment were collected in 2018. Hazardous waste generated by the work environment has been separated for many years now (since 2014); all waste has been separated into common containers at organized recycle stations at all floors across all business buildings since 2016.

Types of separated waste	2016	2017	2018
Bulk waste	5.550	2.510	810
Electronic waste	300	460	1860
Toners	300	171	415
Battery packs	37	105	107
Paper	16,687	20,747	25,637

11. AS GROUP PERFORMANCE INDICATORS

Performance indicators below 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 1/16), laid down by the supervisor – the Insurance Supervision Agency, are also prepared for Adriatic Slovenica d.d. 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 A. 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	
	2018	2017	2018	2017
Total insurance contracts	99	102	99	102
Non-life insurance contracts	101	101	101	101
Life insurance contracts	96	103	96	103
Health insurance contracts	98	101	98	101

Relevant loss ratio (net claims incurred as a % of net premium income)	Adriatic Slovenica		Group	
	2018	2017	2018	2017
Total insurance contracts	75 %	76 %	75 %	76 %
Non-life insurance contracts	62 %	64 %	62 %	64 %
Life insurance contracts	82 %	84 %	82 %	84 %
Health insurance contracts	89 %	87 %	89 %	87 %

	Adriatic Slovenica		Group	
Operating costs as a % of gross written insurance premium	2018	2017	2018	2017
Total insurance contracts	23 %	23 %	26 %	26 %
Non-life insurance contracts	29 %	30 %	30 %	31 %
Life insurance contracts	29 %	29 %	29 %	30 %
Health insurance contracts	10 %	10 %	11 %	10 %

Gross profit/loss for the year as a % of net premium income	Adriatic Slovenica		Group	
	2018	2017	2018	2017
Total insurance contracts	4 %	5 %	4 %	5 %
Non-life insurance contracts	6 %	6 %	6 %	5 %
Life insurance contracts	1 %	4 %	-	2 %
Health insurance contracts	2 %	3 %	4 %	6 %

	Adriatic Slovenica		Group	
Gross profit/loss for the year as a % of average total assets	2018	2017	2018	2017
Total	1 %	2 %	1%	2 %
Non-life insurance contracts	3 %	3 %	3%	3 %
Life insurance contracts	0 %	1 %	-	0 %
Health insurance contracts	7 %	14 %	6%	13 %
Asset management	-	-	0%	0 %

Return on equity (net profit/loss for the year as a % of average total equity)	Adriatic Slovenica		Group	
	2018	2017	2018	2017
Total	9 %	12 %	9 %	11 %

AUDITED

FINANCIAL STATEMENTS FOR 2018

Adriatic Slovenica d. d.

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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 2018. 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 2018.

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, 6 March 2019

Management Board of the Company:

Gabrijel Škof,
President of the Management Board

Matija Šenk,
Member of the Management Board

Jure Kvaternik,
Member of the Management Board

2. AUDITOR'S OPINION

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This is a translation of the original report in Slovene language

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Adriatic Slovenica, d.d.

Opinion

We have audited the separate financial statements of Adriatic Slovenica, d.d. ("Adriatic Slovenica" or "the Company"), which comprise the balance sheet as at 31 December 2018, the income statement, the statement of other comprehensive income, the statement of changes in equity, the statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

In our opinion, the accompanying separate financial statements present fairly, in all material respects, the financial position of the Adriatic Slovenica d.d. as at 31 December 2018 and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISA) and Regulation (EU) No. 537/2014 of the European Parliament and of the Council of 16 April 2014 on specific requirements regarding statutory audit of public-interest entities ("Regulation (EU) No. 537/2014 of the European Parliament and the Council"). Our responsibilities under those rules are further described in the *Auditor's responsibilities for the audit of the separate financial statements* section of our report. We are independent of the Company in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) together with the ethical requirements that are relevant to our audit of the separate financial statements in Slovenia, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code.
We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

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

We have fulfilled the responsibilities described in the *Auditor's responsibilities for the audit of the separate financial statements* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the separate financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying separate financial statements.

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Estimates used in calculation of Insurance Liabilities, Deferred Acquisition Costs ('DAC') and Liability Adequacy Test ('LAT')

The measurement of insurance contract liabilities involves judgement over uncertain future outcomes, mainly the ultimate total settlement value of long-term liabilities, including any guarantees provided to policyholders. Various economic and non-economic assumptions – like inflation, interest rate, mortality, lapse and longevity - are being used to estimate these long-term liabilities, both in the insurance contract liabilities as reported in the balance sheet and in the liability adequacy test. DAC is capitalized based on future estimate of written premium and recoverability of DAC is a subjective area in terms of recognition and impairment. We determined this to be a significant item for our audit and a key auditing matter.

We used actuarial specialists to assist us in performing our audit procedures. Our audit focused on the models considered material and more complex and/or requiring significant judgement in the setting of assumptions, particularly long-tail business in non-life operations and LAT cash flows in life products. We assessed the design and verified the operating effectiveness of internal controls over the actuarial process including claim reserves calculation, process of setting economic and actuarial assumptions as well as cash flow derivation approach. We assessed the Company's modelling approach in the areas considered higher risk because of complexity and/or magnitude. We also assessed the Company's approach and methodology for the actuarial analyses including estimated versus actual results and experience studies. We assessed the experience analyses performed by the Company in their assumption setting processes. Our assessments included evaluation, as necessary, of specified economic and actuarial assumptions considering management's rationale for the actuarial judgments applied. We compared applicable industry information considering the appropriateness of actuarial judgements used in the models, which may vary depending on the product and/or the specifications of the product, and the compliance of the models with International Financial Reporting Standards as adopted by the European Union. Furthermore, we performed audit procedures to evaluate if the models and systems were calculating the insurance contracts liabilities accurately and completely, including sample recalculations of the results produced by the models. We tested the validity of management's LAT which is a test performed to check that the liabilities are adequate as compared to the expected future contractual obligations. Our work on the LAT included assessment of the projected cash flows and of the assumptions adopted in the context of both the Company and industry experience and specific product features. For DAC assessment, we tested recoverability of DAC in terms, of profitability of those lines of business, where DAC is recognized. For selected material lines of businesses, we recalculated DAC balances at year end.

We assessed the adequacy of the disclosures included in notes 5.15, 5.16, 6.5, 6.6., 6.7 and 10.14 Insurance technical provisions of the separate financial statements in accordance with International Financial Reporting Standards as adopted by the European Union.

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Other matter

The separate financial statements for the comparative period were audited by another auditor who has issued an unmodified opinion as at 16 March 2018.

Other information

Other information comprises the information included in the separate Annual Report other than the separate financial statements and auditor's report thereon. Management is responsible for the other information.
Our opinion on the separate financial statements does not cover the other information and 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. In addition, we assess whether the other information has been prepared, in all material respects, in accordance with applicable law or regulation, in particular, whether the other information complies with law or regulation in terms of formal requirements and procedure for preparing the other information in the context of materiality, i.e. whether any non-compliance with these requirements could influence judgments made on the basis of the other information.

Based on the procedures performed, to the extent we are able to assess it, we report that:

- The other information describing the facts that are also presented in the separate financial statements is, in all material respects, consistent with the separate financial statements; and
- The other information is prepared in compliance with applicable law or regulation.

In addition, our responsibility is to report, based on the knowledge and understanding of the Company obtained in the audit, on whether the other information contains any material misstatement. Based on the procedures we have performed on the other information obtained, we have not identified any material misstatement.

Responsibilities of management, audit committee and the supervisory board for the separate financial statements

Management is responsible for the preparation and fair presentation of the separate financial statements in accordance with International Financial Reporting Standards as adopted by the European Union, and for such internal control as management determines is necessary to enable the preparation of the 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 Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

The audit committee and the supervisory board are responsible for overseeing the Company's financial reporting process.

Auditor's responsibilities for the audit of the 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 auditor's 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 ISA 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.

As part of an audit in accordance with audit rules, 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;

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- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control;

- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management;

- conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's 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 auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern;

- evaluate the overall presentation, structure and content of the separate financial statements, including the disclosures, and whether the separate financial statements represent the underlying transactions and events in a manner that achieves fair presentation;

We communicate with the audit committee and the supervisory board 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 the audit committee and the supervisory board with a statement that we have complied with relevant ethical requirements regarding independence, and to 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 the audit committee and the supervisory board, 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.

Other requirements on content of auditor's report in compliance with Regulation (EU) No. 537/2014 of the European Parliament and of the Council

Appointment and Approval of Auditor

We were appointed as the statutory auditor by the statutory body of the Company on 17 December 2018 based on our approval by the General Meeting of Shareholders of the Company on 21.11.2018. Total uninterrupted engagement period, including previous renewals (extension of the period for which we were originally appointed) and reappointments for the statutory auditor, has lasted for one year.

Consistence with Additional Report to Audit Committee

Our audit opinion on the separate financial statements expressed herein is consistent with the additional report to the audit committee of the Company, which we issued on 22 March 2019.

Non-audit Services

No prohibited non-audit services referred to in Article 5(1) of Regulation (EU) No. 537/2014 of the European Parliament and of the Council were provided by us to the Company and its controlled undertakings and we remain independent from the Company and its controlled undertakings in conducting the audit.

In addition to statutory audit services and services disclosed in the separate Annual Report, no other services which were provided by us to the Company and its controlled undertakings.

Ljubljana, 27 March 2019

Janez Uranič
Director
Ernst & Young d.o.o.
Dunajska 111, Ljubljana

ERNST & YOUNG
Revizija, poslovno
svetovanje d.o.o., Ljubljana 1

Primož Kovačič
Certified auditor

3. FINANCIAL STATEMENTS

3.1 BALANCE SHEET

Balance sheet as at 31 December 2018

(in EUR)	Note	31 Dec 2018	31 Dec 2017
Assets		**729,927,132**	**757,926,662**
Intangible assets	10.1	**6,503,064**	**4,667,467**
Property, plant and equipment	10.2	**28,131,545**	**28,125,536**
Deferred tax assets	10.28	**3,495,828**	**4,014,638**
Investment properties	10.3	**26,065,121**	**26,287,114**
Financial investments in subsidiaries and associates	10.4	**46,826,195**	**50,816,704**
Financial investments	10.5	**274,132,726**	**266,214,531**
In loans and deposits		43,133,843	36,655,339
In held-to-maturity financial assets		29,628,993	31,417,539
In available-for-sale financial assets		191,975,873	189,672,564
In financial assets measured at fair value		9,394,018	8,469,089
Unit-linked investments of policyholders	10.6	**274,127,785**	**304,978,130**
Amounts of technical provisions ceded to reinsurers	10.7	**14,903,528**	**17,704,191**
Assets from investment contracts	10.8	**11,912,847**	**8,890,333**
Receivables	10.9	**19,590,258**	**23,321,241**
Receivables from direct insurance business		15,582,978	16,433,204
Receivables from reinsurance and coinsurance		1,169,663	2,165,701
Income tax receivables		0	2,261,714
Other receivables		2,837,617	2,460,621
Other assets	10.10	**5,305,383**	**5,276,167**
Cash and cash equivalents	10.11	**18,932,850**	**17,630,610**
Equity and liabilities		**729,927,132**	**757,926,662**
Equity	10.12	**95,176,259**	**96,891,946**
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)		229,116	392,840
Retained net earnings		29,656,212	28,614,486
Net profit or loss for the financial year		8,855,684	11,449,372
Subordinated liabilities	10.13	**49,581,823**	**49,525,147**
Technical provisions	10.14	**276,383,358**	**273,200,326**
Unearned premiums		50,006,208	49,526,004
Mathematical provisions		110,293,625	107,590,283
Outstanding claims provisions		115,569,562	115,554,196
Other technical provisions		513,962	529,843
Insurance technical provisions for unit-linked insurance	10.15	**271,970,492**	**301,043,281**
Other provisions	10.17	**4,804,731**	**4,431,901**
Deferred tax liabilities	10.28	**(0)**	**171,035**
Liabilities from investment contracts	10.16	**11,912,847**	**8,890,333**
Other financial liabilities	10.18	**483,062**	**430,815**
Operating liabilities	10.19	**7,103,243**	**7,429,450**
Liabilities from direct insurance contracts		3,919,407	5,267,178
Liabilities from reinsurance and coinsurance contracts		2,246,026	2,162,271
Income tax liabilities		937,811	0
Other liabilities	10.20	**12,511,315**	**15,912,429**

The accounting policies and notes set out on pages from 114 to 242 are an integral part of the financial statements.

3.2 INCOME STATEMENT

Income statement for the period from 1 January 2018 to 31 December 2018

(in EUR)	Note	2018	2017
NET PREMIUM INCOME	**10.21**	**289,196,804**	**292,131,025**
Gross written premiums	-	300,446,201	303,788,849
Premiums ceded to reinsurers and coinsurers	-	(10,255,255)	(11,888,097)
Change in unearned premiums	-	(994,142)	230,273
REVENUES FROM INVESTMENTS IN ASSOCIATES, of which	**10.21**	**1,581,099**	**2,244,354**
INCOME FROM INVESTMENTS	**10.21**	**11,733,989**	**36,787,565**
OTHER INCOME FROM INSURANCE OPERATIONS, of which	**10.21**	**1,861,666**	**2,256,523**
- fee and commission income	-	1,861,666	2,256,523
OTHER INCOME	**10.21**	**5,455,553**	**7,244,811**
NET EXPENSES FOR CLAIMS AND BENEFITS PAID	**10.22**	**(217,605,490)**	**(222,186,860)**
Gross amounts of claims and benefits paid	-	(220,397,268)	(224,394,576)
Reinsurers'/coinsurers' shares	-	5,093,869	3,733,323
Change in claims provisions	-	(2,302,092)	(1,525,607)
CHANGE IN OTHER TECHNICAL PROVISIONS	**10.14**	**(2,736,245)**	**209,400**
CHANGE IN TECHNICAL PROVISIONS FOR THE BENEFIT OF UNIT-LINKED INSURANCE POLICYHOLDERS	**10.15**	**29,072,788**	**(18,423,843)**
EXPENSES FOR BONUSES AND DISCOUNTS	**-**	**(54,420)**	**128,090**
OPERATING EXPENSES, of which	**10.23**	**(68,649,506)**	**(69,656,683)**
- acquisition costs	-	(23,649,761)	(23,882,186)
EXPENSES INVESTMENTS, of which	**10.21**	**(25,462,541)**	**(538,745)**
- impairment losses of financial assets not measured at fair value through profit or loss	-	(1,046,626)	-
OTHER INSURANCE EXPENSES	**10.24**	**(2,603,665)**	**(3,805,195)**
OTHER EXPENSES	**10.25**	**(11,502,156)**	**(12,861,631)**
PROFIT/(LOSS) BEFORE TAX	**-**	**10,287,873**	**13,528,810**
CORPORATE INCOME TAX	**10.27**	**(1,432,245)**	**(2,079,405)**
NET PROFIT FOR THE REPORTING PERIOD	**-**	**8,855,628**	**11,449,406**
(in EUR)	Note	2018	2017
Basic net earnings/loss per share	**10,30**	**0,86**	**1,11**
Diluted net earnings/loss per share	**-**	**0,86**	**1,11**

The accounting policies and notes set out on pages from 114 to 242 are an integral part of the financial statements.

3.3 STATEMENT OF COMPREHENSIVE INCOME

Statement of comprehensive income for the period from 1 January 2018 to 31 December 2018

(in EUR)	Note	2018	2017
NET PROFIT OR LOSS FOR THE FINANCIAL YEAR AFTER TAXATION	**-**	**8,855,628**	**11,449,406**
OTHER COMPREHENSIVE INCOME AFTER TAXATION	**10.12**	**(181,016)**	**159,622**
Items not to be allocated to profit or loss in subsequent periods	**-**	**(17,292)**	**(174,557)**
Actuarial net gain/loss for pension programmes	-	(17,292)	(174,557)
Items that may be allocated to profit or loss in subsequent periods	**10.12**	**(163,724)**	**334,179**
Net gain/loss from re-measurement of available-for-sale financial assets	-	(202,129)	412,567
Gain/loss, recognised in revaluation surplus	-	(897,144)	2,967,177
Transfer of gain/loss from revaluation surplus to income statement	-	695,015	(2,554,610)
Tax on items that may be allocated to profit or loss in subsequent periods	-	38,404	(78,388)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR, AFTER TAXATION	**-**	**8,674,612**	**11,609,028**

The accounting policies and notes set out on pages from 114 to 242 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 2018 to 31 December 2018

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
Total amount at the end of previous financial year		42,999,530	4,211,782	1,519,600	-	-	7,704,336	392,840	28,614,486	11,449,372	96,891,946
OPENING BALANCE IN THE FINANCIAL PERIOD		**42,999,530**	**4,211,782**	**1,519,600**	**-**	**-**	**7,704,336**	**392,840**	**28,614,486**	**11,449,372**	**96,891,946**
Comprehensive income net of tax	**10.12**	**-**	**-**	**-**	**-**	**-**	**-**	**(163,724)**	**(17,292)**	**8,855,684**	**8,674,668**
a. Net profit/loss for the year		-	-	-	-	-	-			8,855,684	8,855,684
b Other comprehensive income	**10.12**	-	-	-	-	-	-	(163,724)	(17,292)		(181,016)
Allocation of net profit/loss for the preceeding year to retained profit/loss		-	-	-	-	-	-	-	11,449,372	(11,449,372)	-
Payment (accounting) of dividends	**10.12**	-	-	-	-	-	-	-	(10,304,407)		(10,304,407)
Other		-	-	-	-	-	-	-	(85,947)		(85,947)
CLOSING BALANCE AS AT 31 DECEMBER		**42,999,530**	**4,211,782**	**1,519,600**	**-**	**-**	**7,704,336**	**229,116**	**29,656,212**	**8,855,684**	**95,176,259**

The accounting policies and notes set out on page 205 are an integral part of the 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: Legal abd statutory	Credit risk	Catastrophic loss reserves	Other reserves	IV. Revaluation surplus	V. Retained earnings	VI. Net profit/loss	TOTAL EQUITY
Total amount at the end of previous financial year		42,999,530	4,211,782	1,519,600	-	-	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	**10.12**	**-**	**-**	**-**	**-**	**-**	**-**	**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	**10.12**	-	-	-	-	-	-	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	**10.12**	-	-	-	-	-	-	-	(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 205 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 2018 to 31 December 2018

(in EUR)	Note	2018	2017
Cash flows from operating activities	-	**20,229,714**	**5,723,331**
Income statement items	-	**21,338,790**	**5,958,625**
Net premiums written in the period	-	290,190,946	291,900,752
Revenues from investments (other than financial revenues)	-	15,386,710	2,966,670
Other operating revenues (other than revaluation and excluding the decrease in provisions) and financial revenues from operating receivables	-	4,446,961	4,607,525
Net claims paid for the period	-	(215,303,399)	(220,661,227)
Net operating expenses excluding depreciation costs and change in deferred acquisition costs	-	(64,732,742)	(65,960,338)
Investment expenses (excluding depreciation and financial expenses)	-	(3,841,803)	(1,677,875)
Other operating expenses excluding depreciation (other than revaluation and excluding the increase in provisions)	-	(4,807,884)	(5,201,763)
Income tax and other taxes excluded from operating expenses	-	-	(15,121)
Changes in net operating assets (receivables for insurance, other receivables, other assets and deferred tax assets and liabilities) of balance sheet items	-	**(1,109,076)**	**(235,294)**
Opening less closing operating receivables from direct insurance operations	-	536,433	277,095
Opening less closing receivables from reinsurance	-	1,016,743	(404,519)
Opening less closing other receivables from (re)insurance contracts	-	(695,138)	(150,382)
Opening less closing other receivables and assets	-	(1,550,049)	(1,136,494)
Opening less closing deferred tax assets	-	386,179	2,063,214
Opening less closing inventories	-	10,669	(1,865)
Closing less opening liabilities from direct insurance operations	-	(1,348,147)	1,404,534
Closing less opening liabilities from reinsurance	-	83,754	207,229
Closing less opening other operating liabilities	-	(1,457,784)	(1,758,233)
Closing less opening other liabilities (other than unearned premium)	-	1,908,264	(735,874)
Net cash from/(used in) operating activities	-	**20,229,714**	**5,723,331**
Cash flows from investing activities	-	**(4,645,714)**	**15,223,318**
Cash inflows from investing activities	-	**156,542,793**	**224,204,399**
Cash inflows from interest received from investing activities	-	6,154,166	7,767,768
Cash inflows from dividends and participations in profit of others	-	3,089,986	2,871,582
Cash inflows from disposal of property, plant and equipment	-	24,269	77,975
Cash inflows from disposal of financial investments	-	147,274,371	213,487,073
Cash outflows from investing activities	-	**(161,188,507)**	**(208,981,081)**
Cash outflows to acquire intangible assets	-	(7,513,027)	(1,498,792)
Cash outflows to acquire property, plant and equipment	-	(2,177,116)	(2,059,818)
Cash outflows to acquire financial investments	-	(151,498,364)	(205,422,471)
Net cash from /(used in) investing activities	-	**(4,645,714)**	**15,223,318**
Cash flows from financing activities	-	**(14,281,758)**	**(8,854,591)**
Cash inflows from financing activities	-	**56,945**	**5,771,830**
Cash inflows from long-term loans and issued bonds	-	56,676	71,830
Cash inflows from short-term loans	-	269	5,700,000
Cash outflows from financing activities	-	**(14,338,702)**	**(14,626,421)**
Cash outflows for interest paid	-	(4,032,677)	(3,953,582)
Cash outflows for payments of short-term financial liabilities	-	(1,619)	(59,300)
Cash outflows to pay out dividends and other participations in profit	-	(10,304,407)	(10,613,539)
Net cash from/(used in) financing activities	-	**(14,281,758)**	**(8,854,591)**
Closing balance of cash and cash equivalents	10.11	**18,932,852**	**17,630,610**
Cash flows for the period	-	**1,302,242**	**12,092,058**
Closing balance of cash and cash equivalents for the previous year	-	**17,630,610**	**5,538,551**

The accounting policies and notes set out on pages from 114 to 242 are an integral part of the financial statements.

3.6 STATEMENT OF ACCUMULATED PROFIT

Statement of accumulated profit for 2018

(in EUR)	Note	Total 2018	Total 2017
Net profit/(loss) for the financial year	**-**	**8,855,684**	**11,449,372**
Net profit carried forward (+) / net loss carried forward (-)	**10.12**	**29,656,212**	**28,614,486**
- result for the current year under effective standards	-	29,656,212	28,614,486
Balance-sheet profit allocated by the Annual General Meeting as follows:	**-**	**38,511,896**	**40,063,858**
− to the shareholder	-	-	10,304,407

The accounting policies and notes set out on pages from 114 to 242 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., 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 Permanens d. o. o. whose liquidation procedure was concluded in 2018.

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 for as at 31 December 2018

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 in 2018

Gabrijel Škof, President of the Management Board
Matija Šenk, Member of the Management Board
Jure Kvaternik, Member of the Management Board (from 16 April 2018)

Supervisory Board of the insurance company in 2018

Matjaž Gantar, Chairman (until 18 March 2018)
Aljoša Tomaž, (Deputy Chairman until 20 March and Chairman from 20 March 2018)
Aleksander Sekavčnik, (Deputy Chairman from 20 March 2018)
Tomaž Butina, Member
Matjaž Pavlin, Member, employee representative
Borut Šuštaršič, Member, employee representative

Audit Committee in 2018:

Matjaž Pavlin, Chairman
Mojca Kek, (Deputy Chairman until 30 March 2018)
Tomaž Butina, (Deputy Chairman from 26 April 2018)
Vera Dolinar, Member (independent expert)

Committee for the regular monitoring of the implementation of the Strategy and achievement of the target business model in 2018

Aljoša Tomaž, Chairman – Member of the Supervisory Board
Aleksander Sekavčnik, Deputy Chairman – Member of the Supervisory Board
Carlo Palmieri - Member – Independent Expert

Shareholders as at 31 December 2018

Shareholder structure	Number of shares	Share
KD Group d. d.	10.304.407	100,00%
Total	**10.304.407**	**100,00%**

As at 31 December 2018, the Company share capital amounted to EUR 42,999,529.80. The Company Generali CEE Holding, B.V. became the sole shareholder on 13 February 2019.

Number of employees as at the 2018 year-end

Data on employees by number and level of education in 2018

	Qualification level					
Number of employees as at	I- IV	I- IV	I- IV	I- IV	I- IV	I- IV
1 Jan 2018	30	360	143	451	32	1,016
31 Dec 2018	30	354	138	439	29	990
1 Jan 2018 AS Branch	4	27	15	20	1	67
31 Dec 2018 AS Branch	3	33	13	18	0	67
2018 average	**33**	**391**	**156**	**455**	**30.**	**1,065**

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 2018 year-end, the number of employees in Adriatic Slovenica, taking into consideration these proportion, is 1,037 and is different from the number of employees per person, which was 1,057 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 2018 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 2018 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.

IFRS 9 Financial Instruments: Classification and Measurement

The final version of IFRS 9 Financial Instruments contains the requirements of all individual phases of the revision of IFRS 9 and supersedes the IAS 39 Financial Instruments: Recognition and Measurement and all previous IFRS 9 versions. The Standard introduces new requirements for the classification, measurement and impairment of financial instruments and general hedge accounting. As an insurance provider, the Company will use the exemption from the adoption of IFRS 9 and, consequently, does not anticipate significant impact on its financial statements.

IFRS 4: Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts (amendments)

The amendments address concerns arising from implementing IFRS 9 before implementing the new standard that is being developed and deals with insurance contracts and will replace IFRS 4. The amendments allow insurance companies to introduce two solutions in the calculation of insurance contracts: a temporary exemption from applying IFRS 9 and the application of an overlay approach that permits the companies that are issuer of contracts which belong within the scope of IFRS 4, to reclassify, from profit or loss to other comprehensive income, some of the income or expenses arising from designated financial assets.

The Management assessed the impact of the amendments on the financial statements and adopted the possibility of temporary exemption from the application of IFRS 9, as permitted by the amendments to IFRS 4 Insurance Contracts to insurance companies. Due to the possibility of temporarily postponing the application of IFRS 9, insurance companies are allowed to continue applying IAS 39 for periods beginning before 1 January 2021. The Management decided to apply the temporary exemption from the application of IFRS 9 because the main activity of the Insurance Company is connected with insurance. The Insurance Company assessed whether it is qualified for the temporary exemption as at 31 December 2015 and found that liabilities arising from insurance contracts within the scope of IFRS 4 represented 97.64%. Since 31 December 2015 until the beginning of the application of the standard on 1 January 2018 and until the reporting date on 31 December 2018, there has been no change in the activity of the insurance company which would have an impact on the possibility of suspending the application of IFRS 9.

Overview of liabilities arising from insurance contracts under IFRS 4

Liability type	Value as at 31.12.2015	% of total liabilities
Liabilities arising from contracts that are dealt with in accordance with IFRS 4	528,742,324	93.68%
Liabilities from non-derivative investment contracts measured at fair value through profit or loss	-	0.00%
Liabilities for derivatives used to mitigate risks arising from contracts within the scope of IFRS 4, investment contracts measured at fair value through profit or loss and from the assets backing those contracts	-	0.00%
Relevant tax liabilities	1,540,738	0.27%
Relevant other liabilities including employee benefits	20,800,167	3.69%
Total	**551,083,229**	**97.64%**

Below are disclosures that allow users of the company's financial statements to compare with companies applying IFRS 9.

The table below presents an analysis of the fair value of classes of financial assets as at the end of the reporting period, as well as the corresponding change in fair value during the reporting period. The financial assets are divided into two categories: Assets for which their contractual cash flows represent solely payments of principal and interest (SPPI), excluding any financial assets that are held for trading and any other financial assets.

Overview of the fair value and its changes in 2018

	SPPI financial assets			Other financial assets		
in EUR	Fair value as on 1.1.2018	Fair value as on 31.12.2018	Fair value change	Fair value as on 1.1.2018	Fair value as on 31.12.2018	Fair value change
Debt securities	195,111,578	191,454,936	(3,656,642)	7,369,127	8,562,737	1,193,610
Equity securities	-	-	-	34,535,400	36,412,195	1,876,795
Derivatives	-	-	-	243,537	(429,961)	(673,499)
Loans and deposits	27,056,729	34,610,787	7,554,058	-	-	-
Financial receivables	9,598,611	8,523,057	(1,075,554)	-	-	-
Cash and cash equivalents	17,630,610	18,932,850	1,302,240	-	-	-
Total	249,397,527	253,521,629	4,124,102	42,148,064	44,544,971	2,396,906

The following table shows the carrying amount of the SPPI assets by credit risk rating grades reported to key management personnel. The carrying amount is measured In accordance with IAS 39 although this is prior to any impairment allowance for those measured at amortised cost.

Exposure to credit risk of the SPPI assets

Carrying amount	AAA	AA/A	BBB	BB/B	Unrated	Total 31.12.2018
Debt securities	3,506,016	77,944,418	60,861,344	30,430,233	13,281,939	186,023,950
Loans and deposits	-	-	1,580,412	23,137,215	9,893,159	34,610,787
Financial receivables	-	-	8,003,398	-	519,659	8,523,057
Cash and cash equivalents	-	11,614	5,954,507	6,150,090	6,816,638	18,932,850
Total	3,506,016	77,956,033	76,399,660	59,717,538	30,511,396	248,090,643

The following table provides information on the fair value and carrying amount under IAS 39 for those SPPI assets which the Group has determined do not have a low credit risk. The carrying amount is measured in accordance with IAS 39 although this is prior to any impairment allowance for those measured at amortised cost.

Financial assets which do not have a low credit risk as on 31.12.2018

v EUR	Fair value as on 31.12.2018	Carrying amount as on 31.12.2018
Debt securities	45,252,959	43,712,172
Loans and deposits	33,074,842	33,030,374
Financial receivables	519,704	519,659
Cash and cash equivalents	12,966,649	12,966,729
Total	91,814,155	90,228,934

IFRS 15 Revenue from Contracts with Customers

IFRS 15 provides a five-step model to be adopted by entities when exactly to recognise revenue arising from contracts with customers (with limited exceptions) irrespective of the type of transactions that bring revenue or the industry. The requirements of the Standard also apply to the recognition and measurement of profits and losses on the sale of certain non-financial assets that are not the result of the normal activity of an entity (e.g. sale of property, plant and equipment or intangible assets). The Standard requires extensive disclosures from the company, including a breakdown of the total amount of revenue; information on commitments relating to the sale of assets or the provision of services; changes in the amount of contractual assets and liabilities between two periods, as well as key management judgments and estimates. The management assessed the impact of the Standard on the financial statements of the insurance company and considers that the standard does not have a material impact on the measurement of its revenues due to the nature of the insurance company's operations and the type of revenue.

IFRS 15 Revenue from Contracts with Customers (Clarifications)

The purpose of the clarifications is to explain what the IASB sought to achieve in adopting the requirements of IFRS 15 Revenue from Contracts with Customers, in particular from the point of view of accounting for obligations defined under contracts with customers. It amends the wording of the "distinct obligations" principle; principal versus agent consideration including the determination whether the company acts as a principal or agent; and the application of the principle of control and licensing providing additional guidance for the accounting of intellectual property and royalties. The clarifications also introduce additional practical relief provisions for companies that are either applying IFRS 15 in their entirety for prior periods or those choose to use a customized approach. The Management assessed the impact of the clarifications of the Standard on the financial statements of the insurance company and considers that the clarifications do not have a material impact on the accounting of its revenues due to the nature of the insurance company's operations and the type of revenue.

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

The amendments introduce requirements regarding the accounting of the effects of the vesting and non-vesting conditions on the measurement of cash-settled share-based payments, measurement of share-based payment transactions with a net settlement feature for withholding tax obligations, and for modifications to the terms and conditions of a share-based payment that changes the classification of the transaction from cash-settled to equity settled. The management assessed the impact of the amendment to the Standard on the financial statements of the insurance company and considers that the amendment to the Standard does not affect its financial statements, since the insurance company does not enter into share-based payment transactions.

IAS 40 Transfers of Investment Property (Amendments)

Earlier application is permitted. The Amendments provide clarification on when an entity needs to transfer properties, including those under construction or development, to, or from, investment properties. The Amendments clarify that a change in use occurs when the property meets or ceases to meet the definition of investment property and there is evidence of a change in its use. The change in the intention of the management of a company in relation to the use of a property does not in itself constitute a change in use. The management has assessed the impact of the Amendment to the Standard on the financial statements of the insurance company and considers that the Amendment to the Standard does not affect its financial statements as the insurance company transfers the property to investment property or from it only when there is a real change in the use of the property.

IFRIC 22 Foreign Currency Transactions and Advance Consideration

Early application is permitted. IFRIC 22 clarifies the accounting for transactions that include the receipt or payment of advance consideration in a foreign currency. The Interpretation covers foreign currency transactions when an entity recognises a non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration before the entity recognises the related asset, expense or income. The Interpretation defines the date of the transaction, for the purpose of determining the exchange rate, is the date of initial recognition of the non-monetary prepayment asset or deferred income liability. If there are multiple payments or receipts in advance, a date of transaction is established for each payment or receipt. The management assessed the impact of the Interpretation on the financial statements of the insurance company and considers that the Interpretation does not have a significant impact on the financial statements, as the insurance company, at initial recognition of non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration, applies the exchange rate in effect at the date of the transaction.

Annual Improvements

The International Accounting Standards Board (IASB) has published a series of Annual Improvements to IFRSs for the 2014-2016 Cycle, consisting of a set of amendments to IFRSs. The management has assessed the impact of improvements on the financial statements of the insurance company and considers that none of them will have a material impact on the financial statements, for example: because the insurance company has no holdings in subsidiaries, joint ventures, associates or unconsolidated structured companies classified as assets of the said changes held for sale or discontinued operations.

- ***IFRS 1 First-time Adoption of International Financial Reporting Standards:*** The Amendment deleted the short-term exemptions connected with financial instruments, employee remuneration and investment entities, which are otherwise valid at first time adoption of the IFRS.

- **IAS 28 Investments in Associates and Joint Ventures:** Clarified that the an entity may, at initial recognition, elect to measure at fair value through profit or loss an investment in an associate or a joint venture that is held by an entity that is a venture capital organisation, or other qualifying entity.

Standards which are not yet effective and have not been adopted early by the Company

IFRS 16: Leases

Effective for annual periods beginning on or after 1 January 2019. IFRS 16 sets out the guidelines for the recognition, measurement, presentation and disclosure of leases of both contracting parties: the lessees and the lessor. The new standard requires from the lessees to recognise most of the leases in financial statements under a single lessee accounting model, with certain exceptions. There have been no significant changes in the accounting of leases by the lessors.

The management estimated that upon the transition to IFRS 16, the Company will recognize additional EUR 1,519,726 of assets and EUR 1,519,726 of liabilities for leases. Upon transition to IFRS 16, the Company applied the simplified transition method, which makes the effect of the transition equal to zero. On the day of the transition, the Company applied a discount rate equal to 2.31% for the calculation of rental obligations.

IFRS 17 Insurance Contracts

Effective for annual periods beginning on or after 1 January 2021; early application is permitted provided that the Company also reports in accordance with IFRS 15 Revenue from Customer Contracts and IFRS 9 Financial Instruments. IFRS 17 establishes the principles for the recognition, measurement, presentation and disclosure of insurance contracts, entered into by the Company. The Standard requires the application of similar principles also in reinsurance and investment contracts with possible discretionary participation. The objective of IFRS 17 is to ensure that an entity provides relevant information that faithfully represents those contracts. This information gives a basis for users of financial statements to assess the effect that insurance contracts, which are within the scope of IFRS 17, have on the entity's financial position, financial performance and cash flows. The Standard has not been adopted by the EU. The management assessed the impact of the Standard on the financial statements of the Company and 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.

Amendments to IFRS 10 Consolidated Financial Statements and IAS 28 Investments in Associates and Joint Ventures: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture

The amendments address a recognised conflict between the requirements of IFRS 10 and those of IAS connected to the sale or contribution of assets between an investor and its associate or joint venture. Amendments require that an entity recognize the full amount of profit or loss when a transaction involves a business, whether the business is housed in a subsidiary or not. For other transactions that do not involve a business, an entity shall recognize part of the profit or loss even if the assets are part of a subsidiary. In December 2015, the International Accounting Standards Board deferred the effective date of the Standard indefinitely, pending the results of the project for the accounting of funds under the equity method. The amended standard has not yet been approved by the EU. The Management expects that the amendment to the Standard, when initially applied, will not have a material impact on the financial statements of the Company.

Amendments to IFRS 9: Prepayment Features with Negative Compensation

Effective for annual periods beginning on or after 1 January 2019. Earlier application is permitted. Amendments allow an entity to measure financial assets with features of a prepayment that allow a party to receive or require an appropriate compensation for early termination of the contract (in the case of a holder of a financial asset this is a "negative compensation"), at amortized cost or at fair value through other comprehensive income. The management assessed the impact of the Amendments on the financial statements of the Company and 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 investments in associates and joint ventures

Effective for annual periods beginning on or after 1 January 2019. Earlier application is permitted.
The amendments address the concern whether the measurement of long-term investments (in particular, in terms of requirements for impairment of long-term investments in associates and joint ventures, which are part of "net investments" in an associate or a joint venture) falls within the scope of IFRS 9, IAS 28 or a combination of both. The amendments clarify that an entity should, when recognizing long-term investments not measured using the equity method, apply the provisions of IFRS 9 Financial Instruments, before applying IAS 28. In applying IFRS 9, the entity does not take into account any adjustments to the carrying amount of long-term investments that are derived from the IAS 28. The amendments to the Standard have not yet been approved by the EU. The Management expects that the amendments to the Standard, when initially applied, will not have a material impact on the financial statements of the Company.

IFRIC 23 Uncertainty over Income Tax Treatments

Effective for annual periods beginning on or after 1 January 2019. Early application is permitted. The Interpretation the determination of taxable profit, when there is uncertainty over income tax treatments under IAS 12 Income Taxes. The Interpretation introduces guidelines for: accounting for uncertain tax treatments independently or together; taxation authorities' examinations; using an appropriate method that reflects these uncertainties while taking into account changes in facts and circumstances. The management does not expect that the Interpretation, when initially applied, will have material impact on the financial statements of the Company as it does not operate in a complex multinational tax environment.

IAS 19 Modification, Restriction or Settlement of Programmes (amendments)

Effective for annual periods beginning on or after 1 January 2019. Early application is permitted. The amendments to the accounting standard require companies to apply updated actuarial assumptions when determining the cost of employee benefits and the net amount of interest in the remaining annual reporting period following the modification, restriction or settlement of the employee benefits programme. The amendments also explain the impact of accounting for changes, restrictions or settlement of the programme to the required asset thresholds. The amendments to the Standard have not yet been approved by the EU. The Management expects that the amendments to the Standard, when initially applied, will not have a material impact on the financial statements of the Company.

Conceptual Framework for Financial Reporting

The International Accounting Standards Board (Board) issued the revised Conceptual Framework for Financial Reporting (Conceptual Framework) on 29 March 2018. This Conceptual Framework sets out a comprehensive set of concepts for financial reporting, the setting of standards, guidelines for the preparation of consistent accounting policies, and for easier understanding and interpretation of standards. The IASB also published a separate accompanying document "Amendments to References to the Conceptual Framework in IFRS Standards", which sets out amendments to Standards to update references to the revised Conceptual Framework. The Board's objective is to provide support in the transition to the amended Conceptual Framework for companies that adopt their accounting policies on the basis of the Conceptual Framework guidelines in the event that no specific IFRS standard deals with a specific transaction. For preparers of financial reports, who adopt their accounting policies on the basis of the Conceptual Framework, the revised Conceptual Framework is effective for annual periods beginning on or after 1 January 2020.

IFRS 3 Business Combinations (amendments)

The IASB has issued 'Definition of a Business (Amendments to IFRS 3)' aimed at resolving the difficulties that arise when an entity determines whether it has acquired a business or a group of assets. The amendments are effective for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 January 2020 and for the acquisition of assets at the beginning of that period or later. Early application is permitted. The amendments to the Standard have not yet been approved by the EU. The Management expects that the amendments to the Standard, when initially applied, will not have a material impact on the financial statements of the Company.

The International Accounting Standards Board (IASB) **has published a series of Annual Improvements to IFRSs for the 2015-2017 Cycle**, consisting of a set of amendments to IFRSs. Effective for annual periods beginning on or after 1 January 2019. Early application is permitted. The amendments to the Standard have not yet been approved by the EU. The Management expects that none of the amendments, when initially applied, will have a material impact on the financial statements of the Company.

- ***IFRS 3 Business Combinations and IFRS 11 Common Arrangements*:** The amendments to IFRS 3 clarify that when an entity obtains control of a business that is a joint operation, it remeasures previously held interests in that business. The amendments to IFRS 11 clarify that when an entity obtains joint control of a business that is a joint operation, the entity does not remeasure previously held interests in that business.
- ***IAS 12 Income tax***: The amendments clarify that an entity recognizes the tax consequences arising from the payment of financial instruments that are classified as equity, where the transactions or events that generated distributable profits are recognised.
- ***IAS 23 - Borrowing Costs***: The amendments clarify Article 14 of the Standard, which reads that if any specific borrowing remains outstanding after the related asset is ready for its intended use or sale, that borrowing becomes part of the funds that an entity borrows.

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 2018 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 scheme and deferred temporary annuity contracts.

Premiums, claims, revenues and expenses are calculated and recognised in accounting records in the same manner as for non-life insurance contracts.

A mathematical provision is calculated for these contracts. It is recognised in the amount of the present value of estimated future liabilities based on active insurance contracts, decreased by the present value of the estimated future premiums payments. These liabilities are determined using assumptions on mortality, surrenders, costs and revenues from investments as they are recognised in the products' premium calculations, or more prudent assumptions are used to provide for the possibility of unfavourable deviation from expectations (safety margin). Changes in mathematical provisions are recognised as an expense of the Company.

Unit-linked life insurance contracts where policyholders bear the investment risk

Long-term unit-linked life insurance where policyholders bear the investment risk combine savings in mutual funds, investment funds or internal long-term business funds selected by the insured, and life insurance in case of the insured person's death with the guaranteed payment of the insurance sum.

Premiums are recognised as revenue when paid. Initiation (front-end) and administrative expenses are deducted from the paid premiums. Depending on the insurance product, the insured is charged a monthly management fee, risk premiums for the event of death and in some products also the premium for additional accident insurance. In some products, the risk premium is calculated from tables and in others as a % of the premium paid.

Liabilities arising from long-term insurance contracts where policyholders bear the investment risk include liabilities incurred by the insurer towards its policyholders in accordance with individual insurance contracts and products.

The amount of liabilities includes the changes in asset unit value that are reduced by management fees and risk premiums. In addition, liabilities are increased by premiums and reduced by costs. In the case of surrender, the liabilities are reduced and the surrender value equals the Group's liabilities, reduced by surrender fee in the event of surrender or upon termination of insurance.
In individual life insurance contracts in which the policyholders bear the investment risk, total liabilities as at the balance sheet date equal the sum of unit values as at the balance sheet date and not yet converted net premiums paid. Depending on the insurance product, the liabilities are increased for any advance payments.

It is assumed that in each period risk premiums charged based on expected population mortality, are sufficient to cover death claims in excess of the unit values on individual personal accounts of insured. Additional liabilities are therefore not recognised in terms of these claims, except for individual products in which the risk premium is calculated in a different way.

An insurance contract where the policyholder bears the investment risk is a contract with the built-in link between the contractual payments and the units of internal or external investment fund chosen by the insured. This built-in link is consistent with the definition of an insurance contract and therefore not unbundled from the main insurance contract.

4.3.2 Reinsurance contracts

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

4.3.3 Financial contracts

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

Under financial contracts, the Company includes voluntary supplementary pension insurance concluded under the Pokojninsko varčevanje AS – individualno (Pension savings AS – individual) and Pokojninsko varčevanje AS – kolektivno (pension savings AS – collective) 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 (Pension savings) guarantee 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 guarantee 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 guarantee 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.

4.4 CHANGES IN THE ADRIATIC SLOVENICA d.d. BUSINESS STRUCTURE

Co-funding of the Company MEDIFIT d. o. o.

In February 2018, the Company Adriatic Slovenica d. d., as a co-founder, acquired a 50.00% share of the company MEDIFIT d. o. o. The company's core business is related to information technology and computer services. MEDIFIT operates in Ljubljana and was registered in the Business Register of Slovenia on 22 February 2018. Since the establishment of the company until the end of 2018, the Company sold and purchased percentages of the share, thus on 31 December 2018, it holds ownership and voting control of the company with a 48.00% share and classifies it among associates.

About the company

Registered company name: MEDIFIT, druge z informacijsko tehnologijo in računalniškimi storitvami povezane dejavnosti, d. o. o.
Abbreviated company name: MEDIFIT d. o. o.
Head office and address: Dunajska cesta 63, Ljubljana, 1000 Ljubljana
Company registration number: 8150982000
VAT identification number: SI 12848999
Share capital: EUR 30.000,00 evrov in je v celoti vplačan.
The reporting period is equal to the calendar year..
Corporate tax rate: 19-odstotna.

Merger by absorption of the company KD IT, informacijske storitve d. o. o.

The Management Board of Adriatic Slovenica d.d. as the sole shareholder of the subsidiary KD IT, informacijske storitve d. o. o. (abbreviated KD IT 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, at the same time, to the simplified merger by absorption of the company KD IT, informacijske storitve d. o. o., Celovška cesta 206, 1000 Ljubljana 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. Pursuant these decisions, the transferee company Adriatic Slovenica initiated the activities of simplified merger by absorption and, on 5 June 2018, acquired the license of the Insurance Supervision Agency for the merger of KD IT d. o. o.

The merger became legally effective on 18 June 2018 after a decision by the District Court of Koper on the deletion of the company KD IT d. o. o. from the Court Register due to merger with the transferee company ADRIATIC SLOVENICA Zavarovalna družba d. d., under the merger agreement of 1 March 2018.

By entering the merger into the Court Register on 18 June 2018, all assets and the rights and obligations of the transferor company KD IT d. o. o. after the cut-off date of merger by absorption 31 December 2017 were transferred to Adriatic Slovenica d. d. as the transferee company.

Acquired assets and assumed liabilities as at 1 January 2018.

	Before merger		During merger		After merger	
in EUR	AS d. d. 31.12.2017	KD IT d.o.o. 31.12.2017	AS d. d. and KD IT d. o. o.	Eliminations	AS d. d. 01.01.2018	AS d. d. 31.12.2018
Assets	757,926,662	3,429,610	761,356,272	(3,378,236)	757,978,037	729,927,132
Intangible assets	**4,667,467**	**2,568,009**	**7,235,476**	-	**7,235,476**	**6,503,064**
Property, plant and equipment	**28,125,536**	**33,353**	**28,158,889**	-	**28,158,889**	**28,131,545**
Deferred tax assets	**4,014,638**	**93,571**	**4,108,209**	-	**4,108,209**	**3,495,828**
Investment properties	**26,287,115**	-	**26,287,115**	-	**26,287,115**	**26,065,121**
Financial investments in subsidiaries and associates	**50,816,704**	-	**50,816,704**	**(3,378,236)**	**47,438,468**	**46,826,195**
Financial investments	**266,214,531**	**247,862**	**266,462,394**	-	**266,462,394**	**274,132,726**
In loans and deposits	36,655,339	247,862	36,903,201	-	36,903,201	43,133,843
In held-to-maturity financial assets	31,417,539	-	31,417,539	-	31,417,539	29,628,993
In available-for-sale financial assets	189,672,564	-	189,672,564	-	189,672,564	191,975,873
In financial assets measured at fair value	8,469,089	-	8,469,089	-	8,469,089	9,394,018
Unit-linked investments of policyholders	**304,978,130**	-	**304,978,130**	-	**304,978,130**	**274,127,785**
Amounts of technical provisions ceded to reinsurers	**17,704,191**	-	**17,704,191**	-	**17,704,191**	**14,903,528**
Assets from investment contracts	**8,890,333**	-	**8,890,333**	-	**8,890,333**	**11,912,847**
Receivables	**23,321,241**	**56,863**	**23,378,103**	-	**23,378,103**	**19,590,258**
Receivables from direct insurance business	**16,433,204**	-	**16,433,204**	-	**16,433,204**	**15,582,978**
Receivables from reinsurance and coinsurance	**2,165,701**	-	**2,165,701**	-	**2,165,701**	**1,169,663**
Income tax receivables	**2,261,714**	**52,728**	**2,314,442**	-	**2,314,442**	**0**
Other receivables	**2,460,621**	**4,135**	**2,464,757**	-	**2,464,757**	**2,837,617**
Other assets	**5,276,167**	**3,740**	**5,279,907**	-	**5,279,907**	**5,305,383**
Cash and cash equivalents	**17,630,610**	**426,212**	**18,056,822**	-	**18,056,822**	**18,932,850**
Equity and liabilities	757,926,662	3,429,610	761,356,272	(3,378,236)	757,978,036	729,927,132
Equity	**96,891,946**	**3,389,304**	**100,281,250**	**(3,378,236)**	**96,903,014**	**95,176,259**
Share capital	42,999,530	2,440,081	45,439,611	(2,440,081)	42,999,530	42,999,530
Capital reserves	4,211,782	145,484	4,357,266	(145,484)	4,211,782	4,211,782
Reserve from profit	9,223,936	319,474	9,543,410	(319,474)	9,223,936	9,223,936
Reserve due to fair value measurement (Revaluation surplus)	392,840	-	392,840	-	392,840	229,116
Retained net earnings	28,614,486	472,366	40,548,123	(472,366)	40,075,757	29,656,212
Net profit or loss for the financial year	11,449,372	11,899		11,068	11,068	8,855,684
Subordinated liabilities	**49,525,147**	-	**49,525,147**	-	**49,525,147**	**49,581,823**
Technical provisions	**273,200,326**	-	**273,200,326**	-	**273,200,326**	**276,383,358**
Unearned premiums	49,526,004	-	49,526,004	-	49,526,004	50,006,208
Mathematical provisions	107,590,283	-	107,590,283	-	107,590,283	110,293,625
Outstanding claims provisions	115,554,196	-	115,554,196	-	115,554,196	115,569,562
Other technical provisions	529,843	-	529,843	-	529,843	513,962
Insurance technical provisions for unit-linked insurance	**301,043,281**	-	**301,043,281**	-	**301,043,281**	**271,970,492**
Other provisions	**4,431,901**	-	**4,431,901**	-	**4,431,901**	**4,804,731**
Deferred tax liabilities	**171,035**	-	**171,035**	-	**171,035**	**(0)**
Liabilities from investment contracts	**8,890,333**	-	**8,890,333**	-	**8,890,333**	**11,912,847**
Other financial liabilities	**430,815**	-	**430,815**	-	**430,815**	**483,062**
Operating liabilities	**7,429,450**	-	**7,429,450**	-	**7,429,450**	**7,103,243**
Liabilities from direct insurance contracts	5,267,178	(0)	5,267,178	-	5,267,178	3,919,407
Liabilities from reinsurance and coinsurance contracts	2,162,271		2,162,271	-	2,162,271	2,246,026
Income tax liabilities	0	-	0	-	0	937,811
Other liabilities	**15,912,429**	**40,306**	**15,952,735**	-	**15,952,735**	**12,511,315**

In the merger procedure, a difference of EUR 11,068 was incurred on the cut-off date, between the net value of the assets acquired and the assumed liabilities of KD IT d.o.o. and the carrying amount of the investment recorded in the Company's books of account. The effect of the merger by absorption was recognized by the Company in the income from business combinations (negative goodwill).

Permanens d. o. o.

In 2018, the Company kept the subsidiary of Permanens d. o. o., Zagreb at cost equal to zero. In 2018, the company completed the winding up procedure and was deleted from the Company Register in Zagreb on 15 January 2019.

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 2018.

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 2018	Useful life in 2018 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 2018	Useful life in 2018 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 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 carrying amount 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 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 Company 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 201	Useful life in 2018 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 revenue.

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 and
- 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 in relation to which the were given.

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 Company 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	Applied parameter value	Fair value hierarchy
INTERNAL / EXTERNAL APPRAISERS				
Debt securities	**Internal model**			
Debt securities - state	Calculation of required profitability	Weighted average of profitability of two liquid state securities of the same country, with shorter and longer maturity		Level 2
		Weight 1: number of days between maturity date of observed security maturity date of the securities for which fair value note		
Debt securities – companies and financial institutions	Calculation of sum of required profitability for	State bonds of comparable maturity	od -0,561% do 0,863%	Level 2
		Credit risk for risky industries (CDS), considering the comparable maturity and investment class rate	od 0,29% do 6,86%	
		illiquidity	od 0 do 0,15 %	
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		Level 3
Investment properties	**Authorised external appraisers**			Level 3
	Market method	Analysis of actual real estate market transactions	od 65 % do 112 %	
	Revenue method (direct capitalisation method)	Present value of future expected gains		
		Capitalisation rate (gains and repayment)	od 7,72 % do 8,32 %	
		Discount rate	1.05%	
		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		
		net margin (constant growth period)		
		discount rate	14.9%	
		discount for lack of marketability		
EXTERNAL APPRAISERS (market organiser)				
Debt securities - compound	stochastic model, network model HW1f and HW2f	curve of EUR SWAP interest rates, credit adjustments of the issuer, credit adjustments of comparable issuers, volatility of interest rates, correlation matrix, share index volatility		Level 2
Equity securities - compound	stochastic model	curve of EUR SWAP interest rates, credit adjustments of the issuer, credit adjustments of comparable issuers, share index volatility		Level 2
BLOOMBERG BVAL				
Debt securities				
Debt securities - state	Cash flow discounting	curve of EUR SWAP interest rates, credit adjustments of the issuer, credit adjustments of comparable issuers, indicative quotations, BVAL rate estimate of 6 - 10		Level 2
		curve of EUR SWAP interest rates, credit adjustments of the issuer, credit adjustments of comparable issuers, indicative quotations, BVAL rate estimate		Level 3
Debt securities – companies and financial institutions	Cash flow discounting	curve of EUR SWAP interest rates, credit adjustments of the issuer, credit adjustments of comparable issuers, engendered, actual quotes, indicative quotations, BVAL rate estimate of 6 - 10		Level 2
		curve of EUR SWAP interest rates, credit adjustments of the issuer, credit adjustments of comparable issuers, engendered, actual quotes, indicative		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 30,000 or more.

Any other receivable may be impaired on individual basis that would otherwise be subject to revaluation in the framework of collective value adjustment.

Receivables for which impairment is not assessed individually are classified in groups having similar characteristics of credit risk. These groups are divided into receivables from individuals and legal entities, where in receivables from individuals, the groups differ based on type of payment.

For each group, the value adjustment for individual receivable is determined depending on its maturity and actual (un)realised percentage of payments in the past period for a particular group.

In the case of receivables due from policyholders in the **life insurance** segment, the Company abides by the provisions laid down in the Code of Obligations and general terms and conditions of life insurance contracts. When a policyholder defaults under the contractually determined payment schedule for three instalments, the need to write-down the past-due instalments is recognised. The past-due amounts are impaired in the whole amount (100%), since the probability that payments will never be made or that such insurance coverage will be capitalised is high. Accordingly, adjustments of receivables are reversed.

As regards receivables for **unit-linked life insurance** contracts, no impairment is recognised since revenues are recognised when premiums are paid.

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

5.10 OTHER ASSETS

Amongst other assets, the Company accounts for inventories, deferred acquisition costs and short-term deferred costs (expenses) and accrued revenues for the cases where the payment of the rendered services refers to a later period.

Deferred acquisition costs

Unearned premiums in the entire amount are recognised in amounts as they arise from the maturity structure of the insurance contracts as at the balance sheet date. The portion of already realised expenses under acquisition costs in relation to the calculated amounts that relate to reporting periods after the balance sheet date are recognised in the full amount as a special item of deferred expenses under the asset items in the balance sheet. Deferred acquisition costs are presented on the basis of the calculated share of gross costs for underwriting fees and commissions in gross insurance premiums and gross unearned insurance premiums for every individual insurance class.

5.11 CASH AND CASH EQUIVALENTS

Cash and balances held on the accounts with banks and other financial institutions are treated separately for monetary assets denominated in local currency and separately for monetary assets denominated in foreign currencies, which have to be broken down into monetary assets available immediately and those placed as deposits redeemable at notice (demand deposits). Cash of the Company consists solely of cash, while cash equivalents include demand deposits serving to ensure short-term liquidity and short-term deposits placed with maturity up to 3 months.

Revaluation of monetary assets is performed only for the monetary assets denominated in foreign currencies, if after initial recognition the exchange rate of the foreign currency against the euro is changed. The foreign exchange difference is recognised as an ordinary financial expense or financial revenue.

5.12 OFFSETTING FINANCIAL ASSETS AND FINANCIAL LIABILITIES

Assets and liabilities are offset in the balance sheet when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis, namely to realise the asset and settle the liability simultaneously.

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

5.13 EQUITY

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

Share capital

Share capital is defined with the amounts invested by the owners and with amounts that have been generated through operations and that belong to the owners. Share capital of Adriatic Slovenica is the nominal value of the called-up and fully paid ordinary no-par value shares denominated in euros.

Capital reserves

Capital reserves (capital surplus) carry the share premium - paid up surplus capital and the amount generated by the elimination of the general capital revaluation adjustment. Capital reserves can be used in accordance with the Companies Act, which strictly defines the terms of capital reserves usage for covering net loss of the period, net loss carried forward or increase of equity using assets of the Company.

Reserves from profit

Reserves from profit are divided to contingency reserves, legal and statutory reserves, treasury shares reserve and other reserves from profit. The insurance company forms reserves from profit pursuant to 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.

5.15.1 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 and is verified on the valuation date.

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 at 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 (long-service) 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 Company is taken into account. Jubilee benefit liability upon reaching the threshold of 10, 20 or 30 years of service of an employee is recognised pro rata with the years of service with the employer.

As a basis for establishing termination benefits at retirement, the amount of three or two gross salaries (set out in an individual employment contract/collective agreement) is taken into account (of the employee or the average salary in the Republic of Slovenia in case it is higher). The liability for termination benefit at retirement is recognised through the entire period of service of the employee.

The liabilities for provisions for termination benefits and jubilee benefits are recognised on the basis of obligations, which arise from the concluded employment contracts and effective labour legislation, also include taxes and contributions of the employer.

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

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 a net value excluding value-added tax.

Revenues from insurance premiums

Net revenues from insurance premiums are calculated as gross written premium increased by the premium received under co-insurance and decreased by the premium ceded to co-insurance and reinsurance and decreased by the change in net unearned premium reserves. The basis for recognising gross insurance premiums are invoiced premiums, except for UL (unit-linked fund) and life insurance where such basis is premium paid.

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

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

Revenues and expenses from investments

Revenues and expenses from investments include revenues arising from interest, realised gains/losses from the disposal of investments, dividends, gains and losses from foreign exchange differences, and revenues and expenses from the reversal of impairment or impairment of financial assets.

Revenues and expenses for interest on investments are recognised through profit or loss upon their occurrence and are calculated in accordance with the effective interest rate method, except for financial assets measured at fair value through profit or loss, in which case, they are calculated using the nominal interest method. In the balance sheet, the interest on all debt securities is posted together with financial investments.

Profit (loss) arising from disposal of investments is recognised in the income statement among realised financial revenues and expenses. As regards available-for-sale financial assets, recognised at amortised cost, profit or loss is recognised in the income statement when it is realised, when such assets are revalued due to impairments or when previously recognised impairment for these assets is reversed.

Gains and losses from exchange difference are calculated for assets in foreign currencies. They are translated at the balance sheet date by applying the reference exchange rate of the European Central Bank published by the Bank of Slovenia. Relevant exchange rates published by the Bank of Slovenia on a monthly basis for business entities can also be used for foreign currency translation.

Dividend income on a capital instrument is recognised in the income statement when the right to receive payment is established.

Impairments and reversal of impairment of financial investments

Losses due to impairment are recognised and assets are revalued if there is objective evidence of impairment due to an event occurring after the initial recognition of the assets and that event has an impact on the estimated future cash flows from the financial asset.

If during the period after a loss on debt securities has been recognised, the amount of impairment loss is decreased and if this decrease can be objectively related to an event that took place after the impairment was recognised, the previously recognised loss on debt securities due to impairment in the income statement reversal of impairment is carried out.

Other insurance revenues

Fee and commission revenue for insurance and financial contract management are recognised as other insurance revenues.

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

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

Other revenues

Under other revenues, other net insurance revenues and revaluation operating revenues are carried. Furthermore, other revenues include revenues from rentals of investment properties charged on the basis of the concluded leasehold contracts and other operating revenues such as the recovered amount of previously written-off debt, received fines and damages, and other similar items.

Net claims incurred

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

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

Net claims incurred arising from health insurance contracts also include revenues or expenses from equalisation schemes.

Operating expenses

Gross operating expenses are recognised as historical costs by natural and functional groups in the income statement. Claims handling costs are an integral part of expenses for claims paid, while acquisition costs and other operating costs are presented separately. In the disclosures, total operating expenses are presented by natural and functional groups.

Deferred acquisition costs

Acquisition costs are recognised in the income statement when they are incurred. Since these costs refer to the period when contracts are active, they are accrued in the portion that relates to the period after the reporting date. The Company defers expenses for the acquisition of non-life insurance contracts.

Under life insurance contracts and financial contracts with discretionary participation feature, acquisition costs are deferred on the basis of the Zillmer adjustment method when mathematical provisions are calculated.

Other insurance expenses

Other insurance expenses include expenses such as expenses for preventive activity, contributions for settling claims for damage made by uninsured and unidentified vehicles, and other net insurance expenses.

Other expenses

Expenses from investment properties, revaluatory operating expenses, and other operating and financial expenses not arising from investments are carried under other expenses.

5.22 TAXES AND DEFERRED TAXES

Tax expense includes current tax and deferred tax; the tax expense is recognised either in the income statement or in the statement of other comprehensive income, when the taxes refer to revenues or expenses, which are recognised in the statement of other comprehensive income (in equity), i.e. when tax liabilities are recognised as tax assets from prior periods.

Tax assessment

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

For the taxable part of its operations, the insurance company charges the VAT in compliance with the Value Added Tax Act and exercises the right to deductible VAT. For its principal activity, the Company has the right to 1% deducted VAT (the rate is controlled annually). For its property leasing activities, the Company exercises the right to a 100% deducted VAT.

The corporate income tax levied on income is calculated in line with the Corporate Income Tax Act of the Republic of Slovenia by applying the tax rates effective as at the balance sheet date. The tax rate applied in the calculation of corporate income tax for 2018 was 19%.

The insurance company has established a subsidiary in the Republic of Croatia, generating an operating result abroad. There is an international bilateral agreement on avoiding double taxation between Slovenia and Croatia, based on which, the taxation of profit is made in the country where the head office of the company is situated. The taxable profits, generated abroad by the insurance company, are first subject to taxation in the country of the subsidiary, that is the Republic of Croatia, using the effective tax rate (18% in 2018), 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 2018).

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 occur, against which the deductible 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, it was established that an impairment of EUR 1,046,627 was required among investments in the group of available-for-sale financial assets, either due to a prolonged decrease in fair value or a sustained fall in the exchange rate. Both conditions affected the decision with relation to some 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 (for more details see Section 5.5. Fair value).

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

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 2018, the Company applied the same methodology for assessment of appropriateness of fair value calculation (see Policies, Section 5.9.) and calculated impairment adjustments of receivables as in previous years. 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.

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) 31.12.2018	Provision for incurred but not reported claims (IBNR) 31.12.2017
Accident insurance	7,886,504	7,714,385
Health insurance	4,769,531	4,784,152
Land motor vehicles insurance	1,280,913	1,316,940
Marine loss insurance	28,612	19,938
Goods in transport insurance	336,141	181,484
Fire and natural forces insurance	829,422	652,733
Other damage to property insurance	950,785	896,517
Motor third party liability insurance	24,687,349	26,132,550
Liability for ship/boat insurance	2,810	3,577
General liability insurance	12,301,486	10,633,175
Suretyship insurance	6,624	5,978
Miscellaneous financial loss insurance	22,923	28,621
Legal expenses insurance	65	-
Travel assistance insurance	401,741	258,548
Life insurance	3,340,070	3,289,725
Total	**56,844,976**	**55,918,323**

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 2009	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
At the end of loss year	-	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	85,496,766
1 year after loss year	-	109,844,795	98,882,126	92,331,285	104,142,780	87,477,430	85,239,212	81,956,952	86,186,241	88,301,425	-
2 years after loss year	-	109,454,915	96,330,471	90,568,304	96,570,014	85,740,792	83,397,478	80,211,635	84,303,381	-	-
3 years after loss year	-	107,637,944	95,301,074	89,085,735	94,028,156	83,827,339	81,579,315	78,688,971	-	-	-
4 years after loss year	-	105,953,158	93,622,460	86,234,853	94,315,327	84,162,769	81,058,863	-	-	-	-
5 years after loss year	-	104,876,792	93,138,216	87,113,178	93,416,625	83,619,271	-	-	-	-	-
6 years after loss year	-	104,466,465	92,620,067	86,819,320	93,888,987	-	-	-	-	-	-
7 years after loss year	-	104,972,611	92,363,891	87,042,657	-	-	-	-	-	-	-
8 years after loss year	-	104,850,834	92,484,515	-	-	-	-	-	-	-	-
9 years after loss year	-	104,944,326	-	-	-	-	-	-	-	-	-
Cumulative loss estimate	-	104,944,326	92,484,515	87,042,657	93,888,987	83,619,271	81,058,863	78,688,971	84,303,381	88,301,425	85,496,766
Total losses paid until 31 Dec. 2018	-	101,778,175	90,490,809	83,621,744	91,333,679	81,294,785	78,094,172	74,278,155	75,248,703	74,270,717	48,214,826
Claim provisionss - balance 31 Dec.	13,743,522	3,166,151	1,993,706	3,420,913	2,555,308	2,324,486	2,964,691	4,410,817	9,054,678	14,030,709	37,281,940

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 31.12.2017	96,948,803	6,610,043	103,558,845
Provisions as at 31.12.2018	96,601,594	6,658,043	103,259,637

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 2018, 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. Based on 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 April 2018, the Company published the Solvency and Financial Condition Report for 2017. The report was also reviewed by an independent external auditor, and it is evident from the report that at the 2017 year-end the Company had a surplus of own assets above the required capital. The Company confirms that as at 30 September 2018, the day of the last assessment and report to the regulator on capital adequacy in line with Solvency II, it achieved capital adequacy showing capital surplus above the required SCR level and the accepted risk appetite.

The 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 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 Company showed excess capital adequacy and excess 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 2023. According to the own risk and solvency assessment, the tested negative shocks and scenarios would not jeopardize the Company's capital adequacy. Reports for individual years can be accessed at the Company website www.as.si.

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 2018

(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	70,162	0.31%	197,798	0.88%
Unit-linked insurance	1,079,433	2.95%	3,365,606	9.20%
Health insurance	454,271	0.46%	879,897	0.88%
Non-life insurance	10,446,218	7.41%	21,331,741	15.14%
Total	**12,050,083**	**3.97%**	**25,775,042**	**8.50%**

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%**

Considering that the share of the top 10 and top 100 largest policyholders and beneficiaries in proportion to the entire portfolio is relatively small, it can be concluded 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 2018	With reinsurance 2018	Net of reinsurance 2017	With reinsurance 2017
0–9,999 euros	283,999,762	263,648,436	286,870,806	264,836,915
10,000–29,999 euros	848,233,681	742,821,756	861,535,619	752,713,910
30,000–59,999 euros	967,927,165	660,515,035	947,038,464	662,926,918
60,000–99,999 euros	666,008,034	296,563,093	644,289,983	297,635,506
Over 100,000 euros	363,816,169	105,732,286	334,346,183	100,593,936
Total	**3,129,984,810**	**2,069,280,605**	**3,074,081,055**	**2,078,707,185**

For annuity insurance risk concentration is presented with total annual annuities classified into five categories, depending on the amount of the annual annuity per individual insured. Annual annuity is considered to be the amount which the insured would receive if the payments under the contract were due.

Structure of annually paid annuities

in EUR	TOTAL ANNUAL ANNUITY PAYMENTS IN 31. 12. 2018		TOTAL ANNUAL ANNUITY PAYMENTS IN 31. 12. 2017	
Annual annuity payments to the insured person as at 31 December	amount	%	amount	%
EUR 0–999	387,499	12.57%	407,806	12.56%
EUR 1,000–1,999	843,419	27.35%	889,136	27.39%
EUR 2,000–2,999	553,421	17.95%	586,452	18.07%
EUR 3,000–3,999	412,114	13.37%	428,752	13.21%
Over EUR 4,000	886,883	28.76%	933,903	28.77%
Total	**3,083,335**	**100%**	**3,246,050**	**100%**

In 2018, concentrations of insurance risk with respect to the Company's annuity business remained at the same level compared to the previous year. As in 2017, concentration was the highest in the over EUR 4,000 annual annuity payment 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 2019.

Inflation

Inflation rate was not taken into account for the first five years' period. After five years the rate of 1.9% was taken into account 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 2018

The liability adequacy test (LAT) results of 31 December 2018, 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, in 2018 the Company applied the claims ratio of final claims occurred in 2018, 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 2018

As at 31 December 2018, the Company formed provisions for unexpired risks for cargo transport insurance in the total amount of EUR 5,686. 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%
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 2018	31 Dec 2017
Factor		
Costs/expenses +5 %	(3,427,267)	(3,424,254)
Costs/expenses -5 %	3,427,267	3,424,254
Interest rates +1 %	11,709,652	16,305,632
Interest rates -1 %	(14,647,531)	(15,427,105)
Assurance mortality +5 %	175,776	114,010
Annuitant mortality -5 %	(196,510)	(130,996)
Loss ratio +5 %	(14,459,931)	(14,606,551)
Loss ratio -5 %	14,459,931	**14,606,551**

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

The structure of the reinsurance program changed slightly in 2018, as the earthquake risk was included in the contract for catastrophic risks and, accordingly, increased the cover limit. Other reinsurance contracts maintained the unchanged structure and content, as in previous years they responded adequately to loss events exceeding retention, calculated for lines of business.

Reinsurance concentration in the financial year 2018

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%	916,981	408,017	-	(1,217,891)	107,107
Quota share reinsurance of earthquake risk	(186,779)	1.83%	52,298	-	(342,387)	(178)	(477,046)
Non-life Gross Risk XL reinsurance	(1,251,360)	12.26%	-	-	-	-	(1,251,360)
Engineering Risk XL reinsurance	(260,136)	2.55%	-	413,051	-	7,008	159,923
Non-life Cat XL reinsurance	(2,332,987)	22.85%	-	-	-	(16,230)	(2,349,217)
Non-life, i.e. annual aggregate Cat XL losses	(1,057,644)	10.36%	-	2,884,710	-	(1,919,939)	(92,873)
XL reinsurance motor third-party liability insurance and green cards	(794,425)	7.78%	-	563,381	-	872,874	641,830
XL reinsurance of comprehensive automobile insurance (casco)	(46,150)	0.45%	-	155,000	-	(130,000)	(21,150)
Other non-life reinsurance	**(2,149,906)**	**21.06%**	**246,828**	**505,514**	**(38,928)**	**169,777**	**(1,266,715)**
Health reinsurance	**-**	**0.00%**	**-**	**-**	**-**	**-**	**-**
Life reinsurance	**(2,131,328)**	**20.87%**	**582,109**	**681,661**	**1,867**	**(30,552)**	**(896,243)**
Total reinsurance in the financial year	**(10,210,715)**	**100.00%**	**1,798,217**	**5,611,334**	**(379,448)**	**(2,265,131)**	**(5,445,744)**
Co-insurance provided	**(44,540)**	**0.00%**	**11,653**	**73,714**	**(134,490)**	**(21,593)**	**(115,256)**
Co-insurance received	**207,055**	**0.00%**	**(38,265)**	**(7,650)**	**(4,593)**	**121,781**	**278,329**
Reinsurance received	**667,884**	**0.00%**	**(105,325)**	**(583,529)**	**19,309**	**(13,270)**	**(14,931)**
Total Re(co)insurance	**(9,380,316)**	**0.00%**	**1,666,280**	**5,093,869**	**(499,222)**	**(2,178,213)**	**(5,297,603)**

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 third-party 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)**

The above table shows the reinsurance concentration for all contracts.

In 2018, the reinsurance and coinsurance premiums of EUR 10,255,255 was totalled or 13.7% less compared to the previous year. The reduction in the reinsurance premium is partly attributable to the change in the reinsurance programme for earthquake risk, while the major part of the decrease is due to the termination of the international reinsurance programme with a larger company.

The restructuring of reinsurance of earthquake risks from a proportional one into a non-proportional also triggered the reduction in the reinsurance fees received, as non-proportional reinsurance fees are not recognized. Slightly higher fees were charged from reinsurance of the car insurance quota in the years 2012 - 2014, which was the result of the release of claims provisions and thus of improving of the loss ratio. In 2018, a total of EUR 1,798,217 was reinsurance fees, which is 17.7% less than in 2017.

In 2018, the reinsurers' share in claims totalled EUR 5,611,334, of which EUR 2,884,710 came from reinsurance annual aggregate losses of 2016 and 2017,

In 2018, there were no major storms that would activate reinsurance protection, and in 2018 the favourable impact of storms from 2017 on the reinsurance result continued. Due to newly reported claims in 2018, some events from 2017 exceeded the threshold for inclusion in the cover of the annual aggregate of claims and the reinsurance cover of the annual aggregate of claims for 2017 increased in 2018 by EUR 964,771.

In the motor third party liability reinsurance programme, one major damage from 2017 was reported in 2018, whose reinsured portion amounted to EUR 1,220,562, which significantly affected the positive reinsurance result of the contract.

Within the scope of reinsurance received, we were involved in a larger machine-breakdown and business interruption loss, part of which was carried out from the reinsurance of technical risks.

In other reinsurance programmes, the loss event in 2018 was comparable to the previous year.

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 affect the value of the Company's financial assets, meaning that the financial liabilities of counterparties will not be covered. This 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 2018, these assets totalled EUR 278,425,381 (2017: EUR 310,355,667), out of which, EUR 274,127,785 (2017: EUR 304,978,130) of assets from the balance sheet are related to the category of assets of policyholders who bear investment risk, and EUR 4,297,596 (2014: EUR 5,377,537) to other balance sheet categories of funds, where policyholders bear investment risk.

These other assets are derived from unit-linked insurance transactions, but as at 31 December, these were from policyholders who take over the investment risk and do not bear the financial risk, therefore they are not included in the disclosures related to the risks that the Company presents below. Other balance sheet items are specifically presented in the following table.

(in EUR)	2018	2017
Cash at bank	2,748,830	2,408,989
Financial receivables	1,156,951	1,677,412
Receivables from direct insurance operations	366,181	1,291,137
Deferred tax assets	145	-
Amounts of technical provisions ceded to reinsurers	25,485	-
Other assets	4	-
Total	**4,297,596**	**5,377,537**

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 2018 and 2017 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 2018

(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	**3,447,189**	**(0)**	**5,115,548**	**1,968,733**	**10,531,470**
- listed	2,514,899	(0)	4,490,980	390,251	7,396,130
Government bonds	932,290	(0)	624,568	1,578,482	3,135,340
Held-to-maturity financial assets	**9,135,039**	**302,325**	**20,191,629**	**-**	**29,628,993**
- listed	9,135,039	302,325	8,788,476	-	18,225,841
Government bonds	-	-	11,403,153	-	11,403,153
Available-for-sale financial assets	**66,344,630**	**8,215,244**	**81,835,083**	**589,227**	**156,984,184**
- listed	20,553,510	(0)	7,323,844	-	27,877,354
- non-listed	3,891,193	-	-	-	3,891,193
Government bonds	41,899,927	8,215,244	74,511,239	589,227	125,215,637
Total debt financial instruments	**78,926,858**	**8,517,569**	**107,142,260**	**2,557,960**	**197,144,647**
Financial assets at fair value through profit or loss	-	-	831,280	6,380,143	7,211,423
- listed	-	-	831,280	6,380,143	7,211,423
Available-for-sale financial assets	22,654,325	670,697	12,255,894	1,550,550	37,131,466
- listed	7,564,367	-	11,600,742	1,550,550	20,715,658
- non-listed	15,089,959	670,697	655,152	-	16,415,807
Total equity financial instruments	**22,654,325**	**670,697**	**13,087,174**	**7,930,693**	**44,342,889**
Loans, deposits and financial receivables	30,464,042	2,912,564	8,600,286	4,104	41,980,996
Investments in subsidiaries and associates	12,465,602	3,308,613	31,051,980	-	46,826,195
Derivatives	(0)	-	-	-	(0)
Total financial investments	**144,510,828**	**15,409,443**	**159,881,699**	**10,492,757**	**330,294,727**
Amount (technical provisions) transferred to reinsurers	14,648,281	-	229,762	-	14,878,043
Receivables from insurance business and other receivables	28,521,464	7,070,916	5,459,885	-	22,719,761
Cash and cash equivalents	9,167,005	2,607,506	4,409,508	1,420,090	17,604,110
Other assets	62,337,479	134,778	3,553,811	-	66,005,110
Total assets	**259,185,058**	**25,222,644**	**173,534,665**	**11,912,847**	**451,501,751**
Liabilities from insurance contracts	**147,303,369**	**12,149,250**	**-**	**-**	**159,452,619**
- non-current liabilities	55,116,835	77,873	-	-	55,194,708
- current liabilities	92,186,534	12,071,378	-	-	104,257,911
Liabilities from insurance contracts with DPF	**-**	**-**	**115,485,096**	**-**	**115,485,096**
- non-current liabilities	-	-	102,684,123	-	102,684,123
- current liabilities	-	-	12,800,973	-	12,800,973
Liabilities from investment contracts	**-**	**-**	**-**	**11,886,157**	**11,886,157**
- non-current liabilities	-	-	-	11,886,157	11,886,157
Equity capital	**65,922,000**	**9,697,126**	**19,213,777**	**(13)**	**94,832,889**
Bonds issued (Subordinated liabilities)	**22,807,639**	**-**	**26,774,185**	**-**	**49,581,823**
Other liabilities	**23,152,050**	**3,376,268**	**12,061,608**	**26,703**	**20,263,166**
- non-current liabilities	6,500,913	14,710	5,586,706	-	5,121,709
- current liabilities	16,651,138	3,361,558	6,474,902	26,703	15,141,457
Total liabilities	**259,185,058**	**25,222,644**	**173,534,665**	**11,912,847**	**451,501,751**

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 2017

(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	**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	**262,063,012**	**24,261,629**	**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.

In the tables showing the Classification of assets by maturity into non-current and current assets for 2018 and for 2017, 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 2018

(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	**77,994,568**	**8,517,569**	**106,544,203**	**1,865,006**	**194,921,347**
At fair value through profit or loss	2,514,899	-	4,517,491	1,275,779	8,308,169
- listed	2,514,899	-	4,517,491	1,275,779	8,308,169
Available for sale	66,344,630	8,215,244	81,835,083	589,227	156,984,184
- listed	62,453,437	8,215,244	81,835,083	589,227	153,092,991
- non-listed	3,891,193	-	-	-	3,891,193
Held to maturity	9,135,039	302,325	20,191,629	-	29,628,993
- listed	9,135,039	302,325	20,191,629	-	29,628,993
Equity securities	**22,654,325**	**670,697**	**12,255,894**	**7,930,693**	**43,511,609**
At fair value through profit or loss	-	-	0	6,380,143	6,380,143
- listed	-	-	0	6,380,143	6,380,143
Available for sale	22,654,325	670,697	12,255,894	1,550,550	37,131,466
- listed	7,564,367	-	11,600,742	1,550,550	20,715,658
- non-listed	15,089,959	670,697	655,152	-	16,415,807
Investments in subsidiaries and associates	12,465,602	3,308,613	31,051,980	-	46,826,195
Loans, deposits and financial receivables	317,186	2,499,908	559,240	-	3,376,333
Total financial investments	**113,431,682**	**14,996,787**	**150,411,316**	**9,795,699**	**288,635,484**
Amount (technical provisions), transferred to reinsurers	8,501,444	-	-	-	8,501,444
Receivables from insurance business and other receivables	9,701,632	527,996	274,638	-	3,523,647
Other assets	34,358,880	-	419,706	-	34,778,586
Total assets	**165,993,639**	**15,524,782**	**151,105,660**	**9,795,699**	**335,439,161**
Current assets					
Debt securities	**932,290**	**(0)**	**598,056**	**692,954**	**2,223,301**
At fair value through profit or loss	932,290	(0)	598,056	692,954	2,223,301
- listed	932,290	(0)	598,056	692,954	2,223,301
Equity securities	-	-	831,280	-	831,280
At fair value through profit or loss	-	-	831,280	-	831,280
- listed	-	-	831,280	-	831,280
Loans, deposits and financial receivables	30,146,856	412,656	8,041,046	4,104	38,604,663
Total financial investments	**31,079,146**	**412,656**	**9,470,383**	**697,058**	**41,659,244**
Amount (technical provisions), transferred to reinsurers	6,146,837	-	229,762	-	6,376,599
Receivables from insurance business and other operating receivables	18,819,831	6,542,921	5,185,247	-	19,196,114
Cash and cash equivalents	9,167,005	2,607,506	4,409,508	1,420,090	17,604,110
Other assets	27,978,598	134,778	3,134,105	-	31,226,524
Total assets	**93,191,418**	**9,697,861**	**22,429,005**	**2,117,148**	**116,062,591**

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

As at the 2018 year-end, the non-current assets prevailed with a 74% share, and current assets accounting for 26% of total assets.

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 pension savings	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 amounts to 24% 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 2018 – 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	**194,586,687**	**-**	**21,421,561**	**91,689,569**	**55,038,562**	**16,181,796**	**34,409,928**	**218,741,416**
Financial assets at fair value through income statement	8,562,737	-	670,821	5,225,875	2,685,575	1,500	521,400	9,105,171
Financial assets held to maturity	29,628,993	-	4,737,893	21,715,487	6,891,018	2,186,796	2,089,800	37,620,993
Financial assets available for sale	156,394,957	-	16,012,847	64,748,207	45,461,970	13,993,500	31,798,728	172,015,252
Equity financial instruments	**36,412,196**	**36,412,196**	**-**	**-**	**-**	**-**	**-**	**36,412,196**
Financial assets at fair value through income statement	831,280	831,280	-	-	-	-	-	831,280
Financial assets available for sale	35,580,916	35,580,916	-	-	-	-	-	35,580,916
Loans, deposits and financial receivables	**43,133,843**	**-**	**38,590,217**	**2,764,416**	**775,170**	**203,142**	**1,889,113**	**44,222,058**
Assets of policyholders who bear investment risk	**274,127,785**	**205,929,558**	**1,955,222**	**24,443,691**	**31,498,575**	**4,203,006**	**6,142,579**	**274,172,631**
Assets from investment contracts	**11,912,847**	**8,877,254**	**507,419**	**902,000**	**1,435,500**	**1,000**	**200,600**	**11,923,773**
Investment properties	**560,173,359**	**251,219,009**	**62,474,419**	**119,799,676**	**88,747,807**	**20,588,945**	**42,642,220**	**585,472,075**
Total financial investments	14,903,528	-	6,514,812	6,239,708	1,633,609	511,719	3,681	14,903,528
Receivables from insurance business and other receivables	23,086,086	-	23,058,122	27,964	-	-	-	23,086,086
Operating and other receivables	18,932,850	18,932,850	-	-	-	-	-	18,932,850
Other assets	**617,095,823**	**270,151,858**	**92,047,353**	**126,067,347**	**90,381,416**	**21,100,663**	**42,645,901**	**642,394,539**
Bonds issued (Subordinated liabilities)	49,581,823	-	3,944,000	15,815,000	59,892,000	-	79,651,000	159,302,000
Non-life and health insurance	159,452,619	-	103,923,869	39,576,394	11,140,272	4,224,073	588,011	159,452,619
Unit-linked life insurance	273,416,137	-	12,413,328	56,019,388	57,243,045	47,513,666	100,226,710	273,416,137
Life insurance	115,485,096	-	5,106,964	11,208,426	23,036,646	20,656,854	62,602,537	122,611,427
Investment contracts	11,886,159	-	127,421	698,528	1,954,090	2,350,561	6,755,558	11,886,159
Other liabilities	483,062	-	413,637	335,687	(918,949)	-	(222,727)	(392,352)
Total Liabilities	**610,304,896**	**-**	**125,929,219**	**123,653,423**	**152,347,104**	**74,745,154**	**249,601,089**	**726,275,989**

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
Derivatives	**243,537**	**243,537**	**-**	**-**	**-**	**-**	**-**	**243,537**
Loans, deposits and financial receivables	**36,655,339**	**600,000**	**11,974,578**	**23,165,523**	**1,499,285**	**177,744**	**1,569,655**	**38,986,785**
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**
Assets from investment contracts	**8,890,333**	**7,459,984**	**21,900**	**283,700**	**1,137,500**	**-**	**-**	**8,903,084**
Investment properties	**580,082,996**	**274,222,898**	**22,342,980**	**115,508,173**	**125,866,580**	**32,201,841**	**38,085,777**	**608,228,249**
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	26,044,743	-	26,015,450	29,292	-	-	-	26,044,743
Operating and other receivables	17,630,610	-	17,630,610	-	-	-	-	17,630,610
Other assets	**641,462,539**	**274,222,898**	**74,877,042**	**121,220,182**	**127,998,503**	**33,078,312**	**38,210,857**	**669,607,793**
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	382,050	-	382,050	-	-	-	-	382,050
Total Liabilities	**633,016,185**	**-**	**129,641,466**	**104,378,393**	**183,434,242**	**76,249,961**	**185,535,693**	**679,239,755**

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 2018[1]

(in EUR)	AAA-A	BBB-B	CCC-C	Not rated	Total 2018
Financial assets at fair value through profit or loss	3,515,218	5,047,520	-	0	8,562,737
Debt securities	3,515,218	5,047,520	-	0	8,562,737
Held-to-maturity financial assets	9,789,834	17,326,702	-	2,512,457	29,628,993
Debt securities	9,789,834	17,326,702	-	2,512,457	29,628,993
Available- for-sale financial assets	71,660,601	73,964,874	-	10,769,482	156,394,957
Debt securities	71,660,601	73,964,874	-	10,769,482	156,394,957
Loans, deposits and financial receivables	16,317	23,665,150	-	18,295,426	41,976,892
Assets from investment contracts	1,768,455	789,505	-	-	2,557,960
Debt securities	1,768,455	789,505	-	-	2,557,960
Total financial investments	**86,750,424**	**120,793,750**	**-**	**31,577,365**	**239,121,539**
Receivables from insurance business and other receivables	976,838	539	-	21,742,383	22,719,761
Reinsurers' share of technical provisions	14,664,191	-	-	213,853	14,878,043
Cash and cash equivalents	2,358	9,953,754	-	6,227,908	16,184,019
Total assets exposed to credit risk	**102,393,811**	**130,748,043**	**-**	**59,761,509**	**292,903,363**

Investments in debt securities which remained non-rated in 2018 comprise important Slovene state-owned or private companies which issued these securities. Given loans, deposits and financial receivables without a credit rating accounted for 44% of all loans, deposits and financial receivables. The maximum exposure to individual issuers without a rating relating to given loans is represented by a loan to SRC Sistemske integracije d. o. o., accounting for 45% of all given loans without a rating. A share of 45% of given loans without a rating are collateralized by with equity shares in companies, 38% with redemption value of insurance policies, 8% with property and 9% with other forms of security.

[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 2017

(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	-	24,001,103	26,044,743
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**	**-**	**57,871,081**	**291,121,214**

Bond investments portfolio without credit rating in 2017 relates to debt securities of important Slovene state-owned or private companies which issued these securities 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 given loans without a rating are collateralized by bills of exchange and directly enforceable collateral ('izvršnica'), 30% by property and equity shares and 20% by other types of security.

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 3.97%, shares of Slovenian banks 0.17%, and deposits with domestic banks 0.90%.

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 35% of all investments.

Credit risk: Past-due and not past-due financial instruments as at 31 December 2018

In EUR	Neither past due nor impaired	Total past due and not impaired				Total past-due date and not impaired	Total past due and impaired				Total past due date and impaired	Total
		Up to 30 days	From 31 to 90 days	From 91 to 270 days	Over 270 days		Gross value	Value adjustment – individual impairment	Value adjustment – group impairment	Net value		
Financial investments (debt securities)	**194,586,687**	-	-	-	-	**-**	-	-	-	-	**-**	**194,586,687**
Assets from investment contracts	**2,557,960**	-	-	-	-	**-**	-	-	-	-	**-**	**2,557,960**
Loans and financial receivables	**35,946,693**	60,880	-	-	19	**60,899**	243,502	(125,219)	(13,736)	104,547	**104,547**	**36,112,139**
Amount (technical provisions) ceded to reinsure	**14,878,042**	-	-	-	-	**-**	-	-	-	-	**-**	**14,878,042**
Receivables from insurance business and other receivables	**6,006,948**	**477,522**	**77,858**	**154,775**	**57,458**	**767,613**	**26,358,842**	**(7,611,650)**	**(2,801,992)**	**15,945,200**	**15,945,200**	**22,719,760**
Insurance receivables	**2,280,428**	327,807	65,918	40,077	7,357	**441,159**	22,509,419	(5,060,711)	(2,490,019)	14,958,689	**14,958,689**	**17,680,277**
Recourse receivables	**-**	**1,535**	**-**	**-**	**-**	**1,535**	3,124,738	(1,999,171)	(234,227)	891,340	**891,340**	**892,875**
Other receivables	**3,726,520**	148,181	11,941	114,697	50,101	**324,919**	724,685	(551,768)	(77,747)	95,170	**95,170**	**4,146,609**
Total	**253,976,330**	**538,402**	**77,858**	**154,775**	**57,476**	**828,511**	**26,602,344**	**(7,736,869)**	**(2,815,728)**	**16,049,747**	**16,049,747**	**270,854,589**

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 2017

In EUR	Neither past due nor impaired	Total past due and not impaired				Total past-due date and not impaired	Total past due and impaired				Total past due date and impaired	Total
		Up to 30 days	From 31 to 90 days	From 91 to 270 days	Over 270 days		Gross value	Value adjustment – individual impairment	Value adjustment – group impairment	Net value		
Financial investments (debt securities)	**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 reinsurers	**17,704,191**	-	-	-	-	**-**	-	-	-	-	**-**	**17,704,191**
Receivables from insurance business and other	**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**	**26,044,742**
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.

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 following 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. 2018	31. 12. 2017	31. 12. 2018	31. 12. 2017	31. 12. 2018	31. 12. 2017
ASSETS						
Debt securities	145,253,098	132,899,850	49,333,589	61,880,405	194,586,687	194,780,254
Loans and deposits	32,064,870	24,496,642	2,545,916	2,560,087	34,610,786	27,056,729
Cash and cash equivalents	16,184,019	15,221,621	-	-	16,184,019	15,221,621
Assets from financial contracts	2,516,403	1,569,152	1,465,752	826,910	3,982,154	2,396,062
Total	**196,018,391**	**174,187,265**	**53,345,256**	**65,267,402**	**249,363,647**	**239,454,666**
LIABILITIES						
Debt securities	-	-	429,961	-	429,961	-
Bonds issued (Subordinated liabilities)	49,581,823	49,525,147	-	-	49,581,823	49,525,147
Total	**49,581,823**	**49,525,147**	**429,961**	**-**	**50,011,784**	**49,525,147**

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

2018 began in the light of optimism and a positive trend that continued from 2017. The share indices reached historic peaks supported by good macroeconomic data and business results of companies, especially those from the US. Fearing higher inflation and a faster completion of stimulative monetary policies, this trend was severely halted in early February. Volatility returned to the financial markets. Geopolitical risks, tense US-Chinese rhetoric and fears of an expansion of trade wars came to the fore. Concerns primarily result in a negative impact on global economic growth.

In an environment of expansionary monetary policy and higher volatility, the Company managed the risk of failed achievement of the guaranteed return by selectively allocating investments in government and corporate securities and shares, which give optimal returns adjusted for risk. In the first months, the fair values of financial assets were positively affected by the reduction of the required yields on government bonds of European countries, where the Company invested the majority of its financial investments. Forecasts and introduction of trade restrictions, unstable political conditions, poorer macroeconomic data and mood among investors in Europe increased volatility in financial markets in the second half of the year. The complications surrounding the adoption of the Italian budget, the Brexit issues and the rise of populism in Europe have increased the required premiums on European government bonds, where the Company's invested the majority of its financial investments. In 2018, the Fund achieved a return of 2.04 percent, which is slightly less than the guaranteed return of 3.1%.

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.

With respect to the guarantee 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 2018, the fund achieved a return of 0.58%, which is slightly lower than the guaranteed return of 0.72%. The guarantee fund "Zajamčeni od 60" (Guaranteed over 60) started operating in February 2016, when the portfolio started to be built and to set up the portfolio. Following the diversification policies, new investments are made primarily in bond mutual funds and ETFs, as well as corporate and government bonds. In 2017, primarily due to low interest rates, the fund achieved a return of (1.76)%, which is less than the guaranteed return (0.72%).

Actual exposure to risk of guaranteed return

Pension insurance scheme/plan	2018	2017
LIFE INSURANCE		
Traditional life insurance		
Average return on investment for the period	2.04%	4.41%
Average guaranteed return	3.10%	3.22%
Difference in interest rates	**-1.06%**	**1.19%**
PENSION INSURANCE		
Pension saving AS Zajamčeni od 60		
Average return on investment for the period	-1.76%	0.54%
Required (guaranteed) return	0.72%	0.85%
Difference in interest rates	**-2.48%**	**-0.31%**
Pension insurance PN-A01		
Average return on investment for the period	0.58%	2.17%
Required (guaranteed) return	0.72%	0.85%
Difference in interest rates	**-0.14%**	**1.32%**

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 investments.

Currency risk

	EUR	HRK	Other	Total 2018
ASSETS				
Financial assets measured at fair value through profit or loss	8,973,881	420,136	-	9,394,017
Equity securities	411,144	420,136	-	831,280
Debt securities	8,562,737	-	-	8,562,737
Held-to-maturity financial assets	29,628,993	-	-	29,628,993
Debt securities	29,628,993	-	-	29,628,993
Available-for-sale financial assets	181,465,045	1,763,991	8,746,837	191,975,872
Equity securities	30,340,095	-	5,240,820	35,580,916
Debt securities	151,124,949	1,763,991	3,506,016	156,394,957
Loans, deposits and financial receivables	41,976,892	-	-	41,976,892
Assets from investment contracts	10,794,343	-	1,118,504	11,912,847
Total financial investment	**272,839,154**	**2,184,127**	**9,865,341**	**284,888,622**
Receivables from insurance business and other receivables	16,098,875	6,620,885	-	22,719,760
Amount (technical provisions) transferred to reinsurers	14,872,770	0	5,273	14,878,043
Cash and cash equivalents	14,390,075	1,793,945	-	16,184,020
Total assets exposed to currency risk	**318,200,874**	**10,598,957**	**9,870,614**	**338,670,445**
LIABILITIES				
Bonds issued (Subordinated liabilities)	49,581,823	-	-	49,581,823
Liabilities arising from insurance contracts	272,922,205	2,015,509	-	274,937,715
Liabilities from investment contracts	11,886,157	-	-	11,886,157
Other liabilities	434,312	-	-	434,312
Total liabilities exposed to currency risk	**334,824,498**	**2,015,509**	**-**	**336,840,008**

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

Currency risk

	EUR	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
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
Assets from investment contracts	8,201,274	-	689,059	8,890,333
Total financial investment	**261,787,805**	**2,188,073**	**9,451,575**	**273,427,452**
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
Total assets exposed to currency risk	**316,097,706**	**6,109,971**	**10,190,329**	**332,398,006**
LIABILITIES				
Bonds issued (Subordinated liabilities)	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	382,050	-	-	382,050
Total liabilities exposed to currency risk	**329,239,960**	**1,396,433**	**-**	**330,636,393**

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 2018 and 2017. The Company's liabilities are expressed in euros and are not particularly 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 2018
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 2018

Sensitivity analyses

Analysis of sensitivity to change in the interest rate

(in EUR)	Effect on profit	Effect on equity
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
31 December 2018	-	-
Interest rate change of +50 bp	(302,001)	(7,602,178)
Interest rate change of -50 bp	197,031	5,147,787

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 2017		
Change in prices of equities +15%	855,456	5,298,995
Change in prices of equities -15%	(855,456)	(5,298,995)
31 December 2018		
Change in prices of equities +15%	1,081,713	5,569,720
Change in prices of equities -15%	(1,081,713)	(5,569,720)

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 2018

in EUR as at 31 Dec 2018	Carrying amount	Fair value	Level 1	Level 2	Level 3
Financial assets measured at fair value through profit or loss, held for sale	**1,600,129**	**1,600,129**	**562,724**	**1,037,404**	**-**
Debt securities	1,037,404	1,037,404	-	1,037,404	-
Investment coupons of mutual funds	562,724	562,724	562,724	-	-
Financial assets measured at fair value through profit or loss, at initial recognition	**7,793,889**	**7,793,889**	**268,556**	**7,234,193**	**291,140**
Debt securities	7,525,333	7,525,333	-	7,234,193	291,140
Investment coupons of mutual funds	268,556	268,556	268,556	-	-
Available-for-sale financial assets	**175,560,065**	**175,560,065**	**20,954,455**	**148,588,919**	**6,016,691**
Equity securities	7,391,871	7,391,871	7,391,871	-	-
Debt securities	156,394,957	156,394,957	1,789,347	148,588,919	6,016,691
Investment coupons of mutual funds	11,773,237	11,773,237	11,773,237	-	-
Unit-linked investments of policyholders	**258,841,768**	**258,841,768**	**205,929,557**	**52,912,211**	**-**
Assets from investment contracts	**10,488,653**	**10,488,653**	**7,930,693**	**2,167,709**	**390,251**
Total financial assets measured at fair value	**454,284,503**	**454,284,503**	**235,645,986**	**211,940,436**	**6,698,082**
Held-to-maturity financial assets	**29,628,993**	**35,059,979**	**409,389**	**34,628,727**	**21,863**
Debt financial instruments	29,628,993	35,059,979	409,389	34,628,727	21,863
Available-for-sale financial assets	**16,415,807**	**16,415,807**	**-**	**-**	**16,415,807**
Equity securities	16,415,807	16,415,807	-	-	16,415,807
Assets from investment contracts	**1,424,194**	**1,424,194**	**-**	**-**	**1,424,194**
Loans and deposits	**34,610,786**	**34,610,786**	**-**	**-**	**34,610,786**
Unit-linked investments of policyholders	**15,286,017**	**15,286,017**	**-**	**-**	**15,286,017**
Investments in subsidiaries and associates	**46,826,195**	**46,826,195**	**-**	**-**	**46,826,195**
Investment property	**26,065,121**	**26,417,136**	**-**	**-**	**26,417,136**
Land and buildings held for own use	**22,128,909**	**21,160,480**	**-**	**-**	**21,160,480**
Total financial assets for which the fair value is disclosed	**192,386,025**	**197,200,596**	**409,389**	**34,628,727**	**162,162,480**
TOTAL ASSETS	**646,670,528**	**651,485,099**	**236,055,375**	**246,569,163**	**180,132,448**
Derivatives	429,961	429,961	-	429,961	-
Total financial liabilities measured at fair value	**429,961**	**429,961**	**-**	**429,961**	**-**
Bonds issued (Subordinated liabilities)	49,581,823	49,542,150	-	49,542,150	-
Total liabilities for which the fair value is disclosed	**49,581,823**	**49,542,150**	**-**	**49,542,150**	**-**
TOTAL LIABILITIES	**50,011,785**	**49,972,111**	**-**	**49,972,111**	**-**

Financial assets categorised in the fair value hierarchy in 2017

in EUR as at 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	**286,080,281**	**286,080,281**	**230,673,439**	**55,406,842**	**-**
Assets from investment contracts	**7,928,201**	**7,924,616**	**6,494,271**	**1,026,356**	**403,988**
Total financial assets measured at fair value	**475,734,477**	**475,730,892**	**258,030,738**	**212,739,672**	**4,960,481**
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**	**16,415,657**	**-**	**-**	**16,415,657**
Equity securities	16,415,657	16,415,657	-	-	16,415,657
Assets from investment contracts	**965,717**	**965,717**	**-**	**-**	**965,717**
Loans and deposits	**27,056,728**	**27,056,728**	**-**	**-**	**27,056,728**
Unit-linked investments of policyholders	**18,897,849**	**18,897,849**	**-**	**-**	**18,897,849**
Investments in subsidiaries and associates	**50,816,704**	**-**	**-**	**-**	**50,816,704**
Investment property	**26,287,114**	**26,240,311**	**-**	**-**	**26,240,311**
Land and buildings held for own use	**22,384,274**	**20,426,047**	**-**	**-**	**20,426,047**
Total financial assets for which the fair value is disclosed	**194,241,584**	**149,120,299**	**415,503**	**38,702,486**	**160,819,014**
TOTAL ASSETS	**669,976,061**	**624,851,191**	**258,446,241**	**251,442,158**	**165,779,495**
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**

Level 3 assets and liabilities

Financial assets and liabilities categorised in the fair value hierarchy – Level 3 movement in 2018

(in EUR)	1. 1. 2018	Total profit/loss in profit or loss	Total profit/loss in comprehensive income	Purchase	Sale	Transfers (to) from Level 3	Exchange rate differences	31 Dec 2018
Assets measured at fair value	-	-	-	-	-	-	-	-
Financial assets measured at fair value through profit or loss, at initial recognition	301,886	-	(10,746)	-	-	-	-	291,140
Debt securities	301,886	-	(10,746)	-	-	-	-	291,140
Available-for-sale financial assets	4,254,607	-	726,803	1,082,792	(47,511)	-	-	6,016,691
Debt securities	4,254,607	-	726,803	1,082,792	(47,511)	-	-	6,016,691
Assets from investment contracts	403,988	-	(13,737)	-	-	-	-	390,251
Total assets	4,960,481	-	702,320	1,082,792	(47,511)	-	-	6,698,082

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	Exchange rate differences	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

In 2018, the Company purchased debt securities, which belong to Level 3, under the following financial instrument groups:

- assets available for sale, EUR 1.082.792.

In 2018, the bond from the group of assets available for sale amounting to EUR 47,511 finally matured. Fair value of the financial assets as at 31 December 2018 amounts to EUR 6,698,082. 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.

Sensitivity analysis of financial assets classified to Level 3 is shown below.

Sensitivity analysis of non-listed securities

(in EUR)	31 Dec 2018	31 Dec 2017
Value of investments classified to Level 3	6,698,082	4,960,481
Estimated value deviation	(66,366)	(77,563)

Level 2 financial assets valuation methods

Valuation of equity is carried out by application of internal valuation models, while the valuation of debt securities is carried out on the basis of the BID rate from the BVAL source (score from 1 to 5).

Assumption/Parameter	Change
Interest rate change	+ 0.5

Reclassification of financial assets between levels

(in EUR)	2018	2017
Reclassification from Level 1 to Level 2	931,282	-

Until 31 December 2018, the Company did not reclassify financial asset between groups due to the change in their intended use nor due to the change in capital market conditions. The Company reclassified debt securities from Level 2 to Leve1 because they did not meet the conditions for classification at Level 1 (sufficient liquidity on the stock exchange).

9. REPORTING BY BUSINESS LINE

The Company reports by business lines 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. The Company 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 segment but also to assess the performance of individual segments and the entire Company.

The non-life insurance includes:

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

The life insurance includes:

- mixed and term life insurance,
- unit-linked life insurance,
- supplemental voluntary pension insurance PN-A01,
- voluntary supplemental pension insurance “Pokojninsko varčevanje AS” (AS Pension Saving).

Health insurance:

- complementary health insurance,
- parallel supplementary health insurance.

Assets, liabilities, revenue, expenses and profit or loss are monitored separately for individual insurance groups

- non-life insurance,
- life insurance and
- health insurance, which is managed separately for complementary health insurance and other supplementary health insurance.

Assets and liabilities by insurance group include the assets and liabilities of the Company which can be directly attributed to a particular insurance group, as well as those which can be indirectly allocated to an insurance group. Due to the transactions between individual groups, the balance of assets and liabilities in the Total column is not equal to the sum of individual insurance groups, because final offset between assets and liabilities is performed at the level of total balance.

Revenue and expenses of a particular insurance group arise from the operation of a business segment and can be directly attributed to a particular business segment; moreover, the relevant portion of revenue and expenses can be reasonably allocated to a business segment.

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

9.1 BALANCE SHEET BY INSURANCE GROUP

Balance sheet as at 31 December 2018 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	463,872,894	259,185,057	23,104,314	2,118,330	729,927,132
Intangible assets	**275,729**	**6,227,335**	**-**	**-**	**6,503,064**
Property, plant and equipment	**(0)**	**28,131,545**	**-**	**-**	**28,131,545**
Deferred tax assets	**271,799**	**2,791,597**	**509,692**	**18,304**	**3,495,828**
Investment properties	**2,129,121**	**23,905,602**	**-**	**30,398**	**26,065,121**
Financial investments in subsidiaries and associates	**31,051,980**	**12,465,602**	**3,308,613**	**-**	**46,826,195**
Financial investments	**129,986,670**	**132,045,226**	**11,659,783**	**441,047**	**274,132,726**
In loans and deposits	9,757,237	30,464,042	2,912,564	-	43,133,843
In held-to-maturity financial assets	20,191,629	9,135,039	302,325	-	29,628,993
In available-for-sale financial assets	94,090,977	88,998,955	8,444,893	441,047	191,975,873
In financial assets measured at fair value	5,946,828	3,447,189	(0)	(0)	9,394,018
Unit-linked investments of policyholders	**274,127,785**	**-**	**-**	**-**	**274,127,785**
Amounts of technical provisions ceded to reinsurers	**255,247**	**14,648,281**	**-**	**-**	**14,903,528**
Assets from investment contracts	**11,912,847**	**-**	**-**	**-**	**11,912,847**
Receivables	**5,554,411**	**25,729,867**	**5,711,856**	**831,065**	**19,590,258**
Receivables from direct insurance business	703,467	8,418,766	5,689,285	771,460	15,582,978
Receivables from reinsurance and coinsurance	103,559	1,066,104	-	-	1,169,663
Income tax receivables	1,249,279	79,483	-	59,360	0
Other receivables	3,498,107	16,165,514	22,571	245	2,837,617
Other assets	**1,148,965**	**4,072,996**	**102,484**	**1,895**	**5,305,383**
Cash and cash equivalents	**7,158,339**	**9,167,005**	**1,811,886**	**795,620**	**18,932,850**
Equity and liabilities	463,872,894	259,185,057	23,104,314	2,118,330	729,927,132
Equity	**19,557,133**	**65,922,000**	**8,558,784**	**1,138,342**	**95,176,259**
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)	233,510	(67,104)	44,430	18,279	229,116
Retained net earnings	4,997,592	21,227,596	2,127,736	1,036,100	29,656,212
Net profit or loss for the financial year	654,737	6,873,435	1,604,175	(9,475)	8,855,684
Subordinated liabilities	**26,774,185**	**22,807,639**	**-**	**-**	**49,581,823**
Technical provisions	**116,930,740**	**147,303,368**	**11,382,501**	**766,749**	**276,383,358**
Unearned premiums	375,654	43,304,240	6,064,681	261,635	50,006,208
Mathematical provisions	109,990,102	225,650	-	77,873	110,293,625
Outstanding claims provisions	6,564,985	103,259,636	5,317,705	427,237	115,569,562
Other technical provisions	0	513,842	116	5	513,962
Insurance technical provisions for unit-linked insurance	**271,970,492**	**-**	**-**	**-**	**271,970,492**
Other provisions	**12,054**	**4,792,677**	**-**	**-**	**4,804,731**
Deferred tax liabilities	**56,758**	**24,096**	**10,422**	**4,288**	**(0)**
Liabilities from investment contracts	**11,912,847**	**-**	**-**	**-**	**11,912,847**
Other financial liabilities	**232,286**	**250,777**	**-**	**-**	**483,062**
Operating liabilities	**2,398,338**	**4,011,463**	**2,043,656**	**37,909**	**7,103,243**
Liabilities from direct insurance contracts	694,052	1,471,889	1,715,557	37,909	3,919,407
Liabilities from reinsurance and coinsurance contracts	600,021	1,646,004	-	-	2,246,026
Income tax liabilities	1,104,264	893,570	328,099	-	937,811
Other liabilities	**14,028,061**	**14,073,038**	**1,108,950**	**171,043**	**12,511,315**

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 18,353,462 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 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
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

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 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 2018 to 31 December 2018 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	**56,834,535**	**132,220,880**	**96,293,603**	**3,847,786**	**289,196,804**
Gross written premiums	58,984,490	141,768,135	95,865,573	3,828,003	300,446,201
Premiums ceded to reinsurers and coinsurers	(2,131,328)	(8,123,928)	-	-	(10,255,255)
Change in unearned premiums	(18,628)	(1,423,327)	428,030	19,783	(994,142)
REVENUES FROM INVESTMENTS IN ASSOCIATES, of which	**1,403,467**	**156,262**	**21,369**	**-**	**1,581,099**
INCOME FROM INVESTMENTS	**6,492,877**	**4,808,032**	**420,097**	**12,983**	**11,733,989**
OTHER INCOME FROM INSURANCE OPERATIONS, of which	**777,494**	**1,084,171**	**-**	**-**	**1,861,666**
- fee and commission income	777,494	1,084,171	-	-	1,861,666
OTHER INCOME	**437,661**	**4,615,690**	**310,078**	**92,123**	**5,455,553**
NET EXPENSES FOR CLAIMS AND BENEFITS PAID	**(46,384,716)**	**(82,363,417)**	**(86,010,239)**	**(2,847,119)**	**(217,605,490)**
Gross amounts of claims and benefits paid	(46,998,483)	(84,880,071)	(85,712,074)	(2,806,640)	(220,397,268)
Reinsurers'/coinsurers' shares	681,661	4,412,208	-	-	5,093,869
Change in claims provisions	(67,894)	(1,895,554)	(298,165)	(40,479)	(2,302,092)
CHANGE IN OTHER TECHNICAL PROVISIONS	**(2,715,531)**	**(15,563)**	**-**	**(5,152)**	**(2,736,245)**
CHANGE IN TECHNICAL PROVISIONS FOR THE BENEFIT OF UNIT-LINKED INSURANCE POLICYHOLDERS	**29,072,788**	**-**	**-**	**-**	**29,072,788**
EXPENSES FOR BONUSES AND DISCOUNTS	**-**	**(54,410)**	**(11)**	**(0)**	**(54,420)**
OPERATING EXPENSES, of which	**(17,015,675)**	**(41,625,010)**	**(8,608,706)**	**(1,400,116)**	**(68,649,506)**
- acquisition costs	(5,388,022)	(16,882,647)	(1,234,568)	(144,524)	(23,649,761)
EXPENSES INVESTMENTS, of which	**(23,284,880)**	**(2,177,661)**	**-**	**-**	**(25,462,541)**
- impairment losses of financial assets not measured at fair value through profit or loss	(221,576)	(825,051)	-	-	(1,046,626)
OTHER INSURANCE EXPENSES	**(418,164)**	**(1,926,079)**	**(254,546)**	**(4,876)**	**(2,603,665)**
OTHER EXPENSES	**(4,740,002)**	**(6,541,100)**	**(203,509)**	**(17,545)**	**(11,502,156)**
PROFIT/(LOSS) BEFORE TAX	**459,855**	**8,181,797**	**1,968,137**	**(321,915)**	**10,287,873**
CORPORATE INCOME TAX	**178,526**	**(1,308,362)**	**(363,962)**	**61,552**	**(1,432,245)**
NET PROFIT FOR THE REPORTING PERIOD	**638,381**	**6,873,435**	**1,604,175**	**(260,362)**	**8,855,628**

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**
- revenue from investments in equity of associates and jointly controlled companies, calculated using the equity method	-	-	1	-	-
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 2018 to 31 December 2018 – Adriatic Slovenica d.d., Podružnica Zagreb za osiguranje (the Zagreb Branch)

in EUR	2018	2017
NET PREMIUM INCOME	**4,186,028**	**2,833,084**
Gross written premiums	4,657,177	3,370,060
Premiums ceded to reinsurers and coinsurers	(49,545)	(22,953)
Change in unearned premiums	(421,605)	(514,023)
INCOME FROM INVESTMENTS	**449,951**	**1,020,560**
OTHER INCOME FROM INSURANCE OPERATIONS, of which	**893,505**	**722,416**
- fee and commission income	893,505	722,416
OTHER INCOME	**68,830**	**67,673**
NET EXPENSES FOR CLAIMS AND BENEFITS PAID	**(1,396,225)**	**(814,033)**
Gross amounts of claims and benefits paid	(1,264,093)	(718,173)
Change in claims provisions	(132,133)	(95,860)
CHANGE IN OTHER TECHNICAL PROVISIONS	**(51,462)**	**(35,119)**
CHANGE IN TECHNICAL PROVISIONS FOR THE BENEFIT OF UNIT-LINKED INSURANCE POLICYHOLDERS	**(719,084)**	**(1,057,284)**
EXPENSES FOR BONUSES AND DISCOUNTS	**(1,429)**	**(1,357)**
OPERATING EXPENSES, of which	**(2,230,173)**	**(1,875,258)**
- acquisition costs	(1,065,629)	(719,129)
EXPENSES INVESTMENTS, of which	**(495,736)**	**(96,400)**
OTHER INSURANCE EXPENSES	**(996,820)**	**(795,366)**
OTHER EXPENSES	**(273,856)**	**(685,677)**
PROFIT/(LOSS) BEFORE TAX	**(566,473)**	**(716,760)**
CORPORATE INCOME TAX	**154,144**	**136,191**
NET PROFIT FOR THE REPORTING PERIOD	**(412,329)**	**(580,570)**

The income statement above shows the operating result, generated by the Zagreb Branch in 2018.

9.3 STATEMENT OF OTHER COMPREHENSIVE INCOME BY INSURANCE GROUP

Statement of other comprehensive income for the period from 1 January 2018 to 31 December 2018 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 PROFIT OR LOSS FOR THE FINANCIAL YEAR AFTER TAXATION	**638,381**	**6,873,435**	**1,604,175**	**(260,362)**	**8,855,628**
OTHER COMPREHENSIVE INCOME AFTER TAXATION	**447,910**	**(584,632)**	**(37,477)**	**(6,817)**	**(181,016)**
Items not to be allocated to profit or loss in subsequent periods	**(264)**	**(17,028)**	**-**	**-**	**(17,292)**
Actuarial net gain/loss for pension programmes	(264)	(17,028)	-	-	(17,292)
Items that may be allocated to profit or loss in subsequent periods	**448,174**	**(567,604)**	**(37,477)**	**(6,817)**	**(163,724)**
Net gain/loss from re-measurement of available-for-sale financial assets	553,301	(700,746)	(46,268)	(8,416)	(202,129)
Gain/loss, recognised in revaluation surplus	414,951	(1,257,412)	(46,268)	(8,416)	(897,144)
Transfer of gain/loss from revaluation surplus to income statement	138,350	556,666	-	-	695,015
Tax on items that may be allocated to profit or loss in subsequent periods	(105,127)	133,142	8,791	1,599	38,404
TOTAL COMPREHENSIVE INCOME FOR THE YEAR, AFTER TAXATION	1,086,290	6,288,803	1,566,698	(267,179)	8,674,612

Statement of other comprehensive income 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 PROFIT OR LOSS FOR THE FINANCIAL YEAR AFTER TAXATION	**2,140,787**	**6,687,694**	**3,315,652**	**(694,727)**	**11,449,406**
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	6,772,977	3,325,036	(696,102)	11,609,028

10. NOTES TO INDIVIDUAL ITEMS OF FINANCIAL STATEMENTS

10.1 INTANGIBLE ASSETS

Movements in intangible assets

(in EUR)	Material rights and licences	Software	ND assets in the process of acquisition	Total
AT COST				
Balance as at 1 Jan 2017	**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**
New balance as at 1 Jan	**4,229,223**	**18,973,475**	**0**	**23,202,698**
Increases due to acquisition of companies	-	6,037,786	-	6,037,786
Direct increases - investments	-	1,471,859	-	1,471,859
Decreases during the year	(3,126,306)	-	-	(3,126,306)
Transfers between intangible assets, investment property, and property, plant and equipment	-	2,521	-	2,521
Other changes	-	793	-	793
Balance as at 31 Dec 2018	**1,102,917**	**26,486,434**	**0**	**27,589,351**
VALUE ADJUSTMENT				
Balance as at 1 Jan 2017	**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**
New balance as at 1 Jan	**3,732,910**	**14,802,322**	**-**	**18,535,232**
Increases due to acquisition of companies	-	3,469,777	-	3,469,777
Depreciation during the year	-	1,986,310	-	1,986,310
Decreases during the year	(3,126,306)	(0)	-	(3,126,306)
Revaluation owing to impairment of assets	220,583	-	-	220,583
Other changes	-	691	-	691
Balance as at 31 Dec 2018	**827,188**	**20,259,099**	**-**	**21,086,287**
BOOK VALUE				
Balance as at 31 Dec 2017	**496,313**	**4,171,154**	**0**	**4,667,466**
Balance as at 31 Dec 2018	**275,729**	**6,227,334**	**0**	**6,503,064**

At the end of 2018, the balance of intangible assets decreased by EUR 1,835,597 compared to the end of the previous year. Major changes affecting the movement of other non-current intangible assets in 2018 are the merger of the company KD IT d. o. o. investments in software improvement in the amount of EUR 2,568,009. Furthermore, investments in software purchasing and upgrading in the amount of EUR 1,471,859 also contributed to the increase. These assets were lower in 2017 mainly due to depreciation.

The Company determined that as at 31 December 2018, apart from property rights (which are not amortised), there was no need for impairment of other intangible assets. Material rights that the Company impaired completely were eliminated from the record at the end of the year, in the amount of EUR 3,126,306 at cost and at the value adjustment items.

As at 31 December 2018, the operating liabilities to suppliers of intangible assets amounted to EUR 19,418. These 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 depreciated by 2028 based on their determined useful lives and the applied depreciation rates. The Company uses the straight-line basis method and in 2018 it did not change the depreciation rates. Depreciation 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 2017	**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
New balance as at 1 Jan	27,207,249	16,838,307	360,355	18,488	44,424,399
Increases due to acquisition of companies	-	489,149	-	-	489,149
Direct increases - investments	28,754	1,027,567	269,759	(0)	1,326,079
Direct increases – advance payments	-	-	332,691	-	332,691
Decreases during the year	-	(952,143)	(135,523)	-	(1,087,666)
Transfers between intangible assets, investment property, and property, plant and equipment	-	309,281	(311,802)	-	(2,521)
Other changes	-	537	-	69	605
Balance as at 31 Dec 2018	27,236,002	17,712,697	515,480	18,557	45,482,737
VALUE ADJUSTMENT					
Balance as at 1 Jan 2017	**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
New balance as at 1 Jan	4,822,974	11,460,166	-	15,723	16,298,863
Increases due to acquisition of companies	-	455,796	-	-	455,796
Depreciation during the year	284,119	1,178,604	-	1,788	1,464,512
Decreases during the year	-	(868,545)	-	-	(868,545)
Revaluation owing to impairment of assets	0	-	-	-	0
Transfers between intangible assets, investment property, and property, plant and equipment	-	(0)	-	-	(0)
Other changes	-	507	-	60	567
Balance as at 31 Dec 2018	5,107,094	12,226,528	-	17,571	17,351,192
BOOK VALUE					
Balance as at 31 Dec 2017	22,384,274	5,378,141	360,355	2,766	28,125,536
Balance as at 31 Dec 2018	22,128,909	5,486,170	515,480	986	28,131,545

As at 31 December 2018, the operating liabilities to suppliers of property, plant and equipment amounted to EUR 56,887. These are disclosed under Company's other liabilities. As at 31 December 2018, The Company had one car purchase contract for which no invoice was received. The contractual liability for unrecorded liabilities amounts to EUR 12,110. 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 2095, 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 2028. The Company uses the straight-line basis method and in 2018 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 2018 compared to the 2017 year-end increased by EUR 6,009, mainly due to investments in the purchase of software for EUR 581,536, purchase of cars for EUR 292,552 and purchase of other equipment for EUR 153,479. To a lesser extent (net of EUR 33,353), the higher value of equipment was caused by the merger of KD IT d. o. o. In 2018, the value of buildings for the provision of insurance activities also increased, with investments worth EUR 269,759 still in progress.

The lower value of property, plant and equipment was further caused by depreciation carried out in the accounting period, disposal and sale of cars for in the amount of EUR 57,389, write-off of hardware and sale of other assets of lower value. At the end of the year, the Company wrote off hardware and property, plant and equipment that had already been depreciated and were judged to be no longer suitable for use. As at 31 December 2018, property, plant and equipment worth EUR 9,459,758 of fully depreciated property, plant and equipment are fully utilized.

In 2018, 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 Sections 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 November 2018.

The recoverable amount was assessed:

- using the method of fair value, decreased by costs of sale, defined based on the market approach, and
- using the method of value in use, defined based on the income approach.

On the basis of the assessment, it was established that as at the 2018 year-end there were no signs indicating that the real property needed for the performance of activities would have to be impaired, since the individual cash-generating unit did not show negative performance in the last three years.

10.3 INVESTMENT PROPERTIES

Movements in investments in land and buildings

(in EUR)	2018	2017
AT COST VALUE		
Balance as at 1 Jan	**31,713,870**	**33,350,518**
Direct increases - investments	231,151	896,780
Decreases during the year	(51,296)	(3,277,103)
Transfer from/to property, plant and equipment	(0)	743,676
As at 31 Dec	**31,893,725**	**31,713,870**
VALUE ADJUSTMENT		
Balance as at 1 Jan	5,426,756	3,783,934
Depreciation in the financial year	335,582	357,483
Decreases during the year	(12,684)	(121,832)
Impairment of cost	78,951	1,160,888
Transfer from/to property, plant and equipment	(0)	246,282
As at 31 Dec	**5,828,604**	**5,426,756**
BOOK VALUE		
As at 31 Dec	**26,065,121**	**26,287,115**

The Company leases all investment properties or business premises – individual parts of investment properties. All operating leases can be cancelled. Rents are charged at market prices and are re-assessed if necessary. Lease agreements are generally concluded for an indefinite period of time. In 2023, the last agreement concluded for a fixed period of time will expire. The lowest rent which the Company charges is 3.70 EUR/m² and in 2018 the average rent was 7.77 EUR/m².

The balance of investment property as at 31 December 2018 decreased by EUR 221,993, primarily due to depreciation and impairments. The lower balance was caused also by the sale of investment property in Nova Gorica (for EUR 44,000). When the property was disposed of, a profit of EUR 3,436 (after paying real estate sales tax of EUR 1,952) was realized in 2018. Financial receivables arising from the sale of investment property will be fully due and payable in 2018. The purchase price was fully paid in 2018.

In 2018, 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 November 2018. 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 capitalisation rate (discount rate) between 7.72% and 8.12 (or 7.72%, 7.92%, 8.02%, 8.32% and 8.12%). The following assumptions were applied:

- the real risk-free rate of return – (Rf) (return on 10-year government bond) 1.05 %,
- risk premium (p) (including liquidity premium and investment management premium) 5.70 %, 5.90 %, 6.00 %, 6.30 % and 6.10 %, and
- capital recovery premium (d) 0.97 %.

Based on the valuation, as at the 2018 year-end the management assessed that impairments of two investment properties must be made in the total amount of EUR 78,951.

The fair value of investment property as at 31 December 2018 was EUR 26,417,136, and was higher than the carrying amount of EUR 26,065,121.

On 31 December 2018, the Company accounted the property Maribox in Loška 13, Maribor, which it intends to sell in 2019, under the property investment heading. The sales contract for this investment property was concluded and the property sold for the carrying amount of the investment - hence there is no sign of impairment. The details of the sale are presented in Section 13.

Despite the decrease comparing with the previous year, in 2018 EUR 121,409 were invested in the adaptation of the investment property and EUR 109,742 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 2018 were fully settled.

The Company uses straight-line depreciation for investment property; in 2018 no changes were made to depreciation rates. Depreciation 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 2018	31 Dec 2017
Revenues from investment properties	**2,829,976**	**2,985,706**
Other revenues arising from rents charged on investment properties	1,809,928	2,388,580
Gains on the disposal of investment properties	42,490	578,090
Revenues from reversal of impairment of receivables	977,559	19,036
Expenses for investment properties	**(1,587,631)**	**(3,877,410)**
Depreciation	(335,582)	(357,483)
Direct operating expenses for investment properties that generate rental income	(1,169,413)	(1,661,618)
Direct operating expenses for investment properties that do not generate rental income	(1,314)	(827)
Expenses from impairment of receivables from investment properties	(2,372)	(167,298)
Expenses from impairment of investment properties.	(78,951)	(1,690,184)

10.4 FINANCIAL INVESTMENTS IN ASSOCIATES

The Company classifies among subsidiaries those companies in which it has, directly or indirectly, more than half of the voting rights or has any other power to control their business. In 2018, the control of all subsidiaries was based on a majority or 100% share of voting rights. The only exceptions are indirect subsidiaries in which the insurer has less than 100% share.

Direct subsidiary	Equity stake (%) 31 Dec 2018	Equity stake (%) 31 Dec 2017	Change (in %)	Note
PROSPERA družba za izterjavo d.o.o.	100.00	100.00	-	
VIZ zavarovalno zastopništvo d.o.o.	100.00	100.00	-	
Permanens d.o.o.	0.00	100.00	-100.00	Liquidation procedure concluded
ZDRAVJE AS zdravstvene storitve d. o. o.	100.00	100.00	-	
KD IT, informacijske storitve, d. o. o.	0.00	100.00	-100.00	Merged with the parent company
KD Skladi, družba za upravljanje d. o. o.	100.00	100.00	-	
AGENT Zavarovalniško zastopanje d. o. o.	100.00	100.00	-	
Indirect subsidiary **				
KD Fondovi AD Skopje	94.60	94.60	-	
KD Locusta Fondovi d. o. o.	90.00	80.00	10.00	
Associate				
Nama trgovsko podjetje d.d., Slovenia	48.51	48.51	-	
MEDIFIT d. o. o., Slovenia	48.00	0.00	48.00	Acquisition by the Group – Co-founding

* 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 companies within the Group and in Associates

Company Name	Balance value in EUR	
Subsidiary	**2018**	**2017**
PROSPERA družba za izterjavo d. o. o., Slovenija	3.820.934	4.770.934
VIZ zavarovalno zastopništvo d. o. o., Slovenija	560.000	530.000
KD IT d. o. o.	-	3.378.236
ZDRAVJE AS d. o. o	650.000	550.000
KD Skladi d. o. o.	29.326.008	29.326.008
Permanens d.o.o., Hrvaška*	-	-
AGENT d. o. o.	635.000	555.625
Total subsidiaries	**34.991.942**	**39.110.803**
Indirect subsidiary		
KD Fondovi AD Skopje	808.072	797.124
KD Locusta Fondovi d. o. o.	282.287	210.708
Total indirect subsidiaries	**1.090.359**	**1.007.832**
Associate		
Nama trgovsko podjetje d.d., Slovenija	11.705.901	11.705.901
MEDIFIT d. o. o., Slovenija	128.352	-
Total associates	**11.834.253**	**11.705.901**

*The company Permanens d.o.o., Croatia was liquidated in 2018.

The carrying amount of investments in subsidiaries decreased in 2018 compared to 2017 year-end, by EUR 4,118,861, primarily as a result of the merger by absorption of the company KD IT d.o.o. to the parent company in early 2018. Balance of investments in the subsidiaries increased compared to 2017 due to the acquisition of the associate Medifit d.o.o.

At the end of the financial year, the management assesses the need for impairment pursuant to internal valuations and with the help of external appraisers, on the basis of external valuations of companies. In 2018, the external appraisers of valuation carried out the valuation of the company KD Skladi d. o. o. as of 30 June 2018. Based on the valuation, the Company assessed that impairments were not necessary. For this purpose, an analysis of the sensitivity of the recoverable amount regarding the company KD Skladi d was provided.

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 2.5 %;
- WACC until 2022 – 10.98%; after 2022 – 12.98%

Sensitivity analysis of subsidiary KD Skladi d. o. o.

Net EBIT% achieved from planned	Equity value in EUR 000
110%	41,874
100%	38,816
90%	35,759
80%	32,702
70%	29,644
60%	26,587

Movements in subsidiaries, indirect subsidiaries and associates in 2018

Movements in investments in subsidiaries and associates

(in EUR)	2018	2017
Subsidiaries		
As at 1 January	**39,110,803**	**46,455,178**
Acquisition or establishment	79,375	555,625
Recapitalisation	130,000	-
Decreases during the year	(4,328,236)	(7,900,000)
As at 31 December	**34,991,942**	**39,110,803**
Associates		
As at 1 January	11,705,901	11,705,901
Acquisition	133,561	-
Sales and disposals	(5,209)	-
As at 31 December	**11,834,253**	**11,705,901**

Adriatic Slovenica d.d. subsidiaries and changes in equity stakes of subsidiaries

Prospera d. o. o.

In the first half of 2018, Adriatic Slovenica received dividends in the amount of EUR 102,443 from its subsidiary Prospera. The dividends were fully paid on 23 March 2018.

In 2018, Adriatic Slovenica d. d., as the sole shareholder of Prospera d. o. o., received from the subsidiary EUR 950,000 in capital payment. On the basis of the finding that the volume of capital is too large in relation to the activity and needs of the company, Prospera d. o. o. carried out the capitalization of EUR 950 000 and reduced capital reserves for this amount.

VIZ d.o.o.

In 2018, Adriatic Slovenica paid EUR 30,000 of equity into the subsidiary VIZ d. o. o. The share capital of VIZ d. o. o. thus increased to EUR 560,000.

ZDRAVJE AS zdravstvene storitve d. o. o.

In 2018, Adriatic Slovenica paid EUR 100,000 of equity into the subsidiary ZDRAVJE AS d. o. o. The share capital of ZDRAVJE AS d. o. o. thus increased to EUR 650,000.

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

In the first half of 2018, 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 2018.

In 2018, the subsidiary KD Skladi d. o. o. increased its share in the subsidiary (indirect subsidiary to AS d.d.) KD Locusta Fondovi d. o. o. by 10%.

Agent Zavarovalniško zastopanje d. o. o.

In 2018, Adriatic Slovenica increased its investment in the subsidiary AGENT d. o. o. by EUR 79,375 by making a payment of the the last variable portion of the purchase price.

Adriatic Slovenica d. d. Associates

Nama trgovsko podjetje d. d. (Associate)

The investment in the associate Nama d. d. is recognised in the financial statements at cost. For the purpose of financial reporting and potential impairments of investment in associate, the Company measures the recoverable amount of the investment based on appraisals performed by external appraisers. Assessment of the recoverable amount is made using the net asset value method. The recoverable amount of real property owned by Nama d. d. was assessed on the basis of the market approach and the income approach using the discount rate of 7.552–8.552%. In line with its strategy, Nama may also lease and sell its real property, in addition to performing its principal activity.

In 2018, external appraisers assessed the investment in shares of Nama d.d. as at the balance on 30 June 2018. Pursuant to this appraisal, the Management assessed that no impairments were required in 2018.

To this end, as at the 2018 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.

Assumption	Value	Change in EUR	% change
Book value	11,705,901		
Investment appraisal	13,598,195		
Reduction in rents -10%	12,469,253	-1,128,942	-8.3%
Increase in +10%	14,727,136	1,128,942	8.3%
Discount factor -2 percentage points	17,017,407	3,419,213	25.1%
Discount factor +2 percentage points	11,534,637	-2,063,557	-15.2%

In 2018, the company Adriatic Slovenica received EUR 78,656 of dividends from Nama d. d. They were reimbursed in full on 10 July 2018.

Information on property and financial position of the companies within the Group

Company name in EUR	Assets		Capital		Revenues		Profit or loss for the	
Subsidiaries	**2018**	**2017**	**2018**	**2017**	**2018**	**2017**	**2018**	**2017**
PROSPERA družba za izterjavo d.o.o.	4,056,946	5,118,616	3,882,378	4,883,376	1,840,112	1,908,243	40,345	46,209
VIZ zavarovalno zastopništvo d.o.o.	93,636	23,723	77,247	6,763	185,084	111,234	40,483	(55,738)
Permanens d.o.o., Hrvaška	-	4,497	-	4,286	2,653	12,666	(856)	952
ZDRAVJE AS d. o. o.	362,810	395,434	196,628	228,642	379,177	256,394	(132,015)	(189,488)
KD IT d. o. o.	-	3,429,610	-	3,389,304	-	647,339	-	11,898
KD Skladi, d. o. o.	11,646,457	11,304,642	10,397,696	9,954,728	9,762,136	9,889,794	1,859,265	2,026,947
AGENT d. o. o.	292,557	254,845	191,984	94,066	2,086,536	367,073	97,918	(142,776)
Indirect subsidiary	**2018**	**2017**	**2018**	**2017**	**2018**	**2017**	**2018**	**2017**
KD Fondovi	303,107	234,235	298,387	222,726	261,604	249,963	77,059	75,334
KD Locusta Fondovi d.o.o.	1,201,751	1,294,282	897,858	996,405	1,103,784	1,410,206	202,747	265,164
Associates	**2018**	**2017**	**2018**	**2017**	**2018**	**2017**	**2018**	**2017**
Nama trgovsko podjetje d.d.	12,457,350	12,798,207	10,165,533	10,183,485	15,932,493	16,892,981	112,989	192,404
MEDIFIT d. o. o., Slovenija	152,591	-	109,423	-	5,314	-	(148,531)	-

For reporting purposes, the balance sheet data of the subsidiary KD Locusta d.o.o. are converted into euros at the reference exchange rate of the European Central Bank. The exchange rate as at 31 December 2018 was applied to convert the balance sheet items from Croatian kuna to euros, i.e. 7.4125 (31 December 2017: 7.4400), and the average annual rate of 7.4182 (2017: 7.4637) for the conversion of the income statement items. For 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 61.606 as at 31 December 2018 (on 31 December 2017: 61.618), while the income statement items were converted by using the average annual EUR/MKD exchange rate of 61.458 (2017: 61.458).

10.5 FINANCIAL INVESTMENTS

Despite record levels achieved by most stock indexes, 2018 ended with negative yields of stock markets and higher volatility, especially in the second half of the year. The worsened economic data in the euro area and increased geopolitical risks in the second half of the year had a negative impact on the fair values of the financial assets of the Company.

At the expense of good data generated by the US economy, the US FED tightened, over the course of the year, the monetary policy, which, after four rises in December, reached the level of 2.25 to 2.5 %. The pace of tightening of FED's monetary policy was one of the factors that had a negative impact on the addition of value on financial markets at the end of the year. In Europe, low interest rates remain. The European Central Bank (ECB) policy remains unchanged at zero percent, and is expected to remain so at least during the first half of 2019. With the new year, the bond purchase program on the open market will be concluded, while the principals of matured bonds will continue to be reinvested.

In the following text, we are presenting the position of investments as at 31 December 2018 per groups and compared to 2017 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 2018	31 Dec 2017
Equity securities	**268,556**	**289,899**
Listed securities	268,556	289,899
Debt securities	**7,525,333**	**6,284,345**
Listed securities	7,005,879	6,284,345
Government bonds	519,454	-
Derivative financial instruments	**(0)**	**243,537**
Derivatives for cash flow hedge	(0)	243,537
Total	**7,793,889**	**6,817,781**

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

(in EUR)	31 Dec 2018	31 Dec 2017
Equity securities	**562,724**	**566,527**
Listed securities	562,724	566,527
Debt securities	**1,037,404**	**1,084,782**
Government bonds	1,037,404	1,084,782
Total	**1,600,129**	**1,651,309**

The value of financial assets measured at fair value through profit or loss decreased in 2018, mainly due to purchases of debt securities.

Available-for-sale financial assets

In 2018, 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-listed securities from the past years valued at cost. Based on the expert assessment and internal accounting policies, in 2018 permanent impairment was made for the investment into listed equity securities for EUR 1,046,627, while there was no requirement for permanent impairment of investments into non-listed equity securities.

Available-for-sale financial assets

(in EUR)	31 Dec 2018	31 Dec 2017
Equity securities	**41,233,556**	**38,621,426**
Listed securities	20,258,253	17,321,234
Non-listed securities	20,975,302	21,300,192
Debt securities	**156,513,566**	**156,112,198**
Listed securities	27,995,963	27,314,000
Non-listed securities	3,891,193	3,969,183
Government bonds	124,626,410	124,829,015
Impairment of the value of securities	**(5,771,249)**	**(5,061,060)**
Total	**191,975,873**	**189,672,564**

As at 31 December 2018, available-for-sale assets were higher compared to the year before, mostly because of increased investment of the Company in equity non-listed securities.

Held-to-maturity financial assets

Held-to-maturity financial assets

(in EUR)	31 Dec 2018	31 Dec 2017
Debt securities	**29,628,993**	**31,417,539**
Listed securities	18,225,841	19,716,709
Government bonds	11,403,153	11,700,830
Total	**29,628,993**	**31,417,539**

The balance of debt securities of financial assets held to maturity decreased in 2018, 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 2018	31 Dec 2017
Debt securities		
– held-to-maturity	5.59%	5.63%

For the market value of the held-to maturity assets see Section 8, Table: Financial assets by fair value hierarchy.

Loans, deposits and financial receivables

Loans, deposits and financial receivables

(in EUR)	31 Dec 2018	31 Dec 2017
Loans	**28,746,033**	**25,869,131**
Long-term	3,105,240	11,431,643
Short-term	25,640,793	14,437,489
Deposits placed with banks	**5,864,753**	**1,187,597**
Long-term	271,093	847,730
Short-term	5,593,660	339,867
Financial receivables	**8,523,057**	**9,598,611**
Total	**43,133,843**	**36,655,339**

At the end of 2018, the loans increased by EUR 2,876,902 compared to the previous year. The structure of loans changed mainly according to maturity. Short-term loans increased by EUR 11,203,305, while long-term loans decreased by EUR 8,326,403. Deposits placed with banks increased by EUR 4,677,156, mainly on account of short-term deposits (EUR 5,253,793). As at 31 December 2018, the financial receivables amounting to EUR 8,523,057 represent an important part of these advances for securities purchases.

Effective interest rates on loans and deposits

in %	31 Dec 2018	31 Dec 2017
Long-term loans in		
- foreign currency	-	-
- local currency	5.09%	5.06%
Short-term loans in		-
- foreign currency	-	-
- local currency	4.10%	4.96%
Deposits placed with banks		-
Short-term deposits	0.39%	1.36%
Long-term deposits	2.29%	1.97%

Financial receivables

(in EUR)	31 Dec 2018	31 Dec 2017
Financial receivables arising from investment properties	118,524	5,551,172
Other financial receivables	8,404,533	4,047,439
Total	**8,523,057**	**9,598,611**

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 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**
	-	-	-	-	-	-
Balance as at 1 Jan 2018	**6,817,780**	**1,651,309**	**31,417,539**	**189,672,564**	**36,655,339**	**266,214,532**
Increases due to acquisition of companies	-	-	-	-	247,862	247,862
Exchange rate differences	1,321	9,334	2,259	94,342	58	107,314
Increase	2,835,497	9,513	54,731	57,245,123	435,931,592	496,076,456
Change of fair value (+/-) through profit or loss (market rates)	(878,913)	(46,509)	-	-	-	(925,422)
Change of fair value (+/-) through revaluation surplus (market rates)	-	-	-	(1,510,491)	-	(1,510,491)
Increase due to interest	536,034	33,949	1,679,462	2,205,022	1,274,163	5,728,629
Decrease	(1,517,831)	(57,468)	(3,524,997)	(55,730,686)	(430,975,171)	(491,806,153)
Balance as at 31 Dec 2018	**7,793,889**	**1,600,129**	**29,628,993**	**191,975,873**	**43,133,843**	**274,132,727**

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).

10.6 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. This investment class, with the exception of the pharmacy and healthcare sectors, which gained about four percent on an annual level, suffered a loss during the previous year. Minor losses of unit-linked life insurance policyholders were recorded by "more secure" investment classes of government and corporate bonds and money market.

Structure of unit-linked life insurance assets

(in EUR)	31 Dec 2018	31 Dec 2017
Financial assets measured at fair value through profit or loss - at initial recognition	**258,841,769**	**286,080,281**
Equity securities	205,929,558	230,673,439
Listed securities	205,929,558	230,673,439
Debt securities	52,912,211	55,406,842
Listed securities	52,912,211	55,406,842
Loans and deposits with banks	**15,286,017**	**18,493,850**
Loans	15,286,017	18,493,850
Monetary assets - deposits redeemable at notice	**-**	**404,000**
Total	**274,127,785**	**304,978,131**

The investments made for the benefit of unit-linked life insurance policyholders amounted to EUR 274,127,785. 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 736,068 and assets invested in BNP Paribas products totalled EUR 52,176,143. 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 2018	31 Dec 2017
Balance as at 1 Jan	**304,978,131**	**287,601,433**
Increase	39,449,455	56,747,808
Decrease	(45,028,304)	(60,464,169)
Change of fair value (+/-) through profit or loss (market rates)	(21,824,213)	20,917,162
Deposit placement	4,485,703	49,270,147
Deposit withdrawal	(8,099,160)	(49,058,107)
Accrued interest	87,000	110,903
Exchange rate differences	79,174	(147,046)
Balance as at 31 Dec	**274,127,785**	**304,978,131**

10.7 AMOUNT OF INSURANCE TECHNICAL PROVISIONS TRANSFERRED TO REINSURERS

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

(in EUR)	31 Dec 2018	31 Dec 2017
- from insurance contracts for incurred and reported claims	7,708,880	7,669,421
- from insurance contracts for incurred, but not reported claims	792,564	1,146,768
Total non-current part	**8,501,444**	**8,816,189**
- unearned premiums	500,030	1,013,968
- from insurance contracts for incurred and reported claims	5,525,168	7,049,266
- from insurance contracts for incurred, but not reported claims	376,886	824,768
Total current part	**6,402,084**	**8,888,002**
Total	**14,903,528**	**17,704,191**

10.8 ASSETS FROM FINANCIAL CONTRACTS

Assets from financial contracts

(in EUR)	31 Dec 2018	31 Dec 2017
Financial investments	10,492,757	7,928,201
Cash and cash equivalents	1,420,090	962,132
Total assets from investment contracts	**11,912,847**	**8,890,333**

The assets from financial contracts at the 2018 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 2018	31 Dec 2017
Financial assets measured at fair value through profit or loss - at initial recognition	**8,348,875**	**5,686,307**
Equity securities	6,380,143	4,846,613
Listed securities	6,380,143	4,846,613
Debt securities	1,968,733	839,694
Listed securities	390,251	403,988
Government bonds	1,578,482	435,706
Available-for-sale financial assets	**2,139,777**	**2,238,308**
Equity securities	1,550,550	1,647,658
Listed securities	1,550,550	1,647,658
Debt securities	589,227	590,650
Government bonds	589,227	590,650
Financial receivables	**4,104**	**3,585**
Total financial assets	**10,492,757**	**7,928,201**

Movement of assets from financial contracts

(in EUR)	2018	2017
Balance as at 1 Jan	**7,928,201**	**3,574,846**
Increase (purchase)	5,120,751	6,767,104
Change of fair value (+/-) through profit or loss (market rates)	(445,120)	212,513
Change of fair value (+/-) through revaluation surplus (market rates)	(34,324)	67,276
Increase due to interest	16,964	10,933
Decrease (sale)	(2,129,564)	(2,741,112)
Exchange rate differences	35,849	36,642
Balance as at 31 Dec	**10,492,757**	**7,928,201**

10.9 RECEIVABLES

Balance of receivables

(in EUR)	As at 31.12.2018	As at 31.12.2017
Receivables from direct insurance operations	**15,582,978**	**16,433,204**
gross value	22,965,131	24,129,328
value adjustment	(7,382,153)	(7,696,125)
Receivables from reinsurance and coinsurance	**1,169,663**	**2,165,701**
gross value	1,318,959	2,335,702
value adjustment	(149,296)	(170,001)
Income tax receivables	**0**	**2,261,714**
	-	-
OTHER RECEIVABLES	**2,837,617**	**2,460,621**
Other current receivables from insurance operations	**1,288,639**	**1,039,683**
gross value	1,308,001	1,119,923
value adjustment	(19,362)	(80,239)
Recourse receivables	**892,875**	**688,826**
gross value	3,126,273	2,790,461
value adjustment	(2,233,398)	(2,101,635)
Operating receivables from the state	**199,511**	**260,510**
gross value	199,511	260,510
Operating receivables for advances given	**181,686**	**122,456**
gross value	196,258	149,853
value adjustment	(14,572)	(27,397)
Other current operating receivables	**246,943**	**319,854**
gross value	862,647	883,633
value adjustment	(615,705)	(563,779)
Long-term receivables	**27,964**	**29,292**
Total receivables	**19,590,258**	**23,321,241**

Compared to the year before, the balance of receivables as at 31 December 2018 was lower by EUR 3,730,983 (or by 16%).

The receivables were lower mostly due to current tax (in the amount of EUR 2,261,714), which resulted from the overpayment of the advance payments for 2017 and the balance of receivables from reinsurance and co-insurance (EUR 996,038), which was at the end of 2017 mainly due to the settlement of some larger reinsured claims (e.g. claims arising from the reinsurance of the annual aggregate of claims as a result of the storms in 2017 and the termination of one of the major claims arising from motor third party liability) are accounted for. In the structure of receivables, receivables from direct insurance operations prevail with an 80% share. These are receivables from policyholders due to contractual insurance premium. As at the end of 2018, these receivables dropped by EUR 850,226 compared to the previous year.

Every reporting period, the Company checks the adequacy of fair value assessments – collectible value of receivables by preparing an estimate of the recoverable amount for an individual type of receivables based on actual realised cash flows in the last observed period (it applies to receivables from insurance premiums and subrogation receivables). If such data is not available, a projection is made based on other credible sources (see Section 5.9.).

Movements in value adjustments of receivables

(in EUR)	Receivables from insurance operations	Subrogations	Other receivables	Total
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**
Balance as at 1 Jan 2018	**7,866,126**	**2,101,635**	**671,416**	**10,639,176**
Changes during the year	(334,677)	131,763	(21,777)	(224,690)
Balance as at 31 Dec 2018	**7,531,449**	**2,233,398**	**649,639**	**10,414,486**

10.10 OTHER ASSETS

Other assets – total balance

(in EUR)	31 Dec 2018	31 Dec 2017
Inventories	-	10,669
Deferred acquisition costs	4,745,331	4,632,316
Deferred expenses and accrued revenues	560,052	633,182
Total	5,305,383	5,276,167

10.10.1 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 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**
Balance as at 1 Jan 2018	**123,979**	**4,508,338**
Utilised in 2018	33,218	3,554,083
Formed in 2018	53,216	3,647,099
Balance as at 31 Dec 2018	**143,977**	**4,601,354**

10.11 CASH AND CASH EQUIVALENTS

Cash and cash equivalents

(in EUR)	31 Dec 2018	31 Dec 2017
Balances on accounts	13,777,245	9,681,513
Short-term deposits placed (maturity date up to 3 months)	4,950,250	7,780,706
Other cash	205,355	168,392
Total	18,932,850	17,630,610

The effective interest rate in 2018 on call deposits was between 0.0% and 0.002% (2017: from 0.00% to 0.01%).

10.12 EQUITY

Balance of equity

(in EUR)	31 Dec 2018	31 Dec 2017
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)	**229,116**	**392,840**
Retained net profit	**29,656,212**	**28,614,486**
Net profit for the financial year	**8,855,684**	**11,449,372**
TOTAL	95,176,259	96,891,946

Share capital

As at 31 December 2018, the subscribed and fully paid in share capital of the 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 2018.

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 21 March 2018, the direct owner of Adriatic Slovenica and the sole shareholder decided on the distribution of accumulated profits for 2017. A part of the accumulated profits in the amount of EUR 10,304,407 was used for dividend payments. The rest of accumulated profits in the amount of EUR 29,759,451 remained unallocated and was transferred to the accumulated profits for 2018. Dividends were paid in full.

Ownership structure

As at 31 December 2018, KD Group d.d. held 10,304,407 shares, i.e. 100% of Adriatic Slovenica. The ownership structure remained unchanged in 2018.

Distribution of accumulated profit and loss coverage

Adriatic Slovenica ended 2018 with a profit before tax totalling EUR 10,287,873 and a net profit for the year amounting to EUR 8,855,628. 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 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 2018 the Management Board used the profit from previous years to cover the loss of the current year, namely

- to partially cover the loss for the current year of unit-linked investment insurance in the amount of EUR 7,892 and other health insurance in the amount of EUR 250,888,
- to cover the total loss of the current year of pension insurance at the time of payment of annuities in the amount of EUR 8,260 and pension insurance during the saving period in the amount of EUR 149

Accumulated profits

After covering the loss from the reporting year by using the profit from the previous year, the final balance of net profit for the year was EUR 8,855,684. Together with the unallocated profit brought forward from previous years amounting to EUR 29,656,212, the balance sheet profit as at 31 December 2018 to be distributed at the General Meeting of Shareholders amounted to EUR 38,511,895.

Other changes

Other changes in in 2018 include foreign exchange differences in the profit/loss carried forward of the Zagreb Branch in the amount of EUR 85,947.

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 2018 year-end, the Company did not change or form additional reserves from profit.

Capital reserves

As at 31 December 2018, 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 2018, 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 2018 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 2018	31 Dec 2017
Specific revaluation of equity	229,116	392,840
from reinforcement/impairment of available-for-sale financial assets	282,859	484,988
from adjustment for deferred taxes	(53,743)	(92,148)
Total revaluation surplus	**229,116**	**392,840**

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

(in EUR)	2018	2017
Balance as at 1 Jan	**392,841**	**58,661**
Profits (losses) recognised in revaluation surplus	(726,687)	2,403,414
Net change due to revaluation	(897,144)	2,967,177
Change in deferred taxes due to revaluation	**170,457**	**(563,764)**
Transfer of profits (losses) from revaluation surplus to profit or loss	**562,962**	**(2,069,234)**
Change in revaluation surplus transferred on disposal to profit or loss	(351,611)	(2,554,610)
Change in deferred taxes on realisation of revaluation surplus	66,806	485,376
Transfer of negative revaluation surplus to profit or loss on impairment	1,046,626	-
The change deferred taxes from impairments through profit or loss	(198,859)	-
Balance as at 31 Dec	**229,116**	**392,841**

10.13 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 2018 amounted to EUR 49,581,823. Bonds are recorded among non-life insurance in the amount of EUR 22,807,639 and life insurance in the amount of EUR 26,774,185. By 24 November 2018, the Company paid interest to the creditors in the amount of EUR 3,976,500.

Movements in issued bonds

(in EUR)	2018	2017
As at 1.1.	**49,525,147**	**49,453,316**
Accrued interest	4,032,676	4,025,330
Repayment interest	(3,976,000)	(3,953,500)
As at 31.12.	**49,581,823**	**49,525,147**

At their issue the bonds were listed on the Irish Stock Exchange. In the case of bankruptcy or liquidation of the 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. The bond can be recalled after five years.

10.14 INSURANCE TECHNICAL PROVISIONS

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

(in EUR)	Gross + received co-insurance as at 31.12.2018	Reinsurance + ceded co-insurance as at 31.12.2018	Net as at 31.12.2018	Gross + received co-insurance as at 31.12.2017	Reinsurance + ceded co-insurance as at 31.12.2017	Net as at 31.12.2017
Unearned premiums	43,304,240	447,054	42,857,185	42,396,717	962,859	41,433,858
Claims provisions for	103,259,636	14,201,227	89,058,409	103,620,255	16,457,399	87,162,855
- reported claims	54,524,262	13,031,776	41,492,486	55,775,809	14,485,863	41,289,946
- not reported claims	48,735,374	1,169,450	47,565,923	47,844,446	1,971,536	45,872,909
Provisions for bonuses and discounts	508,156	-	508,156	453,746	-	453,746
Mathematical provisions	225,650	-	225,650	172,372	-	172,372
Other insurance technical provisions	5,687	-	5,687	43,402	-	43,402
Total non-life insurance	**147,303,368**	**14,648,281**	**132,655,087**	**146,686,491**	**17,420,258**	**129,266,233**
Unearned premiums	6,326,315	-	6,326,315	6,774,128	-	6,774,128
Claims provisions for	5,744,942	-	5,744,942	5,406,298	-	5,406,298
- reported claims	975,411	-	975,411	622,147	-	622,147
- not reported claims	4,769,531	-	4,769,531	4,784,151	-	4,784,151
Provisions for bonuses and discounts	120	-	120	109	-	109
Mathematical provisions	77,873	-	77,873	40,136	-	40,136
Other insurance technical provisions	-	-	-	32,586	-	32,586
Total health insurance	**12,149,250**	**-**	**12,149,250**	**12,253,257**	**-**	**12,253,257**
Unearned premiums	375,654	52,976	322,678	355,159	51,109	304,050
Claims provisions for	5,119,340	176,786	4,942,554	5,191,131	232,824	4,958,308
- reported claims	1,779,270	176,786	1,602,484	1,901,406	232,824	1,668,582
- not reported claims	3,340,070	0	3,340,070	3,289,725	0	3,289,725
Mathematical provisions	109,990,102	-	109,990,102	107,377,776	-	107,377,776
Total life insurance with DPF	**115,485,096**	**229,762**	**115,255,334**	**112,924,066**	**283,933**	**112,640,133**
Total liabilities arising from insurance contracts	**274,937,714**	**14,878,043**	**260,059,671**	**271,863,814**	**17,704,191**	**254,159,623**

The disclosure of insurance technical provisions does not include claims provisions for unit-linked life insurance in the amount of EUR 1,445,645. 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 2018	Reinsurance 2018	Net 2018	Gross 2017	Reinsurance 2017	Net 2017
Movements in unearned premium						
Balance as at 1 Jan	**49,526,004**	**1,013,968**	**48,512,036**	**49,382,871**	**640,562**	**48,742,309**
Increase in liabilities	49,507,638	500,030	49,007,608	48,869,722	1,013,968	47,855,754
Decrease in liabilities	49,027,433	1,013,968	48,013,465	48,726,589	640,562	48,086,027
Balance as at 31 Dec	**50,006,208**	**500,030**	**49,506,178**	**49,526,004**	**1,013,968**	**48,512,036**
Movements in mathematical provisions						
Balance as at 1 Jan	107,590,283	-	107,590,283	107,250,524	-	107,250,524
Increase in the period	**15,307,262**	**-**	**15,307,262**	**15,210,091**	**-**	**15,210,091**
Decrease in the period	12,533,753	-	12,533,753	15,093,254	-	15,093,254
Change of current-year DPF part	(70,167)	-	(70,167)	222,923	-	222,923
Balance as at 31 Dec	**110,293,625**	**-**	**110,293,625**	**107,590,283**	**-**	**107,590,283**
Movements in claims outstanding						
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 1 Jan	**114,217,685**	**16,690,223**	**97,527,462**	**112,260,238**	**16,758,759**	**95,501,479**
Decrease in provisions due to payments	41,403,779	4,411,035	36,992,744	36,627,890	2,297,717	34,330,173
Change in provisions from preceding years +/-	(4,975,853)	1,559,224	(6,535,078)	(7,767,965)	(373,014)	(7,394,951)
Increase in provisions in the current year	46,285,866	539,601	45,746,265	46,353,303	2,602,196	43,751,108
Reported claims	**57,278,943**	**13,208,563**	**44,070,381**	**58,299,362**	**14,718,687**	**43,580,675**
Not reported claims	**56,844,976**	**1,169,450**	**55,675,525**	**55,918,323**	**1,971,536**	**53,946,787**
Balance as at 31 Dec	**114,123,919**	**14,378,013**	**99,745,906**	**114,217,685**	**16,690,223**	**97,527,462**
Movements in other insurance technical provisions						
Balance as at 1 Jan	**529,843**	**-**	**529,843**	**1,165,286**	**-**	**1,165,286**
Increase in the period	513,962	-	513,962	495,617	-	495,617
Decrease in the period	529,843	-	529,843	1,131,060	-	1,131,060
Balance as at 31 Dec	**513,962**	**-**	**513,962**	**529,843**	**-**	**529,843**

10.15 INSURANCE TECHNICAL PROVISIONS FOR UNIT-LINKED LIFE INSURANCE

Insurance technical provisions for unit-linked life insurance

(in EUR)	Gross + received co-insurance as at 31.12.2018	Reinsurance + ceded co-insurance as at 31.12.2018	Net as at 31.12.2018	Gross + received co-insurance as at 31.12.2017	Reinsurance + ceded co-insurance as at 31.12.2017	Net as at 31.12.2017
Claims provisions	1,445,645	25,485	1,420,159	1,336,512	-	1,336,512
- reported claims	1,445,645	25,485	1,420,159	1,336,512	-	1,336,512
Provisions for unit-linked life insurance policyholders	271,970,492	-	271,970,492	301,043,281	-	301,043,281
Total unit-linked life insurance	**273,416,137**	**25,485**	**273,390,652**	**302,379,792**	**-**	**302,379,792**

Movements in insurance technical provisions for unit-linked life insurance

(in EUR)	Gross 2018	Reinsurance 2018	Net 2018	Gross 2017	Reinsurance 2017	Net 2017
Movements in claims outstanding						
Reported claims	**1,336,512**	**-**	**1,336,512**	**1,836,888**	**-**	**1,836,888**
Balance as at 1 Jan	**1,336,512**	**-**	**1,336,512**	**1,836,888**	**-**	**1,836,888**
Decreased provisions due to payments	689,715	-	689,715	1,304,409	-	1,304,409
Change in provisions from preceding years +/-	(6,558)	-	(6,558)	(8,839)	-	(8,839)
Increase in provisions in the current year	805,406	25,485	779,921	812,872	-	812,872
Reported claims	**1,445,645**	**25,485**	**1,420,159**	**1,336,512**	**-**	**1,336,512**
Balance as at 31 Dec	**1,445,645**	**25,485**	**1,420,159**	**1,336,512**	**-**	**1,336,512**
Movements in provisions for unit-linked life insurance policyholders						
Balance as at 1 Jan	**301,043,281**	**-**	**301,043,281**	**282,619,438**	**-**	**282,619,438**
Increase in the period	13,605,602	-	13,605,602	57,262,561	-	57,262,561
Decrease in the period	42,678,390	-	42,678,390	38,838,717	-	38,838,717
Balance as at 31 Dec	**271,970,492**	**-**	**271,970,492**	**301,043,281**	**-**	**301,043,281**

10.16 LIABILITIES ARISING FROM FINANCIAL CONTRACTS

Liabilities arising from financial contracts

(in EUR)	31 Dec 2018	31 Dec 2017
Liabilities to pension savers (policyholders)	11,886,157	8,865,381
Liabilities from financial contracts for payments	12,097,380	8,523,199
Liabilities from financial contracts for fund return	(211,223)	342,182
Other liabilities	26,690	24,952
Total liabilities from financial contracts	**11,912,847**	**8,890,333**

As at 31 December 2018, savers' payments amounted to EUR 12,097,308 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 2018, EUR 29,274 (last year: 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)	2018	2017
As at 1 January	**8,865,381**	**4,735,916**
Increase in the period	**3,311,429**	**4,395,273**
for payments	3,856,506	4,091,488
for achieved return	(545,077)	303,785
Decrease in the period	**290,653**	**265,808**
for payouts (surrender)	282,325	263,640
for achieved return	8,328	2,168
As at 31 December	**11,886,157**	**8,865,381**

Annual gain of savers for which the liability of the Company increases varied in 2018 depending on the type of AS pension savings:

- (-6.44%) for the guarantee fund Pokojninsko varčevanje AS Drzni do 50 (pension fund),
- (-3.75%) for the guarantee fund Pokojninsko varčevanje AS Umirjeni med 50 do 60 (pension fund),
- (-1.76%) achieved (0.72% 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 0.72%. Since the guaranteed return was not achieved in 2018, the Company (as a pension insurance manager) formed long-term liabilities of EUR 66,481 charged to own fund life insurance assets, in line with the Pension and Disability Insurance Act (ZPIZ-2).

10.17 OTHER PROVISIONS

10.17.1 Other provisions

(in EUR)	31 Dec 2018	31 Dec 2017
Provisions for termination benefits	4,801,781	4,428,951
Provisions for jubilee benefits	2,950	2,950
Total	**4,804,731**	**4,431,901**

10.17.2 Provisions for employee benefits

Provisions for employee benefits

(in EUR)	31 Dec 2018	31 Dec 2017
Provisions for employee benefits	1,651,265	1,547,291
Other non-current provisions	3,150,516	2,881,660
Total	**4,801,781**	**4,428,951**

Movements in provisions for employee benefits

(in EUR)	2018	2017
As at 1.1.	**4,428,951**	**3,813,150**
Increase in current period	370,412	387,506
Decrease due to paid provisions for termination and jubilee benefits	(388,578)	(350,265)
Actuarial gains and losses	390,996	578,560
Adjustments arising from past experience	319,493	163,160
Effect of change of assumptions	71,503	415,400
As at 31 December	**4,801,781**	**4,428,951**

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 2018 used different assumptions about the discount rate and expected increase in salaries than in the calculation for 2017, 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: the risk free interest rate curve ECB (European Central Bank) Euro area yield curve: AAA-rated euro area central government bonds dated 30 November 2018 is used to calculate the present value of the future cash flows (31 December 2017: 1,007%),
- the expected increase in salaries in the Company, including the expected increase in salaries due to promotions of 3.6% (31 December 2017: 2.2%),
- the expected mortality is determined based on Slovene mortality tables from 2007 (the same as at 31 December 2017),
- 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 2017).

The provision amounts in 2018 include taxes and contributions. The effect of changes in assumptions amounted to EUR 71,503.

Analysis of sensitivity to changes in parameters

Parameters	Parameter changes	2018	2017
Discount rate	discount curve move by +0,25%	(113,676)	(84,965)
	discount curve move by -0,25%	118,020	88,256
Salary increase	change in annual salary increase by +0,5%	233,995	161,787
	change in annual salary increase by -0,5%	(219,561)	(146,777)
Mortality	permanent increase in mortality by +20%	(44,863)	(33,842)
	permanent increase in mortality by -20%	45,610	34,465
Early termination of employment	expense curve move by +20%	(476,241)	(354,273)

10.17.3 Other long-term provisions

Movements in other long-term provisions

(in EUR)	2018	2017
As at 1.1.	**2,950**	**2,000**
Increase in current period (formation)	-	950
As at 31.12.	**2,950**	**2,950**

10.18 OTHER FINANCIAL LIABILITIES

Movements in loans and other current financial liabilities

(in EUR)	2018	2017
Balance as at 1 Jan	**430,815**	**1,046,383**
Increase	401,026,636	735,743,714
Decrease	(400,974,389)	(736,359,282)
Balance as at 31 Dec	**483,062**	**430,815**

The balance of loans and other current financial liabilities as at 31 December 2018 amounted to EUR 483,062. As at 31 December 2018, financial liabilities comprised an interest rate swap - IRS, which shows a negative value of EUR 429,961. This is intended to hedge the variable part of the interest rate of the bond issued by the Company (ADRIS Float 05/24/26) and is valued at fair value.

At the year-end, the Company had settled all liabilities for loans received in previous years.

10.19 OPERATING LIABILITIES

Adriatic Slovenica has no secured liabilities.

Operating liabilities

(in EUR)	31 Dec 2018	31 Dec 2017
Liabilities arising from direct insurance contracts	3,919,407	5,267,178
Liabilities arising from reinsurance and co-insurance	2,246,026	2,162,271
Tax liability	937,811	0
Total	**7,103,243**	**7,429,450**

Compared to 2017, the operating liabilities decreased by EUR 326,206 or by 4%, mainly as a result of lower liabilities arising from direct insurance contracts (by EUR 1,347,771). At 2017 year-end, these liabilities were exceptionally higher due to the marketing of a new investment insurance Aktivni AS late that year. The liabilities for this producet were settled in early 2018. At the 2018 year-end, the Company did not have comparable marketing campaigns, so the balance of outstanding liabilities at the end of 2018 is comparable to the situation before 2017.

For 2018, the Company accounted current tax liabilities at a 19% tax rate. At the end of the year, after the accounting of the income tax, the tax liability for 2018 amounted to EUR 937,811.

10.20 OTHER LIABILITIES

Other liabilities

(in EUR)	31 Dec 2018	31 Dec 2017
Other operating (trade) liabilities	8,404,841	11,178,449
Accrued costs/expenses and deferred revenues	4,106,474	4,733,980
Total	**12,511,315**	**15,912,429**

10.20.1 Other operating liabilities

Other operating liabilities

(in EUR)	31 Dec 2018	31 Dec 2017
Long-term operating liabilities	**70,982**	**15,631**
Other long-term operating liabilities	70,982	15,631
Current operating liabilities	**8,333,860**	**11,162,818**
Current operating liabilities to suppliers	2,146,487	2,596,193
Current operating liabilities to employees	2,419,642	2,392,246
Other current liabilities from insurance operations	2,932,178	4,119,045
Current operating liabilities to the state (except for income tax)	468,895	1,073,671
Current liabilities for received advances	3,287	3,287
Other current operating liabilities	363,370	978,375
Total	**8,404,841**	**11,178,449**

As at the 2018 year-end, other operating liabilities decreased by EUR 2,773,607 (by 25 %) compared to the previous year. The decrease is mainly due to a decrease in short-term liabilities from insurance operations of EUR 1,186,867. These short-term 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 743,414; last year: EUR 1,061,131),
- the liabilities for sales tax on insurance operations (in the amount of EUR 945,883; last year EUR 807,104),
- liabilities to other insurance companies from equalisation scheme for complementary health insurance (in the amount of EUR 474,274; last year: EUR 599,614),
- fire tax liability (in the amount of EUR 110,953; last year: EUR 107,964), and predominantly to
- liabilities for the repayment of reinsurance commissions advances. These liabilities amount to EUR 594,571; last year: EUR 1,443,742.

Compared to the previous year, there was a decrease 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 2018 to 31 December 2018, the claims ratio of reinsurance (for which the liability for the advance was established in 2017) improved and the liability for the reinsurance commissions advances decreased. In addition, the liabilities to the Slovene Insurance Association for contributions for coverage of claims for damage on unknown and uninsured vehicles and vessels went down by EUR 317,718.

The long-term operating liabilities of the Company include the long-term liability in the amount of EUR 66,481 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 10.16). Other long-term liabilities become due and payable sooner than in five years.

10.20.2 Accrued costs and deferred revenue

Accrued costs and deferred revenue

(in EUR)	31 Dec 2018	31 Dec 2017
Accrued expenses - operating	731,586	490,328
Accrued expenses - for unused annual holidays	1,334,125	1,321,173
Accrued expenses – acquisition costs and unexpired commissions	650,821	673,865
Accrued expenses from equalisation scheme for supplementary health insurance	539,033	767,478
Other deferred and accrued items	850,909	1,481,136
Total	**4,106,474**	**4,733,980**

10.21 REVENUE

10.21.1 Premium revenue from insurance contract

Net premium revenue from insurance contracts in 2018

(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	39,454,707	(852,001)	23,493	(6,508)	38,619,691
Land motor vehicle insurance	36,231,684	(1,531,518)	(756,373)	-	33,943,793
Accident insurance	17,657,512	(115,063)	(117,959)	(162,320)	17,262,169
Fire and natural forces insurance	17,471,466	(3,049,742)	(273,101)	(276,142)	13,872,481
Other damage to property insurance	13,101,761	(1,176,517)	(117,445)	(71,506)	11,736,292
General liability insurance	9,213,747	(773,184)	(109,135)	(2,939)	8,328,489
Credit insurance	(2,965)	-	157,711	-	154,746
Other non-life insurance, excluding health insurance	8,640,224	(625,902)	285,286	3,610	8,303,218
Insurance contracts for non-life insurance, excluding health insurance	**141,768,135**	**(8,123,928)**	**(907,523)**	**(515,804)**	**132,220,880**
	-	-	-	-	-
Health insurance contracts	**99,693,576**	**-**	**447,813**	**-**	**100,141,389**
Life insurance	22,402,748	(2,128,446)	(20,495)	1,867	20,255,674
Unit-linked insurance contracts	36,581,743	(2,882)	-	-	36,578,861
Life insurance contracts	**58,984,490**	**(2,131,328)**	**(20,495)**	**1,867**	**56,834,535**
Total	**300,446,201**	**(10,255,255)**	**(480,205)**	**(513,938)**	**289,196,804**

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**

10.21.2 Financial revenue and expenses from investments and investments in associates

Financial revenue and expenses from investments

(in EUR)	2018	2017
Income from financial investments measured at FVTPL	**2,098,212**	**25,023,460**
Held for sale	43,283	173,599
Dividends	-	69
Interest and net exchange differences	43,283	164,726
Net sales income	-	12
Revaluation income	-	8,792
At initial recognition	2,054,929	24,849,861
Dividends	68,079	110,903
Interest and net exchange differences	703,527	(133,102)
Net sales income	1,283,322	3,937,463
Revaluation income	-	20,934,597
Income from financial investments held to maturity (HTM)	**1,728,803**	**1,971,954**
Interest and net exchange differences	1,681,721	1,971,954
Sales income	47,082	-
Income from financial investments available-for-sale (AFS)	**4,899,695**	**6,374,918**
Dividends	1,414,569	1,258,702
Interest and net exchange differences	2,299,363	2,209,172
Sales income	1,185,763	2,907,045
Income from loans and receivables	**3,007,279**	**3,417,232**
Interest	1,509,662	1,514,222
Net exchange differences	302,750	656,375
Other income	1,194,868	1,246,635
INCOME FROM INVESTMENTS	**11,733,989**	**36,787,565**
Income from investments - associates	78,656	-
Income from investments - subsidiaries	1,502,443	2,244,354
INCOME FROM INVESTMENTS IN SUBSIDIARIES AND ASSOCIATES	**1,581,099**	**2,244,354**
Expenses for financial investments measured at FVTPL	**(22,459,124)**	**(83,126)**
Held for sale	(46,509)	(64,533)
Net sales expenses	-	(49,595)
Revaluation expenses	(46,509)	(14,938)
At initial recognition	(22,412,615)	(18,594)
Revaluation expenses	(22,412,615)	(18,594)
Expenses for financial investments available-for-sale (AFS)	**(1,880,778)**	**(352,434)**
Realised losses	(834,152)	(352,434)
Impairment	(1,046,626)	-
Expenses - derivatives	**(1,122,639)**	**(103,185)**
EXPENSES FOR INVESTMENTS	**(25,462,541)**	**(538,745)**
Net financial result - investments measured at FVTPL	**(20,360,912)**	**24,940,334**
Net financial result - investments held to maturity (HTM)	**1,728,803**	**1,971,954**
Net financial result - available-for-sale investments (AFS)	**3,018,917**	**6,022,485**
Net financial result - derivatives	**(1,122,639)**	**(103,185)**
Net financial result from loans and receivables	**3,007,279**	**3,417,232**
Net financial result - investments in subsidiaries and associates	**1,581,099**	**2,244,354**
NET FINANCIAL RESULT FROM INVESTMENTS	**(12,147,454)**	**38,493,174**

Financial revenue and expenses also include net financial revenue/expenses for unit-linked insurance. In 2018, the net financial result of these investments was negative and amounted to EUR (20,176,878). In the same period, the insurance technical provisions for these funds decreased; it is therefore important to take into account the change of insurance technical provisions which affect the realistic display of results of profit or loss in funds for unit-linked life insurance. The change in these insurance technical provisions (see Section 10.15) in 2018 represents a provision lower by EUR 28,989,141 thus improving the final result for the same amount.

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

(in EUR)	2018	2017
Realised profits	-	17,030
Unrealised profits	26,149	35,161
Realised losses	-	(66,612)
Unrealised losses	(72,657)	(41,307)
Total	**(46,509)**	(55,729)

Net gains/losses on financial assets at initial recognition through profit or loss

(in EUR)	2018	2017
Realised profits	2,839,229	4,767,120
Unrealised profits	174,303	20,994,937
Realised losses	(1,555,906)	(829,657)
Unrealised losses	(22,586,918)	(78,933)
Total	**(21,129,293)**	24,853,467

Net gains/losses on financial assets at initial recognition through profit or loss pertaining to unit-linked life insurance resulted in the loss of EUR (20,540,889) (profit in 2017EUR 23,452,940).

Impairment of securities of available-for-sale financial assets

(in EUR)	2018	2017
Equity securities	1,046,627	-
Total	**1,046,627**	-

Within the “available-for-sale financial assets” permanent impairment was made for the amount of EUR 1,046,627, of which EUR 1,003,711 in relation to equity securities and EUR 42,916 in relation to mutual funds.

Within the “held-to-maturity financial assets”, there were no permanent impairments of investments made in 2018.

10.21.3 Other insurance revenue

Other insurance revenue

(in EUR)	2018	2017
Revenue from insurance contracts	**1,829,722**	2,224,846
Revenues from reinsurance fees/commissions and from shares in positive technical result	1,666,280	2,114,297
Revenues from front-end/entry costs for insurance contracts	1,526	26,207
Other fee income for management of insurance contracts	161,915	84,342
Revenue from investment contracts	**31,944**	31,677
Revenue from investments contracts for administration (entry fees)	27,747	-
Other fee income for management of investment contracts	4,197	31,677
Total fee and commission revenue	**1,861,666**	2,256,523

Other insurance revenue consists mainly of revenue from reinsurance commissions from participation in the positive technical result from individual reinsurance contracts. Revenue from reinsurance contracts decreased in 2018 by EUR 448,017, due to the change of reinsurance protection from proportional to non-proportional. There is no fee and commission revenue in the case of non-proportional reinsurance,

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.

10.21.4 Other revenue

Other revenue

(in EUR)	2018	2017
Other net insurance revenues	1,413,618	1,260,408
Revaluation operating revenues	1,369,111	907,182
Excess on acquisitions	11,069	-
Other financial and other revenues	2,661,756	5,077,221
Total	**5,455,553**	7,244,811

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

Other net insurance revenue

(in EUR)	2018	2017
Revenue for management of insurance contracts	21,627	58,643
Revenue from insurance services provided to foreign insurance companies	466,858	417,839
Revenue from rent on parking lot and cars	137,941	152,812
Revenue from Green Card sales	413,876	421,992
Revenue from other services	373,316	209,123
Total	**1,413,618**	**1,260,409**

Revaluation operating revenue

Revaluation operating revenue mostly originate from the reversal of impairment of receivables (of premium receivables, subrogation receivables, other receivables and financial receivables) in the amount of EUR 1,343,130, from the write-off of liabilities from previous years in the amount of EUR 23,714 and revenue from the sales of property, plant and equipment in the amount of EUR 2,266.

At 2018 year-end, the Company recorded higher such revenue (by EUR 461,928), due to higher revenue from revaluation of financial receivables (see Section 10.25).

Other financial and other revenue

Compared to the previous year, other financial and other revenue decreased by EUR 2,415,465, which was mainly due to lower other financial revenue (this year: EUR 37,247; last year: EUR 1,416,806), arising from revaluation of loans given to Fondpolica policyholders due to changes in market quotations At the end of 2018, mostly other financial expenses were recognized from the revaluation of these loans (see Section 25.10).

In the group of other financial revenue, the predominant is revenue from rental revenue from investment property amounting to EUR 1,809,928 (in 2017: EUR 2,388,580) and which are lower compared to the same period last year by EUR 578,652 or by 24.2%.

10.22 NET CLAIMS INCURRED

Net claims incurred in 2018

(in EUR)	Gross claims settled	Revenues from recourse receivables	Share of reinsurance/ coinsurance in claims/ benefits paid	Change in gross outstanding claims provisions	Change in outstanding claims provisions for reinsurance/ coinsurance share	Expenses from equalisation scheme	Net expenses for claims/ benefits paid
Motor vehicle liability insurance	27,463,540	(682,102)	(930,878)	(1,205,209)	175,428	-	24,820,781
Land motor vehicles insurance	27,000,126	(655,541)	(761,875)	(794,267)	638,360	-	25,426,804
Accident insurance	7,996,142	-	(147,523)	(73,438)	94,799	-	7,869,980
Fire and natural disasters Insurance	8,329,279	(19,581)	(2,141,289)	(1,058,971)	1,456,504	-	6,565,941
Other damage to property insurance	7,940,216	(51,675)	(437,220)	(244,293)	32,045	-	7,239,074
General liability insurance	2,984,673	(34,363)	(18,249)	2,074,904	(138,321)	-	4,868,646
Credit insurance	46,398	(56,634)	-	(3,014)	-	-	(13,250)
Other non-life insurance, excluding health insurance operations	5,583,700	(372,931)	(566,352)	943,668	(2,644)	-	5,585,441
Non-life insurance contracts, excluding health insurance contracts	**87,344,075**	**(1,872,826)**	**(5,003,387)**	**(360,619)**	**2,256,172**	**-**	**82,363,417**
Health insurance contracts	**86,641,769**	**(54,950)**	**-**	**338,644**	**-**	**1,931,894**	**88,857,358**
Life insurance	13,546,430	-	(681,661)	(71,791)	56,037	-	12,849,015
Unit-linked insurance contracts	32,817,567	-	-	109,133	(25,485)	-	32,901,215
Additional pension insurance PN-A01	634,486	-	-	-	-	-	634,486
Insurance contracts and investment life insurance contracts	**46,998,483**	**-**	**(681,661)**	**37,342**	**30,552**	**-**	**46,384,716**
Total	**220,984,328**	**(1,927,775)**	**(5,685,048)**	**15,366**	**2,286,725**	**1,931,894**	**217,605,489**

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 classified into expenses for the current year and expenses for previous years

(in EUR)	Gross 2018	Reinsurance 2018	Net 2018	Gross 2017	Reinsurance 2017	Net 2017
Expenses for claims and benefits paid for current year	**225,039,847**	**1,839,099**	**223,200,748**	**233,050,241**	**4,236,209**	**228,814,032**
Claims and benefits paid	176,016,681	1,274,013	174,742,668	182,999,829	1,634,014	181,365,816
Change in outstanding claim provisions	47,091,272	565,086	46,526,186	47,166,175	2,602,196	44,563,980
Expenses from equalisation scheme	1,931,894	-	1,931,894	2,884,237	-	2,884,237
Expenses for claims and benefits paid for previous years	**(4,036,034)**	**1,559,224**	**(5,595,258)**	**(7,000,186)**	**(373,014)**	**(6,627,171)**
Claims and benefits paid	43,039,872	4,411,035	38,628,836	38,708,918	2,297,717	36,411,201
Change in outstanding claim provisions	(47,075,905)	(2,851,811)	(44,224,094)	(45,709,104)	(2,670,731)	(43,038,372)
Total	**221,003,814**	**3,398,323**	**217,605,490**	**226,050,056**	**3,863,195**	**222,186,861**

10.23 COSTS

10.23.1 Costs by natural group

(in EUR)	2018	2017
Operating costs for material	933,645	885,683
Acquisition costs	23,649,761	23,882,186
Operating costs for services	16,545,480	17,620,199
Depreciation/amortisation	3,275,294	2,897,415
Labour costs	**30,957,155**	**30,453,302**
Payroll – wages and salaries	21,760,083	21,423,098
Social security costs	1,792,553	1,730,268
Pension insurance costs	2,086,575	2,043,657
Other labour cost	4,595,374	4,484,320
Provisions for termination benefits and jubilee benefits	722,570	771,959
Total	**75,361,334**	**75,738,785**

Compared to the previous year, the operating costs are lower by EUR 377,451. This decrease was mainly contributed by operating costs for services (lower by EUR 1,074,719) mainly due to lower costs for trade fairs, advertisements and representation expenses (by EUR 556,504), followed by lower costs for intellectual and personal services (by EUR 500,001), and lower assets rents and maintenance costs (by EUR 421,427).

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.

10.23.2 Costs by functional group

(in EUR)	2018	2017
Costs related to acquisition of insurance and investment contracts	23,675,753	23,673,588
Costs related to financial asset management	1,887,442	2,277,603
Costs related to PPE management	473,760	375,899
Other costs for management fees	8,253,852	3,452,285
Costs of sale	16,558,975	20,414,611
Other costs/expenses	17,799,725	19,462,697
Total costs/expenses by functional groups	**68,649,506**	**69,656,683**

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 2018, these costs totalled EUR 6,711,828 (2017: EUR 6,082,103). Together with the transfer of a part of other expenses relating to direct claims handling costs in the amount of EUR 32,650 (2017: EUR 46,532), there were EUR 6,744,478 transferred to gross claims incurred (2017: EUR 6,128,634).

10.23.3 Labour costs of own agents

(in EUR)	2018	2017
Labour costs	8,447,937	8,232,943
Wages and salaries	6,502,212	6,240,851
Social security costs	391,945	419,372
Pension insurance costs	593,422	583,428
Other labour cost	960,358	989,293
Costs of services provided by private individuals	189,995	241,043
Total	**8,637,932**	**8,473,986**

10.23.4 Auditor's remuneration

The audit of the annual financial statements of Adriatic Slovenica for 2018 was performed by the audit firm Ernst & Young d. o. o., while for 2017 the audit 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., also in 2017.

Fees paid for auditor's services

(in EUR)	2018	2017
Statutory audit of the annual report	91,500	103,503
Other audit services	45,684	49,328
Tax counselling services	-	-
Other non-audit services	164,244	19,564
Total fees for independent auditor's services	301,428	172,395

10.24 OTHER INSURANCE EXPENSES

Other insurance expenses

(in EUR)	2018	2017
Expenses for preventive activities	888,688	861,303
Contribution for covering losses caused by uninsured and unknown vehicles	(201,400)	145,205
Other net insurance expenses	1,916,377	2,798,688
Total	**2,603,665**	**3,805,195**

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 2018, 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 third-party liability insurance. . In 2017, the Company paid to the SZZ more than it was subsequently determined, thus earning a credit in 2018

Other net insurance expenses are in volume the largest part of other insurance expenses and compared to the previous year they went down by EUR 882,311 due to lower expenses for car assistance following the termination of cooperation with the contracting party Assistance Coris d.o.o.

Other net insurance expenses are mainly generated by significant expenses, such as:

- subrogation receivables write-offs, receivables write-offs from insurance premiums and write-offs of other receivables in the amount of EUR 972,264 (2017: EUR 1,052,853),
- expenses of supervisory bodies in the amount of EUR 468,733 (2017: EUR 452,794), and
- insurance expenses for car assistance in the amount of EUR 25.499 (2017: EUR 1,180,942),

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 2018, compared to 2017, the amount of write-offs of receivables from insurance cases and subrogation receivables is lower.

10.25 OTHER EXPENSES

Other expenses

(in EUR)	2018	2017
Revaluation operating expenses	**369,549**	**1,152,907**
Expenses for investment properties	**1,585,258**	**3,710,112**
Depreciation of investment properties	335,582	357,483
Impairment - investment properties	78,951	1,690,184
Other expenses for investment properties	1,170,726	1,662,445
Depreciation of property, plant and equipment not intended for insurance activities	**175,527**	**231,536**
Other operating expenses	**2,947,806**	**2,505,751**
Finance expenses	**6,424,015**	**5,261,325**
Total	**11,502,156**	**12,861,631**

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 783,358 mainly due to lower impairments of intangible assets (expenses lower by EUR 625,261). In the year 2018, the Company substantially impaired the material rights it had been accounting under intangible assets since 2013.

Compared to the year before, investment property expenses were down by EUR 2,124,854, mainly due to expenses for impairment of investment property (buildings and equipment). In 2018, impairment was made with regard to two investment properties whose expenses for impairment totalled EUR 78,951 (2017: EUR 1,690,184) (see Sections 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)	2018	2017
Payments for charity and cultural purposes	141,373	93,953
Benefits not depending on operating profit or loss	142,699	137,126
Financial penalties and compensations	737,912	1,059,202
Operating expenses	745,050	711,581
The rest of other operating expenses	1,180,772	503,889
Total	**2,947,806**	**2,505,751**

Compared to the previous year, other operating expenses went up by EUR 442,055, mainly due to the rest of other operating expenses, which increased by EUR 676,883 mainly due to write-offs of receivables arising from outstanding rents (for the amount of EUR 967,181). In 2018 and under the same heading, impairments of receivables formed by the insurance company in previous periods were derecognised and revaluation revenues in the amount of EUR 984,114 were recognized (see revaluation operating revenue in chapter 10.21.4). The net effect between revenues and expenses under this heading had a positive effect on the result of EUR 16,933.

In the reporting period, the parent company received a judgment of the Supreme Court related to the already paid action of Pozavarovalnica Sava d.d. The revision of the judgement was unfavourable for the parent company Adriatic Slovenica d. d, since the revision of the parent company Adriatic Slovenica d. d. was declined, while the revision of Pozavarovalnica Sava Re. was granted in the remaining part of the claim, consequently the parent company Adriatic Slovenica d. d. was obliged to pay, in addition to the already paid amount to Pozavarovalnica Sava d. d., an amount of EUR 720,313. The judgment was fully met.

In this group of expenses, a large portion are operating expenses which consist mainly of administrative and court fees, as well as membership fees to the Chamber of Commerce and various association.

Financial Expenses

(in EUR)	2018	2017
Finance expenses for interest - issued bonds	4,032,676	4,025,330
Finance costs - interest	94	622
Other financial expenses	2,391,244	1,235,373
Finance expenses arising from other financial liabilities	1,247,947	-
Finance expenses arising from other financial liabilities	593	1,666
Finance expenses arising from operating liabilities	1,142,704	1,233,707
Total	**6,424,015**	**5,261,325**

Financial expenses are higher by EUR 1,162,690 compared to the previous year, due to higher finance expenses from other financial liabilities. These expenses are generated mostly by revaluation of loans given to policyholders of Fondpolica due to due to changes in market quotations at revaluation.

Among financial expenses, 63% are interest expenses, which are regularly paid by the Company to creditors of the subordinated debt. In 2018, there were EUR 4,032,676 of accrued interests generated under this heading (last year EUR 4,025,330).

A large portion of financial expenses is represented by other financial expenses arising from operating liabilities, generated mostly by other investment expenses, such as purchasing commissions (amounting to EUR 452,516, last year EUR 441,339), other interest expenses (amounting to EUR 434,153, last year: EUR 112,101) and negative foreign exchange differences from abroad (amounting to EUR 228,574, last year EUR 650,446).

10.26 REINSURANCE RESULT

Reinsurance result in the table below shows the net reinsurance result by insurance type.

Reinsurance result for non-life insurance in 2018

Insurance class in EUR	Reinsurance premiums	Reinsurance claims	Change in reinsurance unearned premium	Change in reinsurance claims provisions	Reinsurance commissions	Net reinsurance result
Accident insurance	(115,063)	147,523	(162,320)	(94,799)	79,493	(145,167)
Land motor vehicle insurance	(1,531,518)	761,875	-	(638,360)	393,856	(1,014,148)
Marine loss insurance	(43,760)	-	-	-	-	(43,760)
Transportation (goods in transit) insurance	(214,160)	93,080	-	1,984	13,321	(105,775)
Fire and natural disaster insurance	(2,903,317)	2,139,995	(282,848)	(1,374,678)	114,564	(2,306,283)
Other damage to property insurance	(1,154,259)	432,929	(70,679)	(31,781)	35,851	(787,939)
Motor third party liability insurance (MTPL)	(852,001)	930,878	(6,508)	(175,428)	419,180	316,121
Aircraft liability insurance	(5,415)	-	210	-	861	(4,343)
Ship/boat liability insurance	(46,002)	-	0	-	-	(46,002)
General liability insurance	(735,188)	16,195	(1,668)	144,312	37,412	(538,937)
Suretyship insurance	(134,741)	66,193	8,854	533	53,335	(5,826)
Miscellaneous financial loss insurance	(171,979)	406,636	(5,439)	33,825	5,739	268,782
Legal expenses insurance	(9,469)	510	-	-	8,898	(61)
Insurance of assiistance	-	(78)	-	-	26,987	26,910
Total non-life insurance	**(7,916,872)**	**4,995,737**	**(520,397)**	**(2,134,391)**	**1,189,497**	**(4,386,428)**

Reinsurance result for non-life insurance in 2017

Insurance class in EUR	Reinsurance premiums	Reinsurance claims	Change in reinsurance unearned premium	Change in reinsurance claims provisions	Reinsurance commissions	Net reinsurance result
Accident insurance	(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 third party 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 assiistance	-	(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)**

10.27 CORPORATE INCOME TAX

Taxes

(in EUR)	2018	2017
Corporate income tax charge	(952,238)	(15,121)
Deferred tax income/(expense)	(480,007)	(2,064,284)
Total	**(1,432,245)**	**(2,079,405)**

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

(in EUR)	2018	2017
Profit or loss before taxation	**10,287,873**	**13,528,810**
Rate used for income tax calculation	19	19
Tax calculated by using official tax rate	(1,954,696)	(2,570,474)
Income excluded from the tax base and other reductions in the tax base	**1,635,478**	**3,937,926**
Expenses not recognised in the tax base and other increases in the tax base	**(1,459,912)**	**(1,521,282)**
Use of tax allowance in the current year	**826,892**	**138,709**
Changes in deferred taxes in the income statement	**(480,007)**	**(2,064,284)**
Increase of deductible temporary differences	17,535	-
Decrease of deductible temporary differences	-	(2,221,740)
Decrease of tax loss carry forwards	(93,571)	-
Increase of tax credits carry forwards	-	157,457
Decrease of tax credits carry forwards	(403,972)	-
Profit or loss after taxation	**(1,432,245)**	**(2,079,405)**
Effective tax rate (in %)	**13.92**	**15.37**

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 2018, 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 2018 is 13.92% (in 2017 the effective tax rate was 15.37 %).

According to local tax legislation in Slovenia, the applicable tax rate in 2018 was 19% (the same as in 2017).

10.28 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 2018	31 Dec 2017
Deferred tax assets	**3,495,828**	**4,014,638**
– receivables for deferred tax to be recovered	3,495,828	4,014,638
Deferred tax liabilities	**(0)**	**171,035**
– liabilities for deferred taxes pending payment	(0)	171,035

Deferred tax receivables

Compared to the year before, in 2018 deferred tax receivables went down by EUR 518,810 (or by 13%), mainly due to release of deferred tax receivables arising from tax credits.

Overview of bases for deferred tax receivables

(in EUR)	Base 2018	Reinsurance 2018	Base 2017	Reinsurance 2017
Due to impairment/value adjustments of receivables for premiums, for recourse receivables and for other current receivables	10,032,670	1,906,207	11,133,135	2,115,296
Due to impairment/value adjustments of financial investments	6,151,352	1,168,757	5,833,559	1,108,376
Due to impairment/value adjustments of provisions, provisions for relief and depreciation above the statutory rate	2,215,074	420,864	4,162,978	790,966
Total	**18,399,096**	**3,495,828**	**21,129,672**	**4,014,638**

Overview of bases for deferred tax liabilities

(in EUR)	Base 2018	Deferred tax liability 2018	Base 2017	Deferred tax liability 2017
Due to reversal of impairment of financial investments	(0)	(0)	900,182	171,035
Total	**(0)**	**(0)**	**900,182**	**171,035**

Deferred taxes taken to equity in a given year

(in EUR)	31 Dec 2018	31 Dec 2017
Available-for-sale financial assets	38,404	(78,388)
Total	**38,404**	**(78,388)**

Movements in deferred taxes

(in EUR)	Total
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**
	-
New balance as at 1 Jan 2018	**3,843,604**
Increases due to acquisition of companies	93,571
Debited/credited to income statement	(480,008)
Debited/credited to equity	38,404
Exchange rate differences	257
Net balance of assets and liabilities as at 31 Dec 2018	**3,495,828**

Movements in deferred tax liabilities

(in EUR)	Impairment reversal to fair value	Other	Total
Balance as at 1 Jan 2017	98,641	-	98,641
Debited/credited to equity	72,393	-	72,393
Total deferred tax liability before set off at 31 Dec 2017	**171,034**	**-**	**171,034**
Balance as at 1 Jan 2018	**171,034**	**-**	**171,034**
Debited/credited to equity	(75,471)	-	(75,471)
Total deferred tax liability before set off at 31 Dec 2018	**95,563**	**-**	**95,563**
Set off of deferred tax	(95,564)	-	(95,564)
Total deferred tax liability before set off at 31 Dec 2018	**(0)**	**-**	**(0)**

Deferred tax receivables 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 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
Total deferred tax asset before set off at 31 Dec 2017	**1,365,652**	**1,108,376**	**372,064**	**386,994**	**328**	**377,252**	**403,972**	**4,014,637**
Balance as at 1 Jan 2018	**1,365,652**	**1,108,376**	**372,064**	**386,994**	**328**	**377,252**	**403,972**	**4,014,637**
Debited/credited to income statement	(57,728)	192,764	25,035	33,869	(287)	(269,689)	(403,972)	**(480,008)**
Debited/credited to equity	-	(37,067)	-	-	-	-	-	**(37,067)**
Exchange rate differences	9	247	-	1	0	-	-	**257**
Total deferred tax asset before set off at 31 Dec 2018	**1,307,933**	**1,264,320**	**397,099**	**420,864**	**41**	**201,135**	**0**	**3,591,391**
Set off of deferred tax	-	(95,564)	-	-	-	-	-	(95,564)
Total deferred tax asset before set off at 31 Dec 2018	**1,307,933**	**1,168,757**	**397,099**	**420,864**	**41**	**201,135**	**0**	**3,495,828**

10.29 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)	2018	2017
Net profit or loss for the financial year	8,855,628	11,449,406
Weighted average number of ordinary shares outstanding	10,304,407	10,304,407
Basic and adjusted net earnings / loss per share (in euros)	**0.86**	**1.11**

All shares issued by the 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)	2018	2017
As at 1 Jan	10,304,407	10,304,407
As at 31 Dec	**10,304,407**	**10,304,407**

10.30 ISSUES, REDEMPTIONS AND PAYOUTS OF SECURITIES AND DIVIDENDS

In 2018, Adriatic Slovenica did not issue any subordinated bonds and it did not purchase or paid any equity securities.

Dividend per share

(in EUR)	2018	2017
Amount of dividends (in euros)	10,304,407	10,613,539.21
Dividend per share (in euros)	1.00	1.03

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 21 March 2018, the General Meeting of Shareholders of Adriatic Slovenica adopted a resolution (referring to financial year 2017), to allocate EUR 10,304,407 for dividend payments to the shareholders. The dividend was paid in full.

10.31 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 2018, 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 2018, 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 2018 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 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
Indirect subsidiary						
CROATIA						
KD Locusta Fondovi d.o.o.	Ljudevita Gaja 28, 10000 Zagreb	90%	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%	40300080318520	Activities of investment fund management	Calendar year
Associate						
SLOVENIA						
Nama trgovsko podjetje d.d., Slovenija	Tomšičeva ulica 1, 1000 Ljubljana	48.51%	19%	SI22348174	Retail sale of food and non-food consumer product	Calendar year
MEDIFIT d. o. o., Slovenija	Dunajska cesta 63, 1000 Ljubljana	48.00%	19%	SI 12848999	Activities related with information technology and computer	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 Board and Supervisory Board members.

11.2 RELATED PARTY TRANSACTIONS

Sale of goods and services

(in EUR)	2018	2017
Shareholder of Adriatic Slovenica d.d	355,939	329,952
Subsidiaries of Adriatic Slovenica d.d.	1,183,015	1,232,119
Associate of Adriatic Slovenica d.d.	5,234	68
Other associated/affiliated companies of Adriatic Slovenica d. d.	974,619	978,773
Total	**2,518,806**	**2,540,912**

In 2018, the Company did not sell any receivables to Prospera d. o. o. subsidiary.

Purchase of goods and services

(in EUR)	2018	2017
Shareholder of Adriatic Slovenica d. d.	256,303	268,921
Subsidiaries of Adriatic Slovenica d. d.	3,070,189	1,901,214
Associate of Adriatic Slovenica d. d.	-	468
Other associated/affiliated companies of Adriatic Slovenica d. d.	1,307,378	3,589,671
Total	**4,633,869**	**5,760,274**

Receivables of Adriatic Slovenica d.d. from related parties

(in EUR)	31 Dec 2018	31 Dec 2017
Shareholder of Adriatic Slovenica d. d.	12,436	7,001
Subsidiaries of Adriatic Slovenica d. d.	86,224	80,966
Other associated/affiliated companies of Adriatic Slovenica d. d.	52,101	173,956
Total	**150,761**	**261,923**

Liabilities of Adriatic Slovenica d.d. from related parties

(in EUR)	31 Dec 2018	31 Dec 2017
Shareholder of Adriatic Slovenica d. d.	19,754	21,894
Subsidiaries of Adriatic Slovenica d. d.	94,241	123,151
Associate of Adriatic Slovenica d. d.	2,000	9
Other associated/affiliated companies of Adriatic Slovenica d. d.	104,861	334,529
Total	**220,856**	**479,583**

Purchase of investment properties from related parties

In 2018, the Company did not purchase from or sell any investment properties to its related parties

Purchase of securities from related parties

(in EUR)	2018	2017
Subsidiaries of Adriatic Slovenica d. d.	209,375	555,625
Associate of Adriatic Slovenica d. d.	133,561	-
Other associated/affiliated companies of Adriatic Slovenica d. d.	-	5,787,639
Total	**342,936**	**6,343,264**

In 2018, Adriatic Slovenica paid EUR 30,000 of equity into the subsidiary VIZ d. o. o., EUR 100.00 of equity into the subsidiary ZDRAVJE AS d. o. o. and EUR 79,375 of equity into the subsidiary AGENT d. o. o.

In 2018, upon co-founding the company MEDIFIT d. o. o., Adriatic Slovenica d. d. purchased a 48.0% share in the company, which allows control of the company, and classified the company among associates.

Sale of securities to related parties

(in EUR)	2018	2017
Associate of Adriatic Slovenica d.d.	(5,209)	-
Total	(5,209)	-

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

(in EUR)	2018	2017
At the beginning of year	**16,293,424**	**15,780,799**
Bonds purchased from third parties	-	463,739
Bonds sold in the Group	(1,634,458)	-
Interest charged	865,396	1,085,482
Interest received	(913,661)	(860,028)
Valuation/measurement	51,331	(176,568)
At the end of the reporting period	**14,662,033**	**16,293,424**

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

(in EUR)	2018	2017
At the beginning of year	**(0)**	**7,014,935**
Maturing bonds	-	(6,859,000)
Interest charged	-	409,040
Interest received	-	(480,130)
Valuation/measurement	-	(84,845)
At the end of the reporting period	**(0)**	**(0)**

Shares of the shareholder of Adriatic Slovenica d. d.

(in EUR)	2018	2017
At the beginning of year	**537,372**	**537,372**
At the end of the reporting period	537,372	537,372

Shares of subsidiaries of Adriatic Slovenica d. d.

(in EUR)	2018	2017
At the beginning of year	**39,110,803**	**46,455,178**
Spin-off assets	(3,378,236)	-
Shares purchased from the issuer	130,000	-
Purchased shares in the group	79,375	555,625
Repayment of capital	(950,000)	(7,900,000)
Dividends paid	1,502,443	1,516,265
Dividends received	(1,502,443)	(1,516,265)
At the end of the reporting period	**34,991,942**	**39,110,803**

Shares of the associate of Adriatic Slovenica d.d.

(in EUR)	2018	2017
At the beginning of year	**11,705,901**	**11,705,901**
Shares purchased from the issuer	128,352	-
Shares purchased from third parties	5,209	-
Shares sold to third parties	(5,209)	-
Dividends paid	78,656	212,833
Dividends received	(78,656)	(212,833)
At the end of the reporting period	**11,834,253**	**11,705,901**

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

(in EUR)	2018	2017
At the beginning of year	**1,597,793**	**1,294,389**
Maturing bonds	(777,143)	-
Interest charged	31,118	38,898
Interest received	(31,118)	(38,898)
Valuation/measurement	(39,715)	303,404
At the end of the reporting period	**780,935**	**1,597,793**

Loans received and loans given

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

(in EUR)	2018	2017
At the beginning of year	**15,235,718**	**6,480,551**
Approved loans	9,700,000	16,555,300
Repaid loans	(1,800,000)	(7,800,000)
Interest accrued	806,732	416,891
Interest reduction	(806,452)	(417,024)
At the end of year	**23,135,998**	**15,235,718**
Paid interest	**802,813**	**375,174**

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)	2018	2017
At the beginning of year	**7,600,185**	**14,413,459**
Approved loans	-	2,500,000
Repaid loans	(5,100,000)	(9,320,600)
Interest accrued	181,245	525,319
Interest reduction	(181,523)	(517,993)
At the end of year	**2,499,907**	**7,600,185**
Paid interest	191,002	541,204

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)	2018	2017
At the beginning of year	**130,005**	**-**
Approved loans	50,000	130,000
Repaid loans	(50,000)	-
Interest accrued	1,145	2,396
Interest reduction	(1,150)	(2,391)
At the end of year	**130,000**	**130,005**
Paid interest	1,116	2,299

In October 2018, the Company gave to the subsidiary Zdravje AS d. o. o. a loan in the amount of EUR 50,000 at interest rate in line with the Rules on the recognized interest rate for related companies, which at the date of loan was equal to 0,823% and insured with one directly enforceable collateral ('izvršnica'). The short-term loan was fully repaid in 2018.

Loans received from other related parties of Adriatic Slovenica d. d.

(in EUR)	2018	2017
At the beginning of year	**1,618**	**60,836**
Approved loans	-	5,700,000
Repaid loans	(1,350)	(5,759,300)
Interest accrued	0	82
Interest reduction	(269)	-
At the end of year	**(0)**	**1,618**

* Note: Loans received from other related parties include interest movements.

In 2018, the Company fully repaid the loan to the subsidiary VIZ d. o. o.

In 2018, the Company was not adversely affected by any related parties and 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 2018 financial year.

Adriatic Slovenica made the following payments in 2018 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	159,600	26,600	1,161	1,735	3,628	4,219	-
Matija Šenk	Member of the Management Board	120,000	20,000	1,161	1,597	2,431	6,307	2,970
Jure Kvaternik	Member of the Management Board (from 16. 4. 2018)	79,306	0	0	881	2,155	3,045	3,500

* 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 5,566,005 for 2018 of which EUR 4,807,455 were paid for gross salaries and EUR 758,550 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 in 2018 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 to 20. 3. 2018	-	-	-	-	6,498	-	-	-
Aljoša Tomaž	Chairman from 20. 3. 2018	-	-	-	-	20,878	-	-	-
Aleksander Sekavčr	Member	-	-	-	-	19,200	-	-	24,919
Tomaž Butina	Member	-	-	-	-	19,200	-	-	3,375
Matjaž Pavlin	Member, representative of employees	34,818	-	1,161	2,726	19,200	1,429	42	-
Borut Šuštaršič	Member, representative of employees	30,505	-	1,161	2,091	19,200	1,300	42	-

Adriatic Slovenica made the following payments in 2018 to the members of the Audit Committee

in EUR	Fees for attending meetings
Matjaž Pavlin	3,150
Tomaž Butina	1,584
Vera Dolinar	2,708
Kek Mojca	792

Adriatic Slovenica made the following payments in 2018 to the members of the Committee for the regular monitoring of the implementation of the Strategy and achievement of the target business model

in EUR	Fees for attending meetings
Aleksander Sekavčnik	693
Aljoša Tomaž	786
Carlo Palmieri	0

As at the 2018 year-end, the Company carries the following current operating receivables and liabilities;

- EUR 62 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 565 of receivables and no liabilities from the members of the Supervisory Board and the Audit Committee. The receivables mainly arise from the insurance business (premiums due) in the amount of EUR 548, ,
- EUR 8,063 of receivables and EUR 251 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 7,140 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 2019.

In 2018, 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.

The Company carries receivables in the amount of EUR 623 and EUR 9 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 2018, 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 570 of insurance premiums,
- the immediate family members of members of the Supervisory Board paid the aggregate amount of EUR 6,378 of insurance premiums.
- the immediate family members of members of the Audit Committee paid the aggregate amount of EUR 2,089 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 2018, based on the concluded insurance policies, the Company paid EUR 1,142 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 2018, 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 930, received also EUR 505 of daily allowance for business trips.

The receivables carried in the books of account as at the 2018 year-end and arising from the senior management of the companies up to the highest parent company amounted to EUR 479. Outstanding receivables refer to the receivables arising from the insurance business (premiums). As at 31 December 2018, there were no outstanding liabilities from the management board members of controlling entities by the Company.

12. CONTINGENT RECEIVABLES AND LIABILITIES

Contingent receivables and liabilities include potential receivables and liabilities held in off-balance sheet items.

Contingent receivables and liabilities

(in EUR)	2018	2017
Outstanding recourse receivables	5,175,260	5,859,265
Received pledged guarantees	27,181,998	26,975,508
Receivables for pension insurance premiums	195,898	164,627
Other receivables	280,334	275,125
Contingent RECEIVABLES	**32,833,490**	**33,274,525**
Receivables - disputes and litigations (labour and insurance)	303,053	389,040
Liability for guaranteed return	66,482	11,131
Other liabilities	4,628	-
Contingent LIABILITIES	**374,162**	**400,171**
Records under swap contracts	50,000,000	50,000,000
Total contingent receivables and liabilities	**83,207,652**	**83,674,696**

As at 31 December 2018, the balance of contingent receivables is lower by EUR 467,043 than in the previous year mostly due decreased unrealised subrogation receivables (amounting to EUR 684,005). Despite the overall decrease, the balance of contingent receivables as at 31 December 2018 increased due guarantees with pledged securities by EUR 206,490 and receivables from pension insurance premiums by EUR 31,272. Other receivables increased by EUR 5,209, due to new incurred contingent receivables arising from the concluded futures contract for the disposal of the stake in the associate Medifit d. o. o.

Contingent liabilities decreased by EUR 26,009 compared to the end of the previous year. The reduction of liabilities was largely impacted by the conclusion of the dispute with Pozavarovalnica Sava d. d. and the payment of the extra amount which became payable pursuant to the Supreme Court judgement. Despite the overall decrease, the balance of contingent liabilities increased in the reporting period due new contingent liabilities, namely liabilities related to the commercial dispute initiated by Zoran Šolaja s.p. for indemnification of EUR 241,488 requested in relation to commercial lease. Furthermore, contingent liabilities went up also due to the failure to achieve the guaranteed return. To a lesser extent, other potential liabilities related to the credits owed to pension fund savers under the pension plan financing contract also increased.

Other changes

In addition to the above contingent receivables and liabilities, the Company keeps record of EUR 50,000,000 under off-balance sheet items 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 in the first half of 2017 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.

The Company has contingent liabilities pursuant to the (until 2021) valid guarantee arising from the concluded umbrella agreement on the transfer of the portfolio, between the assignor AS neživotno osiguranje a. d. o., Belgrade, and the acquirer of the portfolio, the subsidiary of Pozavarovalnice Sava. The potential exposure of the Company is valued at 0 because during the validity period of the guarantee the claim, which exceeded the formed provisions and for which the guarantee was expressly given, was withdrawn.

The Company has one tenant with conditional rent. Namely, in case his turnover exceeds the contracted rent by 20%, additional rent is charged. In 2018, additional rent was charged in the amount of 6,872 euros (in 2017: EUR 8,527).

Important litigations in progress

Actions for damages have been initiated against commercial banks (NLB, DUTB, Abanka), to which the Bank of Slovenia pronounced extraordinary measures to terminate the qualified liabilities of banks, in connection with the extraordinary measures imposed on the NLB d. d., Abanki d. d., Factor bank d. d., Probanka d. d. and Banka

Celje d. d. on 17 December 2013. 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 insurance company in total nominal value of EUR 14,634,800 euros and 123,416 shares of Probanka d. d., 2,085 NLB shares d. d., 5 shares of the Bank of Celje d. d. and 45 shares of Gorenjska banka d. d. were erased. The Company immediately initiated all procedures to protect its rights in relation to the erased financial investments. 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. In all initiated proceedings, the court decided that the proceedings should be interrupted until the court's decision in the compensation procedure against the Bank of Slovenia according to the law, which will replace the procedure referred to in Article 350.a of the Banking Act. Accordingly, the insurance Company has pending lawsuits against:

- NLB d. d., District Court of Ljubljana, reference number VIII Pg 3069/2016, disputed amount EUR 2,919,375.00
- DUTB d. d., District Court of Ljubljana, reference number. VIII Pg 3063/2016, disputed amount. EUR 12,109,212.66.
- Abanka d. d., District Court of Ljubljana, reference number VIII Pg 3060/2016, disputed amount EUR 1,062,959.92.
- Abanka d. d., District Court of Ljubljana, reference number VIII Pg 2617/2016, disputed amount. EUR 2,590,000.00.

- The insurance company has filed an action for damages against the Bank of Slovenia (District Court of Ljubljana, Ref. No. VIII Pg 1765/2016) due to the early termination of deposits as per the decisions of the Bank of Slovenia, the disputed amount EUR 235,266.02

13. EVENTS AFTER THE BALANCE SHEET DATE

No events occurred after the end of the reporting period and before the conclusion of the consolidated financial statements that would require adjustments of and could affect the financial statements and tax liabilities for 2018.

Events after the balance sheet date, important for business operations in 2019

On 13 February 2019, the Company took note of the notice issued by KD Group, finančna družba d.d., a finance company having its registered office at Dunajska cesta 63, Ljubljana, Republic of Slovenia (hereinafter referred to as "KD Group") that on 13 February 2019 KD Group disposed of 100% of the shares of the subsidiary Adriatic Slovenica, Zavarovalna družba, d.d. and that the transfer of all shares of Adriatic Slovenica to the new holder, the company Generali CEE Holding, B.V., concluded the sales procedure under the Agreement regarding the sale of 100% of the shares of the Company Adriatic Slovenica dated 23 May 2018.

On 13 February 2019, members of the Supervisory Board of the Company resigned: Chairman of the Supervisory Board Aljoša Tomaž, Vice-Chairman of the Supervisory Board Aleksander Sekavčnik and Supervisory Board member Tomaž Butina. At the same time, the mandate of Tomaž Butina as member of the Supervisory Board's Audit Committee expired.

On 18 February 2018, the 56th General Meeting of Shareholders of Adriatic Slovenica was held. Four new members of the Supervisory Board, namely Gregor Pilgram, Luciano Cirinà, Miroslav Bašta and Miroslav Singer, were appointed.

On 18 February 2019, the international rating agency Fitch increased the Company's insurer financial strength rating from "BBB-" to "BBB +" and changed the assessment of the future outlook of the Company from "under *observation", where it was classified on 24 May 2018,* to "stable". The improvement of the rating is a consequence of the publication by Assicurizazioni Generali S.p.A (IFS: A-/Negative) that, upon obtaining all regulatory licenses, it concluded the acquisition of the insurance company Adriatic Slovenica d. d., previously owned by KD group d.d.

On 13 February 2019, the transactions agreed under the Agreement on the Sale of Adriatic Slovenica insurance company d. d., made between KD Group and Generali CEE Holding B.V., were completed, namely: the insurance company disposed of the investment property in Loška cesta 13 in Maribor (Maribox); KD Group repaid all loans to the insurance company, the shares of KDHR (issued by KD Group d.d.) and SKDR (issued by KD d.d.) and bonds of KDHR were purchased.

AUDITED

CONSOLIDATED FINANCIAL STATEMENTS FOR 2018

The Adriatic Slovenica Group

VSEBINA

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1. STATEMENT OF MANAGEMENT RESPONSIBILITY

The Management Board of Adriatic Slovenica insurance company is responsible for the preparation of the Consolidated Annual Report of Adriatic Slovenica Group for the year ended on 31 December 2018. 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 2018.

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, 6 March 2019

Management Board of the parent company:

Gabrijel Škof,
President of the Management Board

Matija Šenk,
Member of the Management Board

Jure Kvaternik,
Member of the Management Board

2. AUDITOR'S OPINION

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This is a translation of the original report in Slovene language

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Adriatic Slovenica, d.d.

Opinion

We have audited the consolidated financial statements of Group Adriatic Slovenica ("Group Adriatic Slovenica" or "the Group"), which comprise the consolidated balance sheet as at 31 December 2018, the consolidated income statement, the consolidated statement of other comprehensive income, the consolidated statement of changes in equity, the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Group Adriatic Slovenica as at 31 December 2018 and consolidated financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISA) and Regulation (EU) No. 537/2014 of the European Parliament and of the Council of 16 April 2014 on specific requirements regarding statutory audit of public-interest entities ("Regulation (EU) No. 537/2014 of the European Parliament and the Council"). Our responsibilities under those rules are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report. We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) together with the ethical requirements that are relevant to our audit of the consolidated financial statements in Slovenia, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code.

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

Key audit matters

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

We have fulfilled the responsibilities described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

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Estimates used in calculation of Insurance Liabilities, Deferred Acquisition Costs ('DAC') and Liability Adequacy Test ('LAT')

The measurement of insurance contract liabilities involves judgement over uncertain future outcomes, mainly the ultimate total settlement value of long-term liabilities, including any guarantees provided to policyholders. Various economic and non-economic assumptions – like inflation, interest rate, mortality, lapse and longevity - are being used to estimate these long-term liabilities, both in the insurance contract liabilities as reported in the balance sheet and in the liability adequacy test. DAC is capitalized based on future estimate of written premium and recoverability of DAC is a subjective area in terms of recognition and impairment. We determined this to be a significant item for our audit and a key auditing matter.

We used actuarial specialists to assist us in performing our audit procedures. Our audit focused on the models considered material and more complex and/or requiring significant judgement in the setting of assumptions, particularly long-tail business in non-life operations and LAT cash flows in life products. We assessed the design and verified the operating effectiveness of internal controls over the actuarial process including claim reserves calculation, process of setting economic and actuarial assumptions as well as cash flow derivation approach. We assessed the Group's modelling approach in the areas considered higher risk because of complexity and/or magnitude. We also assessed the Group's approach and methodology for the actuarial analyses including estimated versus actual results and experience studies. We assessed the experience analyses performed by the Group in their assumption setting processes. Our assessments included evaluation, as necessary, of specified economic and actuarial assumptions considering management's rationale for the actuarial judgments applied. We compared applicable industry information considering the appropriateness of actuarial judgements used in the models, which may vary depending on the product and/or the specifications of the product, and the compliance of the models with International Financial Reporting Standards as adopted by the European Union. Furthermore, we performed audit procedures to evaluate if the models and systems were calculating the insurance contracts liabilities accurately and completely, including sample recalculations of the results produced by the models. We tested the validity of management's LAT which is a test performed to check that the liabilities are adequate as compared to the expected future contractual obligations. Our work on the LAT included assessment of the projected cash flows and of the assumptions adopted in the context of both the Group and industry experience and specific product features. For DAC assessment, we tested recoverability of DAC in terms, of profitability of those lines of business, where DAC is recognized. For selected material lines of businesses, we recalculated DAC balances at year end.

We assessed the adequacy of the disclosures included in notes 5.15, 5.16, 6.5, 6.6., 6.7 and 10.14 Insurance technical provisions of the consolidated financial statements in accordance with International Financial Reporting Standards as adopted by the European Union.

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Other matter

The consolidated financial statements for the comparative period were audited by another auditor who has issued an unmodified opinion as at 16 March 2018.

Other information

Other information comprises the information included in the consolidated Annual Report other than the consolidated financial statements and auditor's report thereon. Management is responsible for the other information.

Our opinion on the consolidated financial statements does not cover the other information and 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. In addition, we assess whether the other information has been prepared, in all material respects, in accordance with applicable law or regulation, in particular, whether the other information complies with law or regulation in terms of formal requirements and procedure for preparing the other information in the context of materiality, i.e. whether any non-compliance with these requirements could influence judgments made on the basis of the other information.

Based on the procedures performed, to the extent we are able to assess it, we report that:

- The other information describing the facts that are also presented in the consolidated financial statements is, in all material respects, consistent with the consolidated financial statements; and
- The other information is prepared in compliance with applicable law or regulation.

In addition, our responsibility is to report, based on the knowledge and understanding of the Group obtained in the audit, on whether the other information contains any material misstatement. Based on the procedures we have performed on the other information obtained, we have not identified any material misstatement.

Responsibilities of management, audit committee and the supervisory board for the consolidated financial statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with International Financial Reporting Standards as adopted by the European Union, and for such internal control as management determines is necessary to enable the preparation of the 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 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.

The audit committee and the supervisory board are responsible for overseeing the Group's financial reporting process.

Auditor's responsibilities for the audit of the 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 auditor's 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 ISA will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with audit rules, 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;

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- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the 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 auditor's 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 auditor's 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 the audit committee and the supervisory board 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 the audit committee and the supervisory board with a statement that we have complied with relevant ethical requirements regarding independence, and to 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 the audit committee and the supervisory board, 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.

Other requirements on content of auditor's report in compliance with Regulation (EU) No. 537/2014 of the European Parliament and of the Council

Appointment and Approval of Auditor

We were appointed as the statutory auditor by the statutory body of the Group on 17 December 2018 based on our approval by the General Meeting of Shareholders of the Group on 21.11.2018. Total uninterrupted engagement period, including previous renewals (extension of the period for which we were originally appointed) and reappointments for the statutory auditor, has lasted for one year.

Consistence with Additional Report to Audit Committee

Our audit opinion on the consolidated financial statements expressed herein is consistent with the additional report to the audit committee of the Group, which we issued on 22 March 2019.

Non-audit Services

No prohibited non-audit services referred to in Article 5(1) of Regulation (EU) No. 537/2014 of the European Parliament and of the Council were provided by us to the Group and its controlled undertakings and we remain independent from the Group and its controlled undertakings in conducting the audit.

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In addition to statutory audit services and services disclosed in the consolidated Annual Report, no other services which were provided by us to the Group and its controlled undertakings.

Ljubljana, 27 March 2019

Janez Uranič
Director
Ernst & Young d.o.o.
Dunajska 111, Ljubljana

ERNST & YOUNG
Revizija, poslovno
svetovanje d.o.o., Ljubljana 1

Primož Kovačič
Certified auditor

3. CONSOLIDATED FINANCIAL STATEMENTS

3.1 CONSOLIDATED BALANCE SHEET

Consolidated balance sheet as at 31 December 2018

(in EUR)	Note	31 Dec 2018	31 Dec 2017
Assets		**732,509,219**	**760,709,385**
Intangible assets	**10.1**	**32,253,011**	**32,923,769**
Property, plant and equipment	**10.2**	**30,854,065**	**30,720,448**
Deferred tax assets	**10.29**	**4,251,013**	**4,863,701**
Investment properties	**10.3**	**23,756,686**	**24,119,759**
Financial investments in subsidiaries and associates	**10.4**	**12,062,454**	**12,025,841**
Financial investments	**10.5**	**278,033,208**	**270,557,129**
In loans and deposits		42,997,985	37,136,247
In held-to-maturity financial assets		29,628,993	31,417,539
In available-for-sale financial assets		195,804,735	193,392,255
In financial assets measured at fair value		9,601,494	8,611,088
Unit-linked investments of policyholders	**10.6**	**274,127,785**	**304,978,130**
Amounts of technical provisions ceded to reinsurers	**10.7**	**14,903,527**	**17,704,190**
Assets from investment contracts	**10.8**	**11,912,847**	**8,890,333**
Receivables	**10.9**	**22,886,569**	**27,896,452**
Receivables from direct insurance business		16,667,722	17,737,450
Receivables from reinsurance and coinsurance		1,169,661	2,165,699
Income tax receivables		34,304	2,315,916
Other receivables		5,014,882	5,677,386
Other assets	**10.10**	**5,756,209**	**5,918,444**
Cash and cash equivalents	**10.11**	**21,711,844**	**20,111,188**
Equity and liabilities		**732,509,219**	**760,709,385**
Equity	**10.12**	**96,217,906**	**97,959,877**
Majority equity interest		**96,112,020**	**97,748,578**
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		12,714	10,475
Reserve due to fair value measurement (Revaluation surplus)		548,654	728,676
Retained net earnings		29,970,220	29,940,979
Net profit or loss for the financial year		9,145,183	10,633,199
Minority equity interest		**105,886**	**211,299**
Subordinated liabilities	**10.13**	**49,581,823**	**49,525,147**
Technical provisions	**10.14**	**276,383,360**	**273,200,328**
Unearned premiums		50,006,208	49,526,004
Mathematical provisions		110,293,625	107,590,283
Outstanding claims provisions		115,569,565	115,554,198
Other technical provisions		513,962	529,843
Insurance technical provisions for unit-linked insurance	**10.15**	**271,970,492**	**301,043,281**
Other provisions	**10.18**	**4,984,103**	**4,625,262**
Deferred tax liabilities	**10.28**	**-**	**191,266**
Liabilities from investment contracts	**10.16**	**11,912,847**	**8,890,333**
Other financial liabilities	**10.18**	**524,591**	**429,198**
Operating liabilities	**10.19**	**7,157,302**	**7,439,318**
Liabilities from direct insurance contracts		3,898,988	5,225,359
Liabilities from reinsurance and coinsurance contracts		2,246,026	2,162,272
Income tax liabilities		1,012,287	51,687
Other liabilities	**10.20**	**13,776,794**	**17,405,374**

The accounting policies and notes set out on pages from 263 to 397 are an integral part of the consolidated financial statements.

3.2 CONSOLIDATED INCOME STATEMENT

Consolidated income statement for the period from 1 January 2018 to 31 December 2018

(in EUR)	Note	1. 1. - 31. 12. 2018	1. 1. - 31. 12. 2017
NET PREMIUM INCOME	**10.21**	**289,196,804**	**292,131,025**
Gross written premiums		300,446,201	303,788,849
Premiums ceded to reinsurers and coinsurers		(10,255,255)	(11,888,097)
Change in unearned premiums		(994,142)	230,273
REVENUES FROM INVESTMENTS IN ASSOCIATES, of which	**10.21**	**58,211**	**222,762**
- profit from capital investments from associates and joint ventures, calculated using the equity method		58,211	103,950
INCOME FROM INVESTMENTS	**10.21**	**11,892,771**	**36,823,049**
OTHER INCOME FROM INSURANCE OPERATIONS, of which	**10.21**	**1,861,666**	**2,256,523**
- fee and commission income		1,861,666	2,256,523
OTHER INCOME	**10.21**	**16,785,867**	**18,774,821**
NET EXPENSES FOR CLAIMS AND BENEFITS PAID	**10.22**	**(217,605,490)**	**(222,184,419)**
Gross amounts of claims and benefits paid		(220,397,268)	(224,392,135)
Reinsurers'/coinsurers' shares		5,093,869	3,733,323
Change in claims provisions		(2,302,092)	(1,525,607)
CHANGE IN OTHER TECHNICAL PROVISIONS	**10.14**	**(2,736,245)**	**209,400**
CHANGE IN TECHNICAL PROVISIONS FOR THE BENEFIT OF UNIT-LINKED INSURANCE POLICYHOLDERS	**10.15**	**29,072,788**	**(18,423,843)**
EXPENSES FOR BONUSES AND DISCOUNTS		**(54,420)**	**128,090**
OPERATING EXPENSES, of which	**10.23**	**(76,656,482)**	**(78,704,191)**
- acquisition costs		(22,368,643)	(23,637,911)
EXPENSES FROM INVESTMENTS IN ASSOCIATES, of which	**10.21**	**(74,782)**	**-**
-loss from capital investments in associates and joint ventures, calculated using the equity method		(71,295)	-
EXPENSES INVESTMENTS, of which	**10.21**	**(25,462,541)**	**(531,521)**
- impairment losses of financial assets not measured at fair value through profit or loss		(1,046,626)	-
OTHER INSURANCE EXPENSES	**10.24**	**(2,603,665)**	**(3,805,195)**
OTHER EXPENSES	**10.25**	**(12,556,074)**	**(13,500,330)**
PROFIT/(LOSS) BEFORE TAX		**11,118,408**	**13,396,169**
CORPORATE INCOME TAX	**10.27**	**(1,932,275)**	**(2,694,301)**
NET PROFIT FOR THE REPORTING PERIOD		**9,186,133**	**10,701,868**
MINORITY INTEREST		**41,005**	**68,635**
INTEREST OF PARENT COMPANY		**9,145,128**	**10,633,233**

The accounting policies and notes set out on pages from 263 to 397 are an integral part of the consolidated financial statements.

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3.3 CONSOLIDATED STATEMENT OF OTHER COMPREHENSIVE INCOME

Consolidated statement of other comprehensive income for the period from 1 January 2018 to 31 December 2018

(in EUR)	Note	1. 1. - 31. 12. 2018	1. 1. - 31. 12. 2017
NET PROFIT OR LOSS FOR THE FINANCIAL YEAR AFTER TAXATION		**9,186,133**	**10,701,868**
OTHER COMPREHENSIVE INCOME AFTER TAXATION	**10.12**	**(193,869)**	**221,605**
Items not to be allocated to profit or loss in subsequent periods		**(17,292)**	**(174,557)**
Actuarial net gain/loss for pension programmes		(17,292)	(174,557)
Items that may be allocated to profit or loss in subsequent periods	**10.12**	**(176,577)**	**396,162**
Net gain/loss from re-measurement of available-for-sale financial assets		(223,256)	452,935
Gain/loss, recognised in revaluation surplus		(918,271)	3,007,545
Transfer of gain/loss from revaluation surplus to income statement		695,015	(2,554,610)
Associated net gain/loss related to capital investments in associates , calculated using the equity method		-	4,354
Tax on items that may be allocated to profit or loss in subsequent periods		42,419	(86,058)
Gain/loss from translation of financial statements of foreign operations		4,260	24,931
TOTAL COMPREHENSIVE INCOME FOR THE YEAR, AFTER TAXATION		**8,992,264**	**10,923,473**
- ATTRIBUTABLE TO MINORITY INTEREST		**41,005**	**68,635**
- ATTRIBUTABLE TO CONTROLLING COMPANY		**8,951,259**	**10,854,838**

The accounting policies and notes set out on pages from 263 to 397 are an integral part of the consolidated financial statements.

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3.4 CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Consolidated statement of changes in equity for the period from 1 January 2018 to 31 December 2018

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	728,676	29,940,979	10,633,199	10,475	97,748,578	211,299	97,959,877
OPENING BALANCE IN THE FINANCIAL PERIOD		**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**
Comprehensive income net of tax	**10.12**	-	-	-	-	-	-	(180,021)	(17,292)	9,145,183	2,866	8,950,736	41,583	8,992,319
Net profit/loss for the year								-		9,145,183		9,145,183	41,005	9,186,188
Other comprehensive income	**10.12**							(180,021)	(17,292)		2,866	(194,447)	578	(193,869)
Allocation of net profit/loss for the preceeding year to retained profit/loss									10,633,199	(10,633,199)		-		-
Payment (accounting) of dividends	**10.12**								(10,304,407)			(10,304,407)	(60,982)	(10,365,389)
Spremebe deležev v lastniškem kapitalu odvisnih podjetj									(207,410)		(628)	(208,038)	(86,014)	(294,052)
Other									(74,849)			(74,849)		(74,849)
CLOSING BALANCE AS AT 31 DECEMBER		**42,999,530**	**4,211,782**	**1,519,600**	**-**	**-**	**7,704,336**	**548,654**	**29,970,220**	**9,145,183**	**12,714**	**96,112,020**	**105,886**	**96,217,906**

The accounting policies and notes set out on page 360 are an integral part of the 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	Credit risk	Catastrophic loss reserves	Other reserves	IV. Revaluation surplus	V. Retained earnings	VI. Net profit/loss	VIII. Revaluation surplus	IX. Total equity attributable to the controlling company	X. Minority equity interest	TOTAL EQUITY
Total amount at the end of previous financial year		42,999,530	4,211,782	1,519,600	-	-	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	**10.12**	-	-	-	-	-	-	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	**10.12**	-	-	-	-	-	-	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	**10.12**	-	-	-	-	-	-	-	(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 360 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 2018 to 31 December 2018

(in EUR)	Note	1. 1. - 31. 12. 2018	1. 1. - 31. 12. 2017
Cash flows from operating activities		**23,772,096**	**9,523,896**
Items from the income statement		**23,458,257**	**8,530,748**
Net premiums written in the reporting period		290,190,946	291,900,752
Income from investments (other than financial income)		14,586,830	2,973,783
Other income from ordinary activities (other than income arising from revaluation and decrease in provisions) and financial income from operating receivables		15,763,728	16,274,327
Net claims and benefits paid in the reporting period		(215,303,399)	(220,658,786)
Net operating costs, other than depreciation costs and change in deferred acquisition costs		(72,348,392)	(74,184,218)
Investment charges (excluding depreciation and financial expenses)		(3,845,290)	(1,677,875)
Other operating costs excluding depreciation (other than for revaluation and without increase in provisions)		(5,086,136)	(5,467,217)
Corporate income tax and other taxes not included in operating costs		(500,030)	(630,018)
Changes in net current assets (receivables for insurance, other receivables, other assets and deferred tax assets and liabilities) of balance sheet items		**313,838**	**993,147**
Opening less closing balance of operating receivables from direct insurance business		975,804	1,001,601
Opening less closing balance of receivables from reinsurance		1,016,743	(404,519)
Opening less closing balance of other receivables from (re)insurance contracts		122,697	1,163,642
Opening less closing balance of other receivables and assets		(1,289,022)	(1,830,618)
Opening less closing balance of deferred tax assets		480,058	2,163,856
Opening less closing balance of inventories		10,669	(1,865)
Closing less opening balance of debts/liabilities from direct insurance business		(1,326,747)	1,363,207
Closing less opening balance of debts/liabilities from reinsurance		83,754	207,229
Closing less opening balance of other operating debts/liabilities		(1,482,122)	(1,886,267)
Closing less opening liabilities (other than unearned premiums)		1,738,413	(783,119)
Closing less opening deferred tax liabilities		(16,409)	-
Net cash from operating activities		**23,772,096**	**9,523,896**
Cash flows from investing activities		**(7,832,756)**	**14,005,807**
Cash receipts from investing activities		**152,338,831**	**225,968,282**
Cash inflows from interest received from investing activities		6,159,276	7,879,718
Cash inflows from dividends and participations in profit of others		1,587,543	1,355,837
Cash inflows from disposal of property, plant and equipment		24,873	83,890
Cash inflows from disposal of financial investments		144,567,139	216,648,837
Cash disbursements from investing activities		**(160,171,587)**	**(211,962,475)**
Cash disbursements to acquire intangible assets		(5,097,617)	(1,876,411)
Cash disbursements to acquire property, plant and equipment, financed from:		(2,298,472)	(2,163,390)
Cash disbursements to acquire financial investments		(152,775,498)	(207,922,675)
Net cash from investing activities		(7,832,756)	14,005,807
Cash receipts from financing activities		**(14,341,390)**	**(14,660,204)**
Cash inflows from financing activities		**56,945**	**71,830**
Cash inflows from long-term loans and issued bonds		56,676	71,830
Cash inflows from short-term loans		269	-
Cash outflows from financing activities		**(14,398,334)**	**(14,732,034)**
Cash outflows for interest paid		(4,032,677)	(3,953,582)
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		(269)	-
Cash outflows to pay out dividends and other participations in profit		(10,365,389)	(10,701,004)
Net cash from/(used in) financing activities		**(14,341,390)**	**(14,660,204)**
Closing balance of cash and cash equivalents	**10.11**	**21,711,844**	**20,111,188**
Cash flow for the reporting period		**1,597,950**	**8,869,499**
Exchange rate differences		2,706	89,404
Increases due to acquisition of companies		-	232,115
Opening balance of cash and cash equivalents	**10.11**	**20,111,188**	**10,920,170**

The accounting policies and notes set out on pages from 263 to 397 are an integral part of the consolidated financial statements.

3.6 CONSOLIDATED STATEMENT OF ACCUMULATED PROFIT

Consolidated statement of accumulated profit for 2018

(in EUR)	Note	Total 1. 1. - 31. 12. 2018	Total 1. 1. - 31. 12. 2017
Net profit/(loss) for the financial year		**9,145,183**	**10,633,199**
Net profit carried forward (+) / net loss carried forward (-)	**10.12**	**29,970,220**	**29,940,979**
- result for the current year under effective standards		30,177,631	32,138,566
-decrease for the acquisition/sales of the subsidiary		(207,410)	(2,197,586)
Balance-sheet profit allocated by the Annual General Meeting as follows:		**39,115,403**	**40,574,178**
− to the shareholder		-	**10,304,407**

The accounting policies and notes set out on pages from 263 to 397 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., ZDRAVJE AS 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 Permanens d. o. o. whose liquidation procedure was concluded in 2018.

Management and governance bodies of the Group

Management and governance bodies of the parent company in 2018:

Gabrijel Škof, President of the Management Board
Matija Šenk, Member of the Management Board
Jure Kvaternik, Member of the Management Board (from 16 April 2018)

Supervisory bodies of the Group

Supervisory Board of the parent company in 2017:

Matjaž Gantar, Chairman (until 18 March 2018)
Aljoša Tomaž, Member (Deputy Chairman until 20 March 2018 and Chairman from 20 March 2018)
Aleksander Sekavčnik, (Deputy Chairman from 20 March 2018)
Tomaž Butina, Member
Matjaž Pavlin, Member, employee representative
Borut Šuštaršič, Member, employee representative

Audit Committee of the insurance company Adriatic Slovenica d.d. in 2018:

Matjaž Pavlin, Chairman
Mojca Kek, (Deputy Chairman until 30 March 2018)
Tomaž Butina, (Deputy Chairman from 26 April 2018)
Vera Dolinar, Member (independent expert)

Committee for the regular monitoring of the implementation of the Strategy and achievement of the target business model of the insurance company Adriatic Slovenica d. d. in 2018

Aljoša Tomaž, Chairman – Member of the Supervisory Board
Aleksander Sekavčnik, Deputy Chairman – Member of the Supervisory Board
Carlo Palmieri - Member – Independent Expert

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 Group d.d. at Dunajska cesta 63, 1000 Ljubljana, Slovenia. The consolidated financial statements of KD Group d.d. and

Group 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 2018 year-end

Data on the number of employees by the level of professional qualification in 2018 - Adriatic Slovenica Group

Number of employees per day	Qualification level					
	I- IV	V	V.	VII	VIII-IX	Total
1 Jan 2018	37	414	179	534	47	1.211
31 Dec 2018	36	417	170	520	41	1.184
2018 average	36	419	175	518	43	1.192

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 2018, the number of employees of Adriatic Slovenica, taking into consideration these proportion, is 1,037 and is different from the number of employees per person, which was 1,057 employees at the end of 2018. 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 8.5, while the number of employees per person is 31 as at 31 December 2018.

Data on the number of employees by the level of professional qualification in 2018 – controlling company

Number of employees as at	Qualification level					
	I- IV	V	V.	VII	VIII-IX	Total
1 Jan 2018	30	360	143	451	32	1,016
31 Dec 2018	30	354	138	439	29	990
1 Jan .2018 AS branch	4	27	15	20	1	67
31 Dec 2018 AS branch	3	33	13	18	-	67
2018 average	33	391	156	455	30	1,065

Data on the number of employees by the level of professional qualification in 2018 – subsidiaries

Number of employees per day	Qualification level					
	I- IV	V	V.	VII	VIII-IX	Total
1 Jan 2018	3	27	21	63	14	128
31 Dec 2018	3	30	19	63	12	127
2018 average	3	28	20	62	13	127

4.1 CONSOLIDATION

For 2018, the Adriatic Slovenica Group prepared consolidated financial statements and included in the consolidation the following entities: insurance company Prospera d.o.o., VIZ d.o.o., ZDRAVJE AS d. o. o., Agent d. o. o. and KD Skladi d. o. o. and indirect subsidiaries KD Fondovi AD Skopje and KD Locusta Fondovi d. o. o. In 2018, the company was in liquidation until 30 September 2018, after which the winding up procedure was completed and the company was formally deleted from the Company Register in Zagreb on 15 January 2019.

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 2018, 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 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
Indirect subsidiary						
CROATIA						
KD Locusta Fondovi d.o.o.	Ljudevita Gaja 28, 10000 Zagreb	90%	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%	40300080318520	Activities of investment fund management	Calendar year

Changes of equity stakes in subsidiaries and indirect subsidiaries

Direct subsidiary	Equity stake (%) 31.12..2018	Equity stake (%) 31.12.2017	Change (in %)	Note
PROSPERA družba za izterjavo d.o.o.	100.00	100.00	-	
VIZ zavarovalno zastopništvo d.o.o.	100.00	100.00	-	
Permanens d.o.o.	-	100.00	-100.00	Liquidation completed
ZDRAVJE AS zdravstvene storitve d. o. o.	100.00	100.00	-	
KD IT, informacijske storitve, d. o. o.	-	100.00	-100.00	Merged with the parent company
KD Skladi, družba za upravljanje d. o. o.	100.00	100.00	-	
AGENT Zavarovalniško zastopanje d. o. o.	100.00	100.00	-	
Indirect subsidiary **				
KD Fondovi AD Skopje	94.60	94.60	-	
KD Locusta Fondovi d. o. o.	90.00	80.00	10.00	

Presentation of equity stakes in subsidiaries of the parent company Adriatic Slovenica

Subsidiary	Equity stake (%)		Voting rights (%)		Carrying amount of equity stake (in EUR)	
	31/12/2018	31/12/2017	31/12/2018	31/12/2017	31/12/2018	31/12/2017
PROSPERA družba za izterjavo d. o. o.	100.0	100.0	100.0	100.0	3,820,934	4,770,934
VIZ zavarovalno zastopništvo d. o. o.	100.0	100.0	100.0	100.0	560,000	530,000
KD IT d. o. o.	0.0	100.0	0.0	100.0	-	3,378,236
ZDRAVJE AS d. o. o.	100.0	100.0	100.0	100.0	650,000	550,000
KD Skladi, d. o. o.	100.0	100.0	100.0	100.0	29,326,008	29,326,008
Permanens d. o. o.	100.0	100.0	100.0	100.0	-	-
AGENT Zavarovalniško zastopanje d. (	100.0	100.0	100.0	100.0	635,000	555,625
Indirect subsidiary						
KD Locusta Fondovi d. o. o.	90.0	80.0	90.0	80.0	808,072	797,124
KD Fondovi AD Skopje	94.6	94.6	94.6	94.6	282,287	210,708

Changes in relationships of the parent company Adriatic Slovenica with subsidiaries

Changes in equity shares

Prospera d. o. o.

In 2018, Adriatic Slovenica d. d., as the sole shareholder of Prospera d. o. o., received from the subsidiary EUR 950,000 in capital payment. On the basis of the finding that the volume of capital was too large in relation to the activity and needs of the company, Prospera d. o. o. carried out the capitalization of EUR 950 000 and reduced capital reserves for this amount.

VIZ d.o.o.

In 2018, the parent company Adriatic Slovenica paid EUR 30,000 of equity into the subsidiary VIZ d. o. o. The share capital of VIZ d. o. o. thus increased to EUR 560,000.

ZDRAVJE AS zdravstvene storitve d. o. o.

In 2018, the parent company Adriatic Slovenica paid EUR 100,000 of equity into the subsidiary ZDRAVJE AS d. o. o. The share capital of ZDRAVJE AS d. o. o. thus increased to EUR 650,000.

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

In 2018, the subsidiary KD Skladi d. o. o. increased its share in the subsidiary (indirect subsidiary to AS d.d.) KD Locusta Fondovi d. o. o. by 10%.

Agent Zavarovalniško zastopanje d. o. o.

In 2018, the parent company Adriatic Slovenica increased its investment in the subsidiary AGENT d. o. o. by EUR 79,375 by making a payment of the last variable portion of the purchase price.

Received dividends

In 2018, the parent company Adriatic Slovenica received dividends in the amount of EUR 1,502,443 from its subsidiaries.

Loans received and loans given

In 2018, the parent company gave a loan amounting to EUR 50,000 to the companies in the Group. The short-term loan was given at the interest rate of 0.823 % in line with the interest rate for related companies and secured by an enforcement draft. The loan was fully repaid in October 2018.

The AS Group – acquisitions and disposals

Acquisitions

In February 2018, the parent company Adriatic Slovenica d. d., as a co-founder, acquired a 50.00% share of the company MEDIFIT d. o. o. The company's core business is related to information technology and computer services. MEDIFIT operates in Ljubljana and was registered in the Business Register of Slovenia on 22 February 2018. Since the establishment of the company until the end of 2018, the Company sold and purchased percentages of the share, thus on 31 December 2018, it holds ownership and voting control of the company with a 48.00% share and classifies it among associates.

About the company

Registered company name: MEDIFIT, druge z informacijsko tehnologijo in računalniškimi storitvami povezane dejavnosti, d. o. o.
Abbreviated company name: MEDIFIT d. o. o.
Head office and address: Dunajska cesta 63, Ljubljana, 1000 Ljubljana
Company registration number: 8150982000
VAT identification number: SI 12848999
Share capital: EUR 30.000,00 fully paid in.
The reporting period is equal to the calendar year.
Corporate tax rate: 19 %.

Merger by absorption to the parent company

In June 2018, the subsidiary KD IT, informacijske storitve d. o. o. (abbreviated: KD IT d. o. o.) merged with the parent company Adriatic Slovenica d. d.

The Management Board of Adriatic Slovenica d.d. (parent company of the Group) as the sole shareholder of the subsidiary KD IT, informacijske storitve d. o. o. (abbreviated KD IT 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, at the same time, to the simplified merger by absorption of the company KD IT, informacijske storitve d. o. o., Celovška cesta 206, 1000 Ljubljana 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. Pursuant these decisions, the transferee company Adriatic Slovenica initiated the activities of simplified merger by absorption and, on 5 June 2018, acquired the license of the Insurance Supervision Agency for the merger of KD IT d. o. o.

The merger became legally effective on 18 June 2018 pursuant to the decision made by the District Court of Koper on the deletion of the company KD IT d. o. o. from the Court Register due to merger with the transferee company ADRIATIC SLOVENICA Zavarovalna družba d. d., under the merger agreement of 1 March 2018.

By entering the merger into the Court Register on 18 June 2018, all assets and the rights and obligations of the transferor company KD IT d. o. o. after the cut-off date of merger by absorption 31 December 2017 were transferred to Adriatic Slovenica d. d. as the transferee company.

The merger by absorption to the parent company Adriatic Slovenica d. d. had no effect on the Adriatic Slovenica Group because KD IT d. o. o. was already 100% owned by the parent company before the merger.

Permanens d. o. o.

In 2018, the company Permanens d. o. o. completed the winding up procedure and was deleted from the Company Register in Zagreb on 15 January 2019.

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 2018 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.

IFRS 9 Financial Instruments: Classification and Measurement

The final version of IFRS 9 Financial Instruments contains the requirements of all individual phases of the revision of IFRS 9 and supersedes the IAS 39 Financial Instruments: Recognition and Measurement and all previous IFRS 9 versions. The Standard introduces new requirements for the classification, measurement and impairment of financial instruments and general hedge accounting. As an insurance provider, the Group will use the exemption from the adoption of IFRS 9 and, consequently, does not anticipate significant impact on its financial statements.

IFRS 4: Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts (amendments)

The amendments address concerns arising from implementing IFRS 9 before implementing the new standard that is being developed and deals with insurance contracts and will replace IFRS 4. The amendments allow insurance companies to introduce two solutions in the calculation of insurance contracts: a temporary exemption from applying IFRS 9 and the application of an overlay approach that permits the companies that are issuer of contracts which belong within the scope of IFRS 4, to reclassify, from profit or loss to other comprehensive income, some of the income or expenses arising from designated financial assets.

The management assessed the impact of the amendments on the financial statements and adopted the possibility of temporary exemption from the application of IFRS 9, as permitted by the amendments to IFRS 4 Insurance Contracts to insurance companies. Due to the possibility of temporarily postponing the application of IFRS 9, insurance companies are allowed to continue applying IAS 39 for periods beginning before 1 January 2021. The Management decided to apply the temporary exemption from the application of IFRS 9 because the main activity of the Insurance Company is connected with insurance. The Group assessed whether it is qualified for the temporary exemption as at 31 December 2015 and found that liabilities arising from insurance contracts within the scope of IFRS 4 represented 97.64%. Since 31 December 2015 until the beginning of the application of the standard on 1 January 2018 and until the reporting date on 31 December 2018, there has been no change in the activity of the Group which would have an impact on the possibility of suspending the application of IFRS 9.

Overview of liabilities arising from insurance contracts under IFRS 4

Liability type	Value as at 31.12.2015	% of total liabilities
Liabilities arising from contracts that are dealt with in accordance with IFRS 4	531,360,864	93.54%
Liabilities from non-derivative investment contracts measured at fair value through profit or loss	(0)	0.00%
Liabilities for derivatives used to mitigate risks arising from contracts within the scope of IFRS 4, investment contracts measured at fair value through profit or loss and from the assets backing those contracts	-	0.00%
Relevant tax liabilities	1,540,738	0.27%
Relevant other liabilities including employee benefits	21,451,598	3.78%
Total	**554,353,199**	**97.59%**

Below are disclosures for the AS group that allow users of the Company's financial statements to compare with companies applying IFRS 9. None of the AS Group companies has commenced to apply the IFRS 9 on 1 January 2018.

The table below presents an analysis of the fair value of classes of financial assets as at the end of the reporting period, as well as the corresponding change in fair value during the reporting period. The financial assets are divided into two categories: Assets for which their contractual cash flows represent solely payments of principal and interest (SPPI), excluding any financial assets that are held for trading and any other financial assets.

Overview of the fair value and its changes in 2018

	SPPI financial assets			Other financial assets		
in EUR	Fair value as on 1.1.2018	Fair value as on 31.12.2018	Fair value change	Fair value as on 1.1.2018	Fair value as on 31.12.2018	Fair value change
Debt securities	197,441,091	193,935,918	(3,505,174)	7,369,127	8,562,737	1,193,610
Equity securities	-	-	-	36,067,577	37,967,553	1,899,976
Derivatives	-	-	-	243,537	(429,961)	(673,499)
Loans and deposits	27,601,228	34,535,976	6,934,747	-	-	-
Financial receivables	9,535,018	8,462,010	(1,073,009)	-	-	-
Cash and cash equivalents	20,111,189	21,711,846	1,600,656	-	-	-
Total	**254,688,527**	**258,645,749**	**3,957,221**	**43,680,241**	**46,100,329**	**2,420,087**

The following table shows the carrying amount of the SPPI assets by credit risk rating grades reported to key management personnel. The carrying amount is measured In accordance with IAS 39 although this is prior to any impairment allowance for those measured at amortised cost.

Exposure to credit risk of the SPPI assets

Carrying amount	AAA	AA/A	BBB	BB/B	Unrated	Total 31.12.2018
Debt securities	3,506,016	79,023,579	61,161,341	31,532,057	13,281,939	188,504,932
Loans and deposits	-	-	1,580,412	23,137,215	9,276,394	33,994,021
Financial receivables	-	-	8,003,398	-	519,659	8,523,057
Cash and cash equivalents	-	11,614	5,954,507	6,150,090	9,595,634	21,711,846
Total	3,506,016	79,035,193	76,699,657	60,819,363	32,673,626	252,733,855

The following table provides information on the fair value and carrying amount under IAS 39 for those SPPI assets which the Group has determined do not have a low credit risk. The carrying amount is measured in accordance with IAS 39 although this is prior to any impairment allowance for those measured at amortised cost.

Financial assets which do not have a low credit risk as on 31.12.2018

v EUR	Fair value as on 31.12.2018	Carrying amount as on 31.12.2018
Debt securities	46,354,783	44,813,996
Loans and deposits	32,458,077	32,413,609
Financial receivables	519,704	519,659
Cash and cash equivalents	15,745,645	15,745,724
Total	95,078,209	93,492,988

IFRS 15 Revenue from Contracts with Customers

IFRS 15 provides a five-step model to be adopted by entities when exactly to recognise revenue arising from contracts with customers (with limited exceptions) irrespective of the type of transactions that bring revenue or the industry. The requirements of the Standard also apply to the recognition and measurement of profits and losses on the sale of certain non-financial assets that are not the result of the normal activity of an entity (e.g. sale of property, plant and equipment or intangible assets). The Standard requires extensive disclosures from the company, including a breakdown of the total amount of revenue; information on commitments relating to the sale of assets or the provision of services; changes in the amount of contractual assets and liabilities between two periods, as well as key management judgments and estimates. The management assessed the impact of the Standard on the financial statements of the insurance company and considers that the standard does not have a material impact on the measurement of its revenues due to the nature of the Group's operations and the type of revenue.

IFRS 15 Revenue from Contracts with Customers (Clarifications)

The purpose of the clarifications is to explain what the IASB sought to achieve in adopting the requirements of IFRS 15 Revenue from Contracts with Customers, in particular from the point of view of accounting for obligations defined under contracts with customers. It amends the wording of the "distinct obligations" principle; principal versus agent consideration including the determination whether the company acts as a principal or agent; and the application of the principle of control and licensing providing additional guidance for the accounting of intellectual property and royalties. The clarifications also introduce additional practical relief provisions for companies that are either applying IFRS 15 in their entirety for prior periods or those choose to use a customized approach. The Management assessed the impact of the clarifications of the Standard on the financial statements of the Group and considers that the clarifications do not have a material impact on the accounting of its revenues due to the nature of the insurance company's operations and the type of revenue.

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

The amendments introduce requirements regarding the accounting of the effects of the vesting and non-vesting conditions on the measurement of cash-settled share-based payments, measurement of share-based payment transactions with a net settlement feature for withholding tax obligations, and for modifications to the terms and conditions of a share-based payment that changes the classification of the transaction from cash-settled to equity settled. The Management assessed the impact of the amendment to the Standard on the financial statements of the Group and considers that the amendment to the Standard does not affect its financial statements, since the insurance company does not enter into share-based payment transactions.

IAS 40 Transfers of Investment Property (Amendments)

Earlier application is permitted. The Amendments provide clarification on when an entity needs to transfer properties, including those under construction or development, to, or from, investment properties. The Amendments clarify that a change in use occurs when the property meets or ceases to meet the definition of investment property and there is evidence of a change in its use. The change in the intention of the management of a company in relation to the use of a property does not in itself constitute a change in use. The management has assessed the impact of the Amendment to the Standard on the financial statements of the Group and considers that the Amendment to the Standard does not affect its financial statements as the Group transfers the property to investment property or from it only when there is a real change in the use of the property.

IFRIC 22 Foreign Currency Transactions and Advance Consideration

Early application is permitted. IFRIC 22 clarifies the accounting for transactions that include the receipt or payment of advance consideration in a foreign currency. The Interpretation covers foreign currency transactions when an entity recognises a non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration before the entity recognises the related asset, expense or income. The Interpretation defines the date of the transaction, for the purpose of determining the exchange rate, is the date of initial recognition of the non-monetary prepayment asset or deferred income liability. If there are multiple payments or receipts in advance, a date of transaction is established for each payment or receipt. The management assessed the impact of the Interpretation on the financial statements of the Group and considers that the Interpretation does not have a significant impact on the financial statements, as the Group, at initial recognition of non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration, applies the exchange rate in effect at the date of the transaction.

Annual Improvements

The International Accounting Standards Board (IASB) has published a series of Annual Improvements to IFRSs for the 2014-2016 Cycle, consisting of a set of amendments to IFRSs. The management has assessed the impact of improvements on the financial statements of the insurance company and considers that none of them will have a material impact on the financial statements, for example: because the Group has no holdings in subsidiaries, joint ventures, associates or unconsolidated structured companies classified as assets of the said changes held for sale or discontinued operations.

- ***IFRS 1 First-time Adoption of International Financial Reporting Standards:*** The Amendment deleted the short-term exemptions connected with financial instruments, employee remuneration and investment entities, which are otherwise valid at first time adoption of the IFRS.

- **IAS 28 Investments in Associates and Joint Ventures:** Clarified that the an entity may, at initial recognition, elect to measure at fair value through profit or loss an investment in an associate or a joint venture that is held by an entity that is a venture capital organisation, or other qualifying entity.

Standards which are not yet effective and have not been adopted early by the Group

IFRS 16: Leases

Effective for annual periods beginning on or after 1 January 2019. IFRS 16 sets out the guidelines for the recognition, measurement, presentation and disclosure of leases of both contracting parties: the lessees and the lessor. The new standard requires from the lessees to recognise most of the leases in financial statements under a single lessee accounting model, with certain exceptions. There have been no significant changes in the accounting of leases by the lessors.

The management estimated that upon the transition to IFRS 16, the Group will recognize additional EUR 1,666,534 of assets and EUR 1,666,534 of liabilities for leases. Upon transition to IFRS 16, the Company applied the simplified transition method, which makes the effect of the transition equal to zero. On the day of the transition, the Group applied a discount rate equal to 2.31% for the calculation of rental obligations.

IFRS 17 Insurance Contracts

Effective for annual periods beginning on or after 1 January 2021; early application is permitted provided that the Company also reports in accordance with IFRS 15 Revenue from Customer Contracts and IFRS 9 Financial Instruments. IFRS 17 establishes the principles for the recognition, measurement, presentation and disclosure of insurance contracts, entered into by the Company. The Standard requires the application of similar principles also in reinsurance and investment contracts with possible discretionary participation. The objective of IFRS 17 is to ensure that an entity provides relevant information that faithfully represents those contracts. This information gives a basis for users of financial statements to assess the effect that insurance contracts, which are within the scope of IFRS 17, have on the entity's financial position, financial performance and cash flows. The Standard has not been adopted by the EU. The management assessed the impact of the Standard on the financial statements of the Group and 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.

Amendments to IFRS 10 Consolidated Financial Statements and IAS 28 Investments in Associates and Joint Ventures: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture

The amendments address a recognised conflict between the requirements of IFRS 10 and those of IAS 28 connected to the sale or contribution of assets between an investor and its associate or joint venture. Amendments require that an entity recognize the full amount of profit or loss when a transaction involves a business, whether the business is housed in a subsidiary or not. For other transactions that do not involve a business, an entity shall recognize part of the profit or loss even if the assets are part of a subsidiary. In December 2015, the International Accounting Standards Board deferred the effective date of the Standard indefinitely, pending the results of the project for the accounting of funds under the equity method. The amended standard has not yet been approved by the EU. The management expects that the amendment to the Standard, when initially applied, will not have a material impact on the financial statements of the Group.

Amendments to IFRS 9: Prepayment Features with Negative Compensation

Effective for annual periods beginning on or after 1 January 2019. Earlier application is permitted. Amendments allow an entity to measure financial assets with features of a prepayment that allow a party to receive or require an appropriate compensation for early termination of the contract (in the case of a holder of a financial asset this is a "negative compensation"), at amortized cost or at fair value through other comprehensive income. The management assessed the impact of the Amendments on the financial statements of the Group and 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.

Amendments to IAS 28: Long-term investments in associates and joint ventures

Effective for annual periods beginning on or after 1 January 2019. Earlier application is permitted.
The amendments address the concern whether the measurement of long-term investments (in particular, in terms of requirements for impairment of long-term investments in associates and joint ventures, which are part of "net investments" in an associate or a joint venture) falls within the scope of IFRS 9, IAS 28 or a combination of both. The amendments clarify that an entity should, when recognizing long-term investments not measured using the equity method, apply the provisions of IFRS 9 Financial Instruments, before applying IAS 28. In applying IFRS 9, the entity does not take into account any adjustments to the carrying amount of long-term investments that are derived from the IAS 28. The amendments to the Standard have not yet been approved by the EU. The Management expects that the amendments to the Standard, when initially applied, will not have a material impact on the financial statements of the Group.

IFRIC 23 Uncertainty over Income Tax Treatments

Effective for annual periods beginning on or after 1 January 2019. Early application is permitted. The Interpretation the determination of taxable profit, when there is uncertainty over income tax treatments under IAS 12 Income Taxes. The Interpretation introduces guidelines for: accounting for uncertain tax treatments independently or together; taxation authorities' examinations; using an appropriate method that reflects these uncertainties while taking into account changes in facts and circumstances. The Management does not expect that the Interpretation, when initially applied, will have material impact on the financial statements of the Group as it does not operate in a complex multinational tax environment.

IAS 19 Employee Benefits: Modification, Restriction or Settlement of Programmes (amendments)

Effective for annual periods beginning on or after 1 January 2019. Early application is permitted. The amendments to the accounting standard require companies to apply updated actuarial assumptions when determining the cost of employee benefits and the net amount of interest in the remaining annual reporting period following the modification, restriction or settlement of the employee benefits programme. The amendments also explain the impact of accounting for changes, restrictions or settlement of the programme to the required asset thresholds. The amendments to the Standard have not yet been approved by the EU. The Management expects that the amendments to the Standard, when initially applied, will not have a material impact on the financial statements of the Group.

Conceptual Framework for Financial Reporting

The International Accounting Standards Board (Board) issued the revised Conceptual Framework for Financial Reporting (Conceptual Framework) on 29 March 2018. This Conceptual Framework sets out a comprehensive set of concepts for financial reporting, the setting of standards, guidelines for the preparation of consistent accounting policies, and for easier understanding and interpretation of standards. The IASB also published a separate accompanying document "Amendments to References to the Conceptual Framework in IFRS Standards", which sets out amendments to Standards to update references to the revised Conceptual Framework. The Board's objective is to provide support in the transition to the amended Conceptual Framework for companies that adopt their accounting policies on the basis of the Conceptual Framework guidelines in the event that no specific IFRS standard deals with a specific transaction. For preparers of financial reports, who adopt their accounting policies on the basis of the Conceptual Framework, the revised Conceptual Framework is effective for annual periods beginning on or after 1 January 2020.

IFRS 3 Business Combinations (amendments)

The IASB has issued 'Definition of a Business (Amendments to IFRS 3)' aimed at resolving the difficulties that arise when an entity determines whether it has acquired a business or a group of assets. The amendments are effective for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 January 2020 and for the acquisition of assets at the beginning of that period or later. Early application is permitted. The amendments to the Standard have not yet been approved by the EU. The Management expects that the amendments to the Standard, when initially applied, will not have a material impact on the financial statements of the Group.

The International Accounting Standards Board (IASB) **has published a series of Annual Improvements to IFRSs for the 2015-2017 Cycle**, consisting of a set of amendments to IFRSs. Effective for annual periods beginning on or after 1 January 2019. Early application is permitted. The amendments to the Standard have not yet been approved by the EU. The management expects that none of the amendments, when initially applied, will have a material impact on the financial statements of the Group.

- ***IFRS 3 Business Combinations and IFRS 11 Common Arrangements***: The amendments to IFRS 3 clarify that when an entity obtains control of a business that is a joint operation, it remeasures previously held interests in that business. The amendments to IFRS 11 clarify that when an entity obtains joint control of a business that is a joint operation, the entity does not remeasure previously held interests in that business.
- ***IAS 12 Income tax***: The amendments clarify that an entity recognizes the tax consequences arising from the payment of financial instruments that are classified as equity, where the transactions or events that generated distributable profits are recognised.
- ***IAS 23 - Borrowing Costs***: The amendments clarify Article 14 of the Standard, which reads that if any specific borrowing remains outstanding after the related asset is ready for its intended use or sale, that borrowing becomes part of the funds that an entity borrows.

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 2018 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 policyholders.

Non-life insurance contracts

This class includes accident insurance, insurance of land motor vehicles, fire and other damage to property 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 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 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.

Insurance companies 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 umbrella insurance contract.

Reinsurance contracts

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

Financial contracts

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

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

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

The Pokojninsko varčevanje AS guarantee funds consists of:

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

The investment policy of each guarantee 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 2018.

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:

Depreciation rates and useful lives of intangible assets:

Name of intangible asset by amortisation groups	Annual rate of amortisation 2018	Useful life in 2018 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.

Among other intangible assets, the Group presents assets of a non-defined useful life, namely a list of investors. On the date of financial statements, the Group checks if the asset is impaired by comparing its carrying amount with its recoverable amount.

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 2018	Useful life in 2018 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 carrying amount 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.

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 2018	Useful life in 2018 in years
Buildings	1.3 -1.8%	56-77

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

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

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

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

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

Property, which the Group 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 Group 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; and

- 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 valued by the Group 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	Applied parameter value	Fair value hierarchy
INTERNAL / EXTERNAL APPRAISERS				
Debt securities	**Internal model**			
Debt securities - state	Calculation of required profitability	Weighted average of profitability of two liquid state securities of the same country, with shorter and longer maturity		Level 2
		Weight 1: number of days between maturity date of observed security maturity date of the securities for which fair value note		
Debt securities – companies and financial institutions	Calculation of sum of required profitability for	State bonds of comparable maturity	od -0,561% do 0,863%	Level 2
		Credit risk for risky industries (CDS), considering the comparable maturity and investment class rate	od 0,29% do 6,86%	
		illiquidity	od 0 do 0,15 %	
Equity securities	**Internal model**			
	Method of comparable companies on stock exchange	Market indexes: P/E, P/B, P/S, P/EBITDA, F/FCF, based on stock quotations and / or prices of comparable companies and selected financial categories of the company under assessment		Level 3
Investment properties	**Authorised external appraisers**			Level 3
	Market method	Analysis of actual real estate market transactions	od 65 % do 112 %	
	Revenue method (direct capitalisation method)	Present value of future expected gains		
		Capitalisation rate (gains and repayment)	od 7,72 % do 8,32 %	
		Discount rate	1.05%	
		Allowance for lack of marketability (illiquidity)		
Capital investments in associates	**Authorised external appraisers**			Level 3
	Net asset value method	Change in prices of real estate		
	Discounting of cash flows	g (growth rate in period of constant growth)		
		net margin (constant growth period)		
		discount rate	14.9%	
		discount for lack of marketability		
EXTERNAL APPRAISERS (market organiser)				
Debt securities - compound	stochastic model, network model HW1f and HW2f	curve of EUR SWAP interest rates, credit adjustments of the issuer, credit adjustments of comparable issuers, volatility of interest rates, correlation matrix, share index volatility		Level 2
Equity securities - compound	stochastic model	curve of EUR SWAP interest rates, credit adjustments of the issuer, credit adjustments of comparable issuers, share index volatility		Level 2
BLOOMBERG BVAL				
Debt securities				
Debt securities - state	Cash flow discounting	curve of EUR SWAP interest rates, credit adjustments of the issuer, credit adjustments of comparable issuers, indicative quotations, BVAL rate estimate of 6 - 10		Level 2
		curve of EUR SWAP interest rates, credit adjustments of the issuer, credit adjustments of comparable issuers, indicative quotations, BVAL rate estimate of 1 - 5		Level 3
Debt securities – companies and financial institutions	Cash flow discounting	curve of EUR SWAP interest rates, credit adjustments of the issuer, credit adjustments of comparable issuers, engendered, actual quotes, indicative quotations, BVAL rate estimate of 6 - 10		Level 2
		curve of EUR SWAP interest rates, credit adjustments of the issuer, credit adjustments of comparable issuers, engendered, actual quotes, indicative quotations, BVAL rate estimate of 1 - 5		Level 3

Impairment of financial assets

Assets carried at amortised cost

At each balance sheet date, it is assessed whether there is any objective evidence that a financial asset or group of financial assets is impaired. A financial asset or group of financial assets is impaired and impairment losses are recognised only if there is objective evidence of impairment as a result of one or more events that have occurred after the initial recognition of financial assets, and that loss event (events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. Objective evidence that a financial asset or group of financial assets is impaired includes observable data that comes to the attention of the holder of the asset about the following events:

- significant financial difficulty of the issuer or borrower,
- a breach of contract, such as a default on the payment of interest or principal,
- loan rescheduling under more favourable conditions due to the inability to service the debt,
- bankruptcy of the debtor or financial reorganisation;
- disappearance of an active market for such financial assets due to financial difficulties.

If there is objective evidence that an impairment loss has been incurred on loans and receivables or held-to-maturity financial assets carried at amortised cost, the amount of the loss incurred due to impairment is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred), discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced using 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 30,000 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. 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 30,000. 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

Mathematical provision for unit-linked life insurance represents the value of assets held on the insured person's policy. It 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, but not yet converted into units (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 and is verified on the valuation date.

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 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 2018 was 19%, in accordance with Slovene local tax legislation.

In countries outside the Republic of Slovenia, tax is calculated using tax rates determined by local legislation. In Macedonia, the income tax in 2018 was calculated using 10% tax rate, and in Croatia, it was calculated using 18% tax rate applicable in 2018.

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 (18% in 2018), and then reported in the tax report of the parent insurance company in Slovenia, where the previously paid tax abroad is deducted, but only up to the level of tax rate effective in Slovenia (19% in 2018).

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, it was established that an impairment of EUR 1,046,627 was required among investments in the group of available-for-sale financial assets, either due to a prolonged decrease in fair value or a sustained fall in the exchange rate. Both conditions affected the decision with relation to some investments.

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 MEASUREMENT OF INVESTMENT PROPERTY RECOVERABLE VALUE

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

6.4 IMPAIRMENT TEST OF GOODWILL

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 2018 year-end, the Group performed an impairment test of goodwill adequacy (see Section 10.1) and found that no impairments are necessary.

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 2018, 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 OCENE ZAVAROVALNO-TEHNIČNIH REZERVACIJ

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) 31.12.2018	Provision for incurred but not reported claims (IBNR) 31.12.2017
Accident insurance	7,886,504	7,714,385
Health insurance	4,769,531	4,784,152
Land motor vehicles insurance	1,280,913	1,316,940
Marine loss insurance	28,612	19,938
Goods in transport insurance	336,141	181,484
Fire and natural forces insurance	829,422	652,733
Other damage to property insurance	950,785	896,517
Motor vehicle liability insurance	24,687,349	26,132,550
Liability for ship/boat insurance	2,810	3,577
General liability insurance	12,301,486	10,633,175
Suretyship insurance	6,624	5,978
Miscellaneous financial loss insurance	22,923	28,621
Legal expenses insurance	65	-
Travel assistance insurance	401,741	258,548
Life insurance	3,340,070	3,289,725
Total	**56,844,976**	**55,918,323**

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 2009	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
At the end of loss year	-	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	85,496,766
1 year after loss year	-	109,844,795	98,882,126	92,331,285	104,142,780	87,477,430	85,239,212	81,956,952	86,186,241	88,301,425	-
2 years after loss year	-	109,454,915	96,330,471	90,568,304	96,570,014	85,740,792	83,397,478	80,211,635	84,303,381	-	-
3 years after loss year	-	107,637,944	95,301,074	89,085,735	94,028,156	83,827,339	81,579,315	78,688,971	-	-	-
4 years after loss year	-	105,953,158	93,622,460	86,234,853	94,315,327	84,162,769	81,058,863	-	-	-	-
5 years after loss year	-	104,876,792	93,138,216	87,113,178	93,416,625	83,619,271	-	-	-	-	-
6 years after loss year	-	104,466,465	92,620,067	86,819,320	93,888,987	-	-	-	-	-	-
7 years after loss year	-	104,972,611	92,363,891	87,042,657	-	-	-	-	-	-	-
8 years after loss year	-	104,850,834	92,484,515	-	-	-	-	-	-	-	-
9 years after loss year	-	104,944,326	-	-	-	-	-	-	-	-	-
Cumulative loss estimate	**-**	**104,944,326**	**92,484,515**	**87,042,657**	**93,888,987**	**83,619,271**	**81,058,863**	**78,688,971**	**84,303,381**	**88,301,425**	**85,496,766**
Total losses paid until 31 Dec. 2018	**-**	**101,778,175**	**90,490,809**	**83,621,744**	**91,333,679**	**81,294,785**	**78,094,172**	**74,278,155**	**75,248,703**	**74,270,717**	**48,214,826**
Claim provisionss - balance 31 Dec.	**13,743,522**	**3,166,151**	**1,993,706**	**3,420,913**	**2,555,308**	**2,324,486**	**2,964,691**	**4,410,817**	**9,054,678**	**14,030,709**	**37,281,940**

Provisions for outstanding claims in non-life insurance (excluding health insurance), as recognised in the balance sheet

	Listing + IBNR	Provisions for valuation costs	Total
Provisions as at 31.12.2017	96,948,803	6,610,043	103,558,845
Provisions as at 31.12.2018	96,601,594	6,658,043	103,259,637

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 2018, 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. 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 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 April 2018, the parent company published the Solvency and Financial Condition Report for 2017. The report was also reviewed by an independent external auditor, and it is evident from the report that at the 2017 year-end the parent company had a surplus of own assets above the required capital. The parent company confirms that as at 30 September 2018, 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. Reports for individual years can be accessed at the company website www.as.si.

The parent insurance 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 2018

(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	70,162	0.31%	197,798	0.88%
Unit-linked insurance	1,079,433	2.95%	3,365,606	9.20%
Health insurance	454,271	0.46%	879,897	0.88%
Non-life insurance	10,446,218	7.41%	21,331,741	15.14%
Total	**12,050,083**	**3.97%**	**25,775,042**	**8.50%**

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%**

Considering that the share of the top 10 and top 100 largest policyholders and beneficiaries in proportion to the entire portfolio is relatively small, it can be concluded 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 2018	With reinsurance 2018	Net of reinsurance 2017	With reinsurance 2017
0–9,999 euros	283,999,762	263,648,436	286,870,806	264,836,915
10,000–29,999 euros	848,233,681	742,821,756	861,535,619	752,713,910
30,000–59,999 euros	967,927,165	660,515,035	947,038,464	662,926,918
60,000–99,999 euros	666,008,034	296,563,093	644,289,983	297,635,506
Over 100,000 euros	363,816,169	105,732,286	334,346,183	100,593,936
Total	**3,129,984,810**	**2,069,280,605**	**3,074,081,055**	**2,078,707,185**

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. 2018		TOTAL ANNUAL ANNUITY PAYMENTS IN 31. 12. 2017	
Annual annuity payments to the insured person as at 31 December	amount	%	amount	%
EUR 0–999	387,499	12.57%	407,806	12.56%
EUR 1,000–1,999	843,419	27.35%	889,136	27.39%
EUR 2,000–2,999	553,421	17.95%	586,452	18.07%
EUR 3,000–3,999	412,114	13.37%	428,752	13.21%
Over EUR 4,000	886,883	28.76%	933,903	28.77%
Total	**3,083,335**	**100%**	**3,246,050**	**100%**

In 2018, concentrations of insurance risk with respect to the annuity business remained at the same level compared to the previous year. As in 2017, concentration was the highest in the over EUR 4,000 annual annuity payment 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 2019.

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 2018

The liability adequacy test (LAT) results of 31 December 2018, 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 2018 applied the claims ratio of final claims occurred in 2018, 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 2018

As at 31 December 2018, the Group formed provisions for unexpired risks for cargo transport insurance in the total amount of EUR 5,686. In this way, the Group 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%
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 Group

(in EUR)	31 Dec 2018	31 Dec 2017
Factor		
Costs/expenses +5 %	(3,427,267)	(3,424,254)
Costs/expenses -5 %	3,427,267	3,424,254
Interest rates +1 %	11,709,652	16,305,632
Interest rates -1 %	(14,647,531)	(15,427,105)
Assurance mortality +5 %	175,776	114,010
Annuitant mortality -5 %	(196,510)	(130,996)
Loss ratio +5 %	(14,459,931)	(14,606,551)
Loss ratio -5 %	14,459,931	14,606,551

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 parent company Adriatic Slovenica 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 parent company 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.

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

The structure of the reinsurance program changed slightly in 2018, as the earthquake risk was included in the contract for catastrophic risks and, accordingly, increased the cover limit. Other reinsurance contracts maintained the unchanged structure and content, as in previous years they responded adequately to loss events exceeding retention, calculated for lines of business.

Reinsurance concentration in the financial year 2018

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%	916,981	408,017	-	(1,217,891)	107,107
Quota share reinsurance of earthquake risk	(186,779)	1.83%	52,298	-	(342,387)	(178)	(477,046)
Non-life Gross Risk XL reinsurance	(1,251,360)	12.26%	-	-	-	-	(1,251,360)
Engineering Risk XL reinsurance	(260,136)	2.55%	-	413,051	-	7,008	159,923
Non-life Cat XL reinsurance	(2,332,987)	22.85%	-	-	-	(16,230)	(2,349,217)
Non-life, i.e. annual aggregate Cat XL losses	(1,057,644)	10.36%	-	2,884,710	-	(1,919,939)	(92,873)
XL reinsurance motor vehicle liability insurance and green cards	(794,425)	7.78%	-	563,381	-	872,874	641,830
XL reinsurance of comprehensive automobile insurance (casco)	(46,150)	0.45%	-	155,000	-	(130,000)	(21,150)
Other non-life reinsurance	**(2,149,906)**	**21.06%**	**246,828**	**505,514**	**(38,928)**	**169,777**	**(1,266,715)**
Health reinsurance	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Life reinsurance	**(2,131,328)**	**20.87%**	**582,109**	**681,661**	**1,867**	**(30,552)**	**(896,243)**
Total reinsurance in the financial year	(10,210,715)	100%	1,798,217	5,611,334	(379,448)	(2,265,131)	(5,445,744)
Co-insurance provided	**(44,540)**	**-**	**11,653**	**73,714**	**(134,490)**	**(21,593)**	**(115,256)**
Co-insurance received	**207,055**	**-**	**(38,265)**	**(7,650)**	**(4,593)**	**121,781**	**278,329**
Reinsurance received	**667,884**	**-**	**(105,325)**	**(583,529)**	**19,309**	**(13,270)**	**(14,931)**
Total Re(co)insurance	(9,380,316)	-	1,666,280	5,093,869	(499,222)	(2,178,213)	(5,297,603)

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%**	**2,184,085**	**3,889,955**	**237,890**	**(87,824)**	**(5,147,538)**
Co-insurance provided	**(516,453)**	**-**	**78,049**	**41,776**	**135,517**	**19,288**	**(241,824)**
Co-insurance received	**329,899**	**-**	**(58,846)**	**(122,758)**	**61,664**	**47,417**	**257,376**
Reinsurance received	**645,340**	**-**	**(88,991)**	**(75,650)**	**(59,730)**	**(61,410)**	**359,557**
Total Re(co)insurance	**(10,912,859)**	**-**	**2,114,296**	**3,733,322**	**375,340**	**(82,529)**	**(4,772,429)**

The above table shows the reinsurance concentration for all contracts.

In 2018, the reinsurance and coinsurance premiums of EUR 10,255,255 was totalled or 13.7% less compared to the previous year. The reduction in the reinsurance premium is partly attributable to the change in the reinsurance programme for earthquake risk, while the major part of the decrease is due to the termination of the international reinsurance programme with a larger company.

The restructuring of reinsurance of earthquake risks from a proportional one into a non-proportional also triggered the reduction in the reinsurance fees received, as non-proportional reinsurance fees are not recognized. Slightly higher fees were charged from reinsurance of the car insurance quota in the years 2012 - 2014, which was the result of the release of claims provisions and thus of improving of the loss ratio. In 2018, a total of EUR 1,798,217 was reinsurance fees, which is 17.7% less than in 2017.

In 2018, the reinsurers' share in claims totalled EUR 5,611,334, of which EUR 2,884,710 came from reinsurance annual aggregate losses of 2016 and 2017, In 2018, there were no major storms that would activate reinsurance protection, and in 2018 the favourable impact of storms from 2017 on the reinsurance result continued. Due to newly reported claims in 2018, some events from 2017 exceeded the threshold for inclusion in the cover of the annual aggregate of claims and the reinsurance cover of the annual aggregate of claims for 2017 increased in 2018 by EUR 964,771.

In the motor vehicle liability reinsurance program, one major damage from 2017 was reported in 2018, whose reinsured portion amounted to EUR 1,220,562, which significantly affected the positive reinsurance result of the contract.

Within the scope of reinsurance received, we were involved in a larger machine-breakdown and business interruption loss, part of which was carried out from the reinsurance of technical risks.

In other reinsurance programmes, the loss event in 2018 was comparable to the previous year.

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 affect the value of the Company's financial assets, meaning that the financial liabilities of counterparties will not be covered. This 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 2018, these assets totalled EUR 278,425,381 (2017: EUR 310,355,667). Of this total amount, EUR 274,127,785 (2017: EUR 304,978,130) are accounted for in the category of assets of policyholders who bear investment risk, and a part of the assets amounting to EUR 4,297,596 (2017: EUR 5,377,537) 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)	2018	2017
Cash at bank	2,748,830	2,408,989
Financial receivables	1,156,951	1,677,412
Receivables from direct insurance operations	366,181	1,291,137
Deferred tax assets	145	-
Amounts of technical provisions ceded to reinsurers	25,485	-
Other assets	4	-
Total	**4,297,596**	**5,377,537**

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 2018 and 2017 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

(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	**3,447,189**	**(0)**	**5,115,548**	**1,968,733**	**-**	**10,531,469**
- listed	2,514,899	(0)	4,490,980	390,251	-	7,396,129
Government bonds	932,290	(0)	624,568	1,578,482	-	3,135,340
Held-to-maturity financial assets	**9,135,039**	**302,325**	**20,191,629**	**-**	**-**	**29,628,993**
- listed	9,135,039	302,325	8,788,476	-	-	18,225,841
Government bonds	0	-	11,403,153	-	-	11,403,153
Available-for-sale financial assets	**66,344,630**	**8,215,244**	**81,835,083**	**589,227**	**2,480,982**	**159,465,166**
- listed	20,553,510	(0)	7,323,844	-	2,480,982	30,358,336
- non-listed	3,891,193	-	-	-	-	3,891,193
Government bonds	41,899,927	8,215,244	74,511,239	589,227	-	125,215,637
Total debt financial instruments	**78,926,858**	**8,517,569**	**107,142,260**	**2,557,960**	**2,480,982**	**199,625,629**
Financial assets at fair value through profit or loss	0	-	831,280	6,380,143	207,477	7,418,901
- listed	0	-	831,280	6,380,143	207,477	7,418,901
Available-for-sale financial assets	22,654,325	670,697	12,255,894	1,550,550	1,347,881	38,479,346
- listed	7,564,367	-	11,600,742	1,550,550	1,347,881	22,063,539
- non-listed	15,089,958	670,697	655,152	-	-	16,415,807
Total equity financial instruments	**22,654,325**	**670,697**	**13,087,174**	**7,930,693**	**1,555,358**	**45,898,247**
Loans, deposits and financial receivables	30,333,876	2,912,564	8,539,406	4,104	55,189	41,845,138
Investments in associates	8,355,173	3,203,395	503,885	-	-	12,062,454
Total financial investments	**140,270,232**	**15,304,225**	**129,272,724**	**10,492,757**	**4,091,529**	**299,431,467**
Amount (technical provisions) transferred to reinsurers	14,648,280	-	229,762	-	-	14,878,042
Receivables from insurance business and other receivables	32,157,320	7,084,309	33,256,790	-	426,461	26,771,256
Cash and cash equivalents	9,833,525	2,643,164	4,409,508	1,420,090	2,076,817	20,383,105
Other assets	62,750,341	426,724	3,553,811	-	25,910,047	92,619,968
Total assets	**259,659,698**	**25,458,422**	**170,722,596**	**11,912,847**	**32,504,854**	**454,083,838**
Liabilities from insurance contracts	**147,303,369**	**12,149,250**	**-**	**-**	**-**	**159,452,619**
- non-current liabilities	55,116,835	77,873	-	-	-	55,194,708
- current liabilities	92,186,534	12,071,378	-	-	-	104,257,911
Liabilities from insurance contracts with DPF	**-**	**-**	**115,485,096**	**-**	**-**	**115,485,096**
- non-current liabilities	-	-	102,684,123	-	-	102,684,123
- current liabilities	-	-	12,800,973	-	-	12,800,973
Liabilities from investment contracts	**-**	**-**	**-**	**11,886,157**	**-**	**11,886,157**
- non-current liabilities	-	-	-	11,886,157	-	11,886,157
Equity capital	**65,801,343**	**9,138,536**	**16,401,691**	**(13)**	**4,532,981**	**95,874,537**
Bonds issued (Subordinated liabilities)	**22,807,639**	**-**	**26,774,185**	**-**	**-**	**49,581,823**
Other liabilities	**23,747,348**	**4,170,637**	**12,061,625**	**26,703**	**27,971,874**	**21,803,605**
- non-current liabilities	6,540,926	14,710	5,586,706	-	160,367	5,305,680
- current liabilities	17,206,422	4,155,927	6,474,919	26,703	27,811,507	16,497,925
Total liabilities	**259,659,698**	**25,458,423**	**170,722,596**	**11,912,847**	**32,504,854**	**454,083,838**

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 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	**261,940,217**	**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.

In the tables showing the Classification of assets by maturity into non-current and current assets for 2018 and for 2017, 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 2018

(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	**77,994,569**	**8,517,569**	**106,544,203**	**1,865,006**	**-**	**194,921,347**
At fair value through profit or loss	2,514,899	-	4,517,491	1,275,779	-	8,308,169
- listed	2,514,899	-	4,517,491	1,275,779	-	8,308,169
Available for sale	66,344,630	8,215,244	81,835,083	589,227	-	156,984,184
- listed	62,453,437	8,215,244	81,835,083	589,227	-	153,092,991
- non-listed	3,891,193	-	-	-	-	3,891,193
Held to maturity	9,135,040	302,325	20,191,629	-	-	29,628,994
- listed	9,135,040	302,325	20,191,629	-	-	29,628,994
Equity securities	**22,654,325**	**670,697**	**12,255,894**	**7,930,693**	**0**	**43,511,608**
At fair value through profit or loss	-	-	0	6,380,143	0	6,380,143
- listed	-	-	0	6,380,143	0	6,380,143
Available for sale	22,654,325	670,697	12,255,894	1,550,550	-	37,131,465
- listed	7,564,367	-	11,600,742	1,550,550	-	20,715,658
- non-listed	15,089,958	670,697	655,152	-	-	16,415,807
Investments in subsidiary and associates	8,355,173	3,203,395	503,885	-	-	12,062,454
Loans, deposits and financial receivables	317,185	2,499,908	559,240	-	55,189	3,431,521
Total financial investments	**109,321,251**	**14,891,569**	**119,863,222**	**9,795,699**	**55,189**	**253,926,929**
Amount (technical provisions), transferred to reinsurers	8,501,443	-	-	-	-	8,501,443
Receivables from insurance business and other receivables	10,310,107	531,196	274,638	-	163,119	4,282,032
Other assets	37,079,822	291,667	419,706	-	25,459,858	63,251,053
Total assets	**165,212,623**	**15,714,432**	**120,557,566**	**9,795,699**	**25,678,166**	**329,961,457**
Current assets						
Debt securities	**932,290**	**(0)**	**598,056**	**692,954**	**2,480,982**	**4,704,282**
At fair value through profit or loss	932,290	(0)	598,056	692,954	-	2,223,300
- listed	932,290	(0)	598,056	692,954	-	2,223,300
Available for sale	-	-	-	-	2,480,982	2,480,982
- listed	-	-	-	-	2,480,982	2,480,982
Equity securities	0	-	831,280	-	1,555,358	2,386,639
At fair value through profit or loss	0	-	831,280	-	207,477	1,038,758
- listed	0	-	831,280	-	207,477	1,038,758
Available for sale	-	-	-	-	1,347,881	1,347,881
- listed	-	-	-	-	1,347,881	1,347,881
Loans, deposits and financial receivables	30,016,691	412,656	7,980,166	4,104	0	38,413,617
Total financial investments	**30,948,981**	**412,656**	**9,409,503**	**697,058**	**4,036,340**	**45,504,538**
Amount (technical provisions), transferred to reinsurers	6,146,837	-	229,762	-	-	6,376,599
Receivables from insurance business and other operating receivables	21,847,213	6,553,113	32,982,152	-	263,342	22,489,224
Cash and cash equivalents	9,833,525	2,643,164	4,409,508	1,420,090	2,076,817	20,383,105
Other assets	25,670,520	135,058	3,134,105	-	450,189	29,368,915
Total assets	**94,447,076**	**9,743,991**	**50,165,030**	**2,117,148**	**6,826,689**	**124,122,380**

As at the 2018 year-end, the non-current assets prevailed with a 73% share, leaving behind the Group's current assets accounting for 27% of total assets

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

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 74% share and the Group's current assets amounted to 26% 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 2018 – 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 2018
Debt financial instruments	**197,067,669**	**-**	**23,902,543**	**91,689,569**	**55,038,562**	**16,181,796**	**34,409,928**	**221,222,398**
Financial assets at fair value through income statement	8,562,737	-	670,821	5,225,875	2,685,575	1,500	521,400	9,105,171
Financial assets held to maturity	29,628,993	-	4,737,893	21,715,487	6,891,018	2,186,796	2,089,800	37,620,993
Financial assets available for sale	158,875,938	-	18,493,829	64,748,207	45,461,970	13,993,500	31,798,728	174,496,234
Equity financial instruments	**37,967,554**	**37,760,077**	**-**	**207,477**	**-**	**-**	**-**	**37,967,554**
Financial assets at fair value through income statement	1,038,757	831,280	-	207,477	-	-	-	1,038,757
Financial assets available for sale	36,928,797	36,928,797	-	-	-	-	-	36,928,797
Derivatives	**42,997,985**	**-**	**38,590,217**	**2,819,605**	**775,170**	**203,142**	**1,889,113**	**44,277,247**
Assets of policyholders who bear investment risk	**274,127,785**	**205,929,558**	**1,955,222**	**24,443,691**	**31,498,575**	**4,203,006**	**6,142,579**	**274,172,631**
Assets from investment contracts	**11,912,847**	**8,877,254**	**507,419**	**902,000**	**1,435,500**	**1,000**	**200,600**	**11,923,773**
Investment properties	**564,073,841**	**252,566,890**	**64,955,401**	**120,062,342**	**88,747,807**	**20,588,945**	**42,642,220**	**589,563,604**
Total financial investments	14,903,527	-	6,514,812	6,239,708	1,633,609	511,719	3,681	14,903,528
Receivables from insurance business and other receivables	27,137,581	134,480	26,975,138	27,964	-	-	-	27,137,581
Operating and other receivables	21,711,844	21,005,201	706,644	-	-	-	-	21,711,844
TOTAL ASSETS	**627,826,794**	**273,706,571**	**99,151,994**	**126,330,013**	**90,381,416**	**21,100,663**	**42,645,901**	**653,316,558**
Bonds issued (Subrogate liabilities)	49,581,823	-	3,944,000	15,815,000	59,892,000	-	79,651,000	159,302,000
Non-life and health insurance	159,452,619	-	103,923,869	39,576,394	11,140,272	4,224,073	588,011	159,452,619
Unit-linked life insurance	273,416,137	-	12,413,328	56,019,388	57,243,045	47,513,666	100,226,710	273,416,137
Life insurance	115,485,096	-	5,106,964	11,208,426	23,036,646	20,656,854	62,602,537	122,611,427
Investment contracts	11,886,159	-	127,421	698,528	1,954,090	2,350,561	6,755,558	11,886,159
Other liabilities	524,591	-	406,416	335,687	(918,949)	-	(222,727)	(399,573)
TOTAL LIABILITIES	**610,346,425**	**-**	**125,921,999**	**123,653,423**	**152,347,104**	**74,745,154**	**249,601,089**	**726,268,769**

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
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**
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**
Assets from investment contracts	**8,890,333**	**7,459,984**	**21,900**	**283,700**	**1,137,500**	**-**	**-**	**8,903,084**
Investment properties	**584,182,056**	**275,369,539**	**25,214,884**	**115,576,235**	**125,866,580**	**32,201,841**	**38,085,777**	**612,314,856**
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
TOTAL ASSETS	**654,757,587**	**276,678,733**	**85,635,740**	**121,288,243**	**127,998,503**	**33,078,312**	**38,210,857**	**682,890,388**
Bonds issued (Subrogate 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	429,198	-	429,198	-	-	-	-	429,198
TOTAL LIABILITIES	**633,063,333**	**-**	**129,688,613**	**104,378,393**	**183,434,242**	**76,249,961**	**185,535,693**	**679,286,903**

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 2018[1]

(in EUR)	AAA-A	BBB-B	CCC-C	Not rated	Total 2018
Financial assets at fair value through profit or loss	**3,515,218**	**5,047,520**	**-**	**-**	**8,562,737**
Debt securities	3,515,218	5,047,520	-	-	8,562,737
Held-to-maturity financial assets	**9,789,834**	**17,326,702**	**-**	**2,512,457**	**29,628,993**
Debt securities	9,789,834	17,326,702	-	2,512,457	29,628,993
Available- for-sale financial assets	**71,660,601**	**73,964,874**	**-**	**13,250,464**	**158,875,938**
Debt securities	71,660,601	73,964,874	-	13,250,464	158,875,938
Loans, deposits and financial receivables	**16,317**	**23,665,150**	**-**	**18,159,568**	**41,841,034**
Assets from investment contracts	**1,768,455**	**789,505**	**-**	**-**	**2,557,960**
Debt securities	1,768,455	789,505	-	-	2,557,960
Total financial investments	**86,750,424**	**120,793,750**	**-**	**33,922,489**	**241,466,663**
Receivables from insurance business and other receivables	976,838	22,632	-	13,878,571	14,878,042
Reinsurers' share of technical provisions	14,664,191	-	-	213,853	14,878,043
Cash and cash equivalents	2,358	10,377,028	-	10,003,719	20,383,105
Total assets exposed to credit risk	**102,393,811**	**131,193,410**	**-**	**58,018,632**	**291,605,853**

Investments in debt securities which remained non-rated in 2018 comprise important Slovene state-owned or private companies which issued these securities. Given loans, deposits and financial receivables without a credit rating accounted for 44% of all loans, deposits and financial receivables. The maximum exposure to individual issuers without a rating relating to given loans is represented by a loan to SRC Sistemske integracije d. o. o., accounting for 45% of all given loans without a rating. A share of 45% of given loans without a rating are collateralized by with equity shares in companies, 38% with redemption value of insurance policies, 8% with property and 9% with other forms of security.

[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 2017

(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**

Bond investments portfolio without credit rating in 2017 relates to debt securities of 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 given loans without a rating are collateralized by bills of exchange and directly enforceable collateral ('izvršnica'), 30% by property and equity shares and 20% by other types of security.

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 Group is mainly exposed to government bonds of EU members. The government bonds of the Republic of Italy, Slovenia, Spain, Portugal, France, Croatia and Romania.

Credit risk: Past-due and not past-due financial instruments as at 31 December 2018

		Total past due and not impaired					Total past due and impaired					
In EUR	Neither past due nor impaired	Up to 30 days	From 31 to 90 days	From 91 to 270 days	Over 270 days	Total past-due date and not impaired	Gross value	Value adjustment – individual impairment	Value adjustment – group impairment	Net value	Total past due date and impaired	Total
Financial investments (debt securities)	197,067,669	-	-	-	-	-	-	-	-	-	-	197,067,669
Assets from financial contracts	2,557,960	-	-	-	-	-	-	-	-	-	-	2,557,960
Loans and financial receivables	35,755,646	60,880	-	-	19	60,899	243,503	(125,219)	(13,736)	104,549	104,549	35,921,093
Amount (technical provisions) ceded to reinsurers	14,878,042	-	-	-	-	-	-	-	-	-	-	14,878,042
Receivables from Insurance contracts and other receivables	6,927,581	589,045	77,858	154,775	57,458	879,136	51,999,669	(30,233,138)	(2,801,992)	18,964,539	18,964,539	26,771,256
Insurance receivables	2,277,870	327,807	65,918	40,077	7,357	441,159	31,404,318	(12,868,309)	(2,490,019)	16,045,990	16,045,990	18,765,020
Recourse receivables	-	1,535	-	-	-	1,535	19,015,514	(16,028,278)	(234,227)	2,753,010	2,753,010	2,754,544
Other receivables	4,649,711	259,704	11,941	114,697	50,101	436,442	1,579,837	(1,336,551)	(77,747)	165,539	165,539	5,251,692
Total	257,186,898	649,925	77,858	154,775	57,476	940,034	52,243,172	(30,358,357)	(2,815,728)	19,069,088	19,069,088	277,196,020

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 2017

		Total past due and not impaired					Total past due and impaired					
In EUR	Neither past due nor impaired	Up to 30 days	From 31 to 90 days	From 91 to 270 days	Over 270 days	Total past-due date and not impaired	Gross value	Value adjustment – individual impairment	Value adjustment – group impairment	Net value	Total past due date and impaired	Total
Financial investments (debt securities)	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 reinsure	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.

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 2018

	EUR	HRK	Impairment reversal to fair value	Total 2018
ASSETS				
Financial assets measured at fair value through profit or loss	8,973,881	420,136	207,477	9,601,494
Equity securities	411,144	420,136	207,477	1,038,757
Debt securities	8,562,737	-	-	8,562,737
Held-to-maturity financial assets	29,628,993	-	-	29,628,993
Debt securities	29,628,993	-	-	29,628,993
Derivatives	-	-	-	-
Available-for-sale financial assets	185,293,908	1,763,991	8,746,837	195,804,735
Equity securities	31,687,977	-	5,240,820	36,928,797
Debt securities	153,605,931	1,763,991	3,506,016	158,875,938
Loans, deposits and financial receivables	41,619,391	137,237	84,406	41,841,034
Assets from investment contracts	10,794,343	-	1,118,504	11,912,847
Total financial investment	**276,310,516**	**2,321,364**	**10,157,224**	**288,789,104**
Receivables from insurance business and other receivables	26,749,582	-	21,674	26,771,256
Amount (technical provisions) transferred to reinsurers	14,872,770	0	5,273	14,878,043
Cash and cash equivalents	17,935,666	2,442,974	4,465	20,383,105
Total assets exposed to currency risk	**335,868,534**	**4,764,338**	**10,188,636**	**350,821,508**
LIABILITIES	**-**	**-**	**-**	**-**
Bonds issued	49,581,823	-	-	49,581,823
Liabilities arising from insurance contracts	272,922,205	2,015,509	-	274,937,715
Liabilities from investment contracts	11,886,157	-	-	11,886,157
Other liabilities	475,841	-	-	475,841
Total liabilities exposed to currency risk	**334,866,027**	**2,015,509**	**-**	**336,881,537**

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

Exposure to currency risk in 2017

	EUR	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
Assets from investment contracts	8,201,274	-	689,059	8,890,333
Total financial investment	265,933,643	2,188,073	9,648,335	277,770,051
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
Total assets exposed to currency risk	327,305,685	6,926,570	10,413,202	344,645,457
Bonds issued	49,525,147	-	-	49,525,147
Liabilities arising from insurance contracts	270,467,384	1,396,433	-	271,863,816
Liabilities from investment contracts	8,865,381	-	-	8,865,381
Other liabilities	380,433	-	-	380,433
Total liabilities exposed to currency risk	329,238,345	1,396,433	-	330,634,777

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 not to be 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 [2]

	Fixed interest rate		Variable interest rate		Total	
in euros	2018	2017	2018	2017	2018	2017
ASSETS						
Debt securities	147,734,080	135,229,363	49,333,589	61,880,405	197,067,669	197,109,768
Loans and deposits	31,990,060	25,041,142	2,545,916	2,560,087	34,535,976	27,601,228
Cash and cash equivalents	18,963,014	17,702,199	-	-	18,963,014	17,702,199
Assets from financial contracts	10,447,095	8,063,423	1,465,752	826,910	11,912,847	8,890,333
Total	**209,134,249**	**186,036,127**	**53,345,256**	**65,267,402**	**262,479,506**	**251,303,529**
LIABILITIES						
Debt securities	-	-	429,961	-	429,961	-
Bonds issued (Subordinated liabilities)	49,525,147	49,525,147	-	-	49,525,147	49,525,147
Total	**49,525,147**	**49,525,147**	**429,961**	**-**	**49,955,108**	**49,525,147**

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

Risk of guaranteed return

2018 began in the light of optimism and a positive trend that continued from 2017. The share indices reached historic peaks supported by good macroeconomic data and business results of companies, especially those from the US. Fearing higher inflation and a faster completion of stimulative monetary policies, this trend was severely halted in early February. Volatility returned to the financial markets. Geopolitical risks, tense US-Chinese rhetoric and fears of an expansion of trade wars came to the fore. Concerns primarily result in a negative impact on global economic growth.

In an environment of expansionary monetary policy and higher volatility, the Company managed the risk of failed achievement of the guaranteed return by selectively allocating investments in government and corporate securities and shares, which give optimal returns adjusted for risk. In the first months, the fair values of financial assets were positively affected by the reduction of the required yields on government bonds of European countries, where the insurance company invested the majority of its financial investments. Forecasts and introduction of trade restrictions, unstable political conditions, poorer macroeconomic data and mood among investors in Europe increased volatility in financial markets in the second half of the year. The complications surrounding the adoption of the Italian budget, the Brexit issues and the rise of populism in Europe have increased the required premiums on European government bonds, where the insurance company's invested the majority of its financial investments. In 2018, the Fund achieved a return of 2.04 %, which is slightly less than the guaranteed return of 3.1%.

The insurance 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.

With respect to the guarantee 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 2018, the fund achieved a return of 0.58%, which is slightly lower than the guaranteed return of 0.72%. The guarantee fund "Zajamčeni od 60" (Guaranteed over 60) started operating in February 2016, when the portfolio started to be built and to set up the portfolio. Following the diversification policies, new investments are made primarily in bond mutual funds and ETFs, as well as corporate and government bonds. In 2018, primarily due to low interest rates, the fund achieved a return of (-1.76) %, which is less than the guaranteed return (0.72%).

[2] Including receivables of the unit-linked guarantee fund.

Actual exposure to risk of guaranteed return

Pension insurance scheme/plan	1. 1. - 31. 12. 2018	1. 1. - 31. 12. 2017
LIFE INSURANCE	-	-
Traditional life insurance	-	-
Average return on investment for the period	2.04%	4.41%
Average guaranteed return	3.10%	3.22%
Difference in interest rates	-1.06%	1.19%
PENSION INSURANCE		
Pension saving AS Zajamčeni od 60		
Average return on investment for the period	-1.76%	0.54%
Required (guaranteed) return	0.72%	0.85%
Difference in interest rates	-2.48%	-0.31%
Pension insurance PN-A01		
Average return on investment for the period	0.58%	2.17%
Required (guaranteed) return	0.72%	0.85%
Difference in interest rates	-0.14%	1.32%

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 2018.
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 2018.7

Sensitivity analyses

Analysis of sensitivity to change in the interest rate

(in EUR)	Effect on profit	Effect on equity
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
31 December 2018		
Interest rate change of +50 bp	(302,001)	(7,602,178)
Interest rate change of -50 bp	197,031	5,147,787

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 2017		
Change in prices of equities +15%	**876,756**	**5,507,522**
Change in prices of equities -15%	**(876,756)**	**(5,507,522)**
31 December 2018		
Change in prices of equities +15%	1,081,713	5,569,720
Change in prices of equities -15%	(1,081,713)	(5,569,720)

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 2018

in EUR as at 31 Dec 2018	Carrying amount	Fair value	Level 1	Level 2	Level 3
Financial assets measured at fair value through profit or loss, held for sale	**1,807,606**	**1,807,606**	**562,724**	**1,244,881**	**-**
Equity securities	207,477	207,477	-	207,477	-
Debt securities	1,037,404	1,037,404	-	1,037,404	-
Investment coupons of mutual funds	562,724	562,724	562,724	-	-
Financial assets measured at fair value through profit or loss, at initial recognition	**7,793,889**	**7,793,889**	**268,556**	**7,234,193**	**291,140**
Debt securities	7,525,333	7,525,333	-	7,234,193	291,140
Investment coupons of mutual funds	268,556	268,556	268,556	-	-
Available-for-sale financial assets	**179,388,928**	**179,388,928**	**24,783,318**	**148,588,919**	**6,016,691**
Equity securities	8,739,752	8,739,752	8,739,752	-	-
Debt securities	158,875,939	158,875,939	4,270,329	148,588,919	6,016,691
Investment coupons of mutual funds	11,773,237	11,773,237	11,773,237	-	-
Unit-linked investments of policyholders	**258,841,768**	**258,841,768**	**205,929,557**	**52,912,211**	**-**
Assets from investment contracts	**10,488,653**	**10,488,653**	**7,930,693**	**2,167,709**	**390,251**
Total financial assets measured at fair value	**458,320,843**	**458,320,842**	**239,474,848**	**212,147,913**	**6,698,082**
Held-to-maturity financial assets	**29,628,993**	**35,059,979**	**409,389**	**34,628,727**	**21,863**
Debt financial instruments	29,628,993	35,059,979	409,389	34,628,727	21,863
Available-for-sale financial assets	**16,415,807**	**16,415,807**	**-**	**-**	**16,415,807**
Equity securities	16,415,807	16,415,807	-	-	16,415,807
Assets from investment contracts	**1,424,194**	**1,424,194**	**-**	**-**	**1,424,194**
Loans and deposits	**34,535,976**	**34,535,976**	**-**	**-**	**34,535,976**
Unit-linked investments of policyholders	**15,286,017**	**15,286,017**	**-**	**-**	**15,286,017**
Financial investments in associates	**12,062,454**	**12,062,454**	**-**	**-**	**12,062,454**
Investment property	**23,756,686**	**24,116,836**	**-**	**-**	**24,116,836**
Land and buildings held for own use	**24,437,344**	**23,460,780**	**-**	**-**	**23,460,780**
Total financial assets for which the fair value is disclosed	**157,547,472**	**162,362,044**	**409,389**	**34,628,727**	**127,323,928**
TOTAL ASSETS	**615,868,314**	**620,682,886**	**239,884,237**	**246,776,640**	**134,022,010**
Derivatives	429,961	429,961	-	429,961	-
Total financial liabilities measured at fair value	**429,961**	**429,961**	**-**	**429,961**	**-**
Bonds issued (Subordinated liabilities)	49,581,823	49,542,150	-	49,542,150	-
Total liabilities for which the fair value is disclosed	**49,581,823**	**49,542,150**	**-**	**49,542,150**	**-**
TOTAL LIABILITIES	**50,011,785**	**49,972,111**	**-**	**49,972,111**	**-**

Financial assets categorised in the fair value hierarchy in 2017

in EUR as at 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	**286,080,281**	**286,080,281**	**230,673,439**	**55,406,842**	**-**
Assets from investment contracts	**7,928,201**	**7,924,615**	**6,494,271**	**1,026,356**	**403,988**
Total financial assets measured at fair value	**479,596,168**	**479,592,582**	**261,750,430**	**212,881,671**	**4,960,481**
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**	**16,415,657**	**-**	**-**	**16,415,657**
Equity securities	16,415,657	16,415,657	-	-	16,415,657
Assets from investment contracts	**965,717**	**965,717**	**-**	**-**	**965,717**
Loans and deposits	**27,601,228**	**27,601,228**	**-**	**-**	**27,601,228**
Unit-linked investments of policyholders	**18,897,849**	**18,897,849**	**-**	**-**	**18,897,849**
Financial investments in associates	**12,130,311**	**-**	**-**	**-**	**-**
Investment property	**27,443,818**	**28,765,463**	**-**	**-**	**28,765,463**
Land and buildings held for own use	**24,551,628**	**24,217,326**	**-**	**-**	**24,217,326**
Total financial assets for which the fair value is disclosed	**159,423,749**	**155,981,229**	**415,503**	**38,702,486**	**116,863,241**
TOTAL ASSETS	**639,019,917**	**635,573,812**	**262,165,933**	**251,584,157**	**121,823,722**
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 2018

(in EUR)	1. 1. 2018	Total profit/loss in profit or loss	Total profit/loss in comprehensive income	Purchase	Sale	Transfers (to) from Level 3	Exchange rate differences	31 Dec 2018
Assets measured at fair value								
Financial assets measured at fair value through profit or loss, at initial recognition	**301,886**	**-**	**(10,746)**	**-**	**-**	**-**	**-**	**291,140**
Debt securities	301,886	-	(10,746)	-	-	-	-	291,140
Available-for-sale financial assets	**4,254,607**	**-**	**726,803**	**1,082,792**	**(47,511)**	**-**	**-**	**6,016,691**
Debt securities	4,254,607	-	726,803	1,082,792	(47,511)	-	-	6,016,691
Assets from investment contracts	**403,988**	**-**	**(13,737)**	**-**	**-**	**-**	**-**	**390,251**
Total assets	**4,960,481**	**-**	**702,320**	**1,082,792**	**(47,511)**	**-**	**-**	**6,698,082**

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	Exchange rate differences	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**

In 2018, the Group purchased debt securities, which belong to Level 3, for EUR 1.820.000 under the financial instrument group assets available for sale. In 2018, the bond from the group of assets available for sale amounting to EUR 47,511 finally matured. Fair value of the financial assets as at 31 December 2018 amounts to EUR 6,698,082. 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.

Sensitivity analysis of financial assets classified to Level 3 is shown below.

Sensitivity analysis of non-marketable securities

(in EUR)	31 Dec 2018	31 Dec 2017
Value of investments classified to Level 3	6,698,082	4,960,481
Estimated value deviation	(66,366)	(77,563)

Level 2 financial assets valuation methods

Valuation of equity is carried out by application of internal valuation models, while the valuation of debt securities is carried out on the basis of the BID rate from the BVAL source (score from 1 to 5).

Assumption/Parameter	Change
Interest rate change	+ 0.5

Reclassification of financial assets between levels

(in EUR)	2018	2017
Reclassification from Level 1 to Level 2	931,282	-

Until 31 December 2018, the Group did not reclassify financial asset between groups due to the change in their intended use nor due to the change in capital market conditions. The Company reclassified debt securities from Level 2 to Leve1 because they did not meet the conditions for classification at Level 1 (sufficient liquidity on the stock exchange).

9. REPORTING BY BUSINESS 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 supplementary pension insurance under the previous PN-A01 pension and the new pension schemes which were implemented in 2017, 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 2018, 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 2018

in EUR	Life insurance	Non-life insurance	Health insurance	Asset management	Intersegment eliminations on consolidation	Total
Assets	461,060,825	259,659,699	25,458,423	32,504,854	(46,174,582)	732,509,219
Intangible assets	275,729	6,637,264	32,656	25,307,362	-	32,253,011
Property, plant and equipment	(0)	30,442,558	259,011	152,496	-	30,854,065
Deferred tax assets	271,799	3,400,071	527,996	163,119	(111,973)	4,251,013
Investment properties	2,129,121	21,597,167	30,398	-	-	23,756,686
Financial investments in subsidiaries and associates	503,885	8,355,173	3,203,395	-	-	12,062,454
Financial investments	129,925,790	131,915,059	12,100,830	4,091,529	-	278,033,208
In loans and deposits	9,696,357	30,333,876	2,912,564	55,189	-	42,997,985
In held-to-maturity financial assets	20,191,629	9,135,039	302,325	-	-	29,628,993
In available-for-sale financial assets	94,090,977	88,998,954	8,885,941	3,828,863	-	195,804,735
In financial assets measured at fair value	5,946,828	3,447,189	(0)	207,477	-	9,601,494
Unit-linked investments of policyholders	274,127,785	-	-	-	-	274,127,785
Amounts of technical provisions ceded to reinsurers	255,247	14,648,280	-	-	-	14,903,527
Assets from financial contracts	11,912,847	-	-	-	-	11,912,847
Receivables	33,351,317	28,757,249	6,556,313	263,342	(46,041,652)	22,886,569
Receivables from direct insurance business	703,003	9,503,974	6,460,745	-	-	16,667,722
Receivables from reinsurance and coinsurance	103,559	1,066,102	-	-	-	1,169,661
Income tax receivables	1,249,279	91,694	59,360	22,093	(1,388,122)	34,304
Other receivables	31,295,475	18,095,479	36,208	241,249	(44,653,530)	5,014,882
Other assets	1,148,965	4,073,353	104,660	450,189	(20,957)	5,756,209
Cash and cash equivalents	7,158,339	9,833,525	2,643,164	2,076,817	-	21,711,844
Equity and liabilities	461,060,825	259,659,699	25,458,423	32,504,854	(46,174,582)	732,509,219
Equity	16,745,047	65,801,343	9,138,536	4,532,981	0	96,217,906
Majority equity interest	16,745,047	65,801,343	9,138,536	4,427,095	-	96,112,020
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	-	-	-	12,714	-	12,714
Reserve due to fair value measurement (Revaluation surplus)	240,071	198,904	63,893	45,787	-	548,654
Retained net earnings	3,584,189	20,789,683	2,812,927	2,516,233	267,188	29,970,220
Net profit or loss for the financial year	(750,506)	6,924,681	1,385,836	1,852,361	(267,188)	9,145,183
Minority equity interest	-	-	-	105,886	-	105,886
Subordinated liabilities	26,774,185	22,807,639	-	-	-	49,581,823
Technical provisions	116,930,740	147,303,370	12,149,250	-	-	276,383,360
Unearned premiums	375,654	43,304,240	6,326,315	-	-	50,006,208
Mathematical provisions	109,990,102	225,650	77,873	-	-	110,293,625
Outstanding claims provisions	6,564,985	103,259,638	5,744,942	-	-	115,569,565
Other technical provisions	0	513,842	120	-	-	513,962
Insurance technical provisions for unit-linked insurance	271,970,492	-	-	-	-	271,970,492
Other provisions	12,054	4,832,691	-	139,358	-	4,984,103
Deferred tax liabilities	56,758	24,096	14,710	16,409	(111,973)	-
Liabilities from financial contracts	11,912,847	(0)	-	-	-	11,912,847
Other financial liabilities	232,286	250,777	-	41,528	-	524,591
Operating liabilities	2,398,338	4,036,424	2,061,638	49,024	(1,388,122)	7,157,302
Liabilities from direct insurance contracts	694,052	1,471,397	1,733,539	-	-	3,898,988
Liabilities from reinsurance and coinsurance contracts	600,021	1,646,005	-	-	-	2,246,026
Income tax liabilities	1,104,264	919,022	328,099	49,024	(1,388,122)	1,012,287
Other liabilities	14,028,078	14,603,360	2,094,289	27,725,554	(44,674,488)	13,776,794

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
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
Liabilities related to non current assets held for sale	-	-	-	-	-	-
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

Income statement of the AS Group for the period from 1 January 2018 to 31 December 2018

in EUR	Life insurance	Non-life insurance	Health insurance	Asset management	Intersegment eliminations on consolidation	Total
NET PREMIUM INCOME	**56,834,535**	**132,220,880**	**100,141,389**	**-**	**-**	**289,196,804**
Gross written premiums	58,984,490	141,768,135	99,693,576	-	-	300,446,201
Premiums ceded to reinsurers and coinsurers	(2,131,328)	(8,123,928)	-	-	-	(10,255,255)
Change in unearned premiums	(18,628)	(1,423,327)	447,813	-	-	(994,142)
REVENUES FROM INVESTMENTS IN ASSOCIATES, of which	**2,566**	**39,831**	**15,815**	**-**	**-**	**58,211**
- profit from capital investments from associates and joint ventures, calculated using the equity method	2,566	39,831	15,815	-	-	58,211
INCOME FROM INVESTMENTS	**6,492,877**	**5,759,180**	**433,082**	**9,195**	**(801,563)**	**11,892,771**
OTHER INCOME FROM INSURANCE OPERATIONS, of which	**777,494**	**1,084,171**	**-**	**-**	**-**	**1,861,666**
- fee and commission income	777,494	1,084,171	-	-	-	1,861,666
OTHER INCOME	**437,667**	**5,410,557**	**781,376**	**10,871,604**	**(715,337)**	**16,785,867**
NET EXPENSES FOR CLAIMS AND BENEFITS PAID	**(46,384,716)**	**(82,363,417)**	**(88,857,358)**	**-**	**-**	**(217,605,490)**
Gross amounts of claims and benefits paid	(46,998,483)	(84,880,071)	(88,518,714)	-	-	(220,397,268)
Reinsurers'/coinsurers' shares	681,661	4,412,208	-	-	-	5,093,869
Change in claims provisions	(67,894)	(1,895,554)	(338,644)	-	-	(2,302,092)
CHANGE IN OTHER TECHNICAL PROVISIONS	**(2,715,531)**	**(15,563)**	**(5,152)**	**-**	**-**	**(2,736,245)**
CHANGE IN TECHNICAL PROVISIONS FOR THE BENEFIT OF UNIT-LINKED INSURANCE POLICYHOLDERS	**29,072,788**	**-**	**-**	**-**	**-**	**29,072,788**
EXPENSES FOR BONUSES AND DISCOUNTS	**-**	**(54,410)**	**(11)**	**-**	**-**	**(54,420)**
OPERATING EXPENSES, of which	**(17,016,536)**	**(42,182,614)**	**(10,497,798)**	**(8,475,283)**	**1,515,749**	**(76,656,482)**
- acquisition costs	(5,385,374)	(15,605,784)	(1,379,091)	-	1,607	(22,368,643)
EXPENSES FROM INVESTMENTS IN ASSOCIATES, of which	**(3,487)**	**-**	**(71,295)**	**-**	**-**	**(74,782)**
-loss from capital investments in associates and joint ventures, calculated using the equity method	-	-	(71,295)	-	-	(71,295)
EXPENSES INVESTMENTS, of which	**(23,284,880)**	**(2,177,661)**	**-**	**-**	**-**	**(25,462,541)**
- impairment losses of financial assets not measured at fair value through profit or loss	(221,576)	(825,051)	-	-	-	(1,046,626)
OTHER INSURANCE EXPENSES	**(418,164)**	**(1,926,079)**	**(259,422)**	**-**	**-**	**(2,603,665)**
OTHER EXPENSES	**(4,740,002)**	**(7,524,166)**	**(222,226)**	**(70,831)**	**1,151**	**(12,556,074)**
PROFIT/(LOSS) BEFORE TAX	**(945,389)**	**8,270,709**	**1,458,402**	**2,334,686**	**0**	**11,118,408**
CORPORATE INCOME TAX	**178,526**	**(1,346,028)**	**(323,453)**	**(441,320)**	**-**	**(1,932,275)**
NET PROFIT FOR THE REPORTING PERIOD	**(766,862)**	**6,924,681**	**1,134,949**	**1,893,366**	**0**	**9,186,133**
MINORITY INTEREST	**-**	**-**	**-**	**41,005**	**-**	**41,005**
INTEREST OF PARENT COMPANY	**(766,862)**	**6,924,681**	**1,134,949**	**1,852,361**	**-**	**9,145,128**

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**
- dobiček iz naložb v kapital pridruženih in skupaj obvladovanih družb, obračunan z uporabo kapitalske metode	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)**
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**

Statement of other comprehensive income of the AS Group for the period from 1 January 2018 to 31 December 2018

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	**(766,862)**	**6,924,681**	**1,134,949**	**1,893,366**	**0**	**9,186,133**
OTHER COMPREHENSIVE INCOME AFTER TAXATION	**447,924**	**(584,632)**	**(44,294)**	**(12,867)**	**-**	**(193,869)**
Items not to be allocated to profit or loss in subsequent periods	(264)	(17,028)	-	-	-	(17,292)
Actuarial net gain/loss for pension programmes	**(264)**	**(17,028)**	**-**	**-**	**-**	**(17,292)**
Items that may be allocated to profit or loss in subsequent periods	**448,188**	**(567,604)**	**(44,294)**	**(12,867)**	**-**	**(176,577)**
Net gain/loss from re-measurement of available-for-sale financial assets	**552,775**	**(701,227)**	**(54,684)**	**(20,120)**	**-**	**(223,256)**
Gain/loss, recognised in revaluation surplus	414,425	(1,257,893)	(54,684)	**(20,120)**	**-**	**(918,271)**
Transfer of gain/loss from revaluation surplus to income statement	138,350	556,666	-		**-**	**695,015**
Tax on items that may be allocated to profit or loss in subsequent periods	**(105,027)**	**133,233**	**10,390**	**3,823**	**-**	**42,419**
Gain/loss from translation of financial statements of foreign operations	**440**	**390**	**-**	**3,430**	**-**	**4,260**
TOTAL COMPREHENSIVE INCOME FOR THE YEAR, AFTER TAXATION	**(318,939)**	**6,340,049**	**1,090,655**	**1,880,499**	**0**	**8,992,264**
- ATTRIBUTABLE TO MINORITY INTEREST	**-**	**-**	**-**	**41,005**	**-**	**41,005**
- ATTRIBUTABLE TO CONTROLLING COMPANY	**(318,939)**	**6,340,049**	**1,090,655**	**1,839,494**	**0**	**8,951,259**

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

v EUR	Life insurance	Non-life insurance	Health insurance	Asset management	Intersegment eliminations on consolidation	Total
NET PROFIT OR LOSS FOR THE FINANCIAL YEAR AFTER TAXATION	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
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

Geographical segments

As at 31 December 2018, the Group operated in Slovenia and the following countries: Croatia, Macedonia and Serbia

Sales revenue

(in EUR)	1. 1. - 31. 12. 2018	1. 1. - 31. 12. 2017
Sales revenue*		
Slovenia	623,900,780	314,296,941
EU	5,862,755	5,474,993
Other countries	512,371	245,888
Total	**630,275,905**	**320,017,822**

Total assets

(in EUR)	31 Dec 2018	31 Dec 2017
Total assets		
Slovenia	492,017,404	513,981,512
EU	221,990,164	229,670,172
Other countries	18,501,651	17,057,701
Total	**732,509,219**	**760,709,385**
Associates		
Slovenia	12,062,454	12,025,841
Total	**12,062,454**	**12,025,841**

Investments

(in EUR)	31 Dec 2018	31 Dec 2017
Capital expenditure analysis		
Slovenia	3,283,169	3,232,898
EU	73,841	17,115
Other countries	647	1,789
Total	**3,357,657**	**3,251,802**

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 2017	**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
New balance as at 1 Jan	22,627,809	7,200,740	25,806,826	-	55,635,375
Acquisition of subsidiary	-	-	6,037,786	-	6,037,786
Decreases due to the withdrawal of the subsidiary	-	-	(6,037,786)	-	(6,037,786)
Direct increases - investments	79,375	-	1,545,083	-	1,624,458
Decreases during the year	-	(3,126,306)	-	-	(3,126,306)
Transfers between intangible assets, investment property, and property, plant and equipment	-	-	2,521	-	2,521
Other changes	371	1,348	677	-	2,396
Balance as at 31 Dec 2018	22,707,555	4,075,782	27,355,107	-	54,138,444
VALUE ADJUSTMENT					
Balance as at 1 Jan 2017	**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	-	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
New balance as at 1 Jan	36,137	3,778,215	18,897,255	-	22,711,607
Acquisition of subsidiary	-	-	3,469,777	-	3,469,777
Decreases due to the withdrawal of the subsidiary	-	-	(3,469,777)	-	(3,469,777)
Depreciation during the year	-	19,452	2,055,659	-	2,075,111
Decreases during the year	-	(3,126,306)	(0)	-	(3,126,306)
Revaluation owing to impairment of assets	3,580	220,584	-	-	224,164
Other changes	136	162	559	-	857
Balance as at 31 Dec 2018	39,853	892,108	20,953,472	-	21,885,433
BOOK VALUE					
Balance as at 31 Dec 2017	22,591,672	3,422,525	6,909,572	-	32,923,769
Balance as at 31 Dec 2018	22,667,702	3,183,674	6,401,635	-	32,253,011

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 2018 the value of non-current intangible assets fell by EUR 670,758. These assets were lower in 2018 mainly due to depreciation.

Major changes affecting the movement of non-current intangible assets in the direction of increase in 2018 include investments in software improvement in the amount of EUR 1,545,083 and a newly acquired goodwill upon additional acquisition of equity stake in the company Agent d.o.o. in the amount of EUR 79,375, in accordance with the Purchase Agreement regarding the purchase made in 2017.

The intangible assets will be finally depreciated by 2028 based on their determined useful lives and the applied depreciation rates. The Group uses the straight-line depreciation method and in 2018 it did not change the depreciation rates. Depreciation 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 2018, 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 2018**:

- 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 3.67 % premium for investment in small enterprises, a 1.84 % political risk factor, a 0.70 beta excluding debt,
- the required rate of return of equity capital is 12.5 %,
- the discount for the lack of marketability of 5.0 %,
- the planned profitability of individual funds in the explicit forecast period varies between 0.25% and 5.0%,
- growth in net cash flows after the explicit forecast period is 2.0%,
- the estimated cash flows for the 2019-2023 period.

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.

Material rights that the Group finally impaired in 2018 were eliminated from the record at the end of the year in the amount of EUR 3,126,306 at cost and at value adjustment

Goodwill

As at 31 December 2018, the Group has goodwill for EUR 22,667,702, with the largest part of goodwill (in the amount of EUR 22,209,092) arising from the investment in the subsidiary KD Skladi d.o.o. and its subsidiaries. In accordance with the accounting policies, as at the 2018 year-end the Group checked whether the goodwill in the segment of asset management would have to be impaired. In 2018 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 2017 and that the value of the equity capital of KD Skladi d. o. o. was at the level of the previous year.

For this purpose, an analysis of the sensitivity of the recoverable amount regarding the company KD Skladi d was provided.

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 2.5 %;
- WACC until 2022 – 10.98%; after 2022 – 12.98%

Sensitivity analysis of subsidiary KD Skladi d. o. o.

Net EBIT% achieved from planned	Equity value in EUR 000
110%	41,874
100%	38,816
90%	35,759
80%	32,702
70%	29,644
60%	26,587

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 2018 for the valuation of the remaining part of goodwill performed 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 3.67% premium for investment in small enterprises, a 3.46–4.15% political risk factor, a 0.70 beta excluding debt;
- the required rate of return of equity capital varies between 14.1% and 14.8%;
- the required rate of return of debt of 2.6%;
- the discount for the lack of marketability between 10.0 and 20.0%,
- the planned profitability of individual funds in the explicit forecast period varies between -0,25 % and 5.0%;
- growth in net cash flows after the explicit forecast period of 2.0%;
- the estimated cash flows for the 2019–2023 period.

The assumptions used in 2017:

- 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.

In addition to the newly acquired goodwill upon the additional acquisition of the company Agent d. o. o. (for which there was no need for impairment at the end of 2018), the Group has a part of goodwill in the net value of EUR 60,451 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 EUR 3,580 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 2017	**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	**29,752,145**	**18,145,247**	**360,354**	**111,001**	**48,368,747**
New balance as at 1 Jan	**29,752,145**	**18,145,247**	**360,354**	**111,001**	**48,368,747**
Acquisition of subsidiary	-	489,149	-	-	489,149
Decreases due to the withdrawal of the subsidiary	-	(495,949)	-	-	(495,949)
Direct increases - investments	47,865	1,162,256	269,759	(0)	1,479,880
Direct increases – advance payments	-	-	332,691	(0)	332,691
Decreases during the year	-	(1,007,496)	(135,522)	-	(1,143,018)
Transfers between intangible assets, investment property, and property, plant and equipment	179,773	309,551	(311,802)	-	177,522
Other changes	-	429	-	69	497
Balance as at 31 Dec 2018	**29,979,784**	**18,603,187**	**515,480**	**111,069**	**49,209,520**
VALUE ADJUSTMENT					
Balance as at 1 Jan 2017	**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**
New balance as at 1 Jan	**5,200,516**	**12,417,412**	**-**	**30,370**	**17,648,298**
Acquisition of subsidiary	-	455,796	-	-	455,796
Decreases due to the withdrawal of the subsidiary	-	(462,596)	-	-	(462,596)
Depreciation during the year	315,285	1,281,952	-	11,039	1,608,276
Decreases during the year	-	(921,699)	-	-	(921,699)
Revaluation owing to impairment of assets	0	-	-	-	0
Transfers between intangible assets, investment property, and property, plant and equipment	26,640	270	-	-	26,910
Other changes	-	410	-	60	470
Balance as at 31 Dec 2018	**5,542,440**	**12,771,545**	**-**	**41,469**	**18,355,455**
BOOK VALUE					
Balance as at 31 Dec 2017	**24,551,629**	**5,727,835**	**360,354**	**80,631**	**30,720,449**
Balance as at 31 Dec 2018	**24,437,343**	**5,831,642**	**515,480**	**69,600**	**30,854,065**

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 2028. The Group uses the straight-line depreciation method and in 2018 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 2018 compared to the 2017 year-end increased by EUR 133,616, mainly due to investments in the purchase of software for EUR 581,536, purchase of cars for EUR 292,552 and purchase of other equipment for EUR 288,168. In 2018, the value of buildings for the provision of insurance activities also increased, with investments worth EUR 269,759 still in progress.

On the other hand, the value of property, plant and equipment decreased in 2018 as a result of depreciation carried out in the accounting period, disposal and sale of cars for in the amount of EUR 57,389, written off of hardware and sale of other assets of lower value. At the end of the year, the Insurance company wrote off hardware and property, plant and equipment that had already been depreciated and were judged to be no longer suitable for use. As at 31 December 2018, property, plant and equipment worth EUR 9,459,758 of fully depreciated property, plant and equipment are fully utilized.

In 2018, the Group assessed whether there were grounds for impairment of the real property needed for the performance of activities in such a way as described in the guidelines given in Sections 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 November 2018.

The recoverable amount was assessed:

- using the method of fair value, decreased by costs of sale, defined based on the market approach, and
- using the method of value in use, defined based on the income approach.

On the basis of the assessment, it was established that as at the 2018 year-end there were no signs indicating that the real property needed for the performance of activities would have to be impaired, since the individual cash-generating unit did not show negative performance in the last three years.

10.3 INVESTMENT PROPERTIES

Movements in investments in land and buildings

(in EUR)	1. 1. - 31. 12. 2018	1. 1. - 31. 12. 2017
AT COST VALUE		
Balance as at 1 Jan	**29,168,973**	**30,889,984**
Direct increases - investments	212,040	890,809
Decreases during the year	(51,296)	(3,277,103)
Transfer from/to property, plant and equipment	(179,773)	665,283
As at 31 Dec	**29,149,943**	**29,168,973**
VALUE ADJUSTMENT		
Balance as at 1 Jan	5,049,214	3,446,167
Depreciation in the financial year	304,416	328,470
Decreases during the year	(12,684)	(121,832)
Impairment of cost	78,951	1,160,888
Transfer from/to property, plant and equipment	(26,640)	235,521
As at 31 Dec	**5,393,257**	**5,049,214**
BOOK VALUE		
As at 31 Dec	**23,756,686**	**24,119,759**

The Group leases all investment properties or business premises – individual parts of investment properties. All operating leases can be cancelled. Rents are charged at market prices and are re-assessed if necessary. Lease agreements are generally concluded for an indefinite period of time. In 2023, the last agreement concluded for a fixed period of time will expire. The lowest rent, which the Group charges is 3.70 EUR/m² and in 2018, the average rent, was 7.77 EUR/m².

The balance of investment property as at 31 December 2018 decreased by EUR 363,073, primarily due to depreciation. The lower balance was caused also by the sale of investment property in Nova Gorica (for EUR 44,000). When the property was disposed of, a profit of EUR 3,436 (after paying real estate sales tax of EUR 1,952) was realized in 2018. The purchase price was fully paid in 2018.

The last appraisal of the recoverable amount of investment property was carried out by an external certified appraiser in November 2018. In assessing the recoverable amount, the market approach (the direct sales comparison method) and the income approach (the direct yield capitalisation method) were applied.

Under the **direct sales comparison method**, the recoverable amount was assessed based on market data arising from comparable transactions of similar property.

Under the **income approach** (the direct yield capitalisation method), the recoverable amount was assessed using the capitalisation rate (discount rate) between 7.72% and 8.12 (or 7.72%, 7.92%, 8.02%, 8.32% and 8.12%). The following assumptions were applied:

- the real risk-free rate of return – (Rf) (return on 10-year government bond) 1.05 %,
- risk premium (p) (including liquidity premium and investment management premium) 5.70 %, 5.90 %, 6.00 %, 6.30 % and 6.10 %, and
- capital recovery premium (d) 0.97 %.

Based on the valuation, as at the 2018 year-end the management assessed that impairments of two investment properties must be made in the total amount of EUR 78,951.

The fair value of investment property as at 31 December 2018 was EUR 24,116,836, and was higher than the carrying amount of EUR 23,756,686.

On 31 December 2018, the Company accounted the property Maribox in Loška 13, Maribor, which it intends to sell in 2019, under the property investment heading. The sales contract for this investment property was concluded and the property sold for the carrying amount of the investment - hence there is no sign of impairment. The details of the sale are presented in Section 13.

Despite the decrease comparing with the previous year, in 2018 EUR 102,298 were invested in the adaptation of the investment property and EUR 109,742 were invested 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 2018 were fully settled.

The Group applies straight-line depreciation for investment property; in 2018 no changes were made to depreciation rates. Depreciation 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. 2018	1. 1. - 31. 12. 2017
Revenues from investment properties	**22,707,555**	**2,841,445**
Other revenues arising from rents charged on investment properties	-	2,244,319
Gains on the disposal of investment properties	-	578,090
Revenues from reversal of impairment of receivables	22,707,555	19,036
Expenses for investment properties	**(45,415,110)**	**(3,727,890)**
Depreciation	-	(328,470)
Direct operating expenses for investment properties that generate rental income	(22,706,241)	(1,541,112)
Direct operating expenses for investment properties that do not generate rental income	(1,314)	(827)
Expenses from disposal of investment properties	(22,707,555)	-
Expenses from impairment of receivables from investment properties	-	(167,298)
Expenses from impairment of investment properties.	-	(1,690,184)

10.4 FINANCIAL INVESTMENTS IN ASSOCIATES

Associates

Associate	Equity stake (%) 31 Dec 2018	Equity stake (%) 31 Dec 2017	Change (in %)	Note
Nama trgovsko podjetje d. d., Slovenia	48.51	48.51	-	
MEDIFIT d. o. o., Slovenia	48.00	-	48,00	Acquisition by the Group – Co-founding

* The share of voting rights is equal to equity stake.

The investment in the associate Nama d. d. is recognised in the financial statements using the equity method. 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 7.552–8.552%. In line with the company strategy. In accordance with the strategy of the company, the company may also lease and sell its real property, in addition to performing its principal activity.

In 2018, external appraisers assessed the investment in shares of Nama d.d. as at the balance on 30 June 2018. Pursuant to this appraisal, the management assessed that no impairments were required in 2018.

To this end, as at the 2018 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.

Assumption	Value	Change in EUR	% change
Book value	11,705,901		
Investment appraisal	13,598,195		
Reduction in rents -10%	12,469,253	-1,128,942	-8.3%
Increase in +10%	14,727,136	1,128,942	8.3%
Discount factor -2 percentage points	17,017,407	3,419,213	25.1%
Discount factor +2 percentage points	11,534,637	-2,063,557	-15.2%

Movements in investments in the associate

(in EUR)	1. 1. - 31. 12. 2018	1. 1. - 31. 12. 2017
Associates		
As at 1 Jan	**12,025,841**	**12,130,311**
Acquisition	62,816	-
Decreases during the year	(5,759)	-
Interest (dividend) received	(78,656)	(212,773)
Impairments	58,211	103,949
Change in revaluation surplus	-	4,354
As at 31 Dec	**12,062,454**	**12,025,841**

In 2018, the parent company Adriatic Slovenica received EUR 78,656 of dividends from Nama d. d. They were reimbursed in full on 10 July 2018.

Information on property and financial position of the associate

Company name in EUR	Assets		Capital		Revenues		Profit or loss for the	
Associates	2018	2017	2018	2017	2018	2017	2018	2017
Nama trgovsko podjetje d.d.	12,457,350	12,798,207	10,165,533	10,183,485	15,932,493	16,892,981	112,989	192,404
MEDIFIT d. o. o., Slovenija	152,591	-	109,423	-	5,314	-	(148,531)	-

10.5 FINANCIAL INVESTMENTS

Despite record levels achieved by most stock indexes, 2018 ended with negative yields of stock markets and higher volatility, especially in the second half of the year. The worsened economic data in the euro area and increased geopolitical risks in the second half of the year had a negative impact on the fair values of the financial assets of the insurance company.

At the expense of good data generated by the US economy, the US FED tightened, over the course of the year, the monetary policy, which, after four rises in December, reached the level of 2.25 to 2.5 %. The pace of tightening of FED's monetary policy was one of the factors that had a negative impact on the addition of value on financial markets at the end of the year. In Europe, low interest rates remain. The European Central Bank (ECB) policy remains unchanged at zero percent, and is expected to remain so at least during the first half of 2019. With the new year, the bond purchase program on the open market will be concluded, while the principals of matured bonds will continue to be reinvested.

In the following text, we are presenting the position of investments as at 31 December 2018 per groups and compared to 2017 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 2018	31 Dec 2017
Equity securities	**268,556**	**289,899**
Listed securities	268,556	289,899
Debt securities	**7,525,333**	**6,284,345**
Listed securities	7,005,879	6,284,345
Government bonds	519,453	(0)
Derivative financial instruments	**(0)**	**243,537**
Derivatives for cash flow hedge	(0)	243,537
Total	**7,793,889**	**6,817,781**

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

(in EUR)	31 Dec 2018	31 Dec 2017
Equity securities	**770,201**	**708,526**
Listed securities	770,201	708,526
Debt securities	**1,037,404**	**1,084,781**
Government bonds	1,037,404	1,084,782
Total	**1,807,605**	**1,793,308**

The total value of financial assets measured at fair value through profit or loss increased in 2018, mainly due to purchases of debt securities

Available-for-sale financial assets

In 2018, 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-marketable securities from the past years valued at cost. Based on the expert assessment and internal accounting policies, permanent impairment was made for the investment into listed equity securities for EUR 1,046,627, while there was no requirement for permanent impairment of investments into non-listed equity securities.

Available-for-sale financial assets

(in EUR)	31 Dec 2018	31 Dec 2017
Equity securities	**42,634,995**	**40,065,162**
Listed securities	21,659,693	18,764,971
Non-listed securities	20,975,302	21,300,192
Debt securities	**158,994,548**	**158,441,712**
Listed securities	30,476,946	29,643,514
Non-listed securities	3,891,193	3,969,183
Government bonds	124,626,410	124,829,015
Impairment of the value of securities	**(5,824,808)**	**(5,114,619)**
Total	**195,804,735**	**193,392,255**

As at 31 December 2018, 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.

Held-to-maturity financial assets

Held-to-maturity financial assets

(in EUR)	31 Dec 2018	31 Dec 2017
Debt securities	**29,628,993**	**31,417,539**
Listed securities	18,225,841	19,716,709
Government bonds	11,403,153	11,700,830
Total	**29,628,993**	**31,417,539**

The balance of debt securities of financial assets held to maturity decreased in 2018, 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 2018	31 Dec 2017
Debt securities		
– held-to-maturity	5.59%	5.63%

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 2018	31 Dec 2017
Loans	**28,616,035**	**26,358,871**
Long-term	3,105,240	11,431,643
Short-term	25,510,794	14,927,228
Deposits placed with banks	**5,919,941**	**1,242,357**
Long-term	326,281	902,490
Short-term	5,593,660	339,867
Financial receivables	**8,462,010**	**9,535,018**
Total	**42,997,985**	**37,136,247**

At the end of 2018, the loans increased by EUR 2,257,163 compared to the previous year. The structure of loans changed mainly according to maturity. Short-term loans increased by EUR 10,583,566, while long-term loans decreased by EUR 8,326,403. Deposits placed with banks increased by EUR 4,677,584, mainly on account of short-term deposits (EUR 5,253,793). As at 31 December 2018, the financial receivables amounting to EUR 8,462,010 represent an important part of these advances for securities purchases.

Effective interest rates on loans and deposits

in %	31 Dec 2018	31 Dec 2017
Long-term loans in		
- foreign currency	0.00%	0.00%
- local currency	5.09%	5.06%
Short-term loans in		
- foreign currency	0.00%	0.00%
- local currency	4.10%	4.96%
Deposits placed with banks		
Short-term deposits	0.39%	1.36%
Long-term deposits	2.29%	1.97%

Financial receivables

(in EUR)	31 Dec 2018	31 Dec 2017
Financial receivables arising from investment properties	118,482	5,551,130
Other financial receivables	8,343,528	3,983,888
Total	**8,462,010**	**9,535,018**

Movements in financial assets[3]

(in EUR)	Fair value through profit or loss - at initial recognition	Fair value through profit or loss - held for sale	Held to maturity	Available for sale	Loans, deposits and financial receivables	Total
Balance as at 1 Jan 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	7,726	67,660	8,012	(278,229)	1,182	(193,649)
Increase	2,824,289	7,086,612	463,739	114,739,448	454,174,378	579,288,465
Change of fair value (+/-) through profit or loss (market rates)	(1,158)	(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**
Balance as at 1 Jan 2018	**6,817,780**	**1,793,308**	**31,417,539**	**193,392,255**	**37,136,247**	**270,557,129**
Exchange rate differences	1,321	8,446	2,259	94,342	(290)	106,078
Increase	(2,680,160)	6,539	47,107	58,459,648	115,349,989	171,183,123
Change of fair value (+/-) through profit or loss (market rates)	(1,169,423)	(42,625)	-	-	-	(1,212,048)
Change of fair value (+/-) through revaluation surplus (market rates)	-	-	-	(1,530,602)	-	(1,530,602)
Increase due to interest	536,034	37,487	1,679,462	2,205,309	1,275,209	5,733,500
Decrease	4,288,336	64,771	(3,517,374)	(56,800,638)	(110,764,006)	(166,744,489)
Balance as at 31 Dec 2018	**7,793,889**	**1,867,925**	**29,628,993**	**195,820,314**	**42,997,149**	**278,092,691**

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).

[3] 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.

10.6 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. This investment class, with the exception of the pharmacy and healthcare sectors, which gained about four percent on an annual level, suffered a loss during the previous year. Minor losses of unit-linked life insurance policyholders were recorded by "more secure" investment classes of government and corporate bonds and money market.

Structure of unit-linked life insurance assets

(in EUR)	31 Dec 2018	31 Dec 2017
Financial assets measured at fair value through profit or loss - at initial recognition	**258,841,769**	**286,080,281**
Equity securities	205,929,558	230,673,439
Listed securities	205,929,558	230,673,439
Debt securities	52,912,211	55,406,842
Listed securities	52,912,211	55,406,842
Loans and deposits with banks	**15,286,017**	**18,493,850**
Loans	15,286,017	18,493,850
Monetary assets - deposits redeemable at notice	**-**	**404,000**
Total	**274,127,785**	**304,978,131**

The investments made for the benefit of unit-linked life insurance policyholders amounted to EUR 274,127,785. 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 736,068 and assets invested in BNP Paribas products totalled EUR 52,176,143. 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. 2018	1. 1. - 31. 12. 2017
Balance as at 1 Jan	**304,978,131**	**287,601,433**
Increase	39,449,455	56,747,808
Decrease	(45,028,304)	(60,464,169)
Change of fair value (+/-) through profit or loss (market rates)	(21,824,213)	20,917,162
Deposit placement	4,485,703	49,270,147
Deposit withdrawal	(8,099,160)	(49,058,107)
Accrued interest	87,000	110,903
Exchange rate differences	79,174	(147,046)
Balance as at 31 Dec	**274,127,785**	**304,978,131**

10.7 AMOUNT OF INSURANCE TECHNICAL PROVISIONS TRANSFERRED TO REINSURERS

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

(in EUR)	1. 1. - 31. 12. 2018	1. 1. - 31. 12. 2017
- from insurance contracts for incurred and reported claims	7,708,879	7,669,421
- from insurance contracts for incurred, but not reported claims	792,564	1,146,768
Total non-current part	**8,501,443**	**8,816,188**
- unearned premiums	500,030	1,013,968
- from insurance contracts for incurred and reported claims	5,525,168	7,049,266
- from insurance contracts for incurred, but not reported claims	376,886	824,768
Total current part	**6,402,084**	**8,888,002**
Total	**14,903,527**	**17,704,190**

10.8 ASSETS FROM FINANCIAL CONTRACTS

Assets from financial contracts

(in EUR)	31 Dec 2018	31 Dec 2017
Financial investments	10,492,757	7,928,201
Cash and cash equivalents	1,420,090	962,132
Total assets from investment contracts	**11,912,847**	**8,890,333**

The assets from financial contracts at the 2018 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 2018	31 Dec 2017
Financial assets measured at fair value through profit or loss - at initial recognition	**8,348,875**	**5,686,307**
Equity securities	6,380,143	4,846,613
Listed securities	6,380,143	4,846,613
Debt securities	1,968,733	839,694
Listed securities	390,251	403,988
Government bonds	1,578,482	435,706
Available-for-sale financial assets	**2,139,777**	**2,238,308**
Equity securities	1,550,550	1,647,658
Listed securities	1,550,550	1,647,658
Debt securities	589,227	590,650
Government bonds	589,227	590,650
Financial receivables	**4,104**	**3,585**
Total financial assets	**10,492,757**	**7,928,201**

Movement of assets from financial contracts

(in EUR)	1. 1. - 31. 12. 2018	1. 1. - 31. 12. 2017
Balance as at 1 Jan	**7,928,201**	**3,574,846**
Increase (purchase)	5,120,751	6,767,104
Change of fair value (+/-) through profit or loss (market rates)	(445,120)	212,513
Change of fair value (+/-) through revaluation surplus (market rates)	(34,324)	67,276
Increase due to interest	16,964	10,933
Decrease (sale)	(2,129,564)	(2,741,112)
Exchange rate differences	35,849	36,642
Balance as at 31 Dec	**10,492,757**	**7,928,201**

10.9 RECEIVABLES

Balance of receivables

(in EUR)	As at 31.12.2018	As at 31.12.2017
Receivables from direct insurance operations	**16,667,722**	**17,737,450**
gross value	31,857,474	34,554,722
value adjustment	(15,189,751)	(16,817,272)
Receivables from reinsurance and coinsurance	**1,169,661**	**2,165,699**
gross value	1,318,957	2,335,701
value adjustment	(149,297)	(170,002)
Income tax receivables	**34,304**	**2,315,916**
OTHER RECEIVABLES	**5,014,882**	**5,677,386**
Other current receivables from insurance operations	**1,288,639**	**1,039,683**
gross value	1,308,000	1,119,921
value adjustment	(19,361)	(80,238)
Recourse receivables	**2,754,544**	**3,546,270**
gross value	19,017,049	21,998,476
value adjustment	(16,262,505)	(18,452,206)
Operating receivables from the state	**221,516**	**296,153**
gross value	221,516	296,153
Operating receivables for advances given	**184,977**	**135,358**
gross value	199,550	162,756
value adjustment	(14,573)	(27,398)
Other current operating receivables	**534,041**	**627,429**
gross value	1,934,529	2,119,147
value adjustment	(1,400,488)	(1,491,718)
Long-term receivables	**31,164**	**32,493**
Total receivables	**22,886,569**	**27,896,452**

Compared to the year before, the balance of receivables as at 31 December 2018 was lower by EUR 5,009,884 (or by 18%).

The receivables were lower mostly due to current tax (in the amount of EUR 2,281,613), which resulted from the overpayment of the advance payments for 2017 and the balance of receivables from reinsurance and co-insurance (EUR 996,038), which was up at the end of 2017 mainly due to the settlement of some larger reinsured claims (e.g. claims arising from the reinsurance of the annual aggregate of claims as a result of the storms in 2017 and the termination of one of the major claims arising from motor vehicle third party liability) are accounted for.

In the structure of receivables, receivables from direct insurance operations prevail with a 73% share. These are receivables from policyholders due to contractual insurance premium. As at the end of 2018, these receivables dropped by EUR 1,069,728 compared to the previous year.

Every reporting period, the Group checks the adequacy of fair value assessments – collectible value of receivables by preparing an estimate of the recoverable amount for an individual type of receivables based on actual realised cash flows in the last observed period (it applies to receivables from insurance premiums and subrogation receivables). If such data is not available, a projection is made based on other credible sources (see Section 5.9.).

Movements in value adjustments of receivables

(in EUR)	Receivables from insurance operations	Subrogations	Other receivables	Total
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**
Balance as at 1 Jan 2018	**17,067,511**	**18,452,206**	**1,519,116**	**37,038,833**
Changes during the year	(1,709,102)	(2,189,701)	(104,055)	(4,002,858)
Balance as at 31 Dec 2018	**15,358,409**	**16,262,505**	**1,415,061**	**33,035,975**

10.10 OTHER ASSETS

Other assets – total balance

(in EUR)	31 Dec 2018	31 Dec 2017
Inventories	-	10,671
Deferred acquisition costs	4,745,332	4,651,474
Deferred expenses and accrued revenues	1,010,875	1,256,299
Total	**5,756,209**	**5,918,444**

10.10.1 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 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**
Balance as at 1 Jan 2018	**140,580**	**4,510,895**
Utilised in 2018	49,820	3,556,639
Formed in 2018	53,216	3,647,099
Balance as at 31 Dec 2018	**143,977**	**4,601,355**

10.11 CASH AND CASH EQUIVALENTS

Cash and cash equivalents

(in EUR)	31 Dec 2018	31 Dec 2017
Cash on hand and cheques received	960	972
Balances on accounts	15,455,232	11,121,616
Short-term deposits redeemable on demand	750,048	500,003
Short-term deposits placed (maturity date up to 3 months)	5,300,250	8,320,206
Other cash	205,355	168,391
Total	**21,711,844**	**20,111,188**

The effective interest rate in 2018 on call deposits was between 0.0% and 0.002% (2017: from 0.0% to 0.01%).

10.12 EQUITY

Balance of equity

(in EUR)	31 Dec 2018	31 Dec 2017
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	**12,714**	**10,475**
Reserve due to fair value measurement (Revaluation surplus)	**548,654**	**728,676**
Retained net profit	**29,970,220**	**29,940,979**
Net profit for the financial year	**9,145,183**	**10,633,199**
TOTAL	**96,112,020**	**97,748,578**
Minority interest	105,886	211,299

Minority interest

Minority interest is the share capital of minority stakeholders of indirect subsidiaries in the amount of EUR 105,886, of which EUR 16,100 was accounted for by KD Fondovi and EUR 89,786 by AD KD Locusta Fondovi d.o.o.

Share capital

As at 31 December 2018, 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 2018.

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 21 March 2018, the direct owner of Adriatic Slovenica and the sole shareholder decided on the distribution of accumulated profits for 2017. A part of the accumulated profits in the amount of EUR 10,304,407 was used for dividend payments. The rest of accumulated profits in the amount of EUR 30,166,727 remained unallocated and was transferred to the accumulated profits for 2018. Dividends were paid in full.

Ownership structure

As at 31 December 2018, KD Group d.d. held 10,304,407 shares, i.e. 100% of Adriatic Slovenica. The ownership structure remained unchanged in 2018.

Distribution of accumulated profit and loss coverage

The Adriatic Slovenica Group ended 2018 with a profit before tax totalling EUR 11,118,408 and a net profit for the year amounting to EUR 9,186,133. After the balance sheet date, the management of Adriatic Slovenica d.d. 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 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 2018, the Management Board of the parent company used the profit from previous years to

- partially cover the loss for the current year of unit-linked investment insurance in the amount of EUR 7,892 and other health insurance in the amount of EUR 250,888,
- cover the total loss of the current year of pension insurance at the time of payment of annuities in the amount of EUR 8,260 and pension insurance during the saving period in the amount of EUR 149

Accumulated profits

After covering the loss from the reporting year by using the profit from the previous year, the final balance of net profit for the year was EUR 9,145,183. Together with the unallocated profit brought forward from previous years amounting to EUR 29,970,220, the balance sheet profit as at 31 December 2018 to be distributed at the General Meeting of Shareholders amounted to EUR 39,115,404.

Other changes

Other changes in 2018 include foreign exchange differences in the profit/loss carried forward of the Zagreb Branch in the amount of EUR 85,947

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 2018, the parent company did not change or form additional reserves from profit.

Capital reserves

As at 31 December 2018, 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 2018, 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 2018 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 2018	31 Dec 2017
Specific revaluation of equity	548,654	728,676
exchange rate differences in associated companies	273,752	273,752
from reinforcement/impairment of available-for-sale financial assets	340,105	562,354
from adjustment for deferred taxes	(65,202)	(107,429)
Total revaluation surplus	**548,654**	**728,676**

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

(in EUR)	1. 1. - 31. 12. 2018	1. 1. - 31. 12. 2017
Balance as at 1 Jan	**728,676**	**355,071**
Profits (losses) recognised in revaluation surplus	**(742,984)**	**2,442,839**
Net change due to revaluation	(913,441)	3,010,475
Change in deferred taxes due to revaluation	170,457	(571,991)
Change of a surplus arising from the revaluation of associated company	-	4,354
Transfer of profits (losses) from revaluation surplus to profit or loss	**562,963**	**(2,069,234)**
Change in revaluation surplus transferred on disposal to profit or loss	(351,611)	(2,554,610)
Change in deferred taxes on realisation of revaluation surplus	66,806	485,376
Transfer of negative revaluation surplus to profit or loss on impairment	1,046,626	-
The change deferred taxes from impairments through profit or loss	(198,859)	-
Balance as at 31 Dec	**548,654**	**728,676**

10.13 PODREJENE OBVEZNOSTI

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 amortised value. Subordinated liabilities as at 31 December 2018 amounted to EUR 49,581,823. Bonds are recorded among non-life insurance in the amount of EUR 22,807,639 and life insurance in the amount of EUR 26,774,185. By 24 November 2018, the Group paid interest to the creditors in the amount of EUR 3,976,000.

Movements in issued bonds

(in EUR)	1. 1. - 31. 12. 2018	1. 1. - 31. 12. 2017
As at 1.1.	**49,525,147**	**49,453,316**
Accrued interest	4,032,676	4,025,330
Repayment interest	(3,976,000)	(3,953,500)
As at 31.12.	**49,581,823**	**49,525,147**

At their issue, the bonds were listed on the Irish Stock Exchange. In the case of bankruptcy or liquidation of the parent company, the liabilities arising from the issue of these bonds are subordinated to net debt instruments and are only paid to creditors after all non-subordinated debt liabilities arising from insurance contracts and other business relationships are paid. Issued bonds do not contain the holder's rights to recover a collectable receivable before the maturity set by the amortisation plan. The bond cannot be exchanged for other types of securities or be converted into any other liability.

10.14 INSURANCE TECHNICAL PROVISIONS

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

(in EUR)	Gross + received co-insurance as at 31.12.2018	Reinsurance + ceded co-insurance as at 31.12.2018	Net as at 31.12.2018	Gross + received co-insurance as at 31.12.2017	Reinsurance + ceded co-insurance as at 31.12.2017	Net as at 31.12.2017
Unearned premiums	43,304,240	447,054	42,857,185	42,396,717	962,859	41,433,858
Claims provisions for	103,259,636	14,201,227	89,058,409	103,620,255	16,457,399	87,162,855
- reported claims	54,524,262	13,031,776	41,492,486	55,775,809	14,485,863	41,289,946
- not reported claims	48,735,374	1,169,450	47,565,923	47,844,446	1,971,536	45,872,909
Provisions for bonuses and discounts	508,156	-	508,156	453,746	-	453,746
Mathematical provisions	225,650	-	225,650	172,372	-	172,372
Other insurance technical provisions	5,687	-	5,687	43,402	-	43,402
Total non-life insurance	**147,303,368**	**14,648,281**	**132,655,087**	**146,686,491**	**17,420,258**	**129,266,233**
Unearned premiums	6,326,315	-	6,326,315	6,774,128	-	6,774,128
Claims provisions for	5,744,942	-	5,744,942	5,406,298	-	5,406,298
- reported claims	975,411	-	975,411	622,147	-	622,147
- not reported claims	4,769,531	-	4,769,531	4,784,151	-	4,784,151
Provisions for bonuses and discounts	120	-	120	109	-	109
Mathematical provisions	77,873	-	77,873	40,136	-	40,136
Other insurance technical provisions	-	-	-	32,586	-	32,586
Total health insurance	**12,149,250**	**-**	**12,149,250**	**12,253,257**	**-**	**12,253,257**
Unearned premiums	375,654	52,976	322,678	355,159	51,109	304,050
Claims provisions for	5,119,340	176,786	4,942,554	5,191,131	232,824	4,958,308
- reported claims	1,779,270	176,786	1,602,484	1,901,406	232,824	1,668,582
- not reported claims	3,340,070	0	3,340,070	3,289,725	0	3,289,725
Mathematical provisions	109,990,102	-	109,990,102	107,377,776	-	107,377,776
Total life insurance with DPF	**115,485,096**	**229,762**	**115,255,334**	**112,924,066**	**283,933**	**112,640,133**
Total liabilities arising from insurance contracts	**274,937,714**	**14,878,043**	**260,059,671**	**271,863,814**	**17,704,191**	**254,159,623**

The disclosure of insurance technical provisions does not include claims provisions for unit-linked life insurance in the amount of EUR 1,445,645. 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. 2018	Reinsurance 1. 1. - 31. 12. 2018	Net 1. 1. - 31. 12. 2018	Gross 1. 1. - 31. 12. 2017	Reinsurance 1. 1. - 31. 12. 2017	Net 1. 1. - 31. 12. 2017
Movements in unearned premium						
Balance as at 1 Jan	**49,526,004**	**1,013,968**	**48,512,036**	**49,382,871**	**640,562**	**48,742,309**
Increase in liabilities	49,507,638	500,030	49,007,608	48,869,722	1,013,968	47,855,754
Decrease in liabilities	49,027,433	1,013,968	48,013,465	48,726,589	640,562	48,086,027
Balance as at 31 Dec	**50,006,208**	**500,030**	**49,506,178**	**49,526,004**	**1,013,968**	**48,512,036**
Movements in mathematical provisions						
Balance as at 1 Jan	107,590,283	-	107,590,283	107,250,524	-	107,250,524
Increase in the period	**15,307,262**	**-**	**15,307,262**	**15,210,091**	**-**	**15,210,091**
Decrease in the period	12,533,753	-	12,533,753	15,093,254	-	15,093,254
Change of current-year DPF part	(70,167)	-	(70,167)	222,923	-	222,923
Balance as at 31 Dec	**110,293,625**	**-**	**110,293,625**	**107,590,283**	**-**	**107,590,283**
Movements in claims outstanding						
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 1 Jan	**114,217,685**	**16,690,223**	**97,527,462**	**112,260,238**	**16,758,759**	**95,501,479**
Decrease in provisions due to payments	41,403,779	4,411,035	36,992,744	36,627,890	2,297,717	34,330,173
Change in provisions from preceding years +/-	(4,975,853)	1,559,224	(6,535,078)	(7,767,965)	(373,014)	(7,394,951)
Increase in provisions in the current year	46,285,866	539,601	45,746,265	46,353,303	2,602,196	43,751,108
Reported claims	**57,278,943**	**13,208,563**	**44,070,381**	**58,299,362**	**14,718,687**	**43,580,675**
Not reported claims	**56,844,976**	**1,169,450**	**55,675,525**	**55,918,323**	**1,971,536**	**53,946,787**
Balance as at 31 Dec	**114,123,919**	**14,378,013**	**99,745,906**	**114,217,685**	**16,690,223**	**97,527,462**
Movements in other insurance technical provisions						
Balance as at 1 Jan	**529,843**	**-**	**529,843**	**1,165,286**	**-**	**1,165,286**
Increase in the period	513,962	-	513,962	495,617	-	495,617
Decrease in the period	529,843	-	529,843	1,131,060	-	1,131,060
Balance as at 31 Dec	**513,962**	**-**	**513,962**	**529,843**	**-**	**529,843**

10.15 INSURANCE TECHNICAL PROVISIONS FOR UNIT-LINKED LIFE INSURANCE

Insurance technical provisions for unit-linked life insurance

(in EUR)	Gross + received co-insurance as at 31.12.2018	Reinsurance + ceded co-insurance as at 31.12.2018	Net as at 31.12.2018	Gross + received co-insurance as at 31.12.2017	Reinsurance + ceded co-insurance as at 31.12.2017	Net as at 31.12.2017
Claims provisions	1,445,645	25,485	1,420,159	1,336,512	-	1,336,512
- reported claims	1,445,645	25,485	1,420,159	1,336,512	-	1,336,512
Provisions for unit-linked life insurance policyholders	271,970,492	-	271,970,492	301,043,281	-	301,043,281
Total unit-linked life insurance	**273,416,137**	**25,485**	**273,390,652**	**302,379,792**	**-**	**302,379,792**

Movements in insurance technical provisions for unit-linked life insurance

(in EUR)	Gross 1. 1. - 31. 12. 2018	Reinsurance 1. 1. - 31. 12. 2018	Net 1. 1. - 31. 12. 2018	Gross 1. 1. - 31. 12. 2017	Reinsurance 1. 1. - 31. 12. 2017	Net 1. 1. - 31. 12. 2017
Movements in claims outstanding						
Reported claims	**1,336,512**	**-**	**1,336,512**	**1,836,888**	**-**	**1,836,888**
Balance as at 1 Jan	**1,336,512**	**-**	**1,336,512**	**1,836,888**	**-**	**1,836,888**
Decreased provisions due to payments	689,715	-	689,715	1,304,409	-	1,304,409
Change in provisions from preceding years +/-	(6,558)	-	(6,558)	(8,839)	-	(8,839)
Increase in provisions in the current year	805,406	25,485	779,921	812,872	-	812,872
Reported claims	**1,445,645**	**25,485**	**1,420,159**	**1,336,512**	**-**	**1,336,512**
Balance as at 31 Dec	**1,445,645**	**25,485**	**1,420,159**	**1,336,512**	**-**	**1,336,512**
Movements in provisions for unit-linked life insurance policyholders						
Balance as at 1 Jan	**301,043,281**	**-**	**301,043,281**	**282,619,438**	**-**	**282,619,438**
Increase in the period	13,605,602	-	13,605,602	57,262,561	-	57,262,561
Decrease in the period	42,678,390	-	42,678,390	38,838,717	-	38,838,717
Balance as at 31 Dec	**271,970,492**	**-**	**271,970,492**	**301,043,281**	**-**	**301,043,281**

10.16 LIABILITIES ARISING FROM FINANCIAL CONTRACTS

Liabilities arising from financial contracts

(in EUR)	31 Dec 2018	31 Dec 2017
Liabilities to pension savers (policyholders)	11,886,157	8,865,381
Liabilities from financial contracts for payments	12,097,380	8,523,199
Liabilities from financial contracts for fund return	(211,223)	342,182
Other liabilities	26,690	24,952
Total liabilities from financial contracts	**11,912,847**	**8,890,333**

As at 31 December 2018, savers' payments amounted to EUR 12,097,308 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 2018, EUR 29,274 (last year: 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)	1. 1. - 31. 12. 2018	1. 1. - 31. 12. 2017
As at 1 January	**8,865,381**	**4,735,916**
Increase in the period	**3,311,429**	**4,395,273**
for payments	3,856,506	4,091,488
for achieved return	(545,077)	303,785
Decrease in the period	**290,653**	**265,808**
for payouts (surrender)	282,325	263,640
for achieved return	8,328	2,168
As at 31 December	**11,886,157**	**8,865,381**

Annual gain of savers for which the liability of the Group increases varied in 2018 depending on the type of AS pension saving:

- (-6.44%) for the guarantee fund Pokojninsko varčevanje AS Drzni do 50 (pension fund),
- (-3.75%) for the guarantee fund Pokojninsko varčevanje AS Umirjeni med 50 do 60 (pension fund),
- (-1.76%) achieved (0.72% guaranteed) for the guarantee fund Pokojninsko varčevanje AS Zajamčeni od 60 (pension fund).

Each month, at the end of the accounting period, the insurance 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 2018, the guaranteed return was 0.72%. Since the guaranteed return was not achieved in 2018, the insurance company (as the pension insurance manager) formed long-term liabilities of EUR 66,481 charged to own fund life insurance assets, in line with the Pension and Disability Insurance Act (ZPIZ-2).

10.17 OTHER PROVISIONS

10.17.1 Other provisions

(in EUR)	1. 1. - 31. 12. 2018	1. 1. - 31. 12. 2017
Provisions for termination benefits	4,926,818	4,563,778
Provisions for jubilee benefits	57,284	61,484
Total	**4,984,103**	**4,625,262**

10.17.2 Provisions for employee benefits

Provisions for employee benefits

(in EUR)	31 Dec 2018	31 Dec 2017
Provisions for employee benefits	1,642,452	1,642,452
Other non-current provisions	2,921,326	2,921,326
Total	**4,563,778**	**4,563,778**

Movements in provisions for employee benefits

(in EUR)	1. 1. - 31. 12. 2018	1. 1. - 31. 12. 2017
As at 1.1.	**4,563,778**	**4,030,008**
Increase in current period	392,092	403,528
Decrease due to paid provisions for termination and jubilee benefits	(394,511)	(398,390)
Actuarial gains and losses	365,460	527,300
Adjustments arising from past experience	292,424	105,763
Effect of change of assumptions	73,036	421,537
Other changes	-	1,332
As at 31 December	**4,926,818**	**4,563,778**

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 2018 used different assumptions about the discount rate and expected increase in salaries than in the calculation for 2017, 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: the risk free interest rate curve ECB (European Central Bank) Euro area yield curve: AAA-rated euro area central government bonds dated 30.11.2018 is used to calculate the present value of the future cash flows (31 December 2017: 1,007%)

- the expected increase in salaries in the Company, including the expected increase in salaries due to promotions of 3.6% (31 December 2017: 2.2%),
- the expected mortality is determined based on Slovene mortality tables from 2007 (the same as at 31 December 2017),
- 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 2017).

The provision amounts in 2018 include taxes and contributions. The effect of changes in assumptions amounted to EUR 73,036.

Analysis of sensitivity to changes in parameters

Parameters	Parameter changes	1. 1. - 31. 12. 2018	1. 1. - 31. 12. 2017
Discount rate	discount curve move by +0,25%	(114,505)	(86,450)
	discount curve move by -0,25%	118,877	89,795
Salary increase	change in annual salary increase by +0,5%	235,766	164,617
	change in annual salary increase by -0,5%	(221,224)	(149,255)
Mortality	permanent increase in mortality by +20%	(45,135)	(34,427)
	permanent increase in mortality by -20%	45,885	35,061
Early termination of employment	expense curve move by +20%	(479,727)	(360,418)

10.17.3 Other long-term provisions

Movements in other long-term provisions

(in EUR)	1. 1. - 31. 12. 2018	1. 1. - 31. 12. 2017
As at 1.1.	**61,484**	**46,827**
Increase in current period (formation)	5,022	51,904
Decrease	(9,222)	(6,454)
Decrease (reversal)	-	(30,793)
As at 31.12.	**57,285**	**61,484**

10.18 OTHER FINANCIAL LIABILITIES

Movements in loans and other current financial liabilities

(in EUR)	1. 1. - 31. 12. 2018	1. 1. - 31. 12. 2017
Balance as at 1 Jan	**429,198**	**985,579**
Increase	402,737,356	741,022,139
Decrease	(402,641,962)	(741,578,519)
Balance as at 31 Dec	**524,592**	**429,198**

The balance of other current financial liabilities as at 31 December 2018 amounted to EUR 524,592. As at 31 December 2018, financial liabilities comprised an interest rate swap - IRS, which shows a negative value of EUR 429,961. This is intended to hedge the variable part of the interest rate of the bond issued by the Company (ADRIS Float 05/24/26) and is valued at fair value.

10.19 OPERATING LIABILITIES

The Group has no secured liabilities.

Operating liabilities

(in EUR)	31 Dec 2018	31 Dec 2017
Liabilities arising from direct insurance contracts	3,898,988	5,225,359
Liabilities arising from reinsurance and co-insurance	2,246,026	2,162,272
Tax liability	1,012,287	51,687
Total	7,157,302	7,439,318

Compared to 2017, the operating liabilities decreased by EUR 282,016 or by 4%, mainly as a result of lower liabilities arising from direct insurance contracts (by EUR 1,326,370). At 2017 year-end, these liabilities were exceptionally higher due to the marketing of a new investment insurance Aktivni AS late that year. The liabilities for this product were settled in early 2018. At the 2018 year-end, the Group did not have comparable marketing campaigns, so the balance of outstanding liabilities at the end of 2018 is comparable to the situation before 2017.

For 2018, 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.

10.20 OTHER LIABILITIES

Other liabilities

(in EUR)	31 Dec 2018	31 Dec 2017
Other operating (trade) liabilities	9,049,078	11,991,091
Accrued costs/expenses and deferred revenues	4,727,716	5,414,284
Total	13,776,794	17,405,374

10.20.1 Other operating liabilities

Other operating liabilities

(in EUR)	31 Dec 2018	31 Dec 2017
Long-term operating liabilities	**75,581**	**20,230**
Long-term securities	4,600	4,600
Other long-term operating liabilities	70,981	15,630
Current operating liabilities	**8,973,497**	**11,970,861**
Current operating liabilities to suppliers	2,339,237	2,889,215
Current operating liabilities to employees	2,758,770	2,736,733
Other current liabilities from insurance operations	2,932,148	4,119,014
Current operating liabilities to the state (except for income tax)	508,967	1,168,773
Current liabilities for received advances	3,377	3,287
Other current operating liabilities	430,998	1,053,838
Total	9,049,078	11,991,091

As at the 2018 year-end, other operating liabilities decreased by EUR 2,942,013 (25 %) compared to the previous year. The decrease is mainly due to a decrease in short-term liabilities from insurance operations of EUR 1,186,867. These short-term liabilities represent the largest share of 32% 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 743,414; last year: EUR 1,061,131),
- the liabilities for sales tax on insurance operations (in the amount of EUR 945,883; last year EUR 807,104),
- liabilities to other insurance companies from equalisation scheme for complementary health insurance (in the amount of EUR 474,274; last year: EUR 599,614),

- fire tax liability (in the amount of EUR 110,953; last year: EUR 107,964), and predominantly to
- liabilities for the repayment of reinsurance commissions advances. These liabilities amount to EUR 594,571; last year: EUR 1,443,742).

Compared to the previous year, there was a decrease in liabilities mainly 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 2018 to 31 December 2018, the claims ratio of reinsurance (for which the liability for the advance was established in 2017) improved and the liability for the reinsurance commissions advances decreased. In addition, the liabilities to the Slovene Insurance Association for contributions for coverage of claims for damage on unknown and uninsured vehicles and vessels went down by EUR 317,718.

The long-term operating liabilities of the Group include the long-term liability in the amount of EUR 66,481 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 10.16). Other long-term liabilities become due and payable sooner than in five years.

10.20.2 Accrued costs and deferred revenue

Accrued costs and deferred revenue

(in EUR)	31 Dec 2018	31 Dec 2017
Accrued expenses - operating	731,586	504,716
Accrued expenses - for unused annual holidays	1,334,125	1,460,932
Accrued expenses – acquisition costs and unexpired commissions	650,821	673,899
Accrued expenses from equalisation scheme for supplementary health insurance	539,033	767,478
Other deferred and accrued items	850,909	2,007,258
Total	**4,106,474**	**5,414,284**

10.21 REVENUE

10.21.1 Premium revenue from insurance contract

Net premium revenue from insurance contracts in 2018

(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	39,454,707	(852,001)	23,493	(6,508)	38,619,691
Land motor vehicle insurance	36,231,684	(1,531,518)	(756,373)	-	33,943,793
Accident insurance	17,657,512	(115,063)	(117,959)	(162,320)	17,262,169
Fire and natural forces insurance	17,471,466	(3,049,742)	(273,101)	(276,142)	13,872,481
Other damage to property insurance	13,101,761	(1,176,517)	(117,445)	(71,506)	11,736,292
General liability insurance	9,213,747	(773,184)	(109,135)	(2,939)	8,328,489
Credit insurance	(2,965)	-	157,711	-	154,746
Other non-life insurance, excluding health insurance	8,640,224	(625,902)	285,286	3,610	8,303,218
Insurance contracts for non-life insurance, excluding health insurance	**141,768,135**	**(8,123,928)**	**(907,523)**	**(515,804)**	**132,220,880**
Health insurance contracts	**99,693,576**	**-**	**447,813**	**-**	**100,141,389**
Life insurance	22,402,748	(2,128,446)	(20,495)	1,867	20,255,674
Unit-linked insurance contracts	36,581,743	(2,882)	-	-	36,578,861
Life insurance contracts	**58,984,490**	**(2,131,328)**	**(20,495)**	**1,867**	**56,834,535**
Total	**300,446,201**	**(10,255,255)**	**(480,205)**	**(513,938)**	**289,196,804**

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**

10.21.2 Financial revenue and expenses from investments and investments in associates

Financial revenue and expenses from investments

(in EUR)	1. 1. - 31. 12. 2018	1. 1. - 31. 12. 2017
Income from financial investments measured at FVTPL	**2,102,096**	**25,050,171**
Held for sale	47,167	200,310
Dividends	-	69
Interest and net exchange differences	43,283	188,757
Net sales income	-	12
Revaluation income	3,884	11,473
At initial recognition	2,054,929	24,849,861
Dividends	68,079	110,903
Interest and net exchange differences	703,527	(133,102)
Net sales income	1,283,322	3,937,463
Revaluation income	-	20,934,597
Income from financial investments held to maturity (HTM)	**1,728,803**	**1,971,954**
Interest and net exchange differences	1,681,721	1,971,954
Sales income	47,082	-
Income from financial investments available-for-sale (AFS)	**4,899,992**	**6,162,747**
Dividends	1,414,569	1,045,929
Interest and net exchange differences	2,299,651	2,209,228
Sales income	1,185,772	2,907,590
Income from loans and receivables	**3,161,881**	**3,638,177**
Interest	2,463,364	2,566,492
Net exchange differences	304,067	666,350
Other income	394,450	405,335
INCOME FROM INVESTMENTS	**11,892,771**	**36,823,049**
Income from investments - associates	58,211	103,950
Income from investments - subsidiaries	-	118,812
INCOME FROM INVESTMENTS IN SUBSIDIARIES AND ASSOCIATES	**58,211**	**222,762**
Expenses for financial investments measured at FVTPL	**(22,459,124)**	**(75,902)**
Held for sale	(46,509)	(57,309)
Net sales expenses	-	(42,371)
Revaluation expenses	(46,509)	(14,938)
At initial recognition	(22,412,615)	(18,594)
Revaluation expenses	(22,412,615)	(18,594)
Expenses for financial investments available-for-sale (AFS)	**(1,880,778)**	**(352,434)**
Realised losses	(834,152)	(352,434)
Impairment	(1,046,626)	-
Expenses - derivatives	**(1,122,639)**	**(103,185)**
EXPENSES FOR INVESTMENTS	**(25,462,541)**	**(531,521)**
Expenses for investments - associates	(71,295)	-
Expenses for investments - subsidiaries	(3,487)	-
EXPENSES FOR INVESTMENTS IN SUBSIDIARIES AND ASSOCIATES	**(74,782)**	**-**
Net financial result - investments measured at FVTPL	**(20,357,028)**	**24,974,269**
Net financial result - investments held to maturity (HTM)	**1,728,803**	**1,971,954**
Net financial result - available-for-sale investments (AFS)	**3,019,214**	**5,810,313**
Net financial result - derivatives	**(1,122,639)**	**(103,185)**
Net financial result from loans and receivables	**3,161,881**	**3,638,177**
Net financial result - investments in subsidiaries and associates	**(16,571)**	**222,762**
NET FINANCIAL RESULT FROM INVESTMENTS	**(13,586,340)**	**36,514,289**

Financial revenue and expenses also include net financial revenue/expenses for unit-linked insurance. In 2018, the net financial result of these investments was negative and amounted to EUR (20,176,878). In the same period, the insurance technical provisions for these funds decreased; it is therefore important to take into account the change of insurance technical provisions which affect the realistic display of results of profit or loss in funds for unit-linked life insurance. The change in these insurance technical provisions (see Section 10.15) in 2018 represents a provision lower by EUR 28,989,141 thus improving the final result for the same amount.

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

(in EUR)	1. 1. - 31. 12. 2018	1. 1. - 31. 12. 2017
Realised profits	-	24,254
Unrealised profits	30,033	37,842
Realised losses	-	(66,612)
Unrealised losses	(72,657)	(41,307)
Total	**(42,625)**	**(45,824)**

Net gains/losses on financial assets at initial recognition through profit or loss, excluding investment risk

(in EUR)	1. 1. - 31. 12. 2018	1. 1. - 31. 12. 2017
Realised profits	2,839,229	4,767,120
Unrealised profits	174,303	20,994,937
Realised losses	(1,555,906)	(829,657)
Unrealised losses	(22,586,918)	(78,933)
Total	**(21,129,293)**	**24,853,467**

Net gains/losses on financial assets at initial recognition through profit or loss pertaining to unit-linked life insurance resulted in the loss of EUR (20,540,889) (profit in 2017: EUR 23,452,940).

Impairment of securities of available-for-sale financial assets

(in EUR)	31 Dec 2018	31 Dec 2017
Equity securities	1,046,627	-
Total	**1,046,627**	**-**

Within the “available-for-sale financial assets” permanent impairment was made for the amount of EUR 1,046,627, of which EUR 1,003,711 in relation to equity securities and EUR 42,916 in relation to mutual funds.

Within the “held-to-maturity financial assets”, there were no permanent impairments of investments made in 2018.

10.21.3 Other insurance revenue

Revenue from management commission and other insurance revenue

(in EUR)	1. 1. - 31. 12. 2018	1. 1. - 31. 12. 2017
Revenue from insurance contracts	**1,829,722**	**2,224,846**
Revenues from reinsurance fees/commissions and from shares in positive technical result	1,666,280	2,114,297
Revenues from front-end/entry costs for insurance contracts	29,274	26,207
Other fee income for management of insurance contracts	134,168	84,342
Revenue from investment contracts	**31,944**	**31,677**
Revenue from investments contracts for administration (entry fees)	-	0
Other fee income for management of investment contracts	31,944	31,677
Total fee and commission revenue	**1,861,666**	**2,256,523**

Other insurance revenue consists mainly of revenue from reinsurance commissions from participation in the positive technical result from individual reinsurance contracts. Revenue from reinsurance contracts decreased in 2018 by EUR 394,857, due to the change of reinsurance protection from proportional to non-proportional. There is no fee and commission revenue in the case of non-proportional reinsurance,

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.

10.21.4 Other revenue

Other revenue

(in EUR)	1. 1. - 31. 12. 2018	1. 1. - 31. 12. 2017
Net revenue from sales of goods and services	**1,267,916**	**1,428,179**
Revenue from the sale of services	1,267,916	1,428,179
Other net insurance revenue	**1,170,594**	**1,066,062**
Revaluation operating revenue	**1,380,074**	**753,577**
Reversal of provisions	**14,795**	**77,309**
Other financial and other revenue	**2,539,029**	**4,990,320**
Other operating revenue	**19,465**	**16,288**
Other commission revenue	**10,393,995**	**10,443,085**
Fund management fee and commission revenue	10,387,564	10,427,162
Revenues from asset management	6,431	15,923
Total	**16,785,867**	**18,774,821**

Compared to the previous year, other revenue were lower by EUR 1,988,954, mainly due to other financial and other revenue, presented below. Other net revenue from insurance operations is also shown in a separate table below.

Other net insurance revenue

(in EUR)	1. 1. - 31. 12. 2018	1. 1. - 31. 12. 2017
Revenue for management of insurance contracts	21,627	58,643
Revenue from insurance services provided to foreign insurance companies	466,858	417,839
Revenue from rent on parking lot and cars	137,941	152,812
Revenue from Green Card sales	413,876	421,992
Revenue from other services	130,292	14,777
Total	**1,170,594**	**1,066,063**

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 1,340,159, from the write-off of liabilities from previous years in the amount of EUR 23,714 and revenue from the sales of property, plant and equipment in the amount of EUR 3,766.

At 2018 year-end, the Group recorded higher such revenue (by EUR 461,928), due to higher revenue from revaluation of financial receivables (see Section 10.25)

Other financial and other revenue

Compared to the previous year, other financial and other revenue decreased by EUR 2,415,465, which was mainly due to lower other financial revenue (this year: EUR 37,247; last year: EUR 1,416,806), arising from revaluation of loans given to Fondpolica policyholders due to changes in market quotations At the end of 2018, mostly other financial expenses were recognized from the revaluation of these loans (see Section 25.10).

In the group of other financial revenue, the predominant is revenue from rental revenue from investment property amounting to EUR 1,648,380 (in 2017: EUR 2,244,319) and which are lower compared to the same period last year by EUR 595,939 or by 27%.

10.22 NET CLAIMS INCURRED

Net claims incurred in 2018

(in EUR)	Gross claims settled	Revenues from recourse receivables	Share of reinsurance/ coinsurance in claims/ benefits paid	Change in gross outstanding claims provisions	Change in outstanding claims provisions for reinsurance/ coinsurance share	Expenses from equalisation scheme	Net expenses for claims/ benefits paid
Motor vehicle liability insurance	27,463,540	(682,102)	(930,878)	(1,205,209)	175,428	-	24,820,781
Land motor vehicles insurance	27,000,126	(655,541)	(761,875)	(794,267)	638,360	-	25,426,804
Accident insurance	7,996,142	-	(147,523)	(73,438)	94,799	-	7,869,980
Fire and natural disasters Insurance	8,329,279	(19,581)	(2,141,289)	(1,058,971)	1,456,504	-	6,565,941
Other damage to property insurance	7,940,216	(51,675)	(437,220)	(244,293)	32,045	-	7,239,074
General liability insurance	2,984,673	(34,363)	(18,249)	2,074,904	(138,321)	-	4,868,646
Credit insurance	46,398	(56,634)	-	(3,014)	-	-	(13,250)
Other non-life insurance, excluding health insurance operations	5,583,700	(372,931)	(566,352)	943,668	(2,644)	-	5,585,441
Non-life insurance contracts, excluding health insurance contracts	**87,344,075**	**(1,872,826)**	**(5,003,387)**	**(360,619)**	**2,256,172**	**-**	**82,363,417**
Health insurance contracts	**86,641,769**	**(54,950)**	**-**	**338,644**	**-**	**1,931,894**	**88,857,358**
Life insurance	13,546,430	-	(681,661)	(71,791)	56,037	-	12,849,015
Unit-linked insurance contracts	32,817,567	-	-	109,133	(25,485)	-	32,901,215
Additional pension insurance	634,486	-	-	-	-	-	634,486
Insurance contracts and investment life insurance contracts	**46,998,483**	**-**	**(681,661)**	**37,342**	**30,552**	**-**	**46,384,716**
Total	**220,984,328**	**(1,927,775)**	**(5,685,048)**	**15,366**	**2,286,725**	**1,931,894**	**217,605,489**

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 classified into expenses for the current year and expenses for previous years

(in EUR)	Gross 1. 1. - 31. 12. 2018	Reinsurance 1. 1. - 31. 12. 2018	Net 1. 1. - 31. 12. 2018	Gross 1. 1. - 31. 12. 2017	Reinsurance 1. 1. - 31. 12. 2017	Net 1. 1. - 31. 12. 2017
Expenses for claims and benefits paid for current year	**225,039,847**	**1,839,099**	**223,200,748**	**233,047,799**	**4,236,209**	**228,811,590**
Claims and benefits paid	176,016,681	1,274,013	174,742,668	182,997,387	1,634,014	181,363,374
Change in outstanding claim provisions	47,091,272	565,086	46,526,186	47,166,175	2,602,196	44,563,980
Expenses from equalisation scheme	1,931,894	-	1,931,894	2,884,237	-	2,884,237
Expenses for claims and benefits paid for previous years	**(4,036,034)**	**1,559,224**	**(5,595,258)**	**(7,000,186)**	**(373,014)**	**(6,627,171)**
Claims and benefits paid	43,039,872	4,411,035	38,628,836	38,708,918	2,297,717	36,411,201
Change in outstanding claim provisions	(47,075,905)	(2,851,811)	(44,224,094)	(45,709,104)	(2,670,731)	(43,038,372)
Total	**221,003,814**	**3,398,323**	**217,605,490**	**226,047,614**	**3,863,195**	**222,184,419**

10.23 COSTS

10.23.1 Costs by natural group

(in EUR)	1. 1. - 31. 12. 2018	1. 1. - 31. 12. 2017
Operating costs for material	1,038,653	987,035
Acquisition costs	22,368,643	23,637,911
Operating costs for services	20,820,828	21,571,326
Depreciation/amortisation	3,511,439	3,552,201
Labour costs	**35,628,747**	**35,037,820**
Payroll – wages and salaries	25,261,316	24,841,458
Social security costs	2,087,946	2,003,227
Pension insurance costs	2,488,720	2,420,097
Other labour cost	4,938,194	4,883,043
Provisions for termination benefits and jubilee benefits	852,571	889,996
Total	**83,368,310**	**84,786,294**

Compared to the previous year, the operating costs are lower by EUR 1,417,984. This decrease was mainly contributed to by acquisition costs (lower by EUR 1,269,268) due to acquisition of the company Agent d. o. o. by the Group in late 2017. The lowering also resulted from operating costs for services (lower by EUR 750.499), mainly due to lower costs for trade fairs, advertisements and representation expenses, followed by lower costs for intellectual and personal services (by EUR 529,543), and lower assets rents and maintenance costs (by EUR 509,913).

10.23.2 Costs by functional group

(in EUR)	1. 1. - 31. 12. 2018	1. 1. - 31. 12. 2017
Costs related to acquisition of insurance and investment contracts	21,401,862	23,673,588
Costs related to financial asset management	1,510,621	1,826,369
Costs related to PPE management	473,760	375,899
Other costs for management fees	8,515,021	3,452,285
Costs of sale	21,452,421	24,981,166
Other costs/expenses	23,302,798	24,394,884
Total costs/expenses by functional groups	**76,656,482**	**78,704,191**

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 2018, these costs totalled EUR 6,711,828 (2017: EUR 6,082,103). Together with the transfer of a part of other expenses relating to direct claims handling costs in the amount of EUR 32,650 (2017: EUR 46,532), there were EUR 6,744,478 transferred to gross claims incurred (2017: EUR 6,128,634).

10.23.3 Labour costs of own agents

(in EUR)	1. 1. - 31. 12. 2018	1. 1. - 31. 12. 2017
Labour costs	8,447,937	8,232,943
Wages and salaries	6,502,212	6,240,851
Social security costs	391,945	419,372
Pension insurance costs	593,422	583,428
Other labour cost	960,358	989,293
Costs of services provided by private individuals	189,995	241,043
Total	**8,637,932**	**8,473,986**

10.23.4 Auditor's remuneration

The audit of the annual financial statements of parent company Adriatic Slovenica for 2018 was performed by the audit firm Ernst & Young d. o. o., while for 2017 the audit 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., also in 2017. The audit of the subsidiary KD Locusta Fondovi, Croatia was performed by the audit firm Ernst & Young d. o. o (for 2017 PricewaterhouseCoopers d.o.o.) and the audit of the subsidiary KD Fondovi Makedonia by the audit firm B and Lj audit company, Skopje (also in 2017).

Fees paid for auditor's services

(in EUR)	1. 1. - 31. 12. 2018	1. 1. - 31. 12. 2017
Statutory audit of the annual report	101,955	111,529
Other audit services	67,867	70,877
Other non-audit services	164,244	19,564
Total fees for independent auditor's services	**334,067**	**201,971**

10.24 OTHER INSURANCE EXPENSES

Other insurance expenses

(in EUR)	1. 1. - 31. 12. 2018	1. 1. - 31. 12. 2017
Expenses for preventive activities	888,688	861,303
Contribution for covering losses caused by uninsured and unknown vehicles	(201,400)	145,205
Other net insurance expenses	1,916,377	2,798,688
Total	**2,603,665**	**3,805,195**

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 2018, 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 parent company pays to the SZZ, depending on the market share of motor vehicle liability insurance. In 2017, the parent company Adriatic Slovenica paid to the SZZ more than it was subsequently determined, thus earning a credit in 2018.

Other net insurance expenses are in volume the largest part of other insurance expenses and compared to the previous year they went down by EUR 882,311 due to lower expenses for car assistance following the termination of cooperation with the contracting party Assistance Coris d.o.o.

Other net insurance expenses are mainly generated by significant expenses, such as:

- subrogation receivables write-offs, receivables write-offs from insurance premiums and write-offs of other receivables in the amount of EUR 972,264 (2017: EUR 1,052,853),
- expenses of supervisory bodies in the amount of EUR 468,733 (2017: EUR 452,794), and
- insurance expenses for car assistance in the amount of EUR 25.499 (2017: EUR 1,180,942),

Annually, the Group reviews the recoverability of older and overdue receivables and decides about write-offs of receivables, the recoverability of which had been proven several times and there is solid proof (inability to repay, bankruptcy, personal bankruptcy…) that these receivables would not be repaid in the future. Based on a conclusion of the Management Board and checks performed by the inventory commission, write-offs are made. In 2018, compared to 2017, the amount of write-offs of receivables from insurance cases and subrogation receivables is lower.

10.25 OTHER EXPENSES

Other expenses

(in EUR)	1. 1. - 31. 12. 2018	1. 1. - 31. 12. 2017
Revaluation operating expenses	**1,268,813**	**1,578,638**
Expenses for investment properties	**1,411,582**	**3,559,766**
Depreciation of investment properties	248,408	328,470
Impairment - investment properties	78,951	1,690,184
Other expenses for investment properties	1,084,224	1,541,112
Depreciation of property, plant and equipment not intended for insurance activities	**231,536**	**231,536**
Other operating expenses	**3,199,496**	**2,786,974**
Finance expenses	**6,444,647**	**5,343,417**
Total	**12,556,074**	**13,500,330**

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 309,825 mainly due to lower impairments of intangible assets (expenses lower by EUR 625,261). In the year 2018, the Group substantially impaired the material rights it had been accounting under intangible assets since 2013.

Compared to the year before, investment property expenses were down by EUR 2,148,184, mainly due to expenses for impairment of investment property (buildings and equipment). In 2018, impairment was made with regard to two investment properties whose expenses for impairment totalled EUR 78,951 (2017: EUR 1,690,184) (see Sections 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. 2018	1. 1. - 31. 12. 2017
Payments for charity and cultural purposes	172,452	120,387
Benefits not depending on operating profit or loss	342,223	186,454
Financial penalties and compensations	739,110	1,068,242
Operating expenses	763,885	853,924
The rest of other operating expenses	1,181,826	557,968
Total	**3,199,496**	**2,786,974**

Compared to the previous year, other operating expenses went up by EUR 412,523, mainly due to the rest of other operating expenses, which increased by EUR 623,858 mainly due to write-offs of receivables arising from outstanding rents (for the amount of EUR 967,181). In 2018 and under the same heading, impairments of receivables formed by the Group in previous periods were derecognised and revaluation revenues in the amount of EUR 984,114 were recognized (see revaluation operating revenue in chapter 10.21.4). The net effect between revenues and expenses under this heading had a positive effect on the result of EUR 16,933.

In the reporting period, the parent company received a judgment of the Supreme Court related to the already paid action of Pozavarovalnica Sava d.d. The revision of the judgement was unfavourable for the parent company Adriatic Slovenica d. d, since the revision of the parent company Adriatic Slovenica d. d. was declined, while the revision of Pozavarovalnica Sava Re. was granted in the remaining part of the claim, consequently the parent company Adriatic Slovenica d. d. was obliged to pay, in addition to the already paid amount to Pozavarovalnica Sava d. d., an amount of EUR 720,313. The judgment was fully met.

In this group of expenses, a large portion are operating expenses which consist mainly of administrative and court fees, as well as membership fees to the Chamber of Commerce and various association.

Financial expenses

(in EUR)	1. 1. - 31. 12. 2018	1. 1. - 31. 12. 2017
Finance expenses for interest - issued bonds	4,032,676	4,025,330
Finance costs - interest	15,735	5,486
Other financial expenses	2,396,236	1,312,600
Finance expenses arising from other financial liabilities	1,249,104	71,647
Finance expenses arising from other financial liabilities	593	1,666
Finance expenses arising from operating liabilities	1,146,538	1,239,287
Total	**6,444,647**	**5,343,417**

Financial expenses are higher by EUR 1,101,230 compared to the previous year, due to higher finance expenses from other financial liabilities. These expenses are generated mostly by revaluation of loans given to policyholders of Fondpolica due to changes in market quotations at revaluation.

Among financial expenses, 63% are interest expenses, which are regularly paid by the parent company to creditors of the subordinated debt. In 2018, there were EUR 4,032,676 of accrued interests generated under this heading (last year EUR 4,025,330).

A large portion of financial expenses is represented by other financial expenses arising from operating liabilities, generated mostly by other investment expenses, such as purchasing commissions (amounting to EUR 452,516, last year EUR 441,339), other interest expenses (amounting to EUR 434,153, EUR 112,101) and negative foreign exchange differences from abroad (amounting to EUR 228,574, last year EUR 650,446).

10.26 REINSURANCE RESULT

Reinsurance result for non-life insurance in 2018

Insurance class in EUR	Reinsurance premiums	Reinsurance claims	Changes in unearned reinsurance premiums	Changes in reinsurance claim provisions	Reinsurance commissions	Net reinsurance result
Accident insurance	(115,063)	147,523	(162,320)	(94,799)	79,493	(145,167)
Land motor vehicle insurance	(1,531,518)	761,875	-	(638,360)	393,856	(1,014,148)
Marine loss insurance	(43,760)	-	-	-	-	(43,760)
Transportation (goods in transit) insurance	(214,160)	93,080	-	1,984	13,321	(105,775)
Fire and natural disaster insurance	(2,903,317)	2,139,995	(282,848)	(1,374,678)	114,564	(2,306,283)
Other damage to property insurance	(1,154,259)	432,929	(70,679)	(31,781)	35,851	(787,939)
Motor vehicle liability insurance (MTPL)	(852,001)	930,878	(6,508)	(175,428)	419,180	316,121
Aircraft liability insurance	(5,415)	-	210	-	861	(4,343)
Ship/boat liability insurance	(46,002)	-	0	-	-	(46,002)
General liability insurance	(735,188)	16,195	(1,668)	144,312	37,412	(538,937)
Suretyship insurance	(134,741)	66,193	8,854	533	53,335	(5,826)
Miscellaneous financial loss insurance	(171,979)	406,636	(5,439)	33,825	5,739	268,782
Legal expenses insurance	(9,469)	510	-	-	8,898	(61)
Insurance of assistance	-	(78)	-	-	26,987	26,910
Total non-life insurance	**(7,916,872)**	**4,995,737**	**(520,397)**	**(2,134,391)**	**1,189,497**	**(4,386,428)**

Reinsurance result for non-life insurance in 2017

Insurance class in EUR	Reinsurance premiums	Reinsurance claims	Changes in unearned reinsurance premiums	Changes in reinsurance claim provisions	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)**

10.27 CORPORATE INCOME TAX

Taxes

(in EUR)	1. 1. - 31. 12. 2018	1. 1. - 31. 12. 2017
Corporate income tax charge	(1,468,369)	(529,375)
Deferred tax income/(expense)	(463,906)	(2,164,926)
Total	**(1,932,275)**	**(2,694,301)**

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

(in EUR)	1. 1. - 31. 12. 2018	1. 1. - 31. 12. 2017
Profit or loss before taxation	**11,118,408**	**13,396,169**
Rate used for income tax calculation	22	23
Tax calculated by using official tax rate	(2,454,617)	(3,090,518)
Income excluded from the tax base and other reductions in the tax base	**1,950,331**	**4,187,460**
Expenses not recognised in the tax base and other increases in the tax base	**(1,792,421)**	**(1,805,744)**
Use of tax allowance in the current year	**839,625**	**218,487**
Effect of utilisation of tax loss	**7,125**	**751**
Current year tax losses	**(20,057)**	**(39,811)**
Effect of changes related to the adoption of new accounting methods, changes accounting policies and error corrections.	**1,645**	**-**
Changes in deferred taxes in the income statement	**(463,906)**	**(2,164,926)**
Increase of deductible temporary differences	19,154	975
Decrease of deductible temporary differences	28,314	(2,228,681)
Decrease of tax loss carry forwards	(93,571)	(35,444)
Increase of tax credits carry forwards	7,212	162,492
Decrease of tax credits carry forwards	(425,015)	(64,267)
Profit or loss after taxation	**(1,932,275)**	**(2,694,301)**
Effective tax rate (in %)	**17,38**	**20,11**

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 2018 is 17.38% (2017: the effective tax rate was 20.11%).

According to local tax legislation in Slovenia, the applicable tax rate in 2018 was 19% (as in 2017). The tax rate applicable to the subsidiaries in Croatia was 18% (same as in 2017), 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 2017).

10.28 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 2018	31 Dec 2017
Deferred tax assets	**4,251,013**	**4,863,701**
– receivables for deferred tax to be recovered	4,251,013	4,863,701
Deferred tax liabilities	**-**	**191,266**
– liabilities for deferred taxes pending payment	-	191,266

Overview of bases for deferred tax receivables

(in EUR)	Base 1. 1. - 31. 12. 2018	Reinsurance 1. 1. - 31. 12. 2018	Base 1. 1. - 31. 12. 2017	Reinsurance 1. 1. - 31. 12. 2017
Due to impairment/value adjustments of receivables for premiums, for recourse receivables and for other current receivables	13,268,715	2,521,056	14,206,745	2,699,282
Due to impairment/value adjustments of financial investments	6,064,988	1,152,348	5,867,556	1,114,836
Due to impairment/value adjustments of provisions, provisions for relief and depreciation above the statutory rate	2,277,598	432,744	4,196,400	797,316
Unused tax losses and tax credits	762,452	144,866	1,327,726	252,268
Total	**25,005,959**	**4,251,013**	**28,610,008**	**4,863,701**

Deferred tax receivables

Compared to the year before, in 2018 deferred tax receivables went down by EUR 612,688 (or by 13%), mainly due to release of deferred tax receivables arising from tax credits.

Overview of bases for deferred tax liabilities

(in EUR)	Base 1. 1. - 31. 12. 2018	Deferred tax liability 1. 1. - 31. 12. 2018	Base 1. 1. - 31. 12. 2017	Deferred tax liability 1. 1. - 31. 12. 2017
Due to reversal of impairment of financial investments	-	-	1,006,666	191,266
Total	**-**	**-**	**1,006,666**	**191,266**

Deferred taxes taken to equity in a given year

(in EUR)	31 Dec 2018	31 Dec 2017
Available-for-sale financial assets	42,227	(86,614)
Total	**42,227**	**(86,614)**

Movements in deferred taxes

(in EUR)	Total
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**
New balance as at 1 Jan 2018	**4,672,435**
Acquisition of subsidiary	93,571
Decreases due to the withdrawal of the subsidiary	(93,571)
Debited/credited to income statement	(463,906)
Debited/credited to equity	42,227
Exchange rate differences	257
Net balance of assets and liabilities as at 31 Dec 2018	**4,251,013**

Movements in deferred tax liabilities

(in EUR)	Impairment reversal to fair value	Other	Total
New balance as at 1 Jan 2017	110,646	-	110,646
Debited/credited to equity	80,620	-	80,620
Total deferred tax liability before set off at 31 Dec 2017	**191,266**	**-**	**191,266**
New balance as at 1 Jan 2018	**191,266**	**-**	**191,266**
Debited/credited to equity	(79,294)	-	(79,294)
Total deferred tax liability before set off at 31 Dec 2018	**111,972**	**-**	**111,972**
Set off of deferred tax	(111,973)	-	(111,973)
Total deferred tax liability before set off at 31 Dec 2018	**(0)**	**-**	**(0)**

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 2017	**1,956,597**	**3,316,473**	**432,208**	**346,576**	**430**	**724,837**	**256,430**	**7,033,551**
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
Total deferred tax asset before set off at 31 Dec 2017	**1,950,465**	**1,105,454**	**372,064**	**384,709**	**328**	**636,795**	**413,886**	**4,863,701**
Balance as at 1 Jan 2018	**1,950,465**	**1,105,454**	**372,064**	**384,709**	**328**	**636,795**	**413,886**	**4,863,701**
Increases due to acquisition of companies	-	-	-	-	-	93,571	-	**93,571**
Decreases due to the withdrawal of the subsidiary	-	-	-	-	-	(93,571)	-	**(93,571)**
Debited/credited to income statement	(26,865)	171,720	25,035	32,939	(287)	(262,476)	(403,972)	**(463,906)**
Debited/credited to equity	-	(37,067)	-	-	-	-	-	**(37,067)**
Exchange rate differences	9	247	-	1	0	-	-	**257**
Total deferred tax asset before set off at 31 Dec 2018	**1,923,609**	**1,240,355**	**397,099**	**417,649**	**41**	**374,319**	**9,915**	**4,362,986**
Set off of deferred tax	-	(111,973)	-	-	-	-	-	(111,973)
Total deferred tax asset before set off at 31 Dec 2018	**1,923,609**	**1,128,382**	**397,099**	**417,649**	**41**	**374,319**	**9,915**	**4,251,013**

10.29 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 2018	31 Dec 2017
Net profit or loss for the financial year	9,145,128	10,633,233
Weighted average number of ordinary shares outstanding	10,304,407	10,304,407
Basic and adjusted net earnings / loss per share (in euros)	**0.89**	**1.03**

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. 2018	1. 1. - 31. 12. 2017
As at 1 Jan	10,304,407	10,304,407
As at 31 Dec	**10,304,407**	**10,304,407**

10.30 ISSUES, REDEMPTIONS AND PAYOUTS OF SECURITIES AND DIVIDENDS

In 2018, 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)	2018	2017
Amount of dividends (in euros)	10,304,407	10,613,539.21
Dividend per share (in euros)	1.00	1.03

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 21 March 2018, the General Meeting of Shareholders of the parent company adopted a resolution, referring to 2017, to allocate EUR 10,304,407 for dividend payments to the shareholders. The dividends were paid in full.

10.31 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 2018, 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 2018, 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 2018 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 2018 are listed below:

KD Group d. d.- direct owners of the parent company within Adriatic Slovenica Group
Associate NAMA d. d., Ljubljana,
Associate MEDIFIT d. o. o., 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 2018: 144
Company objects: The principal activity of Nama is retail trade services of food and non-food products.
As at 31 December 2018, 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 2018.
The tax rate applied in the calculation of the corporate income tax was 19%.
The Group did not receive from or give any loans to the subsidiary Nama in 2018.

In its consolidated financial statements, the Group accounts for Nama d.d. Ljubljana using the equity method.

MEDIFIT d. o. o., Ljubljana

Registered company name: MEDIFIT, druge z informacijsko tehnologijo in računalniškimi storitvami povezane dejavnosti, d. o. o.
Abbreviated company name: MEDIFIT d. o. o.
Head office and address: Dunajska cesta 63, Ljubljana, 1000 Ljubljana
Company registration number: 8150982000
VAT identification number: SI 12848999
Share capital: EUR 30.000,00 fully paid in.
Company objects: The principal activity of the company MEDIFIT d. o. o. is information technology and computer services. As at 31 December 2018, Adriatic Slovenica d.d. had a 48.00% equity stake in the associate.
The reporting period of the financial statements is equal to the calendar year.
The tax rate applied in the calculation of the corporate income tax was 19%.
The Group did not receive from or give any loans to the subsidiary MEDIFIT d. o. o. in 2018.
In its consolidated financial statements, the Group accounts for MEDIFIT d. o. o. 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. 2018	1. 1. - 31. 12. 2017
Shareholder of Adriatic Slovenica d.d	355,939	329,952
Associate of Adriatic Slovenica d.d.	5,234	68
Other associated/affiliated companies of Adriatic Slovenica d. d.	974,619	978,716
Total	**1,335,791**	**1,308,736**

Purchase of goods and services

(in EUR)	1. 1. - 31. 12. 2018	1. 1. - 31. 12. 2017
Shareholder of Adriatic Slovenica d.d	256,303	268,921
Associate of Adriatic Slovenica d.d.	-	468
Other associated/affiliated companies of Adriatic Slovenica d. d.	1,307,378	3,589,615
Total	**1,563,680**	**3,859,003**

Receivables of the Group from related parties

(in EUR)	31 Dec 2018	31 Dec 2017
Shareholder of Adriatic Slovenica d.d	12,436	7,001
Other associated/affiliated companies of Adriatic Slovenica d. d.	52,101	173,871
Total	**64,536**	**180,872**

Liabilities of the Group to related parties

(in EUR)	31 Dec 2018	31 Dec 2017
Shareholder of Adriatic Slovenica d.d	19,754	21,894
Associate of Adriatic Slovenica d.d.	2,000	9
Other associated/affiliated companies of Adriatic Slovenica d. d.	104,861	334,529
Total	**126,615**	**356,432**

Purchase of investment properties from related parties

In 2018, the Group did not purchase or sell any investment properties to its related parties.

Bonds issued by the shareholder of the parent company

(in EUR)	1. 1. - 31. 12. 2018	1. 1. - 31. 12. 2017
At the beginning of year	**16,293,424**	**15,780,799**
Bonds purchased from third parties	-	463,739
Bonds sold in the Group	(1,634,458)	-
Interest charged	865,396	1,085,482
Interest received	(913,661)	(860,028)
Valuation/measurement	51,331	(176,568)
At the end of the reporting period	**14,662,033**	**16,293,424**

Bonds issued by other related parties

(in EUR)	1. 1. - 31. 12. 2018	1. 1. - 31. 12. 2017
At the beginning of year	(0)	**7,014,935**
Maturing bonds	-	(6,859,000)
Interest charged	-	409,040
Interest received	-	(480,130)
Valuation/measurement	-	(84,845)
At the end of the reporting period	(0)	(0)

Shares of the shareholder of the parent company

(in EUR)	1. 1. - 31. 12. 2018	1. 1. - 31. 12. 2017
At the beginning of year	**537,372**	**537,372**
At the end of the reporting period	**537,372**	**537,372**

Shares and shareholdings of other related parties

(in EUR)	1. 1. - 31. 12. 2018	1. 1. - 31. 12. 2017
At the beginning of year	**1,597,793**	**1,294,389**
Shares sold to third parties	(777,143)	-
Dividends paid	31,118	38,898
Dividends received	(31,118)	(38,898)
Valuation/measurement	(39,715)	303,404
At the end of the reporting period	**780,935**	**1,597,793**

Loans received and loans given

Loans received and loans given

(in EUR)	1. 1. - 31. 12. 2018	1. 1. - 31. 12. 2017
At the beginning of year	**13,100,124**	**9,989,805**
Approved loans	9,700,000	16,555,300
Repaid loans	(2,170,546)	(13,500,000)
Interest accrued	808,629	472,043
Interest reduction	(809,679)	(417,024)
At the end of year	**20,628,527**	**13,100,124**
Paid interest	**799,586**	**340,458**

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. 2018	1. 1. - 31. 12. 2017
At the beginning of year	**7,600,185**	**14,413,459**
Approved loans	-	2,500,000
Repaid loans	(5,100,000)	(9,320,600)
Interest accrued	181,245	525,319
Interest reduction	(181,523)	(517,993)
At the end of year	**2,499,907**	**7,600,185**
Paid interest	191,002	541,204

The loans given to other related parties were given at market interest rate in the range between 4.5% and 5%. 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 2018

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	896,320	-	65,322	5,350,034
Bonuses and other remuneration	98,438	-	38,247	789,201
Meeting attendance fees	-	8,234	116,221	-
Total	**994,758**	**8,234**	**219,790**	**6,139,235**

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 2018 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 2018

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	159,600	26,600	1,161	1,735	3,628	4,219	-
Matija Šenk	Member of the Management Board	120,000	20,000	1,161	1,597	2,431	6,307	2,970
Jure Kvaternik	Member of the Management Board (from 16. 4. 2018)	79,306	0	0	881	2,155	3,045	3,500

* Including travel expenses using own vehicle and daily allowance at home and abroad.

Payments to the members of the supervision bodies in 2018

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 to 20. 3. 2018	-	-	-	-	6,498	-	-	-
Aljoša Tomaž	Chairman from 20. 3. 2018	-	-	-	-	20,878	-	-	-
Aleksander Sekavčnik	Member	-	-	-	-	19,200	-	-	24,919
Tomaž Butina	Member	-	-	-	-	19,200	-	-	3,375
Matjaž Pavlin	Member, representative of employees	34,818	-	1,161	2,726	19,200	1,429	42	-
Borut Šuštaršič	Member, representative of employees	30,505	-	1,161	2,091	19,200	1,300	42	-

As at the 2018 year-end, the Group carries the following current operating receivables and liabilities related to the management of the parent company within the Group:

- EUR 62 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 565 of receivables and no liabilities from the members of the Supervisory Board and the Audit Committee. The receivables mainly arise from the insurance business (premiums due) in the amount of EUR 548, ,
- EUR 8,063 of receivables and EUR 251 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 7,140 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 outstanding 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 2019.

The parent company carries receivables in the amount of EUR 623 and EUR 9 liabilities related to members of management or supervision bodies of the associate.

In 2018, 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 2018, 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 570 of insurance premiums,
- the immediate family members of members of the Supervisory Board paid the aggregate amount of EUR 6,378 of insurance premiums.

- the immediate family members of members of the Audit Committee paid the aggregate amount of EUR 2,089 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 2018, based on the concluded insurance policies, the insurance company paid EUR 1,142 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 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 2018, 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 930, received also EUR 505 of daily allowance for business trips.

The receivables carried in the books of account as at the 2018 year-end and arising from the senior management of the companies up to the highest parent company amounted to EUR 479. Outstanding receivables refer to the receivables arising from the insurance business (premiums). As at 31 December 2018, the parent company of the AS group has no outstanding liabilities to the management board members of controlling entities.

12. CONTINGENT RECEIVABLES AND LIABILITIES

Contingent receivables and liabilities include potential receivables and liabilities held in off-balance sheet items.

Contingent receivables and liabilities

(in EUR)	31 Dec 2018	31 Dec 2017
Outstanding recourse receivables	5,175,260	5,859,265
Received pledged guarantees	27,051,998	26,975,508
Receivables for pension insurance premiums	195,898	164,627
Other receivables	280,334	275,125
Contingent RECEIVABLES	**32,703,490**	**33,274,525**
Receivables - disputes and litigations (labour and insurance)	303,053	385,106
Liability for guaranteed return	66,482	11,131
Liabilities arising from futures contracts	179,573	501,040
Other liabilities	4,628	3,934
Contingent LIABILITIES	**553,735**	**901,211**
Records under swap contracts	50,000,000	50,000,000
Total contingent receivables and liabilities	**83,257,226**	**84,175,736**

As at 31 December 2018, the balance of contingent receivables is lower by EUR 571,034 than in the previous year, mostly due decreased unrealised subrogation receivables (amounting to EUR 684,005). Despite the overall decrease, the balance of contingent receivables as at 31 December 2018 increased due guarantees with pledged securities by EUR 76,490 and receivables from pension insurance premiums by EUR 31,272. Other receivables increased by EUR 5,209, due to new incurred contingent receivables arising from the concluded futures contract for the disposal of the stake in the associate Medifit d. o. o.

Contingent liabilities decreased by EUR 347,476 compared to the end of the previous year. The reduction of liabilities was largely impacted by the obligations arising from futures contracts, the conclusion of the dispute with Pozavarovalnica Sava d. d. and the payment of the extra amount which became payable pursuant to the Supreme Court judgement. Despite the overall decrease, the balance of contingent liabilities increased in the reporting period due new contingent liabilities, namely liabilities related to the commercial dispute initiated by Zoran Šolaja s.p. for indemnification of EUR 241,488 requested in relation to commercial lease. Furthermore, contingent liabilities went up also due to the failure to achieve the guaranteed return. To a lesser extent, other potential liabilities related to the credits owed to pension fund savers under the pension plan financial contract also increased.

Through its subsidiary company KD Skladi d. o. o., the Group and the remaining owners of KD Locusta Fondovi d. o. o., have an optional contract for the purchase of a 10% stake in KD Locusta Fondovi d. o. o. in 2019.

Other changes

In addition to the above contingent receivables and liabilities, the insurance company keeps record of EUR 50,000,000 under off-balance sheet items 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 in the first half of 2017 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.

The parent company Adriatic Slovenica has contingent liabilities pursuant to the valid guarantee (until 2021) arising from the concluded umbrella agreement on the transfer of the portfolio, between the assignor AS neživotno osiguranje a. d. o., Belgrade, and the acquirer of the portfolio, the subsidiary of Pozavarovalnice Sava. The potential exposure of the Company is valued at 0 because during the validity period of the guarantee the claim, which exceeded the formed provisions and for which the guarantee was expressly given, was withdrawn.

The parent company Adriatic Slovenica has one tenant with conditional rent. Namely, in case his turnover exceeds the contracted rent by 20%, additional rent is charged. In 2018, additional rent was charged in the amount of EUR 6,872 (in 2017: EUR 8,527).

Important litigations in progress

Actions for damages have been initiated against commercial banks (NLB, DUTB, Abanka), to which the Bank of Slovenia pronounced extraordinary measures to terminate the qualified liabilities of banks, in connection with the extraordinary measures imposed on the NLB d. d., Abanki d. d., Factor bank d. d., Probanka d. d. and Banka Celje d. d. on 17 December 2013. 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 insurance company in total nominal value of EUR 14,634,800 euros and 123,416 shares of Probanka d. d., 2,085 NLB shares d. d., 5 shares of the Bank of Celje d. d. and 45 shares of Gorenjska banka d. d. were erased. The insurance company immediately initiated all procedures to protect its rights in relation to the erased financial investments. 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. In all initiated proceedings, the court decided that the proceedings should be interrupted until the court's decision in the compensation procedure against the Bank of Slovenia according to the law, which will replace the procedure referred to in Article 350.a of the Banking Act. Accordingly, the insurance company has pending lawsuits against:

- NLB d. d., District Court of Ljubljana, reference number VIII Pg 3069/2016, disputed amount EUR 2,919,375.00.
- DUTB d. d., District Court of Ljubljana, reference number. VIII Pg 3063/2016, disputed amount. EUR 12,109,212.66.
- Abanka d. d., District Court of Ljubljana, reference number VIII Pg 3060/2016, disputed amount EUR 1,062,959.92.
- Abanka d. d., District Court of Ljubljana, reference number VIII Pg 2617/2016, disputed amount. EUR 2,590,000.00.

- The insurance company has filed an action for damages against the Bank of Slovenia (District Court of Ljubljana, Ref. No. VIII Pg 1765/2016) due to the early termination of deposits as per the decisions of the Bank of Slovenia, the disputed amount EUR 235,266.02.

13. EVENTS AFTER THE BALANCE SHEET DATE

No events occurred after the end of the reporting period and before the conclusion of the consolidated financial statements that would require adjustments of and could affect the financial statements and tax liabilities for 2018.

Events after the balance sheet date, important for business operations in 2019

On 13 February 2019, the parent company Adriatic Slovenica d. d. took note of the notice issued by KD Group, finančna družba d.d., a finance company having its registered office at Dunajska cesta 63, Ljubljana, Republic of Slovenia (hereinafter referred to as "KD Group") that on 13 February 2019 KD Group disposed of 100% of the shares of the subsidiary Adriatic Slovenica and that the transfer of all shares of the company Adriatic Slovenica to the new holder, the company Generali CEE Holding, B.V., concluded the sales procedure under the Agreement regarding the sale of 100% of the shares of the company Adriatic Slovenica dated 23 May 2018.

On 13 February 2019, members of the Supervisory Board resigned: Chairman of the Supervisory Board Aljoša Tomaž, Deputy Chairman of the Supervisory Board Aleksander Sekavčnik and Supervisory Board member Tomaž Butina. At the same time, the mandate of Tomaž Butina as member of the Supervisory Board's Audit Committee expired.

On 18 February 2018, the 56th General Meeting of Shareholders of Adriatic Slovenica was held. Four new members of the Supervisory Board, namely Gregor Pilgram, Luciano Cirinà, Miroslav Bašta and Miroslav Singer, were appointed.

On 18 February 2019, the international rating agency Fitch increased the Adriatic Slovenica's insurer financial strength rating from "BBB-" to "BBB +" and changed the assessment of the future outlook from "under observation", where it was classified on 24 May 2018, to "stable". The improvement of the rating is a consequence of the publication by Assicurizazioni Generali S.p.A (IFS: A-/Negative) that, upon obtaining all regulatory licenses, it concluded the acquisition of the insurance company Adriatic Slovenica d. d., previously owned by KD group d.d..

On 13 February 2019, the transactions agreed under the Agreement on the Sale of Adriatic Slovenica insurance company d. d., made between KD Group and Generali CEE Holding B.V., were completed, namely: the insurance company disposed of the investment property in Loška cesta 13 in Maribor (Maribox); KD Group repaid all loans to the insurance company, the shares of KDHR (issued by KD Group d.d.) and SKDR (issued by KD d.d.) and bonds of KDHR were purchased.

of Adriatic Slovenica d.d. for

APPENDIX TO THE ANNUAL REPORT

2018

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.

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Appendices to the Annual Report 2018 of Adriatic Slovenica d. d. include:

- The selected accounting and financial indicators prepared in compliance with the Decision on Annual Reports and Quarterly Financial Statements of Insurance Undertakings and the prescribed methodology laid down in Appendix 3 to the said Decision;
- Presentation of assets and liabilities for each fund managed separately, in line with the schemes set out in Appendix 2;
- Income statement for each fund managed separately, in line with the schemes set out in Appendix 2.

1. SELECTED ACCOUNTING AND FINANCIAL INDICATORS

Growth of gross written premium	Gross written premium in current year in euros	Gross written premium in previous year in euros	Year 2018 index	Gross written premium in current year in euros	Gross written premium in previous year in euros	Year 2017 index
1	2	3	4=2/3*100	5	6	7=5/6*100
Results by class of insurance:						
1. Accident insurance	17,657,512	17,009,496	**104**	17,009,496	17,276,547	**98**
2. Health insurance (without complementary health insurance)	3,828,003	3,336,705	**115**	3,336,705	3,025,549	**110**
3. Land vehicle insurance	36,231,684	34,350,324	**105**	34,350,324	34,357,934	**100**
5. Aircraft insurance	4,782	3,524	**136**	3,524	4,182	**84**
6. Ship insurance	509,768	501,861	**102**	501,861	524,112	**96**
7. Goods in transit insurance	1,583,322	1,528,487	**104**	1,528,487	1,443,674	**106**
8. Fire and natural forces insurance	17,471,466	17,141,211	**102**	17,141,211	16,743,620	**102**
9. Other damage to property insurance	13,101,761	12,949,196	**101**	12,949,196	12,493,060	**104**
10. Vehicle liability insurance	39,454,707	39,501,418	**100**	39,501,418	39,635,867	**100**
11. Aircraft or other flying machine liability insurance	6,912	5,717	**121**	5,717	8,315	**69**
12. Liability for ship insurance	535,847	645,596	**83**	645,596	629,499	**103**
13. General liability insurance	9,213,747	9,171,451	**100**	9,171,451	8,341,384	**110**
14. Credit insurance shall be insurance covering:	(2,965)	(2,653)	**112**	(2,653)	(5,863)	**45**
15. Suretyship insurance	200,526	183,462	**109**	183,462	175,621	**104**
16. Miscellaneous financial loss insurance	902,455	839,069	**108**	839,069	827,377	**101**
17. Legal expenses insurance	107,922	102,253	**106**	102,253	115,625	**88**
18. Tourist assistance	4,788,690	6,562,998	**73**	6,562,998	5,988,943	**110**
Non-life insurance contracts	**145,596,138**	**143,830,115**	**101**	**143,830,115**	**141,585,446**	**102**
19. Life assurance	22,402,748	22,044,449	**102**	22,044,449	21,471,815	**103**
21. Life assurance linked to units of investment fund or to units of funds	36,581,743	39,121,599	**94**	39,121,599	37,080,206	**106**
23. Capital redemption insurance	3,749,084	4,050,660	**93**	4,050,660	5,631,924	**72**
Life insurance contracts	**62,733,574**	**65,216,708**	**96**	**65,216,708**	**64,183,946**	**102**
Complementary health insurance	**95,865,573**	**98,792,686**	**97**	**98,792,686**	**97,758,276**	**101**
Total	**304,195,285**	**307,839,510**	**99**	**307,839,510**	**303,527,668**	**101**

Net written premiums as % of gross written premiums	Net written premiums in euros	Gross written premiums in euros	Year 2018 in %	Net written premiums in euros	Gross written premiums in euros	Year 2017 in %
1	2	3	4=2/3*100	5	6	7=5/6*100
Results by class of insurance:						
1. Accident insurance	17,542,448	17,657,512	**99**	16,520,423	17,009,496	**97**
2. Health insurance (without complementary health insurance)	3,828,003	3,828,003	**100**	3,336,705	3,336,705	**100**
3. Land vehicle insurance	34,700,166	36,231,684	**96**	32,918,482	34,350,324	**96**
5. Aircraft insurance	4,782	4,782	**100**	3,524	3,524	**100**
6. Ship insurance	466,007	509,768	**91**	459,431	501,861	**92**
7. Goods in transit insurance	1,369,162	1,583,322	**86**	1,305,297	1,528,487	**85**
8. Fire and natural forces insurance	14,421,723	17,471,466	**83**	13,292,929	17,141,211	**78**
9. Other damage to property insurance	11,925,244	13,101,761	**91**	11,451,557	12,949,196	**88**
10. Vehicle liability insurance	38,602,706	39,454,707	**98**	38,721,681	39,501,418	**98**
11. Aircraft or other flying machine liability insurance	1,498	6,912	**22**	1,092	5,717	**19**
12. Liability for ship insurance	489,845	535,847	**91**	599,002	645,596	**93**
13. General liability insurance	8,440,563	9,213,747	**92**	7,911,613	9,171,451	**86**
14. Credit insurance shall be insurance covering:	(2,965)	(2,965)	**100**	(2,653)	(2,653)	**-**
15. Suretyship insurance	65,785	200,526	**33**	52,960	183,462	**29**
16. Miscellaneous financial loss insurance	730,215	902,455	**81**	705,267	839,069	**84**
17. Legal expenses insurance	98,339	107,922	**91**	95,255	102,253	**93**
18. Tourist assistance	4,788,690	4,788,690	**100**	6,562,998	6,562,998	**100**
Non-life insurance contracts	**137,472,210**	**145,596,138**	**94**	**133,935,561**	**143,830,115**	**93**
19. Life assurance	20,274,302	22,402,748	**90**	20,050,908	22,044,449	**91**
21. Life assurance linked to units of investment fund or to units of funds	36,578,861	36,581,743	**100**	39,121,597	39,121,599	**100**
23. Capital redemption insurance	3,749,084	3,749,084	**100**	4,050,660	4,050,660	**100**
Life insurance contracts	**60,602,247**	**62,733,574**	**97**	**63,223,165**	**65,216,708**	**96**
Complementary health insurance	**95,865,573**	**95,865,573**	**100**	**98,792,686**	**98,792,686**	**100**
Total	**293,940,030**	**304,195,285**	**97**	**295,951,412**	**307,839,510**	**96**

Movement in gross claims and benefits paid	Gross claims and benefits paid in current year	Gross claims and benefits paid in previous year	Year 2018	Gross claims and benefits paid in current year	Gross claims and benefits paid in previous year	Year 2017
	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	7,527,340	7,500,731	**100**	7,500,731	7,495,229	**100**
2. Health insurance (without complementary health insurance)	2,636,917	2,706,328	**97**	2,706,328	2,148,276	**126**
3. Land vehicle insurance	25,481,808	25,611,538	**99**	25,611,538	26,667,823	**96**
6. Ship insurance	249,799	244,988	**102**	244,988	322,975	**76**
7. Goods in transit insurance	1,092,116	789,622	**138**	789,622	526,454	**150**
8. Fire and natural forces insurance	7,780,720	7,213,266	**108**	7,213,266	5,718,819	**126**
9. Other damage to property insurance	7,307,347	7,224,797	**101**	7,224,797	7,511,637	**96**
10. Vehicle liability insurance	25,957,280	25,373,954	**102**	25,373,954	28,615,925	**89**
11. Aircraft or other flying machine liability insurance	-	-	**-**	-	-	**-**
12. Liability for ship insurance	51,295	43,684	**117**	43,684	67,506	**65**
13. General liability insurance	2,730,211	3,132,225	**87**	3,132,225	2,590,100	**121**
14. Credit insurance shall be insurance covering:	45,823	98,657	**46**	98,657	139,251	**71**
15. Suretyship insurance	156,454	46,739	**335**	46,739	25,000	**187**
16. Miscellaneous financial loss insurance	812,355	367,205	**221**	367,205	309,798	**119**
17. Legal expenses insurance	414	-	**-**	-	-	**-**
18. Tourist assistance	2,419,834	2,921,716	**83**	2,921,716	2,681,921	**109**
Non-life insurance contracts	**84,249,714**	**83,275,450**	**101**	**83,275,450**	**84,820,716**	**98**
19. Life assurance	13,281,118	15,523,015	**86**	15,523,015	14,561,154	**107**
21. Life assurance linked to units of investment fund or to units of funds	32,556,658	33,581,474	**97**	33,581,474	26,881,141	**125**
23. Capital redemption insurance	882,760	856,325	**103**	856,325	431,503	**198**
Life insurance contracts	**46,720,536**	**49,960,814**	**94**	**49,960,814**	**41,873,798**	**119**
Complementary health insurance	**83,524,513**	**84,273,720**	**99**	**84,273,720**	**84,281,312**	**100**
Total	**214,494,762**	**217,509,984**	**99**	**217,509,984**	**210,975,826**	**103**

Claims ratio	Gross claims and benefits paid	Gross written premiums	Year 2018	Gross claims and benefits paid	Gross written premiums	Year 2017
	in euros	in euros	coefficient	in euros	in euros	coefficient
1	2	3	4=2/3	5	6	7=5/6
Results by class of insurance:						
1. Accident insurance	7,527,340	17,657,512	**42.63**	7,500,731	17,009,496	**44.10**
2. Health insurance (without complementary health insurance)	2,636,917	3,828,003	**68.88**	2,706,328	3,336,705	**81.11**
3. Land vehicle insurance	25,481,808	36,231,684	**70.33**	25,611,538	34,350,324	**74.56**
5. Aircraft insurance	-	4,782	**0.00**	-	3,524	**0.00**
6. Ship insurance	249,799	509,768	**49.00**	244,988	501,861	**48.82**
7. Goods in transit insurance	1,092,116	1,583,322	**68.98**	789,622	1,528,487	**51.66**
8. Fire and natural forces insurance	7,780,720	17,471,466	**44.53**	7,213,266	17,141,211	**42.08**
9. Other damage to property insurance	7,307,347	13,101,761	**55.77**	7,224,797	12,949,196	**55.79**
10. Vehicle liability insurance	25,957,280	39,454,707	**65.79**	25,373,954	39,501,418	**64.24**
11. Aircraft or other flying machine liability insurance	-	6,912	**0.00**	-	5,717	**0.00**
12. Liability for ship insurance	51,295	535,847	**9.57**	43,684	645,596	**6.77**
13. General liability insurance	2,730,211	9,213,747	**29.63**	3,132,225	9,171,451	**34.15**
14. Credit insurance shall be insurance covering:	45,823	(2,965)	**-**	98,657	(2,653)	**-**
15. Suretyship insurance	156,454	200,526	**78.02**	46,739	183,462	**25.48**
16. Miscellaneous financial loss insurance	812,355	902,455	**90.02**	367,205	839,069	**43.76**
17. Legal expenses insurance	414	107,922	**0.38**	-	102,253	**0.00**
18. Tourist assistance	2,419,834	4,788,690	**50.53**	2,921,716	6,562,998	**44.52**
Non-life insurance contracts	**84,249,714**	**145,596,138**	**58**	**83,275,450**	**143,830,115**	**58**
19. Life assurance	13,281,118	22,402,748	**59.28**	15,523,015	22,044,449	**70.42**
21. Life assurance linked to units of investment fund or to units of funds	32,556,658	36,581,743	**89.00**	33,581,474	39,121,599	**85.84**
23. Capital redemption insurance	882,760	3,749,084	**23.55**	856,325	4,050,660	**21.14**
Life insurance contracts	**46,720,536**	**62,733,574**	**74.47**	**49,960,814**	**65,216,708**	**76.61**
Complementary health insurance	**83,524,513**	**95,865,573**	**87.13**	**84,273,720**	**98,792,686**	**85.30**
Total	**214,494,762**	**304,195,285**	**70.51**	**217,509,984**	**307,839,510**	**70.66**

Troškovi poslovanja u % od zaračunate bruto premije osiguranja	Troškovi poslovanja u EUR	Zaračunate bruto premije osiguranja u EUR	Godina 2018. u %	Troškovi poslovanja u EUR	Zaračunate bruto premije osiguranja u EUR	Godina 2017. u %
1	2	3	4=2/3*100	5	6	7=5/6*100
Podaci po vrstama osiguranja:						
1 Osiguranje od nezgode	5,101,898	17,657,512	**29**	5,313,465	17,009,496	**31**
2 Zdravstveno osiguranje (bez dopunskih zdravstvenih	1,413,481	3,828,003	**37**	1,418,150	3,336,705	**43**
3 Osiguranje cestovnih vozila	8,632,402	36,231,684	**24**	8,600,220	34,350,324	**25**
5 Osiguranje zračnih letjelica	12,554	4,782	**263**	9,977	3,524	**283**
6 Osiguranje plovila	220,928	509,768	**43**	208,138	501,861	**41**
7 Osiguranje robe u prijevozu	411,505	1,583,322	**26**	395,576	1,528,487	**26**
8 Osiguranje od požara i elementarnih šteta	7,075,516	17,471,466	**40**	7,016,435	17,141,211	**41**
9 Ostala osiguranja od posljedica štete	5,151,944	13,101,761	**39**	5,211,170	12,949,196	**40**
10 Osiguranje od odgovornosti za upotrebu motornih vozila	10,305,418	39,454,707	**26**	10,427,078	39,501,418	**26**
11 Osiguranje od odgovornosti za upotrebu zračnih letjelica	9,466	6,912	**137**	9,634	5,717	**169**
12 Osiguranje od odgovornosti za upotrebu plovila	211,657	535,847	**39**	211,871	645,596	**33**
13 Ostala osiguranja od odgovornosti	2,926,473	9,213,747	**32**	2,715,902	9,171,451	**30**
14 Osiguranje kredita	23,996	(2,965)	**-**	28,284	(2,653)	**-**
15 Osiguranje jamstva	80,877	200,526	**40**	78,995	183,462	**43**
16 Osiguranje raznih financijskih gubitaka	288,588	902,455	**32**	281,768	839,069	**34**
17 Osiguranje troškova pravne zaštite	50,973	107,922	**47**	45,399	102,253	**44**
18 Osiguranje pomoći	1,786,093	4,788,690	**37**	1,825,953	6,562,998	**28**
Imovinska osiguranja	**43,703,770**	**145,596,138**	**30**	**43,798,016**	**143,830,115**	**30**
19 Životno osiguranje	8,587,626	22,402,748	**38**	9,218,195	22,044,449	**42**
21 Životno osiguranje vezano za jedinice investicijskih fondova	7,688,038	36,581,743	**21**	7,723,249	39,121,599	**20**
23 Osiguranje s kapitalizacijom isplate	892,018	3,749,084	**24**	857,873	4,050,660	**21**
Životna osiguranja	**17,167,682**	**62,733,574**	**27**	**17,799,316**	**65,216,708**	**27**
Dopunska zdravstvena osiguranja	**8,807,178**	**95,865,573**	**9**	**9,002,010**	**98,792,686**	**9**
Ukupno osiguranja	**69,678,629**	**304,195,285**	**23**	**70,599,342**	**307,839,510**	**23**

Acquisition costs as % of gross written premiums	Insurance acquisition costs in euros	Gross written premiums in euros	Year 2018 in %	Insurance acquisition costs in euros	Gross written premiums in euros	Year 2017 in %
1	2	3	4=2/3*100	5	6	7=5/6*100
Results by class of insurance:						
1. Accident insurance	1,724,434	17,657,512	10	1,701,468	17,009,496	10
2. Health insurance (without complementary health insurance)	144,632	3,828,003	4	110,436	3,336,705	3
3. Land vehicle insurance	3,214,011	36,231,684	9	3,003,907	34,350,324	9
5. Aircraft insurance	65	4,782	1	65	3,524	2
6. Ship insurance	75,742	509,768	15	78,555	501,861	16
7. Goods in transit insurance	124,450	1,583,322	8	112,981	1,528,487	7
8. Fire and natural forces insurance	3,845,938	17,471,466	22	3,716,760	17,141,211	22
9. Other damage to property insurance	2,591,326	13,101,761	20	2,718,165	12,949,196	21
10. Vehicle liability insurance	3,540,986	39,454,707	9	3,385,758	39,501,418	9
11. Aircraft or other flying machine liability insurance	383	6,912	6	294	5,717	5
12. Liability for ship insurance	80,584	535,847	15	82,509	645,596	13
13. General liability insurance	1,291,232	9,213,747	14	1,121,376	9,171,451	12
14. Credit insurance shall be insurance covering:	-	(2,965)	0	0	(2,653)	-
15. Suretyship insurance	1,647	200,526	1	2,046	183,462	1
16. Miscellaneous financial loss insurance	90,936	902,455	10	94,032	839,069	11
17. Legal expenses insurance	10,277	107,922	10	10,222	102,253	10
18. Tourist assistance	459,149	4,788,690	10	834,427	6,562,998	13
Non-life insurance contracts	**17,195,792**	**145,596,138**	12	**16,973,003**	**143,830,115**	12
19. Life assurance	3,333,264	22,402,748	0	3,753,589	22,044,449	0
21. Life assurance linked to units of investment fund or to units of funds	1,970,558	36,581,743	5	1,992,432	39,121,599	5
23. Capital redemption insurance	23,286	3,749,084	1	63,516	4,050,660	2
Life insurance contracts	**5,327,108**	**62,733,574**	8	**5,809,538**	**65,216,708**	9
Complementary health insurance	**1,239,875**	**95,865,573**	0	**1,048,109**	**98,792,686**	0
Total	**23,762,775**	**304,195,285**	8	**23,830,650**	**307,839,510**	8

Net claims ratio	Net claims paid + change in claims provisions in euros	Net earned premiums in euros	Year 2018 coefficient	Net claims paid + change in claims provisions in euros	Net earned premiums in euros	Year 2017 coefficient
1	2	3	4=2/3	5	6	7=5/6
Results by class of insurance:						
1. Accident insurance	7,401,178	17,262,169	**43**	7,524,938	16,875,484	**45**
2. Health insurance	2,673,254	3,847,786	**69**	2,716,068	4,135,059	**66**
3. Land vehicle insurance	23,908,485	33,943,793	**70**	25,578,687	32,929,326	**78**
5. Aircraft insurance	(256)	4,205	**-**	42	3,708	**1**
6. Ship insurance	135,319	465,975	**29**	226,800	459,992	**49**
7. Goods in transit insurance	1,107,818	1,353,400	**82**	764,632	1,309,663	**58**
8. Fire and natural forces insurance	6,017,383	13,872,481	**43**	6,637,461	13,186,504	**50**
9. Other damage to property insurance	6,606,206	11,736,292	**56**	6,895,211	11,362,857	**61**
10. Vehicle liability insurance	23,314,521	38,619,691	**60**	23,045,201	38,663,750	**60**
11. Aircraft or other flying machine liability insurance	-	1,367	**0**	-	1,414	**0**
12. Liability for ship insurance	102,851	508,367	**20**	(131,086)	601,755	**-**
13. General liability insurance	4,614,184	8,328,489	**55**	4,046,847	7,640,868	**53**
14. Credit insurance shall be insurance covering:	(13,825)	154,746	**-**	(21,046)	220,695	**-**
15. Suretyship insurance	(68,498)	66,109	**-**	(20,443)	48,462	**-**
16. Miscellaneous financial loss insurance	454,453	698,233	**65**	329,082	704,684	**47**
17. Legal expenses insurance	(24,651)	97,770	**-**	23,382	96,040	**24**
18. Tourist assistance	3,076,971	5,107,793	**60**	3,024,724	6,432,922	**47**
Non-life insurance contracts	**79,305,393**	**136,068,666**	**58**	**80,640,499**	**134,673,183**	**60**
19. Life assurance	12,583,703	20,255,674	**62**	15,546,138	20,086,076	**77**
21. Life assurance linked to units of investment fund	32,640,306	36,578,861	**89**	33,081,098	39,121,597	**85**
23. Capital redemption insurance	882,760	3,749,084	**24**	856,325	4,050,660	**21**
Life insurance contracts	**46,106,768**	**60,583,619**	**76**	**49,483,561**	**63,258,333**	**78**
Complementary health insurance	83,771,870	96,293,603	**87**	83,299,319	98,250,169	**85**
Total	**209,184,031**	**292,945,888**	**71**	**213,423,379**	**296,181,686**	**72**

Combined claims ratio	Net claims paid + change in claims provisions + operating expenses	Net earned premiums	Year 2018	(Gross claims incurred + operating expenses)	Net earned premiums	Year 2017
	v EUR	v EUR	koeficient	v EUR	v EUR	koeficient
1	2	3	4=2/3	5	6	7=5/6
Non-life insurance contracts	214,504,039	232,362,269	**92**	215,198,155	232,923,352	**92**

Expense ratio	Operating expenses	Net earned premiums	Year 2018	Operating expenses	Net earned premiums	Year 2017
	in euros	in euros	in %	in euros	in euros	in %
1	2	3	4=2/3*100	5	6	7=5/6*100
Life insurance contracts	17,167,682	60,583,619	**28**	17,799,316	63,258,333	**28**

Undewriting profitability ratio	(Life insurance claims paid + change in technical provisions)	Written net premium for life insurance	Year 2018	(Life insurance claims paid + change in technical provisions)	Written net premium for life insurance	Year 2017
	in euros	in euros	in %	in euros	in euros	in %
1	2	3	4=2/3*100	5	6	7=5/6*100
Life insurance contracts	23,418,378	60,602,247	**39**	72,658,680	63,223,165	**115**

Investment return as % of average investments	Investment income	(Balance of investments as at beginning of year + balance of investments as at year-end)/2	Year 2018	Investment income	(Balance of investments as at beginning of year + balance of investments as at year-end)/2	Year 2017
	in euros	in euros	in %	in euros	in euros	in %
1	2	3	4=2/3*100	5	6	7=5/6*100
Investments from Non-life insurance	1,235,307	130,402,741	**0.9**	2,254,214	133,739,605	**1.7**
Life insurance investments	2,780,487	137,581,262	**2.0**	5,843,735	131,275,990	**4.5**
Unit-linked life insurance investments	(21,424,452)	293,549,047	**-7.3**	24,275,614	299,641,713	**8.1**
Complementary health insurance investments	402,547	9,171,229	**4.4**	244,193	6,222,928	**3.9**
Investments from other lines of business, for which mathematical provision is formed	8,921	878,763	**1.0**	20,288	499,887	**4.1**
Investments which are not financedfrom technical provisonos	3,787,861	92,050,319	**4.1**	5,927,400	89,256,058	**6.6**
Total insurance	**(13,209,329)**	**663,633,361**	**-2.0**	**38,565,443**	**660,636,181**	**5.8**

Claim provsions, net of reinsurance as % of earned premium	Net provisions for claims outstanding in euros	Net earned premiums in euros	Year 2018 in %	Net provisions for claims outstanding in euros	Net earned premiums in euros	Year 2017 in %
1	2	3	4=2/3*100	5	6	7=5/6*100
Results by class of insurance:						
1. Accident insurance	9,842,705	17,262,169	**57**	9,821,344	16,875,484	**58**
2. Health insurance (without complementary health insurance)	427,237	3,847,786	**11**	386,758	4,135,059	**9**
3. Land vehicle insurance	7,508,590	33,943,793	**22**	7,664,497	32,929,326	**23**
5. Aircraft insurance	5,330	4,205	**127**	5,586	3,708	**151**
6. Ship insurance	148,408	465,975	**32**	258,869	459,992	**56**
7. Goods in transit insurance	526,298	1,353,400	**39**	244,343	1,309,663	**19**
8. Fire and natural forces insurance	4,250,902	13,872,481	**31**	3,853,369	13,186,504	**29**
9. Other damage to property insurance	3,862,559	11,736,292	**33**	4,074,806	11,362,857	**36**
10. Vehicle liability insurance	43,241,249	38,619,691	**112**	44,271,029	38,663,750	**115**
11. Aircraft or other flying machine liability insurance	-	1,367	**0**	-	1,414	**0**
12. Liability for ship insurance	237,280	508,367	**47**	185,724	601,755	**31**
13. General liability insurance	17,933,933	8,328,489	**215**	15,997,349	7,640,868	**209**
14. Credit insurance shall be insurance covering:	2,264	154,746	**1**	5,278	220,695	**2**
15. Suretyship insurance	1,351	66,109	**2**	1,238	48,462	**3**
16. Miscellaneous financial loss insurance	224,421	698,233	**32**	175,687	704,684	**25**
17. Legal expenses insurance	1,140	97,770	**1**	25,684	96,040	**27**
18. Tourist assistance	1,271,980	5,107,793	**25**	578,051	6,432,922	**9**
Non-life insurance contracts, excluding health insurance	**89,485,647**	**136,068,666**	**66**	**87,549,614**	**134,673,183**	**65**
19. Life assurance	4,942,554	20,255,674	**24**	4,958,308	20,086,076	**25**
21. Life assurance linked to units of investment fund or to units of funds	1,420,159	36,578,861	**4**	1,336,512	39,121,597	**3**
23. Capital redemption insurance	-	3,749,084	**0**	-	4,050,660	**0**
Life insurance contracts	**6,362,713**	**60,583,619**	**11**	**6,294,819**	**63,258,333**	**10**
Complementary health insurance	**5,317,705**	**96,293,603**	**6**	**5,019,540**	**98,250,169**	**5**
Total	**101,166,065**	**292,945,888**	**35**	**98,863,973**	**296,181,686**	**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 2018 in %	Gross profit, or loss, of the current year in euros	Net written premiums in euros	Year 2017 in %
1	2	3	4=2/3	5	6	7=5/6
Non-life insurance contracts	7,859,882	137,472,210	6	7,001,531	133,935,561	5
Life insurance contracts	459,855	60,602,247	1	2,435,279	63,223,165	4
Complementary health insurance	1,968,137	95,865,573	2	4,092,000	98,792,686	4
Total	**10,287,873**	**293,940,030**	**3**	**13,528,810**	**295,951,412**	**5**

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 2018 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 2017 in %
1	2	3	4=2/3	5	6	7=5/6
Non-life insurance contracts	9,828,019	76,070,677	13	11,093,531	76,245,503	15
Life insurance contracts	459,855	19,963,425	2	2,435,279	20,158,056	12
Total	**10,287,873**	**96,034,102**	**11**	**13,528,810**	**96,403,559**	**14**

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 2018 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 2017 in %
1	2	3	4=2/3	5	6	7=5/6
Non-life insurance contracts	9,828,019	285,366,170	3	11,093,531	285,238,259	4
Life insurance contracts	459,855	475,904,821	0	2,435,279	474,979,933	1
Total	**10,287,873**	**743,926,897**	**1**	**13,528,810**	**745,570,619**	**2**

Gross profit or loss, of the current year per share	Gross profit in euros	Number of shares	Year 2018 in euros	Gross profit in euros	Number of shares	Year 2017 in euros
1	2	3	4=2/3	5	6	7=5/6
Non-life insurance contracts	9,828,019	10,304,407	1.0	11,093,531	10,304,407	1.1
Life insurance contracts	459,855	10,304,407	0.0	2,435,279	10,304,407	0.2
Total	**10,287,873**	**10,304,407**	**1.0**	**13,528,810**	**10,304,407**	**1.3**

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 2018 in %	The insurer's capital in euros	Receivables from reinsurance and technical provisions attributable to reinsurers in euros	Year 2017 in %
1	2	3	4=2/3	5	6	7=5/6
Non-life insurance contracts	14,689,081	75,619,126	**19**	17,572,904	76,522,229	**23**
Life insurance contracts	219,033	19,557,133	**1**	249,586	20,369,717	**1**
Total	**14,908,115**	**95,176,259**	**16**	**17,822,490**	**96,891,946**	**18**

Gross written premium, net of reinsurance as % of average capital and technical provisions	Gross written premium, net of reinsurance in euros	Average capital + average balance of technical provisions in euros	Year 2018 in %	Gross written premium, net of reinsurance in euros	Average capital + average balance of technical provisions in euros	Year 2017 in %
1	2	3	4=2/3	5	6	7=5/6
Non-life insurance contracts	233,337,783	219,232,591	**106**	232,728,248	217,431,604	**107**
Life insurance contracts	60,602,247	432,172,150	**14**	63,223,165	430,232,314	**15**
Total	**293,940,030**	**651,404,740**	**45**	**295,951,412**	**647,663,918**	**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 2018 in %	Average balance of technical provision, net of reinsurance in euros	Net revenues from insurance contracts in euros	Year 2017 in %
1	2	3	4=2/3	5	6	7=5/6
Non-life insurance contracts	143,161,913	232,362,269	**62**	141,186,101	232,278,013	**61**
Life insurance contracts	412,208,725	60,583,619	**680**	410,074,258	63,258,333	**648**
Total	**555,370,638**	**292,945,889**	**190**	**551,260,360**	**295,536,346**	**187**

Equity as % of total equity and liabilities	Equity in euros	Total equity and liabilities in euros	Year 2018 in %	Equity in euros	Total equity and liabilities in euros	Year 2017 in %
1	2	3	4=2/3	5	6	7=5/6
Non-life insurance contracts	75,619,126	284,407,701	**27**	76,522,229	286,324,640	**27**
Life insurance contracts	19,557,133	463,872,894	**4**	20,369,717	487,936,748	**4**
Total	**95,176,259**	**729,927,132**	**13**	**96,891,946**	**757,926,662**	**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 2018** in %	Technical provisions, net of reinsurance in euros	Total equity and liabilities in euros	**Year 2017** in %
1	2	3	4=2/3	5	6	7=5/6
Non-life insurance contracts	144,804,337	284,407,701	**51**	141,519,490	286,324,640	**49**
Life insurance contracts	400,532,143	463,872,894	**86**	423,885,307	487,936,748	**87**
Total	**545,336,479**	**729,927,132**	**75**	**565,404,797**	**757,926,662**	**75**

Net provisions (mathematical provisions) as % of net technical provisions	Net provisions (mathematical reserves) in euros	Net technical provisions in euros	**Year 2018** in %	Net provisions (mathematical reserves) in euros	Net technical provisions in euros	**Year 2017** in %
1	2	3	4=2/3	5	6	7=5/6
Life insurance contracts	400,532,143	545,336,479	**73**	423,885,307	565,404,797	**75**

Gross written premium as % of number of full-time employees	Gross written premiums in euros	Number of full-time employees	**Year 2018** in euros	Gross written premiums in euros	Number of full-time employees	**Year 2017** in euros
1	2	3	4=2/3	5	6	7=5/6
Aggregate insurance business - total	304,195,285	1,057	**287,791**	307,839,510	1,076	**286,096**

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. 2018	Unit-linked life insurance – FOND POLICA 31 Dec. 2018	Unit-linked life insurance 31 Dec. 2017	Unit-linked life insurance – FOND POLICA 31 Dec. 2017
ASSETS	**20,729,198**	**200,457,620**	**23,930,128**	**224,092,339**
A. Investment property and financial investments	**20,238,822**	**198,624,931**	**23,795,166**	**220,909,977**
III. Other financial investments	20,238,822	198,624,931	23,795,166	220,909,977
3. Investment funds	20,238,822	198,624,931	23,795,166	220,909,977
B. Receivables	**160,972**	**1,234,698**	**134,444**	**1,736,274**
I. Receivables from insurance business	45,979	190,475	55,066	154,293
1. Receivables from policyholders	45,569	190,475	55,066	154,293
3. Other receivables from direct insurance operations	409	-	-	-
II. Other receivables	114,993	1,044,223	79,378	1,581,982
C. Other assets	329,404	597,987	518	1,446,087
I. Cash and cash equivalents	329,404	597,987	518	1,446,087
II. Other assets	-	0	-	0
D. Short-term deferred expenses and accrued revenues	**-**	**5**	**-**	**-**
3. Other short-term deferred expenses and accrued revenues	-	5	-	-
LIABILITIES	**20,405,919**	**200,417,536**	**23,610,517**	**224,254,614**
A. Revaluation surplus	**-**	**(0)**	**-**	**(0)**
B. Gross insurance technical provisions	**116,041**	**991,360**	**179,012**	**1,031,362**
III. Gross claims provisions	116,041	991,360	179,012	1,031,362
C. Gross insurance technical provisions for unit-linked life insurance contracts	**20,164,465**	**195,707,058**	**23,273,088**	**216,750,076**
E. Other liabilities	**76,951**	**3,551,984**	**101,835**	**6,283,303**
I. Liabilities from insurance business	1,236	1,192,499	20,220	1,050,582
1. Liabilities to policyholders	1,072	32	20,196	688
3. Other liabilities from insurance business	164	1,192,467	24	1,049,894
III. Other liabilities	75,715	2,359,485	81,616	5,232,722
F. Accrued expenses and deferred revenues	**48,462**	**167,135**	**56,580**	**189,872**

Income statement of unit-linked funds

(in EUR)	Unit-linked life insurance 2018	Unit-linked life insurance – FOND POLICA 2018	Unit-linked life insurance 2017	Unit-linked life insurance – FOND POLICA 2017
I. Gross written premium	**1,549,733**	**21,614,332**	**1,843,344**	**23,007,454**
II. Investment revenue	**2,249,852**	**26,073,450**	**1,769,822**	**34,039,732**
1. Revenues from dividends and shares	**-**	**-**	**-**	**-**
2. Revenue from other investments	**2,249,852**	**26,073,450**	**1,769,822**	**34,039,732**
2.1. Revenue from land and buildings	-	-	-	-
2.2. Interest revenue	14,500	85,506	-	-
2.3. Other investment revenue	2,235,352	25,987,944	1,769,822	34,039,732
2.3.1. Revaluation financial revenues	2,235,352	25,857,005	1,769,822	33,828,423
2.3.2. Other financial revenues	-	130,940	-	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	**(2,647,696)**	**(21,986,726)**	**(5,767,075)**	**(24,065,121)**
1. Ordinary termination (maturity)	**(1,563,591)**	**(7,785,716)**	**(4,414,165)**	**(11,196,524)**
2. Extraordinary termination	**(1,084,105)**	**(14,201,010)**	**(1,352,910)**	**(12,868,597)**
2.1 Withdrawal from contract	(1,015,265)	(13,760,325)	(1,291,483)	(12,557,361)
2.2 Cancellation of contract	-	(41,159)	-	(3,274)
2.3 Death of policyholder	(68,840)	(399,526)	(61,427)	(307,962)
V. Change in other insurance technical provisions, net of reinsurance (+/–)	**3,171,595**	**21,083,021**	**2,677,301**	**(11,482,463)**
1. Change in mathematical provisions (+/–)	**3,108,624**	**21,043,018**	**2,677,301**	**(11,769,695)**
2. Change in other insurance technical provisions, net of reinsurance (+/–)	**62,971**	**40,003**	**-**	**287,231**
VI. Expenses and commissions	**(216,301)**	**(5,079,200)**	**(257,982)**	**(5,343,543)**
1. Entry fees	**(341)**	**(1,547,403)**	**(682)**	**(1,710,466)**
2. Exit fees	**(13,796)**	**(231,234)**	**(14,544)**	**(182,130)**
3. Management fees	**(202,164)**	**(3,300,563)**	**(242,755)**	**(3,450,948)**
VII. Investment expenses	**(4,102,654)**	**(41,401,993)**	**(126,750)**	**(15,816,202)**
1. Depreciation of assets not used in operations	**-**	**-**	**-**	**-**
2. Expenses arising from asset management, interest expenses and other financial expenses	**-**	**(100,224)**	**-**	**(162,730)**
3. Financial expenses from revaluation	**(4,102,654)**	**(41,301,770)**	**(126,750)**	**(15,653,472)**
4. Losses on the realisation of investments	**-**	**-**	**-**	**-**
VIII. Profit/loss of unit linked fund (I + II - III + IV + V - VI - VII)	**4,529**	**302,884**	**138,659**	**339,856**

2.2 INTERNAL UNIT-LINKED FUNDS

Assets and liabilities of internal unit-linked funds

(in EUR)	Internal unit-linked fund – DIRIGENT 31 Dec. 2018	Internal unit-linked fund – AKTIVNI NALOŽBENI PAKET 31 Dec. 2018	Internal unit-linked fund – VRHUNSKI 31 Dec. 2018	Internal unit-linked fund - Aktivni AS 31 Dec. 2018	Internal unit-linked fund – DIRIGENT 31 Dec. 2017	Internal unit-linked fund – AKTIVNI NALOŽBENI PAKET 31 Dec. 2017	Internal unit-linked fund – VRHUNSKI 31 Dec. 2017	Internal unit-linked fund- Aktivni AS 31 Dec. 2017
ASSETS	-	-	-	-	-	-	-	-
III. Financial assets	**6,330,211**	**22,848,676**	**7,552,404**	**11,015,349**	**10,343,657**	**24,706,306**	**8,802,480**	**6,862,010**
1. Financial assets at fair value through profit or loss	6,330,211	22,848,676	7,552,404	11,015,349	10,343,657	24,706,306	8,802,480	6,862,010
IV. Receivables	**977**	**-**	**261**	**-**	**233,040**	**-**	**-**	**-**
4. Other receivables	977	-	261	-	233,040	-	-	-
V. Cash and cash equivalents	**127,440**	**(148,237)**	**434,415**	**49,191**	**185,556**	**(192,965)**	**131,352**	**34,742**
VII. TOTAL ASSETS	**6,458,628**	**22,700,438**	**7,987,080**	**11,064,540**	**10,762,253**	**24,513,341**	**8,933,832**	**6,896,752**
LIABILITIES	-	-	-	-	-	-	-	-
I. Operating liabilities	**5,759**	**10,636**	**10,135**	**5,079**	**9,019**	**11,195**	**10,927**	**2,962**
3. Liabilities to custodian	5,759	10,636	10,135	5,079	9,019	11,195	10,927	2,962
III. Liabilities to policyholders from insurance contracts	**7,097,680**	**24,721,432**	**8,700,701**	**11,748,337**	**9,836,928**	**22,733,185**	**8,179,153**	**6,659,610**
1. Nominal value of premiums paid	2,822,441	21,288,351	6,181,736	11,515,268	6,103,250	19,401,394	6,403,387	6,660,720
3. Net profit/loss brought forward from previous years	4,275,239	3,433,081	2,518,965	233,070	3,733,679	3,331,791	1,775,766	(1,111)
IV. Undistributed net profit/loss for the financial year	**(644,811)**	**(2,031,630)**	**(723,755)**	**(688,876)**	**916,305**	**1,768,961**	**743,751**	**234,180**
V. TOTAL LIABILITIES	**6,458,628**	**22,700,438**	**7,987,080**	**11,064,540**	**10,762,253**	**24,513,340**	**8,933,832**	**6,896,751**
-	-	-	-	-	-	-	-	-
NET ASSETS OF THE INTERNAL FUND = ASSETS-OPERATING LIABILITIES-FINANCIAL LIABILITIES	**6,452,869**	**22,689,802**	**7,976,945**	**11,059,461**	**10,753,233**	**24,502,146**	**8,922,905**	**6,893,790**

The Insurance Company Adriatic Slovenica d. d. does not have any internal funds assets invested in deposits and financial instruments whose issuer is the custodian of internal funds or a person associated with the Insurance Company or with the managers of these internal funds.

Income statement of internal unit-linked funds

(in EUR)	Internal unit-linked fund – DIRIGENT 2018	Internal unit-linked fund – AKTIVNI NALOŽBENI PAKET 2018	Internal unit-linked fund – VRHUNSKI 2018	Internal unit-linked fundT - Aktivni AS 2018	Internal unit-linked fund – DIRIGENT 2017	Internal unit-linked fund – AKTIVNI NALOŽBENI PAKET 2017	Internal unit-linked fund – VRHUNSKI 2017	Internal unit-linked fund AS 2017
A. Income statement for the internal fund	-	-	-	-	-	-	-	-
I. Financial revenues	**763,111**	**681,033**	**228,460**	**78,218**	**1,173,675**	**1,988,389**	**1,004,293**	**292,143**
1. Revenues from dividends and shares	36,049	-	32,030	-	54,795	-	56,108	-
3. Realised gains on financial investments	675,074	707,682	3,351	83,057	121,602	300,636	137,042	32,703
4. Net unrealised gains and losses from financial investments, measured at fair value through profit and loss	17,971	(26,649)	50,896	(4,838)	993,881	1,687,753	806,164	259,440
5. Other financial revenue	**34,016**	**-**	**142,183**	**(0)**	**3,397**	**-**	**4,978**	**-**
III. Other revenue	**2**	**0**	**-**	**1**	**-**	**-**	**-**	**-**
IV. Financial expenses	**1,309,579**	**2,567,386**	**810,788**	**710,290**	**141,982**	**78,408**	**110,439**	**33,905**
2. Realised loss on financial investments	13,166	40,425	41,741	76,493	-	72,545	15,528	29,733
3. Net gains from the change in fair value of financial investments, recognised at fair value through profit or loss	1,292,632	2,526,962	662,797	633,797	12,564	5,862	6,736	4,172
4. Other financial expenses	3,781	0	106,250	0	129,419	-	88,176	-
VI. Management and operating expenses	**98,346**	**145,277**	**141,427**	**56,805**	**115,388**	**141,020**	**150,102**	**24,058**
1. Expenses relating to custodian	98,346	145,277	141,427	56,805	115,388	141,020	150,102	24,058
VII. Net profit/loss for the period	**(644,811)**	**(2,031,630)**	**(723,755)**	**(688,876)**	**916,305**	**1,768,961**	**743,751**	**234,180**
(in EUR)	2018	2018	2018	2018	2017	2017	2017	2017
1. Opening balance of (units) assets	**10,753,233**	**24,502,146**	**8,922,905**	**6,893,790**	**9,996,698**	**22,389,742**	**9,640,926**	**701,109**
2. Assets (units) paid in	**-**	**2,666,500**	**-**	**5,071,000**	**-**	**2,571,000**	**-**	**5,958,500**
3. Assets (units) paid out	**3,655,553**	**2,447,214**	**222,203**	**216,453**	**159,770**	**2,227,567**	**1,461,772**	**-**
4. Net profit or loss of the internal fund	**(644,811)**	**(2,031,630)**	**(723,756)**	**(688,876)**	**916,305**	**1,768,961**	**743,751**	**234,181**
6. Closing balance of (units) assets	**6,452,869**	**22,689,802**	**7,976,945**	**11,059,461**	**10,753,233**	**24,502,146**	**8,922,905**	**6,893,790**
(in EUR)	2018	2018	2018	2018	2017	2017	2017	2017
1. Opening number of units in circulation	**686,864**	**2,112,101**	**696,946**	**638,459**	**697,529**	**2,080,501**	**815,166**	**69,187**
2. Number of units paid in	**-**	**231,947**	**-**	**471,918**	**-**	**229,800**	**-**	**569,272**
3. Number of units paid out	**234,810**	**213,750**	**17,445**	**20,800**	**10,665**	**198,200**	**118,220**	**-**
4. Closing number of units in circulation	**452,054**	**2,130,299**	**679,501**	**1,089,577**	**686,864**	**2,112,101**	**696,946**	**638,459**

2.3 RING-FENCED PENSION INSURANCE GUARANTEE FUND – SAVING

Assets and liabilities of ring-fenced lifecycle pension insurance funds – Pokojninsko varčevanje AS

(in EUR)	AS – DRZNI 31 Dec. 2018	AS – UMIRJENI 31 Dec. 2018	AS – ZAJAMČENI 31 Dec. 2018	Lifecycle group	AS – DRZNI 31 Dec. 2017	AS – UMIRJENI 31 Dec. 2017	AS – ZAJAMČENI 31 Dec. 2017	Lifecycle group
	5,759,627	**3,472,002**	**2,680,761**	**11,912,390**	4,263,071	2,604,080	2,023,178	8,890,328
Financial investments	**5,146,070**	**3,088,967**	**2,253,616**	**10,488,653**	3,886,463	2,391,438	1,646,715	7,924,616
measured at fair value through other comprehensive income, of which:	844,471	800,750	494,556	2,139,777	920,812	816,599	500,897	2,238,308
– debt securities	353,536	235,691	-	589,227	354,390	236,260	-	590,650
– equity securities	490,935	565,059	494,556	1,550,550	566,422	580,339	500,897	1,647,658
measured at fair value through the income statement, of which:	4,301,599	2,288,216	1,759,060	8,348,875	2,965,651	1,574,839	1,145,818	5,686,307
– debt securities	214,533	409,658	1,344,541	1,968,733	-	201,994	637,700	839,694
– equity securities	4,087,066	1,878,558	414,519	6,380,143	2,965,651	1,372,845	508,118	4,846,613
Receivables	**256,987**	**157,072**	**63,117**	**477,175**	248,961	145,756	61,102	455,819
Other receivables	256,987	157,072	63,117	477,175	248,961	145,756	61,102	455,819
Cash and cash equivalents	**356,570**	**225,963**	**364,028**	**946,561**	127,647	66,885	315,361	509,894
Off-balance-sheet assets	**-**	**-**	**66,482**	**66,482**	-	-	11,131	11,131
Other off-balance-sheet assets	-	-	66,482	66,482	-	-	11,131	11,131
LIABILITIES	**5,759,631**	**3,472,010**	**2,680,763**	**11,912,403**	4,263,059	2,604,064	2,023,172	8,890,294
Insurance technical provisions	**5,748,440**	**3,463,821**	**2,673,896**	**11,886,157**	4,252,755	2,596,187	2,016,439	8,865,381
Mathematical provisions for attributed return on assets covering mathematical provisions	(120,184)	(58,575)	(32,465)	-	263,126	70,284	8,771	-
Technical provisions where the assets covering mathematical provisions are split to units (VEP)	5,868,624	3,522,396	2,706,361	-	3,989,629	2,525,903	2,007,668	-
Operating liabilities	**7,291**	**4,290**	**2,967**	**14,547**	5,728	3,302	2,158	11,188
Liabilities to the managing company of the assets covering mathematical provisions	6,752	3,917	2,176	12,845	5,491	3,099	2,056	10,647
Liabilities arising from redemption value to the members of the assets covering mathematical provisions	-	-	421	421	-	-	-	-
Other operating liabilities	539	372	370	1,281	237	203	102	541
Other liabilities	**3,900**	**3,900**	**3,900**	**11,699**	4,575	4,575	4,575	13,725
Off-balance-sheet liabilities	**-**	**-**	**66,482**	**66,482**	-	-	11,131	11,131
Other off-balance-sheet liabilities	-	-	66,483	66,483	-	-	11,131	11,131

Income statement of ring-fenced lifecycle pension insurance funds – Pokojninsko varčevanje AS

(in EUR)	AS – DRZNI 2018	AS – UMIRJENI 2018	AS – ZAJAMČENI 2018	Lifecycle group	AS – DRZNI 2017	AS – UMIRJENI 2017	AS – ZAJAMČENI 2017	Lifecycle group
Financial revenue	**745,897**	**257,477**	**94,702**	**1,098,075**	**363,727**	**144,018**	**61,455**	**569,201**
Revenue from dividends and shares	43,939	16,127	-	60,066	24,397	10,202	-	34,599
Interest revenue	26,093	11,066	13,329	50,489	(25,271)	(8,985)	8,551	(25,705)
Gains on disposals of financial investments	103,991	40,472	9,681	154,144	106,224	40,373	4,302	150,899
Revaluation financial revenue arising from a change in the fair value of a financial investment through profit or loss	571,668	189,606	71,674	832,948	257,925	102,036	48,596	408,557
Other financial revenue	206	206	17	429	452	392	6	850
Revenue from payment of management company due to failing to achieve guaranteed return	(1,038,615)	(330,122)	(100,703)	(1,469,440)	(131,533)	(69,639)	(31,015)	(232,187)
Expenses from payment of surrender values	(324)	(216)	(1)	(540)	(329)	(219)	-	(548)
Losses on disposal of financial investments	(144,409)	(38,541)	(7,628)	(190,578)	(23,021)	(9,370)	(2,292)	(34,682)
Net expenses arising from a change in the fair value of financial investment recognised at fair value through profit or loss	(893,864)	(291,129)	(93,074)	(1,278,068)	(107,822)	(59,500)	(28,723)	(196,045)
Other financial expenses	(18)	(237)	-	(255)	(362)	(550)	(0)	(912)
Result of investing activities	**(292,718)**	**(72,646)**	**(6,001)**	**(371,365)**	**232,194**	**74,379**	**30,440**	**337,013**
Expenses relating to the management and operation of the guarantee fund	**(65,924)**	**(40,993)**	**(32,509)**	**(139,427)**	**44,124**	**(29,980)**	**(26,353)**	**(12,208)**
Management fees	(50,461)	(29,602)	(23,653)	(103,716)	(30,088)	(19,808)	(17,160)	(67,056)
Expenses relating to custodian bank	(8,116)	(5,701)	(4,264)	(18,082)	(5,971)	(4,645)	(3,624)	(14,241)
Expenses relating to auditing	(4,566)	(4,566)	(4,566)	(13,697)	(6,247)	(5,504)	(5,610)	(17,360)
Expenses relating to mediation in the purchase and sale of securities	(2,682)	(1,076)	(8)	(3,766)	(1,783)	-	60	(1,723)
Other expenses charged directly to guarantee funds in accordance with management rules	(99)	(49)	(17)	-	(35)	(23)	(19)	-
Net profit available to policyholders	(358,642)	(113,639)	(38,510)	(510,791)	188,070	44,399	4,088	236,557

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 2018	31 Dec 2017
ASSETS	**10,950,975**	**11,609,625**
Financial investments	**10,830,685**	**11,170,816**
measured at amortised cost, of which:	2,214,184	2,186,512
– debt securities	2,214,184	2,186,512
measured at fair value through other comprehensive income, of which:	7,805,908	8,682,418
– debt securities	7,345,943	8,214,130
– equity securities	459,965	468,288
measured at fair value through the income statement, of which:	810,594	301,886
– debt securities	810,594	301,886
Receivables	**34,710**	**40,051**
Other receivables	34,710	40,051
Cash and cash equivalents	**85,579**	**398,758**
LIABILITIES	**10,950,761**	**11,609,331**
Insurance technical provisions	**10,937,095**	**11,594,080**
Mathematical provisions for payable net premiums	9,019,909	9,620,356
Mathematical provisions for attributed return on assets covering mathematical provisions	1,917,186	1,973,725
Operating liabilities	**9,767**	**10,676**
Liabilities to the managing company of the assets covering mathematical provisions	9,114	9,667
Other operating liabilities	653	1,009
Other liabilities	**3,900**	**4,575**

Income statement of the PNA01 ring-fenced pension insurance guarantee fund

(in EUR)	2018	2017
Financial revenue	**368,953**	372,259
Interest revenue	338,973	368,426
Revaluation financial revenue arising from a change in the fair value of a financial asset through profit and loss	29,538	4,139
Other financial revenue	442	(306)
Revenue from payment of management company due to failing to achieve guaranteed return	**(61,587)**	**(28,979)**
Expenses from payment of surrender values	**(1)**	**-**
Losses on disposal of financial investments	(13,760)	(17,873)
Net expenses arising from a change in the fair value of financial investment recognised at fair value through profit or loss	(47,825)	(11,106)
Other financial expenses	-	(0)
Result of investing activities	**307,366**	343,280
Expenses relating to the management and operation of the guarantee fund	**(126,481)**	(130,929)
Management fees	(112,069)	(116,750)
Expenses relating to custodian bank	(9,846)	(9,612)
Expenses relating to auditing	(4,566)	(4,567)
Expenses relating to mediation in the purchase and sale of securities	(0)	-
Net profit available to policyholders	180,886	212,350

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 2018	31 Dec 2017
ASSETS	**559,942**	**572,510**
A. Investment property and financial investments	548,555	560,263
I. Investment property	22,545	23,046
III. Other financial investments	526,010	537,218
2. Debt securities and other securities with fixed return	526,010	537,218
B. Receivables	**3,550**	**3,051**
II. Other receivables	3,550	3,051
C. Other assets	**7,837**	**9,195**
I. Cash and cash equivalents	7,837	9,195
	-	-
LIABILITIES	**490,954**	**496,846**
A. Fair value reserve	**(8,458)**	**(4,383)**
B. Gross insurance technical provisions	**470,681**	**471,624**
II. Gross mathematical provisions	470,681	471,624
E. Other liabilities	**28,732**	**29,605**
I. Liabilities from direct insurance operations	2,950	3,010
1. Liabilities to policyholders	2,950	3,010
III. Other liabilities	25,781	26,595

Income statement of the ring-fenced pension insurance fund during the annuity payout period

(in EUR)	2018	2017
I. Transfer of funds from the pension scheme of additional pension insurance	**16,450**	**28,550**
1. this legal entity	16,450	28,550
II. Investment revenue	**22,943**	**23,519**
1.1. Revenue from dividends and shares in subsidiaries	22,943	23,519
1.2. Revenues from dividends and shares in associated companies	4,367	3,639
1.3. Revenues from dividends and shares in other companies	18,577	19,531
2. Revenue from other investments	(0)	349
2.3. Other investment revenue	(41,693)	(43,285)
2.3.1. Revaluation financial revenues	(41,693)	(43,285)
3. Value re-adjustments on investments	943	(11,034)
4. Gains on the realisation on investments	943	(11,034)
1. Claims paid	(966)	(1,011)
1. Change in mathematical provisions (+/–)	(966)	(1,011)
VI. Investment expenses	(5,920)	(7,037)
1. Depreciation of assets not used in operations	**(501)**	**(501)**
2. Expenses arising from asset management, interest expenses and other financial expenses	(623)	(156)
3. Revaluation operating expenses	(4,796)	(5,082)
4. Losses on the realisation of investments	-	(1,299)
VII. Profit/loss of guarantee fund (I. + II. - III. + IV. - V. - VI.)	**(8,242)**	**(10,298)**
VII.a. Profit/loss of guarantee fund (I. + II. - III. + IV. - Va. - VI.)	**(7,277)**	**(9,287)**

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 2018	31 Dec 2017
ASSETS	**285,799**	**98,522**
A. Investment property and financial investments	156,041	55,574
III. Other financial investments	156,041	55,574
2. Debt securities and other securities with fixed return	156,041	55,574
B. Receivables	**406**	**893**
II. Other receivables	406	893
C. Other assets	**129,353**	**42,055**
I. Cash and cash equivalents	129,353	42,055
LIABILITIES	**287,383**	**98,522**
A. Revaluation surplus	**444**	**430**
B. Gross insurance technical provisions	**286,835**	**97,990**
I. Gross provisions for unearned premium	58,690	13,986
II. Gross mathematical provisions	228,144	84,005
E. Other liabilities	**104**	**101**
III. Other liabilities	104	101

Statement of the ring-fenced covering fund for supplementary pension insurance during annuity payout under Pension and Disability Act (ZPIZ-2)

(in EUR)	2018	2017
I. Transfer of funds from the pension scheme of additional pension insurance	**160,664**	**43,568**
1. this legal entity	**160,664**	**43,568**
II. Investment revenue	**1,237**	**174**
2. Revenue from other investments	**1,237**	**174**
2.2. Interest revenue	1,237	174
III. Claims expenses	**(12,099)**	**(2,787)**
1. Claims paid	**(12,099)**	**(2,787)**
IV. Change in other net insurance technical provisions (+/–)	**(144,140)**	**(40,383)**
1. Change in mathematical provisions (+/–)	**(144,140)**	**(40,383)**
V. Expenses included in policies	**(7,618)**	**(1,450)**
1. Entry fees	**(7,131)**	**(1,351)**
3. Costs of claims settlement	**(486)**	**(99)**
VII. Profit/loss of guarantee fund (I. + II. - III. + IV. - V. - VI.)	**(1,956)**	**(879)**
VII.a. Profit/loss of pension fund (I. + II. - III. + IV. - Va. - VI.)	**5,662**	**572**