



REPORT

OF THE INSURANCE
SUPERVISION AGENCY

FOR 2017

REPUBLIC OF SLOVENIA

INSURANCE SUPERVISION AGENCY

REPORT OF THE INSURANCE SUPERVISION AGENCY FOR 2017

FOREWORD BY THE DIRECTOR
OF THE INSURANCE SUPERVISION AGENCY

- I. REPORT ON BUSINESS PERFORMANCE
OF THE INSURANCE INDUSTRY IN 2017
- II. ANNUAL REPORT OF THE INSURANCE
SUPERVISION AGENCY FOR 2017

Foreword by the Director of the Insurance Supervision Agency

For insurance and reinsurance companies and their supervisors in the European Union and Slovenia, 2017 was already the second year of applicability of the new legislative, business and supervisory system, called Solvency II. Thus, the above entities have overcome the first problems which usually accompany novelties. They have become more familiar with the requests of the Insurance Act and the EU regulations and with the new contents concerning market valuation, own funds, and soundness and reliability of the governance system. The insurance and reinsurance companies also manage well the scope of information that they are obliged to disclose to the public and the supervisor, i.e. the Insurance Supervision Agency (hereinafter: the Agency), which processes the large amount of data and information.

The information that supervisors receive from insurance and reinsurance companies now measures risks more profoundly and tries to classify premiums written, losses and technical provisions of insurance and reinsurance companies by type of risk accepted, which is also reflected in the Report on Business Performance of the Insurance Industry in 2017. The introduction of the new legislation also resulted in major substantive changes in the capture of data on the operations of insurance and reinsurance companies, which no longer enables presentation by the same insurance classes as before, but by new lines of business. Simultaneously, the new method of information capture enables more detailed presentation of the risks of insurance and reinsurance companies in the Report on Business Performance of the Insurance Industry in 2017.

The introduction of Solvency II also brought new tasks to the supervisors. For this purpose, the Agency already introduced risk-based supervision procedures in its work processes in

the years of preparation. The year 2017 is also the second year in which the Agency conducted a detailed analysis of risks of the supervised entities on the basis of the data and information received based on the new legislation. A more detailed description of these processes is given in the Annual Report on the work of the Agency for 2017.

As opposed to insurance and reinsurance companies, pension companies are not included in the Solvency II system, but still operate under the Solvency I system pursuant to the provisions of a special chapter of the Insurance Act and the provisions of the Pension and Disability Insurance Act.

In a similar way as 2017 was the second year of operating in the Solvency II system for insurance and reinsurance companies, 2017 was the second year in which pension companies and insurance companies providing voluntary supplementary pension insurance enabled saving for additional pension in the so-called life-cycle funds, within which an individual travels through the whole life cycle of the fund. The first, dynamic sub-fund has the most aggressive investment policy, the second, prudent sub-fund pursues a more prudent investment policy, and the third sub-fund enables guaranteed return.

At the end of the financial year 2017, 13 insurance companies, two reinsurance companies, three pension companies, the Nuclear Insurance and Reinsurance Pool, the Guarantee Fund and the Compensation Body of the Slovenian Insurance Association, 455 insurance agencies, 921 insurance agents - individual entrepreneurs, 84 insurance brokerage companies and 11 insurance brokers - individual entrepreneurs operated in Slovenia. The comparison of the number of insurance companies indicated in the Report on Business Performance of the Insur-



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ance Industry in 2017 with the number reported for the previous year shows that the number fell by one insurance company. The reason for this was that ERGO Življenjska zavarovalnica, d. d., transferred its insurance contracts to its parent insurance company ERGO Versicherung Aktiengesellschaft, Vienna, and thus its authorisation to perform insurance business expired on 1 March 2017.

In addition to these entities, seven branches of insurance companies of Member States and 134 insurance companies of Member States out of the total of 738 registered for directly performing insurance business also operated on the Slovenian insurance market.

The economic environment in which the Slovenian insurance entities do business again improved in 2017. The economic growth, which in Slovenia began to strengthen in 2014, also continued in the period from 2015 to 2017, when the gross domestic product rose by five percent, by which the pre-crisis level was surpassed. The large growth of the Slovenia GDP last year primarily reflected the strong last quarter, when the economic growth in real terms amounted to six percent year-on-year. This was the highest year-on-year growth since the beginning of crisis in 2008. The high economic growth in the last quarter was contributed to by the growth in exports (by 12.3%) and domestic consumption (by 4.5%). This surge primarily resulted from the increase in investment in fixed assets, rising by 11.9%. The latter was the result of growth in the construction industry. Investments in residential facilities grew by 10.0%, while non-residential construction rose by 20%. The third growth factor was increase in private consumption; in the last quarter, it amounted to 3.2% and was comparable with the growth in the previous quarters. In real terms, the average monthly salary was also a good percent or less than two percent higher. The high increase in employment continued in most sectors, with quick reduction of unemployment. After several years of decrease, in 2017 bank corporate lending saw a revival. Companies pri-

marily take long-term loans, which is favourable in terms of investment financing; however, the total amount of loans raised is still low. By offering favourable terms and conditions, banks are increasingly encouraging retail lending, especially consumer loans. The yield of euro area government bonds remained stable in 2017, although on the average it was higher than in 2016. The average yield of 10-year GDP-weighted euro area government bonds amounted to 1.0% on 29 December 2017, which was the same as the average level in December 2016. In 2017 the equity prices in the euro area increased strongly owing to the improvement in the domestic and global economic growth and low interest rates. Thus, a broad index for the equity prices of non-financial companies rose by 12%, while an index of bank equity prices increased by 14%. The optimism on foreign stock markets was also reflected in the domestic stock exchange. The stock index SBI TOP gained good 12% in the first ten months of last year. Bond yields and equity prices also have impact on the profitability of the Slovenian insurance and reinsurance companies, which predominantly invest assets in these securities.

In the financial year 2017, the Slovenian insurance companies collected EUR 2,029.3 million of gross premiums written. This was a 4.5% growth nominally, taking into account the annual growth in prices, and a 1.9% growth in real terms, measured by the harmonised consumer price index of 2.6%. Insurance companies achieved as much as 89% of the non-life insurance premium in five lines of business out of twelve, of which the most – 33% – in the line of business “medical expense insurance”, which includes supplementary health insurance. Since the Solvency II system applied for the second year in 2017, it is already possible to compare the premiums by insurance type with 2016. The figures show that non-life and life insurance increased in 2017, the former by 3.1% or 1.2% in real terms, and the latter by 4.9% or 3% in real terms. Considering the above, I am satisfied with the market development and growth.

As regards loss events, 2017 was the most expensive year in the history for the insurance industry. Due to hurricanes and other natural disasters, insurance companies around the world had to pay a total of around USD 135 billion of damages. The reinsurance and insurance companies in Slovenia recorded an above-average number of major claims in the non-life insurance segment due to a large number of hailstorms, frost, floods and storm wind.

As a result, the net result of the reinsurance companies and the aggregate net result or underwriting result of the insurance companies for the financial year 2017 were positive, but lower than in the previous year. In insurance business in total, the insurers gained a net profit of EUR 124.9 million. At the level of the underwriting result, the non-life insurance profit amounted to EUR 75 million, which was EUR 9.6 million or 11.4% less than in 2016, while the life insurance profit was EUR 39.9 million, which was slightly, EUR 0.1 million, more than in 2016. The two reinsurers also generated a slightly lower net profit than in 2016, amounting to EUR 39.3 million in total. The three pension companies ended the financial year 2016 with a net profit of EUR 2.6 million.

All insurance companies and both reinsurance companies disclose an excess of eligible own funds over solvency capital requirement as at 31 December 2017. The insurance companies disclose a capital adequacy ratio of almost 229%, and the reinsurance companies almost 281%.

As at 31 December 2017 pension companies also disclose an excess of capital over minimum capital, and their capital adequacy ratio amounts to 151%.

All the details about the performance are given below. Considering all the above-mentioned and described in detail below, the Insurance Supervision Agency assesses that the Slovenian insurance, reinsurance and pension companies operated successfully in the financial year 2017.

Passing over to the Annual Report on the work of the Insurance Supervision Agency for 2017, let me say that the Agency carried out various tasks imposed by the applicable legislation also this year. It issued authorisations and conducted supervision by reviewing data and reports and inspecting operations. Moreover, it participated in the preparation of legislation.

The Agency issued 865 authorisations, which was 431 less than in the previous year. Among authorisations, the number of authorisations to perform insurance brokerage or agency services decreased the most compared to 2016.

In the area of examining reports and notifications, the Agency carried out supervisory procedures to ensure examination of quantitative and qualitative data and information that the insurance and reinsurance companies prepared for the second time in accordance with the Solvency II requirements. In addition to these activities, in 2017, i.e. for the second year, the Agency conducted risk-based supervision procedures on the basis of the internal Methodology for the assessment of risks associated with the supervised entities. In doing so, it identified the most important risks associated with individual supervised entities. In the scope of risk assessment, a group of experts analyses the business model and examines the main business segments of each entity. In the scope of this supervision segment, the Agency prepared a composite assessment of risks and risk trends, together constituting a prospective regulatory assessment. The Agency's goal is to prepare a regulatory assessment for all insurance, reinsurance and pension companies at least once annually. Such regulatory assessment allows the Agency to prioritise supervisory activities, and simultaneously contributes to early detection and elimination of potential outbreaks at the level of an individual supervised entity and at the level of the insurance industry.

As regards inspections of operations, 15 inspections were started in 2017 and 10 were completed.

The Agency issued 57 measures of supervision. Compared to 2016, when 54 measures of supervision were issued, in 2017 more warnings and orders to eliminate violations were issued.

In 2017 the Agency also paid considerable attention to the supervision of the conduct of market participants. It carried out activities related to the preparation and transposition of the EU legislation on market participant supervision. The work in this area primarily comprised cooperation with the Ministry of Finance and other stakeholders in the transposition of the requirements of the Directive on insurance distribution (IDD) to the Insurance Act. Based on the IDD requirements, the Agency also examined the need to amend implementing and other regulations in this field, and began to prepare proposals for amendments to the existing implementing regulations and proposals for new implementing regulations to be adopted in 2018.

The Insurance was also very active in the legislative area. The activities in this field were primarily focused on the process of preparing the proposal for amendments and supplements to the Insurance Act in order to transpose the IDD provisions to the national legislation. In addition, the Agency cooperated in the preparation of eleven other acts.

The Agency's cooperation with domestic and foreign supervisory authorities was also very active. As a member of the Cooperation Commission, it was present at four meetings of supervisory authorities. It also participated in four meetings of the Financial Stability Committee and attended the meetings of the General Board of the European Systemic Risk Board. The Insurance

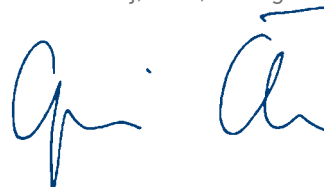
Supervision Agency also cooperates with insurance supervisory and financial control authorities from other EEA members and the republics of the former Yugoslavia. Further, the Agency employees actively participated in the college meetings of the supervisors in 2017; the meetings were held in relation to Merkur zavarovalnica, Grawe zavarovalnica and Generali zavarovalnica.

Note should also be taken of the cooperation of the Insurance Supervision Agency in the European Insurance and Occupational Pensions Authority (hereinafter: EIOPA). In 2017 it participated at six meetings of the Board of Supervisors. In 2017, the Agency employees actively participated in the Risk and Financial Stability Committee, the Expert Networks and the SCR review project.

Let me also mention the cooperation of the Agency employees in the International Association of Insurance Supervisors (IAIS). In 2017 the Agency employees performed activities within the Implementation Committee, the Market Conduct Working Group and the Pension Insurance Working Group.

Based on all stated above and presented in this report, it can be concluded that the performance of the Slovenian insurance and reinsurance companies in 2017 was successful despite extensive and numerous natural disasters, that the operations of pension companies were also successful, that the Agency as the supervisor and the entire Slovenian insurance market are actively preparing for the entry into force of the Directive on insurance distribution, and that the capital adequacy of the Slovenian insurance market remains at a satisfactory level.

Gorazd Čibej, MSc, Acting Director



Ljubljana, June 2018

I. REPORT ON BUSINESS PERFORMANCE OF THE INSURANCE INDUSTRY IN 2017

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1. INTRODUCTION

The Report on Business Performance of the Insurance Industry in 2017 refers to the operations of those entities in the insurance sector that are supervised by the Insurance Supervision Agency (hereinafter: the Agency), unless indicated otherwise herein.

As a rule, the information in this report refers to the financial year 2017, except in individual cases, when it refers to the period before that year or after it, if that is reasonable to enable more complete reporting on individual facts and issues related to the business performance of the insurance industry.

At the end of 2017, the Slovenian insurance market included the following entities supervised by the Agency:

- 13 insurance companies;
- two reinsurance companies;
- three pension companies;
- the commercial association Nuclear Insurance and Reinsurance Pool;
- the Guarantee Fund and the Compensation Body organised within the Slovenian Insurance Association,
- 455 insurance agencies;
- 921 insurance agents - individual entrepreneurs;
- 84 insurance brokerage companies;
- 11 insurance brokers - individual entrepreneurs.

The comparison of the number of insurance companies indicated in the Report on Business Performance of the Insurance Industry in 2017 with the number reported for the previous year shows that the number fell by one insurance company. ERGO Življenjska zavarovalnica, d. d., which on 22 December 2016 obtained authorisation to transfer insurance contracts to the insurance company ERGO Versicherung, Aktiengesellschaft, Vienna, represented in Slovenia by its branch ERGO Versicherung, Slovenia Branch Office, saw the expiration of its authorisation to perform insurance business on 1 March 2017.

Among 13 insurance companies, six are composite insurance companies, performing both non-life and life insurance business. Four insurance companies perform exclusively non-life insurance operations for a limited number of insurance classes. Among them, one specialises in health insurance, one in health and accident insurance, one in credit insurance and one in suretyship insurance. From the remaining three insurance companies providing life insurance services, two predominantly underwrite life insurance policies and also accident and health insurance policies, while one insurance company also underwrites accident insurance policies in addition to life insurance policies.

Pension companies exclusively perform supplementary pension insurance operations, as the law does not allow them to perform operations in relation to other insurance types.

Besides the above entities, the Agency also supervises the First Pension Fund of the Republic of Slovenia, operated by Modra zavarovalnica, d. d. The First Pension Fund is a special form of pension fund established pursuant to the First Pension Fund of the Republic of Slovenia and Transformation of Authorised Investment Corporations Act (ZPSPID).

In accordance with the Pension and Disability Insurance Act, the Agency is also responsible for supervision over the payers of pension annuities and occupational pensions. Since 2013 it has thus also supervised the Guarantee Fund of the Compulsory Supplementary Pension Insurance Fund operated by the Pension Fund Management Company (Kapitalska družba, d. d.).

In addition to these entities, seven branches of insurance companies of Member States and 134¹ insurance companies of Member States out of the total of 738 registered for directly performing insurance business also operated on the Slovenian insurance market last year. The Agency is only partly authorised to supervise the operations of the branches of insurance companies of Member States, and it is not within its competence to supervise the insurance companies of Member States performing insurance business directly on the Slovenian market.

Four groups with the parent company registered in the Republic of Slovenia operated on the Slovenian insurance market in 2017. The respective parent companies of the four groups are Zavarovalnica Triglav, d. d.,

¹ The figure refers to 31 December 2016.

Pozavarovalnica Sava, d. d., Adriatic Slovenica, d. d., and Skupina Prva, d. d. In addition to the groups where the parent insurance or other company is registered in Slovenia, some insurance companies with the registered office in Slovenia are part of groups where the parent company has its registered office in a European Union Member State. Those are Merkur zavarovalnica, d. d., which is controlled by Merkur Versicherung AG Graz from Austria, GRAWE Zavarovalnica, d. d., which is a subsidiary of the Austrian insurance company GRAZER Wechselseitige Versicherung AG, and GENERALI zavarovalnica, d. d., controlled by Assicurazioni Generali S. p. A.

Table 1:
Insurance classes for which insurance companies obtained authorisations to perform insurance business

INSURANCE COMPANY	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20	21	22	23	24
Adriatic Slovenica zavarovalna družba, d. d.	✓	✓	✓		✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓		✓		✓	
CDA 40 zavarovalnica, d. d.															✓									
Generali zavarovalnica, d. d.	✓	✓	✓		✓	✓	✓	✓	✓	✓	✓	✓	✓			✓	✓	✓	✓		✓			
Grawe zavarovalnica, d. d.	✓		✓					✓	✓	✓			✓					✓	✓		✓			
Merkur zavarovalnica, d. d.	✓	✓						✓	✓				✓			✓			✓	✓	✓			
Modra zavarovalnica, d. d.	✓																		✓					
NLB Vita, d. d.	✓	✓																	✓		✓			
Prva osebna zavarovalnica, d. d.	✓	✓																	✓		✓		✓	
SID – Prva kreditna zavarovalnica, d. d.														✓										
Triglav zdravstvena zavarovalnica, d. d.	✓	✓																						
Vzajemna zdravstvena zavarovalnica, d. v. z.	✓	✓																						
Zavarovalnica Sava, d. d.	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓		✓			
Zavarovalnica Triglav, d. d.	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓		✓	
Pozavarovalnica Sava, d. d.	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Pozavarovalnica Triglav RE, d. d.	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓

Key:

- | | |
|--------------------------------------|---|
| 1 Accident insurance | 14 Credit insurance |
| 2 Health insurance | 15 Suretyship insurance |
| 3 Land motor vehicle insurance | 16 Miscellaneous financial loss insurance |
| 4 Railway rolling stock insurance | 17 Legal expenses insurance |
| 5 Aircraft insurance | 18 Assistance insurance |
| 6 Ship insurance | 19 Life insurance |
| 7 Goods in transit insurance | 20 Marriage and birth insurance |
| 8 Fire and natural forces insurance | 21 Life insurance linked to investment fund units |
| 9 Other damage to property insurance | 22 Tontines |
| 10 Motor vehicle liability insurance | 23 Capital redemption insurance |
| 11 Aircraft liability insurance | 24 Insurance of loss of income due to accident or illness |
| 12 Aircraft liability insurance | |
| 13 General liability insurance | |

2. LEGISLATION

The laws that are important for the operation of insurance and pension companies, as well as all other entities operating in the insurance industry in the Republic of Slovenia, are the following:

- Insurance Act (hereinafter: ZZavar-1);
- Pension and Disability Insurance Act;
- Macro-prudential Supervision Act;
- Prevention of Money Laundering and Terrorist Financing Act;
- Code of Obligations;
- Health Care and Health Insurance Act;
- Compulsory Motor Third-party Liability Act;
- Consumer Protection against Unfair Commercial Practices Act and Consumer Protection Act;
- Out-of-Court Resolution of Consumer Disputes Act.

In addition to the ZZavar-1, certain special acts are also important for some of the entities supervised by the Agency. Thus, the operation of the First Pension Fund is regulated by the First Pension Fund of the Republic of Slovenia and Transformation of Authorised Investment Corporations Act (ZPSPID, Official Gazette of the RS, nos. 50/99, 58/02, 61/04, 85/09 and 32/16).

The Financial Conglomerates Act (ZFK, Official Gazette of the RS, nos. 43/2006, 87/11, 56/13), passed in 2006, transposed into the Slovenian legislation the Directive 2002/87/EC of the European Parliament and of the Council of 16 December 2002 on the supplementary supervision of credit institutions, insurance undertakings and investment firms in a financial conglomerate, and provided for the supervision of regulated entities from the financial sector (banks, insurance companies, pension companies, stockbroking companies, management companies) when belonging to the same financial conglomerate. The Financial Conglomerates Act supplements the Insurance Act (ZZavar-1) and the Banking Act (Official Gazette of the RS, nos. 25/15, 44/16 - ZRPPB, 77/16 - ZCKR, hereinafter: ZBan-2) concerning supplementary supervision at the highest level of a financial group. To this end, it also contains provisions aiming to coordinate the work of different supervisors of a financial group. The ZFK identifies the appropriate competent authority and requests that the coordinator (supervisor at the highest level) consults this authority regarding certain supervision issues. No financial conglomerate was identified in the Republic of Slovenia in 2017.

The Bridging Insurance of Professional and Top Athletes Act (ZPZPČ-1, Official Gazette of the RS, no. 82/15) regulates bridging insurance of professional and top athletes, providing them with social security after the end of their careers as active athletes. Pursuant to Article 36 of the Bridging Insurance of Professional and Top Athletes Act, the Agency is responsible for supervision over the payers of bridging annuities.

2.1. Insurance Act (ZZavar-1)

On 22 December 2015, the new Insurance Act (ZZavar-1) entered into force in the Republic of Slovenia. The ZZavar-1 is the basic act regulating the issues concerning the establishment, operation, supervision and dissolution of insurance and reinsurance companies, insurance and reinsurance pools, and insurance agencies and brokerage companies, and laying down the rules on the operation of insurance agents and brokers.

The status rules laid down by the ZZavar-1 for the persons referred to in the preceding paragraph are used in addition to the rules laid down by the act regulating companies, which such persons must also comply with.

The ZZavar-1, applicable since 1 January 2016, transposes the Solvency II Directive.

The essence of Solvency II and the ZZavar-1 is that the operations of insurance and reinsurance companies, and therefore their supervision, are based on risks. This is also the major difference of the ZZavar-1 compared to the previous Insurance Act (ZZavar). Thus, the ZZavar-1 lays down that the capital requirement expressed by the solvency capital requirement, calculated on the basis of the standard formula, i.e. the basic solvency capital requirement as the largest item of the solvency capital requirement, must include at least the modules of non-life underwriting risk, life underwriting risk, health underwriting risk, market risk and counterparty default risk. If it believes that the standard model does not suit the risks arising from the insurance operations performed, an insurance company may calculate the solvency capital requirement by using partial or full internal model, for which it requires authorisation by the Agency.

The ZZavar-1 also brought a novelty in the area of the insurance company's capital covering capital requirements. Namely, the capital or own funds of insurance companies may be classified into three quality tiers depending on the characteristics specified in the ZZavar-1 and prescribed in detail in the Delegated Regulation. It should also be mentioned that the ZZavar-1 requests market valuation of both assets and liabilities or technical provisions of an insurance company. The value of technical provisions equals the sum of the best estimate and the risk margin. The above-described categories represent the so-called Pillar 1 of Solvency II.

In addition to Pillar 1, Solvency II also consists of Pillar 2 and Pillar 3. Pillar 2 concerns the supervisory process and risk management system. The risk management system includes own risk and solvency assessment, requirements concerning management and supervisory bodies and key functions, and requirements regarding the system of risk management and documentation. In the assessment of risks and solvency, the insurance company assesses its overall solvency needs on the basis of all risks to which it is exposed in addition to the risks covered by the standard formula. It also takes into account its risk attitude and business strategy. The governance system must ensure the establishment of appropriate processes that ensure an efficient operation of the management and supervisory bodies and key functions, and that these processes are suitably documented and supported by an efficient internal control system. In addition to the actuarial function and internal audit function, already established by Solvency I, Solvency II also introduced the risk management and compliance functions. Pillar 3 concerns public disclosures by insurance companies and the Agency.

It should also be noted that the purpose of Solvency II is to improve supervision of groups; therefore, all the listed elements of the new regulations are also used in the supervision of groups.

2.2. Pension and Disability Insurance Act (ZPIZ-2)

The Pension and Disability Insurance Act (ZPIZ-2, Official Gazette of the RS, nos. 96/12, 39/13, 99/13 – ZSVarPre-C, 101/13 – ZIPRS1415, 44/14 – ORZPIZ206, 85/14 – ZUJF-B, 95/14 – ZUJF-C, 90/15 – ZIUPTD, 23/17, 40/17 and 65/17), which entered into force in 2013, introduced several novelties in voluntary supplementary pension insurance.

The Agency is responsible for supervision over the payers of pension annuities and occupational pensions. It performs supervision in accordance with the provisions on the supervision procedure pursuant to the ZZavar-1, unless the ZPIZ-2 stipulates otherwise.

The ZPIZ-2 lays down that supplementary pension insurance is carried out through a pension fund which has three forms:

- mutual pension fund;
- umbrella pension fund, and
- long-term business fund (assets covering mathematical provisions).

In addition to the minimum guaranteed return and the guarantee of the operators to provide guaranteed return on the net premium paid, the ZPIZ-2 also enables selection of the life-cycle investment policy. Each pension fund or group of long-term business funds based on which life-cycle investment policy is implemented must have, for collective insurance, a pension fund committee composed of five members, of whom three representatives of the members of the pension fund and two representatives of the employers.

Since the entry into force of the ZPIZ-2, the insureds cannot withdraw the saved funds financed by the employer, as the ZPIZ-2 lays down that the payment of the collective insurance surrender value is only possible upon regular retirement and if the surrender value financed by the employer is lower than EUR 5,000.

Each pension fund must have an approved pension scheme and governance rules. Pension schemes are approved by the minister responsible for labour, while the rules on the governance of pension funds established as long-term business funds are approved by the Agency. Moreover, the operator of a pension fund must prepare the plan for risk management and the statement on investment policy. When taking out supplementary insurance, the insureds must, in addition to the pension scheme, also obtain the rules on pension fund governance and the statement on investment policy.

Annuities are paid through the long-term business fund intended for the payment of pension annuities and in line with the pension scheme for the payment of pension annuities approved by the minister responsible for labour, and they may not differ with regard to the gender of the person insured.

2.3. Macro-prudential Supervision of the Financial System Act (ZMbNFS)

The aim of the Macro-prudential Supervision of the Financial System Act (ZMbNFS, Official Gazette of the RS, no. 100/13) is to improve supervision over financial institutions which, owing to their ownership or other complexity, operate in different segments of the financial system.

The sectoral supervisory authorities, namely the Securities Market Agency, the Bank of Slovenia and the Insurance Supervision Agency, continue to conduct micro-supervision of individual financial institutions, while macro-supervision is carried out by the Financial Stability Committee. The Committee designs the macro-prudential policy and dictates the measures to be implemented by the sectoral supervisors. One of the reasons for passing the act was also the finding of the International Monetary Fund that although the Republic of Slovenia has established a mechanism of cooperation between individual sectoral supervisors in the form of coordination contributing to the stability of the financial system, individual sectoral supervisors do not have the legal authority to carry out macro-prudential supervision.

The main goal of the ZMbNFS was to establish a committee authorised to design such macro-prudential policy in the Republic of Slovenia that can contribute to the protection of the stability of the whole financial system, including the increase in the resilience of the financial system and prevention or decrease of accumulation of systemic risks, in order to ensure a sustainable contribution of the financial sector to economic growth in the country.

2.4. Prevention of Money Laundering and Terrorist Financing Act (ZPPDFT)

On 19 November 2016 the new Prevention of Money Laundering and Terrorist Financing Act (ZPPDFT-1, Official Gazette of the RS, no. 68/16) entered into force, transposing into the Slovenian legal order the Directive (EU) 2015/849 on the prevention of the use of the financial system for the purposes of money laundering or terrorist financing. Moreover, the new ZPPDFT-1 also aims at the harmonisation of the Slovenian legal order with the generally established international standards in this area, in particular the new Recommendations of the Financial Action Task Force (FATF) from 2012, which countries must follow when implementing measures for detecting and preventing money laundering and terrorist financing, and now also financing of weapons of mass destruction.

In line with its powers defined in the ZPPDFT-1 and other laws, the Agency supervises the implementation of the provisions of the ZPPDFT and the regulations adopted on its basis by insurance companies authorised to perform insurance operations in the life insurance group, branches of insurance companies from third countries authorised to perform life insurance operations, insurance companies from the Member States establishing a branch in the Republic of Slovenia or authorised to directly perform life insurance operations in the Republic of Slovenia, pension companies, operators of mutual pension funds, operators of the bridging fund based on the Bridging Insurance of Professional and Top Athletes Act, and legal and natural persons providing insurance agency services and insurance brokerage services related to the conclusion of life insurance contracts.

2.5. Code of Obligations (OZ)

A special chapter of the Code of Obligations (OZ, Official Gazette of the RS, nos. 97/07 – official consolidated text and 64/16 – Constitutional Court Decision) regulates the institute of insurance contract. In 2016, the Constitutional Court of the Republic of Slovenia issued a decision repealing Article 184 of the Code of Obligations, which stipulated that the heirs may only be compensated for non-pecuniary damage if it is recognised by a final decision.

In addition to the section containing the common provisions concerning all insurance contracts, the Code of Obligations also lays down special provisions regarding non-life insurance and personal insurance contracts. In accordance with the Code of Obligations, non-life insurance is insurance that provides compensation for the damage caused to the property of the person insured in the case of an insured event (damage insurance). In personal insurance contracts, the amount of the sum insured that the insurance company must pay in case an insured event occurs is set in the policy by agreement between the two contracting

parties (sum insurance). The latter includes all life, accident and health insurance policies where the insurance company's obligation is not to compensate for the damage, but to pay a certain sum insured set in advance. Among the common provisions concerning all insurance contracts, the Code of Obligations also contains certain exceptions treating (excluding) health or life insurance.

In addition to the provisions of the Code of Obligations on insurance contracts, certain provisions of the ZZavar-1 also concern relationships between contracting parties and apply simultaneously with the provisions of the Code of Obligations.

The provisions of the Code of Obligations on brokerage contracts, except the rules on brokerage logbooks and brokerage sheets, apply to insurance brokerage on the basis of Article 548 of the ZZavar-1, unless the latter stipulates otherwise.

2.6. Health Care and Health Insurance Act (ZZVZZ)

The Health Care and Health Insurance Act (ZZVZZ, Official Gazette of the RS, nos. 9/1992, 13/93, 9/96, 29/98, 77/98 – Constitutional Court Decision, 6/99, 99/2001, 60/02, 126/03, 62/05 – Constitutional Court Decision, 76/05, 100/05 – Constitutional Court Decision, 38/06, 91/07, 71/08 – Constitutional Court Decision, 76/08, 87/11, 91/13) sets the framework of the health care and health insurance system, the scope of rights and obligations of the insured, and institutions responsible for health care and their tasks, regulates the relationship between the provider of the compulsory health insurance, providers of health services and the insured.

Health insurance consists of compulsory and voluntary insurance. The provider of compulsory health insurance is the Health Insurance Institute of the Republic of Slovenia, while voluntary health insurance operations may be performed by insurance companies holding the relevant authorisation. The ZZVZZ allows insurance companies to perform four types of voluntary health insurance: supplementary, substitutional, additional and parallel health insurance.

2.7. Compulsory Motor Third-party Liability Act (ZOZP)

The Compulsory Motor Third-party Liability Act (ZOZP, Official Gazette of the RS, nos. 93/07 – official consolidated text, 40/12 – ZUJF, 4/16, 33/16 – PZ-F and 41/17 – PZ-G) regulates the following compulsory transport insurance classes: accident insurance of passengers in public transport (except passengers in air transport), motor vehicle liability insurance or coverage of the owner of the motor vehicle, vessel and aircraft for damages caused to third persons, and aircraft owner liability insurance for damages caused to passengers, baggage and freight. In the EU, this particular area is regulated by a special set of directives, which are incorporated into the ZOZP.

The ZOZP has been amended several times; therefore, its consolidated version was prepared in 2007. The last direct amendment to the Act is the one from 2017 (Official Gazette of the RS, no. 41/17 – PZ-G). As the Maritime Code was supplemented in 2017 (Official Gazette of the RS, nos. 62/16 – official consolidated text and 41/17), the legislator deleted the provision of the ZOZP stipulating that the application for entry of a boat in the register of sea boats must be accompanied by evidence that an insurance contract has been concluded for at least the period for which the navigability licence is valid.

2.8. Consumer Protection against Unfair Commercial Practices Act (ZVPNPP) and Consumer Protection Act (ZVPot)

In the area of consumer protection, the following acts are important for the business of insurance and pension companies and other entities operating in the area of insurance in the Republic of Slovenia: Consumer Protection against Unfair Commercial Practices Act, Consumer Protection Act and Out-of-Court Resolution of Consumer Disputes Act.

The area of consumer protection is also regulated by the Consumer Protection against Unfair Commercial Practices Act (ZVPNPP, Official Gazette of the RS, no. 53/07), which regulates in detail the area of fair practices of insurance and pension companies in relation to consumers by specifying a number of business practices deemed unfair in line with the act itself and therefore not allowed.

Originally, this area was regulated by the Consumer Protection Act (ZVPot, Official Gazette of the RS, nos. 98/04 – official consolidated text, 126/07, 86/09, 78/11, 38/14 and 19/15), which is partly still in force. The latter regulates the rights of consumers when companies offer, sell and otherwise market goods and services, and lays down the duties of the state authorities and other entities to ensure the exercise of these rights. Financial services in accordance with the ZVPot are services covered by laws regulating the areas of banking, insurance, investment fund securities market, pension funds, payment transactions and consumer loans. In 2017, the legislators passed the Collective Actions Act (Official Gazette of the RS, no. 55/17) which regulates collective actions, collective settlement, collective procedure rules, the contents and effects of a collective contract, the procedure of paying aggregate damages in the scope of a collective action for damages, and rules on legal expenses and financing of a collective action. Consequently, the provisions that regulated this area in a more general way in the Consumer Protection Act ceased to apply.

2.9. Out-of-Court Resolution of Consumer Disputes Act (ZIsRPS)

The new Out-of-Court Resolution of Consumer Disputes Act (Official Gazette of the RS, no. 81/15) from November 2015 regulates, at the system level (certain sectoral acts already regulated this area before, including the ZZavar), out-of-court settlement of domestic and cross-border disputes arising from contractual relationships between providers and consumers, resolved through the mediation by the person conducting out-of-court resolution of consumer disputes. The goal of the act is to give to consumers and providers in all economic branches the possibility of a quick, inexpensive, simple and efficient out-of-court settlement of domestic and cross-border consumer disputes in ordinary trade and in trade via the internet.

2.10. European Regulations

Insurance and reinsurance companies are also addressed and bound by EU regulations. The list of EU directives and implementing regulations important for the insurance industry is published on the website <https://www.a-zn.si/en/legislation-and-guidelines/rules-apply-directly-eu-level/>.

The most important directive in the area of insurance business is Directive 2009/138/ES of the European Parliament and of the Council of 25 November 2009 on the taking-up and pursuit of the business of Insurance and Reinsurance (hereinafter: Solvency II), which has been transposed to the ZZavar-1. Based on Solvency II, the European Commission issued a number of directly applicable regulations that bind the insurance and reinsurance companies as national laws.

The most important among them is Commission Delegated Regulation (EU) 2015/35 of 10 October 2014 supplementing Directive 2009/138/EC of the European Parliament and of the Council on the taking-up and pursuit of the business of Insurance and Reinsurance (Solvency II) (hereinafter: the Delegated Regulation). The Delegated Regulation supplements the Solvency II Directive with provisions on the valuation of assets and liabilities, own funds and risk-based capital requirements, regulates in more detail the governance system in insurance companies, and provides for higher transparency of public disclosures to the public and supervisors, and accountability of supervisory authorities. It also regulates these areas in more detail for insurance groups and lays down rules for insurance companies outside the European Union.

Through its membership in the EIOPA, the Agency follows the adoption of the implementing regulations of the European Parliament and the Council and the European Commission concerning the areas of work of the Agency and the EIOPA guidelines. The EIOPA issues guidelines that are important for insurance and reinsurance companies as business standards and available on its website <https://eiopa.europa.eu/publications/eiopa-guidelines>.

The Agency published on its website that it expected insurance and reinsurance companies to do everything in their power to follow the EIOPA guidelines in their operations, and that it would itself use those guidelines in the procedures of supervision of insurance and reinsurance companies when assessing issues concerning their regulation.

Regulation (EU) No 1286/2014 of the European Parliament and of the Council of 26 November 2014 on key information documents for packaged retail and insurance-based investment products (PRIIPs), published in the Official Journal of the EU L 352 on 9 December 2014 (hereinafter: the PRIIP Regulation), started to apply directly in all EU Members States on 31 December 2016. It introduces a new, consumer- (policy-

holder-) friendly key information document (KID) in order to make packaged investment products easier to compare mutually. Any producer or provider of investment products, i.e. investment fund operator, insurance company or bank, will have to prepare such document and publish it on its website.

Commission Delegated Regulation (EU) 2017/653 of 8 March 2017 supplementing Regulation (EU) No 1286/2014 of the European Parliament and of the Council on key information documents for packaged retail and insurance-based investment products (PRIIPs) by laying down regulatory technical standards with regard to the presentation, content, review and revision of key information documents and the conditions for fulfilling the requirement to provide such documents lays down the content and presentation of key information documents, special provisions on key information documents, review and revision of key information documents, and provision of key information documents.

Directive (EU) 2016/97 of the European Parliament and of the Council of 20 January 2016 on insurance distribution (recast) (hereinafter: IDD), which enhances consumer protection in several areas, was published on 2 February 2016. Thus, it introduces uniform rules of operation for all distribution channels, by which it provides the basis for ensuring an equal level of customer protection regardless of where they buy an insurance product, whether directly at an insurance company or indirectly at a broker. The IDD especially emphasises the importance of conducting a demands-and-needs test on the basis of information obtained from the customer and, where advice is provided prior to the sale, providing a personalised recommendation to the customer, explaining why a particular product best meets the customer's insurance demands and needs. Additionally, it introduces requests in relation to the provision of adequate information to the customer before and upon the conclusion of an insurance contract. The IDD entered into force on 23 February 2016 and will start to apply on 1 October 2018. In 2017 the Agency participated in the preparation of a proposal for amendment ZZavar-1A, by which the IDD will be implemented in the ZZavar-1.

The European Commission proposed the PRIIP Regulation and the IDD in order to improve consumer protection, so as to make it easier for them to compare different offers by the providers of insurance products on the market and to alleviate their choice of insurance products based on available information provided in an understandable way.

On the basis of the IDD, EIOPA issued the Preparatory Guidelines on the Product Oversight and Governance arrangements for insurers and distributors (hereinafter: the POG Guidelines). The POG Guidelines constitute a standard requested from all insurance product distributors concerning the conduct in the preparatory period before the transposition of the IDD and application of the delegated acts envisaged by it.

In 2017 the European Commission passed Commission Delegated Regulation (EU) 2017/2358 of 21 September 2017 supplementing Directive (EU) 2016/97 of the European Parliament and of the Council (IDD) with regard to product oversight and governance requirements for insurance undertakings and insurance distributors. This Regulation lays down rules for the maintenance, operation and review of product oversight and governance arrangements for insurance products and for significant adaptations to existing insurance products before those products are brought to the market or distributed to customers, as well as rules for product distribution arrangements for those insurance products.

The European Commission also passed Commission Delegated Regulation (EU) 2017/2359 of 21 September 2017 supplementing Directive (EU) 2016/97 of the European Parliament and of the Council with regard to information requirements and conduct of business rules applicable to the distribution of insurance-based investment products. This Regulation applies to insurance distribution in relation to the sale of insurance-based investment products carried out by insurance intermediaries or insurance undertakings.

Further, Commission Implementing Regulation (EU) 2017/1469 of 11 August 2017 laying down a standardised presentation format for the insurance product information document was passed. This Regulation stipulates that the name and company logo of the manufacturer of the non-life insurance product must be indicated in the document, and that the latter must state prominently that complete pre-contractual and contractual information about the product is provided in other documents. The document must be drafted in plain language and contain all prescribed addresses and information.

The European Banking Authority (EBA), the EIOPA and the European Securities and Market Authority (ESMA) adopted the Joint Guidelines on the characteristics of a risk-based approach to anti-money laundering and terrorist financing supervision, and the steps to be taken when conducting supervision on a risk-sensitive basis. In 2017 the Agency adopted the position that it would endeavour for the implementation of the Joint Guidelines by integrating them in its supervision processes and procedures.

3. INSURANCE COMPANIES

3.1. Structure of the Slovenian Insurance Market

3.1.1. Structure of the Insurance Market with regard to Line of Business and Class of Insurance

In 2017 the insurance companies recorded a total of EUR 2,029.3 million of gross premiums written in the groups of non-life and life insurance, which was EUR 87.1 million or 4.5% more than one year before.

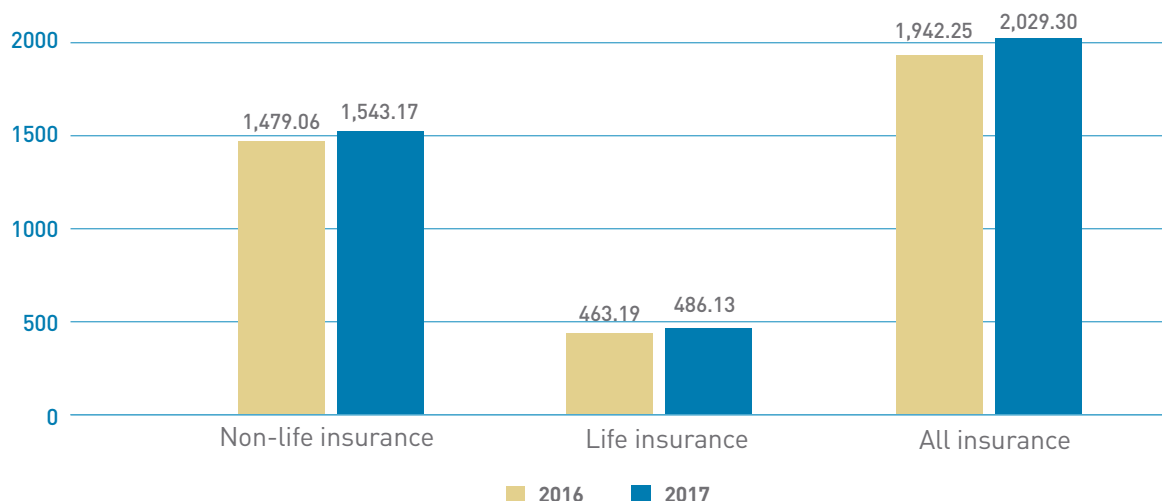
Out of the above volume, EUR 1,543.2 million or 76% of the total premium was disclosed in the non-life insurance group and EUR 486.1 million or 24% in the life insurance group².

Since the Solvency II system applied for the second year in 2017, it is already possible to compare the premiums by insurance type with 2016. It should be mentioned that under Solvency II premiums are assigned with regard to the homogeneous risk groups, which was not the case in the previous Solvency I system. This means that certain premiums previously classified, for instance, in the non-life insurance group may now be classified in the life insurance group. Such are, for example, premiums tied to annuities arising from non-life insurance contracts other than health insurance (i.e. annuities from motor vehicle liability insurance). Another difference is that life insurance premiums are now assigned by type of risk generated by the related insurance contracts. Such is, for example, the group "insurance with profit participation", which comprises premiums for all contracts participating in profit attribution.

Evidently, there was an increase in non-life and also life insurance, with the former growing by 3.1% and the latter by 4.9%.

Figure 1:

Gross insurance premiums written of insurance companies in 2016 and 2017 for the two basic insurance groups (in EUR million)



Source: Annual quantitative reports of insurance companies in accordance with Solvency II (hereinafter: Annual SII Reports).

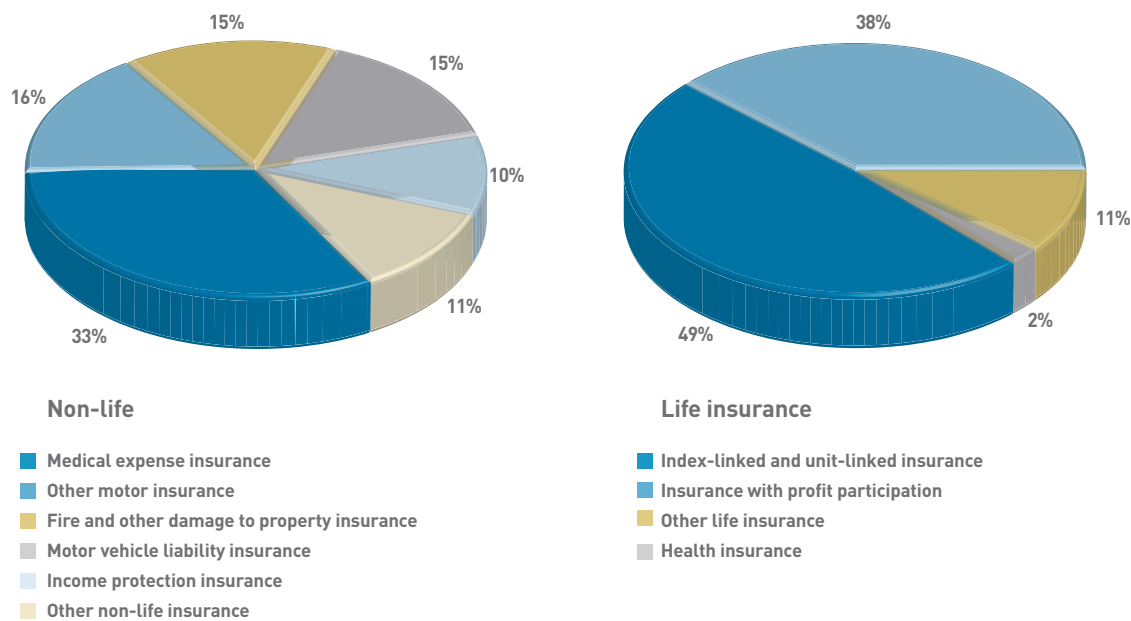
² The groups of non-life and life insurance take account of the lines of business as defined in Annex I to the Delegated Regulation, which the insurance and reinsurance companies reported in annual quantitative reports in accordance with Solvency II. In accordance with the Solvency II principles, the assignment of an insurance or reinsurance obligation to a line of business must reflect the nature of the risks relating to the obligation. The legal form of the obligation is not necessarily determinative of the nature of the risk. As a result, the assignment of premiums to lines of business within Solvency II differs from the assignment of premiums to insurance types before the introduction of Solvency II. Thus, in accordance with Annex I to the Delegated Regulation, the group of non-life insurance includes the lines of business concerning obligations relating to medical expense insurance, income protection insurance, workers' compensation insurance, motor vehicle liability insurance, other motor insurance, marine, aviation and transport insurance, fire and other damage to property insurance, general liability insurance, credit and suretyship insurance, legal expenses insurance, assistance and miscellaneous financial loss. In accordance with Annex I to the Delegated Regulation, the life insurance group includes lines of business concerning obligations relating to health insurance, insurance with profit participation, index-linked and unit-linked insurance, other life insurance, annuities stemming from non-life insurance contracts and relating to health insurance obligations, and annuities stemming from non-life insurance contracts and relating to insurance obligations other than health insurance obligations.

Taking into account the average annual growth rate of consumer prices, measured by the harmonised consumer price index (HICP), increasing by 1.9% in 2016, the gross insurance premium written grew by 2.6% in real terms year-on-year. In the gross domestic product expressed in current prices, disclosed in the amount of EUR 43,278 million, the share of insurance premiums written was 4.7%.

The gross premiums written also include the reinsured and co-insured amounts.

Figure 2:

Shares of the gross insurance premium written by line of business in the non-life and life insurance groups in 2017

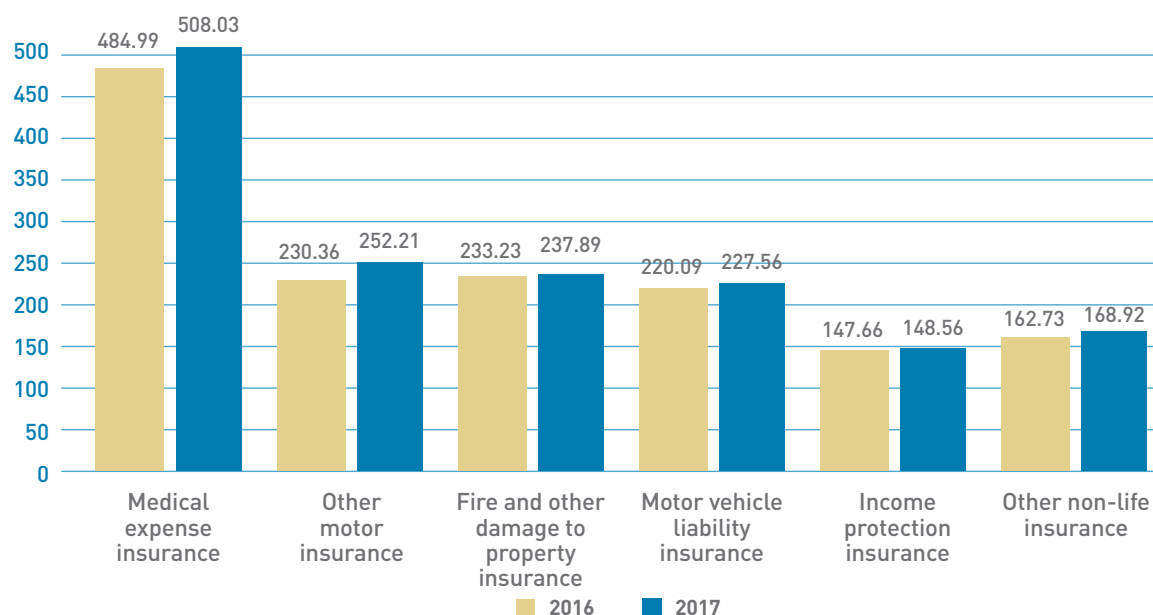


Source: Annual SII Reports.

The shares of the gross insurance premium written by line of business for **non-life insurance** presented in Figure 2 show that the insurance companies achieved as much as 89% of the non-life insurance premium in five lines of business out of twelve defined in Annex I to the Delegated Regulation, namely medical expense insurance, other motor insurance, fire and other damage to property insurance, motor vehicle liability insurance and income protection insurance.

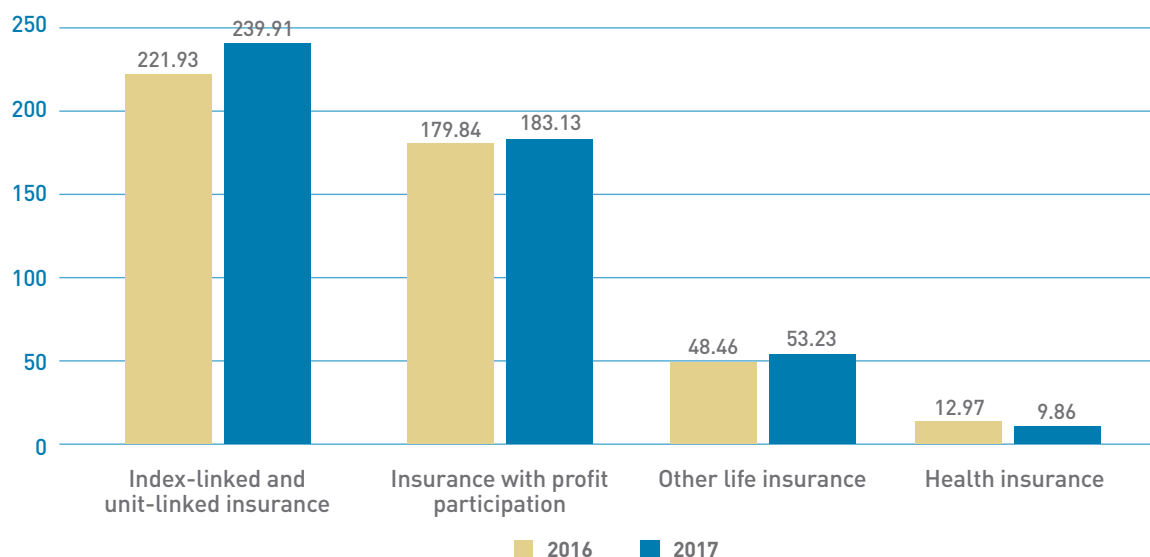
The shares of the gross insurance premium written by line of business for **life insurance** presented in Figure 2 show that the largest share belongs to index-linked and unit-linked insurance, amounting to 49%, which is 11 percentage points more than the share of insurance with profit participation. The share of other life insurance, amounting to 11%, is much lower, while health insurance obligations where the underlying business is pursued on a similar technical basis to that of life insurance account for 2%.

The presentation of the shares of the major lines of business continues with the figure showing the amounts of gross insurance premium written in 2016 and 2017. It shows that the insurance premium written in all major five lines of business was higher in 2017 compared to 2016, with the highest growth recorded by “other motor insurance”, followed by “medical expense insurance”, representing the highest share in non-life insurance.

Figure 3:**Gross insurance premium written by line of business for non-life insurance in 2016 and 2017** (in EUR million)

Source: Annual SII Reports.

Considering the data in Figure 4 below, there are two size categories of life insurance. The first includes index-linked and unit-linked insurance with EUR 239.9 million and insurance with profit participation with EUR 183.1 million. A much lower size category includes the lines of business other life insurance with EUR 53.2 million and health insurance similar to life insurance with EUR 9.9 million. Compared to the values in 2016, in 2017 gross insurance premium written increased in the first three lines of business, the most, by 9.7%, in “other life insurance”³, and only decreased in “health insurance”.

Figure 4:**Gross insurance premium written by line of business for life insurance in 2017** (in EUR million)

Source: Annual SII Reports.

³ Other life insurance includes gross premiums written from obligations under other life insurance contracts, except obligations included in the lines of business “index-linked and unit-linked insurance”, “insurance with profit participation”, “health insurance”, “annuities stemming from non-life insurance contracts and relating to health insurance obligations” and “annuities stemming from non-life insurance contracts and relating to insurance obligations other than health insurance obligations”.

Table 2 shows gross premiums written, gross claims paid and paid claims ratios, i.e. the share of gross claims paid in gross insurance premiums written in non-life and life insurance, by line of business. The comparison of gross premiums written and gross claims paid shows that in 2017 the aggregate paid claims ratio for all insurance classes deteriorated by 2.8 percentage points compared to the previous year owing to non-life insurance, where the paid claims ratio fell by 2.1 percentage points, and life insurance, where the paid claims ratio decreased by 5.0 percentage points.

The claims ratio recorded for non-life insurance deteriorated primarily due to the increase in the claims ratio in the line of business "fire and other damage to property insurance", accounting for 15% as the third largest line of business in the non-life insurance group. A slight increase (0.4%) was also recorded for medical expense insurance as the strongest line of business. On the contrary, quite a few lines of business in the non-life insurance group recorded a fall, i.e. improvement, in the claims ratio, for instance in motor vehicle liability insurance and other motor insurance, and general liability insurance.

The deteriorated claims ratio for life insurance was primarily the result of the deteriorated claims ratio for index-linked and unit-linked insurance as the largest insurance type in the life insurance group, where the claims ratio grew by 4.6 percentage points, and the deteriorated claims ratio for other life insurance, which is a much smaller line of business in terms of the premium volume, but the increase in the ratio was high, amounting to 17.1 percentage points.

Table 2:

Comparison of gross insurance premiums written and gross claims paid in 2016 and 2017 by line of business (in EUR million)

	2016			2017		
	Gross premiums written	Gross claims incurred	Gross claims ratio (in %)	Gross premiums written	Gross claims incurred	Gross claims ratio (in %)
Non-life	1,479.1	943.2	63.8	1,543.2	1,016.3	65.9
Medical expense insurance	485.0	430.2	88.7	508.0	452.5	89.1
Income protection insurance	147.7	51.8	35.1	148.6	52.7	35.4
Workers' compensation insurance	0.0	0.0	0.0	0.0	0.0	0.0
Motor vehicle liability insurance	220.1	126.1	57.3	227.6	120.2	52.8
Other motor insurance	230.4	170.6	74.1	252.2	180.5	71.6
Marine, aviation and transport insurance	18.8	7.1	37.6	18.5	5.3	28.8
Fire and other damage to property insurance	233.2	106.0	45.5	237.9	138.1	58.1
General liability insurance	60.4	17.5	29.0	60.3	10.7	17.7
Credit and suretyship insurance	48.3	13.7	28.3	49.7	32.3	65.1
Legal expenses insurance	1.0	0.0	-0.2	1.1	0.0	1.1
Assistance insurance	27.4	16.0	58.3	32.5	20.2	62.1
Miscellaneous financial loss insurance	6.8	4.2	62.2	6.9	3.8	54.9
Life	463.2	354.7	76.6	486.1	396.6	81.6
Health insurance	13.0	4.4	33.8	9.9	2.1	21.5
Insurance with profit participation	179.8	158.4	88.1	183.1	162.3	88.6
Index-linked and unit-linked insurance	221.9	164.5	74.1	239.9	188.9	78.7
Other life insurance	48.5	21.8	45.0	53.2	34.9	65.6
Annuities stemming from non-life insurance contracts and relating to health insurance obligations	0.0	0.0	0.0	0.0	0.1	0.0
Annuities stemming from non-life insurance contracts and relating to insurance obligations other than health insurance obligations	0.0	5.5	0.0	0.0	8.3	0.0
Total	1,942.2	1,297.9	66.8	2,029.3	1,412.9	69.6

Source: Annual SII Reports.

3.1.2. Structure of the Insurance Market with Respect to Market Shares Held by Insurance Companies

Although the market shares of insurance companies have been changing slowly in recent years, the Slovenian insurance market remains highly concentrated. The largest four insurance companies, namely Zavarovalnica Triglav, Zavarovalnica Sava, Adriatic Slovenica and Vzajemna, controlled 76.9% of the insurance market, which was 1.3% less than in 2016. Compared to 2016, in 2017 a slight decrease in the market share was disclosed by all above insurance companies, except Zavarovalnica Sava, which achieved an increase of 0.1%. (Zavarovalnica Triglav recorded a fall of 0.7 of a percentage point, Adriatic Slovenica 0.5 and Vzajemna 0.2 of a percentage point.)

Among other insurance companies, an increase was recorded by Generali zavarovalnica (0.2 of a percentage point), Modra zavarovalnica (0.5 of a percentage point), NLB Vita (0.2 of a percentage point) and Triglav zdravstvena zavarovalnica (0.5 of a percentage point), while Merkur zavarovalnica incurred a slight decrease (0.1 of a percentage point).

Table 3:

Gross insurance premiums written and market shares of insurance companies in 2017 (in EUR million)

	2017							
	Non-life insurance (without health insurance)	%	Health insurance (similar to non-life insurance and similar to life insurance)	%	Life insurance (without health insurance)	%	Total	%
Adriatic Slovenica	122.8	13.9	128.8	19.3	55.6	11.7	307.2	15.1
CDA 40 zavarovalnica	0.7	0.1	0.0	0.0	0.0	0.0	0.7	0.0
Generali zavarovalnica	63.2	7.1	7.3	1.1	26.0	5.5	96.4	4.8
Grawe zavarovalnica	21.2	2.4	4.0	0.6	17.4	3.6	42.6	2.1
Merkur zavarovalnica	2.2	0.2	6.6	1.0	37.4	7.9	46.2	2.3
Modra zavarovalnica	0.0	0.0	0.0	0.0	29.2	6.1	29.2	1.4
NLB Vita	0.0	0.0	3.3	0.5	67.6	14.2	70.8	3.5
Prva osebna zavarovalnica	0.0	0.0	4.8	0.7	30.1	6.3	34.9	1.7
SID – Prva kreditna zavarovalnica	16.0	1.8	0.0	0.0	0.0	0.0	16.0	0.8
Triglav zdravstvena zavarovalnica	0.0	0.0	130.1	19.5	0.0	0.0	130.1	6.4
Zavarovalnica Sava	257.0	29.0	42.2	6.3	66.6	14.0	365.7	18.0
Zavarovalnica Triglav	403.5	45.5	54.7	8.2	146.5	30.7	604.7	29.8
Vzajemna	0.0	0.0	284.7	42.7	0.0	0.0	284.7	14.0
Total	886.6	100.0	666.4	100.0	476.3	100.0	2,029.3	100.0

Source: Annual SII Reports.

For 2017, it is already possible to compare the market shares by insurance groups, as this was the second year of application of the Solvency II system. Under Solvency II premiums are assigned with regard to the homogeneous risk groups⁴, which was not the case in the previous Solvency I system.

In the segment of **non-life insurance**, without health insurance, in 2017 and 2016 the highest market shares were achieved by Zavarovalnica Triglav, namely 45.5% and 46.3%, respectively. It was followed by Zavarovalnica Sava with 29.0% and 28.2%, and Adriatic Slovenica with 13.9% and 14.3%, respectively.

In the area of health insurance, Solvency II introduced new terminology, namely **health insurance not pursued on a similar technical basis to that of life insurance (similar to non-life insurance)** and **health insurance pursued on a similar technical basis to that of life insurance (similar to life insurance)**. The former include lines of business medical expense insurance, income protection insurance and workers' compensation insurance. Supplementary health insurance belongs to medical expense insurance, while accident insurance belongs to income protection insurance and workers' compensation insurance. Health insurance pursued on a similar technical basis to that of life insurance includes the line of business health

⁴ This means that certain premiums that used to be classified, for instance, in the non-life insurance group may now be classified in the life insurance group, and that life insurance premiums are now assigned by type of risk generated by the related insurance contracts.

insurance. In 2017, Vzajemna was still the leading company in the area of health insurance, with a market share of 42.7%. It was followed by Adriatic Slovenia with a market share of 19.3% and Triglav zdravstvena zavarovalnica with 19.5%.

Like in non-life insurance, the largest market share in **life insurance** also belonged to Zavarovalnica Triglav, with a share of 30.7%. The second place was taken by NLB vita with 14.2%. It was followed by Zavarovalnica Sava with 14.0% and Adriatic Slovenia with 11.7%.

3.2. Reinsurance

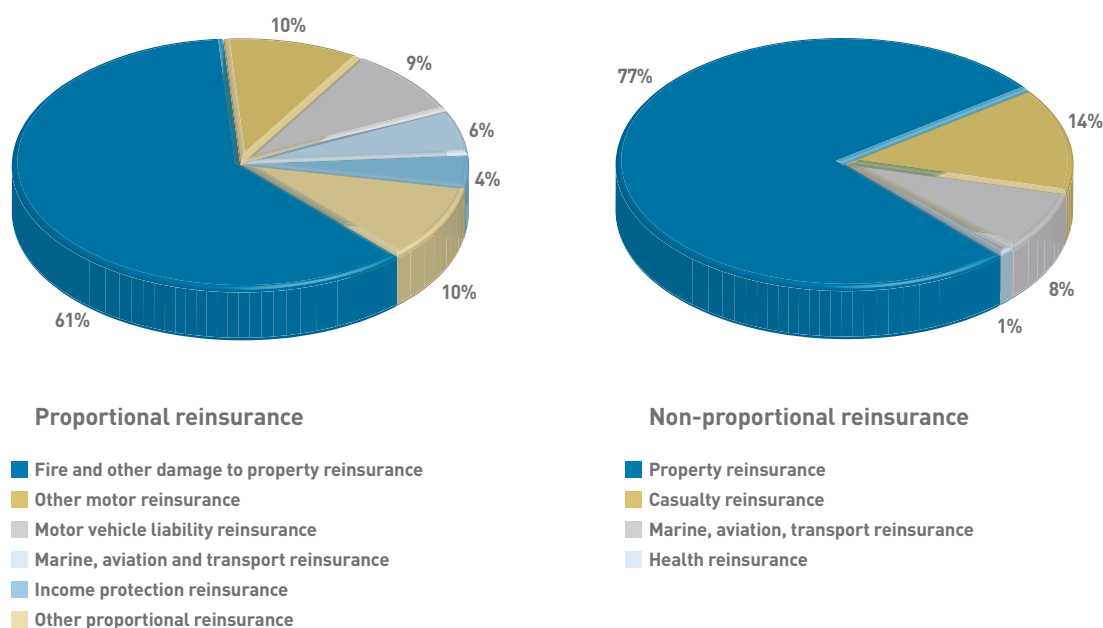
Pursuant to Article 242 of the ZZavar-1, insurance companies must reinsure the part of risks covered that exceeds the retention levels in risk equalisation according to the tables of maximum coverage. Therefore, insurance companies must adopt a programme for the planned reinsurance for each business year, the contents of which are laid down in Article 243 of the ZZavar-1.

In reinsurance business, premiums are now disclosed separately for accepted proportional and non-proportional reinsurance. As regards accepted proportional reinsurance, premiums are divided to the same insurance types as in direct insurance, while with accepted non-proportional reinsurance, premiums are divided to "only" four types: health reinsurance, casualty reinsurance, marine, aviation and transport reinsurance, and property reinsurance.

The shares of gross premium written by line of business in the group of accepted proportional reinsurance and accepted non-proportional reinsurance in 2017 are presented in Figure 5 below.

Figure 5:

Shares of gross premium written by line of business in the group of accepted proportional reinsurance and accepted non-proportional reinsurance in 2017



Source: Annual SII Reports.

As shown, the bulk of proportional reinsurance belongs to fire and other damage to property reinsurance, which is understandable considering the fact that such damage is usually very extensive and relatively massive, so that insurance companies have a large part of the risks from this line of business covered by reinsurance. Similar to direct insurance, i.e. insurance of natural and legal persons with insurance companies, the largest shares refer to gross premiums written in the lines of business other motor (re)insurance and motor vehicle liability (re)insurance. As opposed to direct insurance, where this line of business is not among the top five, marine, aviation and transport reinsurance is classified after the last one in the above group, which can again be ascribed to the fact that such damage is usually very high.

Figure 5, presenting the shares of gross premium written by line of business in the group of accepted non-proportional reinsurance in 2017, shows that far the biggest share belongs to property reinsurance,

which includes premiums arising from non-proportional insurance obligations included in lines of business other motor insurance, fire and other damage to property insurance, credit and suretyship insurance, legal expenses insurance, assistance insurance and miscellaneous financial loss insurance.

For 2017, reinsurance companies only disclosed property reinsurance premiums.

3.3. Overview of Premiums Written and Claims Paid by Insurance and Reinsurance Companies

Table 4 shows gross and net premiums written of insurance companies by line of business. The difference between the two is the amount of reinsurance premiums that insurance companies pay according to the programme for the planned reinsurance for each year, or which they place with reinsurers (cession) for the needs of their own coverage. In non-life insurance, other than health insurance not pursued on a similar technical basis to that of life insurance, the share of reinsurance is between 11% and 45%. The lowest share of reinsurance belongs to the line of business motor vehicle liability insurance, and the highest to legal expenses insurance. The premiums paid by insurance companies for the reinsurance of health insurance not pursued on a similar technical basis to that of life insurance (medical expense insurance and income protection insurance) and life insurance are low, as they only account for 0.3% and 7.0% of gross premium written for the former two lines of business, respectively, and 3.5% for life insurance.

Table 4:

Comparison of gross and net insurance premiums written and claims paid by insurance companies in 2017

(in EUR million)

	2017			
	Gross premiums written	Net premiums written	Gross claims incurred	Net claims incurred
Total non-life insurance	1,543.2	1,354.8	1,016.3	919.8
Medical expense insurance	508.0	506.4	452.5	451.9
Income protection insurance	148.6	138.4	52.7	50.1
Workers' compensation insurance	0.0	0.0	0.0	0.0
Motor vehicle liability insurance	227.6	203.1	120.2	105.8
Other motor insurance	252.2	222.1	180.5	163.2
Marine, aviation and transport insurance	18.5	13.3	5.3	6.0
Fire and other damage to property insurance	237.9	161.1	138.1	103.1
General liability insurance	60.3	46.5	10.7	12.3
Credit and suretyship insurance	49.7	35.4	32.3	12.0
Legal expenses insurance	1.1	0.6	0.0	0.0
Assistance insurance	32.5	23.7	20.2	13.5
Miscellaneous financial loss insurance	6.9	4.1	3.8	1.9
Total life insurance	486.1	468.9	396.6	388.8
Health insurance	9.9	9.2	2.1	1.9
Insurance with profit participation	183.1	179.0	162.3	159.5
Index-linked and unit-linked insurance	239.9	233.1	188.9	185.6
Other life insurance	53.2	47.6	34.9	33.8
Annuities stemming from non-life insurance contracts and relating to health insurance obligations	0.0	0.0	0.1	0.1
Annuities stemming from non-life insurance contracts and relating to insurance obligations other than health insurance obligations	0.0	0.0	8.3	7.8
All insurance in total	2,029.3	1,823.7	1,412.9	1,308.6

Source: Annual SII Reports.

In 2017 the two Slovenian reinsurance companies accounted for a total of EUR 276.9 million of gross reinsurance premiums, which was a growth of 4.5% compared to 2016. All gross reinsurance premiums refer to the group of non-life insurance. Like insurance companies, reinsurance companies must also determine their maximum retention levels.

Table 5:

Comparison of gross and net insurance premiums written and claims paid by reinsurance companies in 2017 by line of business (in EUR million)

	2017			
	Gross premiums written	Net premiums written	Gross claims incurred	Net claims incurred
Accepted proportional reinsurance	210.4	161.3	113.7	99.9
Medical expense reinsurance	3.6	3.4	2.7	2.6
Income protection reinsurance	8.6	7.3	3.6	3.1
Workers' compensation reinsurance	0.0	0.0	0.0	0.0
Motor vehicle liability reinsurance	19.9	19.9	9.7	9.5
Other motor reinsurance	21.3	19.7	14.2	13.3
Marine, aviation and transport reinsurance	12.9	11.2	6.5	4.6
Fire and other damage to property reinsurance	127.7	89.1	72.6	63.5
General liability reinsurance	7.9	6.5	1.9	1.4
Credit and suretyship reinsurance	5.0	2.4	0.7	0.7
Legal expenses reinsurance	0.0	0.0	0.0	0.0
Assistance reinsurance	0.6	0.6	0.4	0.4
Miscellaneous financial loss reinsurance	2.9	1.2	1.4	0.8
Accepted non-proportional reinsurance	66.5	47.3	40.0	36.9
Health reinsurance	0.7	0.7	0.5	0.4
Casualty reinsurance	9.6	4.5	9.8	10.5
Marine, aviation and transport reinsurance	5.1	4.4	-8.6	-9.0
Property reinsurance	51.0	37.7	38.3	35.0
Total	276.9	208.6	153.7	136.8

Source: Annual SII Reports.

3.4. EU Member States Insurance Companies Directly Performing Insurance Operations in Slovenia

At the end of 2017, the number of insurance companies with registered offices in one of the European Union (EU) or European Economic Area (EEA) member states and authorised to directly perform insurance operations in the Republic of Slovenia was 738. Most of them have their registered offices in the United Kingdom (168 insurance companies or 22.8% of all insurance companies from the EEA member states allowed to directly perform insurance operations in Slovenia). They are followed by insurance companies based in Germany (98 insurance companies or 11.5%), Ireland (69 insurance companies or 9.3%), France (51 insurance companies or 6.9%), the Netherlands (45 insurance companies or 6.1%), Austria (40 insurance companies or 5.4%), Spain (39 insurance companies or 5.3%), Belgium (38 insurance companies or 5.1%), Luxembourg (37 insurance companies or 5%), Sweden (27 insurance companies or 3.7%) and Liechtenstein (23 insurance companies or 3.1%). Other individual EU or EEA states with less than 20 insurance companies allowed to directly pursue insurance business in Slovenia are Italy, Denmark, Poland, Hungary, Croatia, Finland, Malta, Lithuania, Gibraltar, the Czech Republic, Bulgaria, Norway, Slovakia, Romania, Estonia, Latvia, Greece, Iceland and Cyprus, while Portugal has no registered insurance companies intending to directly pursue insurance business in Slovenia.

In addition to the insurance companies with registered office in the EU or EEA authorised to directly perform insurance operations in the Republic of Slovenia, insurance companies from the EU Member States also have seven branches operating in Slovenia.⁵

⁵ These branches are: Wiener Städtische Versicherung AG, branch in Slovenia, Porsche Versicherungs AG, branch in Slovenia, Österreichische Hagelversicherung VVaG, branch in Slovenia, and ERGO Versicherung AG, branch in Slovenia, which have their registered offices in Austria, ARAG SE, branch in Slovenia, with its registered office in Germany, Allianz Hungaria Zrt., Ljubljana branch, with its registered office in Hungary, and CROATIA osiguranje d. d., Ljubljana branch, with its registered office in Croatia.

3.5. Comparison of the Amount of the Slovenian Insurance Premium with Other Countries

Compared to other EU Member States, Slovenia is a medium developed insurance market.⁶ As regards the share of the total insurance premium in gross domestic product, in 2016 Slovenia took the 13th place among the EU states, which means that it improved its ranking by one place compared to the previous year, retaining a 5% share of gross insurance premium written in the GDP. With this share of gross premium written in the GDP, it reached 67.6% of the EU average (65.8% in 2015, 64.9% in 2014 and 71.8% in 2013), and is ranked above Austria, Luxembourg, Malta, Cyprus, the Czech Republic, Croatia, Hungary, Slovakia, Bulgaria, Greece and Romania, but lags behind other EU states. As regards the volume of the premium collected per capita, it is ranked 15th among EU 28, which is one place lower than last year. Compared to the countries to which Slovenia is comparable with regard to the above indicators, it still achieves a lower share of life insurance in the total gross premium written, only amounting to 28.3%, which is three percentage points less than last year. All other EU states, except for the Netherlands, Romania and Bulgaria, achieve higher shares, up to one half and more of the total gross premium written on an individual market. In Slovenia, the share of life insurance premium in the total gross insurance premium written grew until 2007 (in 2000 the life insurance premium amounted to USD 84.4 per capita, while in 2007 it amounted to USD 416.5 per capita). In 2011, 2012, 2013, 2014, 2015 and 2016, the life insurance premiums per capita in Slovenia amounted to USD 459, USD 339.5, USD 390, USD 344, USD 303 and USD 307, respectively. On the one hand, the low share of life insurance in the total insurance premium results from the large share of social insurance and insufficient public knowledge of life insurance products offered, and on the other hand, the structural share of life insurance has been affected by the economic crisis in recent years, deteriorating the standard of living and reducing the purchase power.

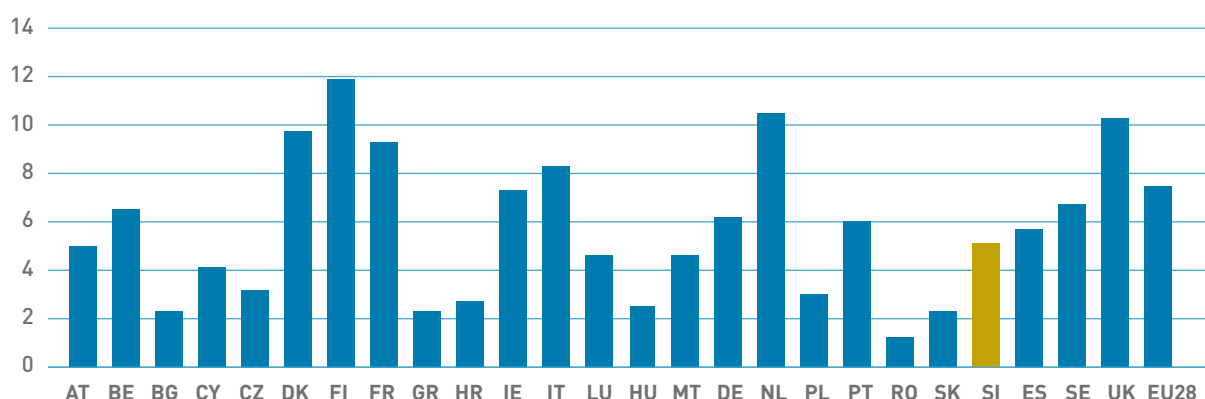
Table 6:
Insurance premium volume by country in 2016 (in EUR million)

Country	Gross premiums written (in USD million)	Share of gross premium written in GDP (%)	Gross premium written per capita (in USD)	Share of gross life insurance premium written in the total gross premium written (%)
Austria (AT)	18,830	4.9	2,177	35.9
Belgium (BE)	33,838	6.4	2,613	50.7
Bulgaria (BG)	1,139	2.2	160	18.0
Cyprus (CY)	805	4.1	917	39.2
Czech Republic (CZ)	6,245	3.1	592	37.7
Denmark (DK)	31,939	9.6	5,159	66.8
Finland (FI)	27,879	11.8	5,061	81.1
France (FR)	237,644	9.2	3,395	64.3
Greece (GR)	4,305	2.2	398	45.8
Croatia (HR)	1,287	2.6	307	33.3
Ireland (IE)	59,295	7.2	4,408	86.4
Italy (IT)	162,383	8.2	2,499	75.4
Liechtenstein (LI)	3,339	-	-	69.3
Luxembourg (LU)	26,212	4.5	4,589	86.0
Hungary (HU)	3,113	2.5	317	49.9
Malta (MT)	4,528	4.5	1,117	32.7
Germany (DE)	215,021	6.1	2,548	44.0
Netherlands (NL)	80,130	10.4	4,717	20.4
Poland (PL)	13,702	2.9	360	34.0
Portugal (PT)	12,151	5.9	1,161	61.3
Romania (RO)	2,192	1.2	111	18.9
Slovakia (SK)	2,106	2.2	388	37.4
Slovenia (SI)	2,251	5.0	1,084	28.3
Spain (ES)	68,599	5.6	1,482	50.2
Sweden (SE)	33,667	6.6	3,410	72.1
United Kingdom (UK)	304,208	10.2	4,064	65.5
EU-28	1,354,218	7.4	2,383	59.7

Source: Sigma 3/2017.

*The table includes all EU Member States except Lithuania, Latvia and Estonia. The figures for EU-28 also include these countries.

⁶ The most recent data available refer to 2016.

Figure 6:**Shares of total insurance premiums in GDP in certain EU Member States in 2016 (in %)**

Source: Sigma 3/2017.

3.6. Income Statements of Insurance and Reinsurance Companies

The analysis of financial statements for 2016 and 2017 includes audited financial statements. The analysis of the financial statements in this chapter has been prepared separately for insurers and reinsurers. The insurance and reinsurance companies prepared the statements according to the International Financial Reporting Standards and Agency's regulations.

3.6.1. Income Statements of Insurance Companies

The income statement of an insurance company shows revenues, expenditure and the operating result for the financial year concerned. The technical account is prepared separately for non-life (including health) and life insurance, and also separately for supplementary health insurance as part of health insurance.

Table 7:**Summary non-technical account of insurance companies for 2016 and 2017 (in EUR million)**

C) NON-TECHNICAL ACCOUNT OF INSURANCE COMPANIES		2016	2017
I.	Profit or loss from non-life insurance operations (A.IX)	84.6	75.0
II.	Profit or loss from life insurance operations (B.XIII)	39.8	39.9
III.	Investment revenue	75.3	65.9
IV.	Allocated investment return transferred from the life insurance technical account (B.XII)	6.3	11.6
V.	Investment expenses	29.9	23.0
VI.	Allocated investment return transferred to the technical account of non-life insurance (A.II)	26.0	20.9
VII.	Other revenue from insurance operations	12.3	12.0
VIII.	Other expenses from insurance operations	11.6	12.9
IX.	Other revenue	7.4	5.6
X.	Other expenses	1.3	3.4
XI.	Profit or loss for the financial year before tax (I + II + III + IV – V – VI + VII – VIII + IX – X)	156.9	150.0
XII.	Income tax	20.5	20.0
XIII.	Deferred taxes	3.2	-4.9
XIV.	Net profit or loss for the financial year (XI – XII + XIII)	139.6	124.9

Source: Audited income statements of insurance companies for 2016 and 2017.

The Decision on annual report and quarterly financial statements of insurance undertakings (Official Gazette of the RS, nos. 1/16 and 85/16; hereinafter: Decision on annual report of insurance undertakings), which the Agency issued based on the new Insurance Act, only prescribes a separate account for supplementary health insurance, and no longer a separate account for health insurance. The items of health insurance as one of the non-life insurance group lines are included in the account for non-life insurance.

For the insurance industry, 2017 was the most expensive year in the history. Due to hurricanes and other natural disasters, insurance companies around the world had to pay a total of around USD 135 billion of damages. This is more than any time before, show the data collected by the German reinsurance company Munich Re from Munich. The main reason for such high number is a series of severe thunderstorms which devastated parts of the Caribbean islands and the US east coast last year⁷. In Slovenia an above-average number of major claims were recorded by reinsurance companies (hurricane in America and major damage to property in Russia) and insurance companies in the non-life segment (major number of hailstorms, frost, floods and storm wind⁸).

In the period observed, the insurance companies made underwriting profits in both business segments. In non-life insurance the profit amounted to EUR 75.0 million, which was EUR 9.6 million or 11.4% less than in 2016, while in life insurance the profit was EUR 39.9 million, which was slightly, EUR 0.1 million, more than in 2016.

In the financial year 2017, the insurance companies achieved a profit before tax of EUR 150 million, which was EUR 6.9 million or 4.4% less than in 2016. Aggregately, the insurance companies disclosed EUR 20 million of corporate income tax in 2017. They disclosed EUR 4.9 million of deferred tax liabilities, reducing the net profit.

As regards net profit, the year 2017 was slightly less successful for insurance companies than 2016. They generated a net profit of EUR 124.9 million, which was EUR 14.7 million or 10.5% less than in 2016. A net loss of EUR 1.41 million was disclosed by two insurance companies at the end of 2017.

Table 8:

Summary statement of comprehensive income of insurance companies for 2016 and 2017 (in EUR million)

D) STATEMENT OF COMPREHENSIVE INCOME OF INSURANCE COMPANIES		2016	2017
I.	Net profit/net loss for the financial year after tax	139.6	124.9
II.	Other comprehensive income after tax	41.7	15.5
III.	Total comprehensive income (I + II)	181.3	140.4

Source: Audited income statements of insurance companies for 2016 and 2017.

In the statement of comprehensive income, insurance companies disclose all the elements of the income statement and those items of revenues and expenses that are not recognised in the profit or loss, but impact the change in equity capital for the accounting period. Year-on-year, in 2016 the total comprehensive income of the insurance companies dropped significantly, which was primarily influenced by the fall in other comprehensive income after tax as well as the decrease in net profit.

Table 9:

Summary technical account – non-life insurance operations of insurance companies for 2016 and 2017 (in EUR million)

A) TECHNICAL ACCOUNT – NON-LIFE INSURANCE OPERATIONS		2016	2017
I.	Net premiums earned	1,239.4	1,289.5
II.	Allocated investment return transferred from the non-technical account of insurance companies	26.0	20.9
III.	Other net revenue from insurance operations	7.9	8.6
IV.	Net claims incurred	867.4	916.6
V.	Change in other net technical provisions (+/-)	1.7	-1.8
VI.	Net expenses for bonuses and discounts	10.8	7.8
VII.	Net operating expenses	290.1	299.9
VIII.	Other net insurance expenses	22.1	17.8
IX.	Profit or loss from non-life insurance operations (I + II + III - IV ± V - VI - VII - VIII)	84.6	75.0

Source: Audited income statements of insurance companies for 2016 and 2017.

⁷ https://svetkapitala.delo.si/aktualno/leto-2017-najdrazje-v-zgodovini-zavarovalnistva-4549?meta_refresh=true
<https://svetkapitala.delo.si/aktualno/dobicek-save-re-zmanjsale-velike-skode-zmanjsale-4066>

⁸ Audited Annual Report of the Triglav Group and Zavarovalnica Triglav, d. d., for the year ended on 31 December 2017.

In 2017, the insurance companies generated EUR 1,289.5 million of net premiums earned in the non-life insurance segment, which was EUR 50.1 million or 4.0% more than in 2016. They disclosed an 11.3% lower profit than in the previous year, primarily resulting from the increase in net claims incurred and to the lower extent from the growth in net operating expenses.

Table 10:

Summary technical account – life insurance operations of insurance companies for 2016 and 2017 (in EUR million)

B) TECHNICAL ACCOUNT – LIFE INSURANCE OPERATIONS		2016	2017
I.	Net premiums earned	468.8	494.0
II.	Investment revenue	118.4	113.5
III.	Net unrealised gains on investments for the benefit of life insurance policyholders who bear the investment risk	103.0	100.5
IV.	Other net revenue from insurance operations	23.3	24.5
V.	Net claims incurred	341.8	386.7
VI.	Change in other net technical provisions (+/-)	-135.8	-123.3
VII.	Net expenses for bonuses and discounts	0.1	0.0
VIII.	Net operating expenses	112.3	111.3
IX.	Investment expenses	23.3	18.0
X.	Net unrealised losses on investments for the benefit of life insurance policyholders who bear the investment risk	39.7	28.8
XI.	Other net insurance expenses	14.4	12.9
XII.	Allocated investment return transferred to the non-technical account of insurance companies	6.3	11.6
XIII.	Profit or loss from life insurance operations (I+ II + III + IV - V ± VI - VII - VIII - IX - X - XI - XII)	39.8	39.9

Source: Audited income statements of insurance companies for 2016 and 2017.

As regards life insurance, the insurance companies disclosed a profit for 2016. In 2017 net premiums earned increased significantly compared to 2016 (by EUR 25.2 million or 5.4%), with net claims incurred growing simultaneously (by EUR 44.9 million), which – together with the decrease in change in other net technical provisions – led to a similar result as in 2016.

Follows the presentation of the result for supplementary health insurance operations. Supplementary (co-payment) health insurance means voluntary health insurance covering the difference, or part thereof, between the total costs of health services and the costs covered by compulsory health insurance subject to the act regulating compulsory health insurance. The Decision on annual report imposes on insurance companies performing the above insurance operations to separately compile the income statement and balance sheet for supplementary health insurance. For this part of operations, insurance companies must prepare a separate income statement, which forms part of the income statement for non-life operations.

Table 11:

Summary technical account – supplementary health insurance operations of insurance companies for 2016 and 2017 (in EUR million)

A) TECHNICAL ACCOUNT – SUPPLEMENTARY HEALTH INSURANCE OPERATIONS		2016	2017
I.	Net premiums earned	476.8	496.2
II.	Allocated investment return transferred from the non-technical account of insurance companies (item C.VI)	1.3	1.4
III.	Other net revenue from insurance operations	0.1	0.2
IV.	Net claims incurred	435.1	449.1
V.	Change in other net technical provisions (+/-)	0.5	-0.1
VI.	Net expenses for bonuses and discounts	0.0	0.0
VII.	Net operating expenses	47.9	48.6
VIII.	Other net insurance expenses	1.4	1.4
IX.	Profit or loss from supplementary health insurance operations (I + II + III - IV + V - VI - VII - VIII)	-5.7	-1.4

Source: Audited income statements of insurance companies for 2016 and 2017.

At the end of 2017, the insurance companies disclosed a higher result from supplementary health insurance operations than in the previous year. At the level of the sector as a whole, the result was negative, but it improved by EUR 4.3 million compared to 2016. A loss of EUR 1.4 million was recorded. In this business segment, the growth in net premiums earned by the insurance companies in 2017 (by EUR 19.4 million) was higher than the growth in net claims incurred (by EUR 14.1 million).

3.6.2. Income Statements of Reinsurance Companies

In 2017 the two reinsurance companies recorded a low increase in net premiums earned compared to 2016, amounting to EUR 1.2 million or 0.6%, and a simultaneous fall in net claims incurred by EUR 3.1 million or 2.4%. The simultaneous decrease in investment return transferred from the non-technical account of reinsurance companies by EUR 7.8 million resulted in the underwriting result of the reinsurers being lower than in 2016, amounting to EUR 18.5 million. The net profit made by the two reinsurers in 2017 is almost the same as that made in 2016.

Owing to the negative other comprehensive income after tax, arising from valuation losses on available-for-sale financial assets, the total comprehensive income for 2017 was lower than in 2016.

Table 12:

Summary technical account, non-technical account and statement of comprehensive income of reinsurance companies for 2016 and 2017 (in EUR million)

A) TECHNICAL ACCOUNT		2016	2017
I.	Net premiums earned	203.1	204.3
II.	Allocated investment return transferred from the non-technical account of reinsurance companies	10.9	3.1
IV.	Net claims incurred	128.5	125.4
V.	Change in other net technical provisions (+/-)	-0.2	-0.1
VI.	Net expenses for bonuses and discounts	0.3	0.0
VII.	Net operating expenses	64.6	63.1
VIII.	Other net insurance expenses	0.4	0.3
IX.	Profit or loss from non-life insurance operations (I + II - IV + V - VI - VII - VIII)	20.0	18.5
C) NON-TECHNICAL ACCOUNT OF REINSURANCE COMPANIES			
I.	Profit or loss from non-life insurance operations (A.IX)	20.0	18.5
III.	Investment revenue	47.4	43.0
V.	Investment expenses	13.8	13.9
VI.	Allocated investment return transferred to the technical account of non-life insurance (A.II)	10.9	3.1
VII.	Other revenue from insurance operations	6.3	4.2
VIII.	Other expenses from insurance operations	5.8	5.7
IX.	Other revenue	0.0	0.1
X.	Other expenses	0.4	0.5
XI.	Profit or loss for the accounting period before tax (I + III - V - VI + VII - VIII + IX - X)	42.8	42.6
XII.	Income tax	2.8	3.1
XIII.	Deferred taxes	-0.6	-0.2
XIV.	NET PROFIT OR LOSS FOR THE ACCOUNTING PERIOD (XI - XII + XIII)	39.4	39.3
D) STATEMENT OF COMPREHENSIVE INCOME OF REINSURANCE COMPANIES			
I.	Net profit/net loss for the financial year after tax	39.4	39.3
II.	Other comprehensive income after tax	0.8	-1.1
III.	Total comprehensive income (I + II)	40.1	38.2

Source: Audited income statements of reinsurance companies for 2016 and 2017.

3.7. Investments of Insurance and Reinsurance Companies

The investment policy and the value of financial assets of Slovenian insurance and reinsurance companies are also significantly influenced by the economic and financial trends in the Slovenian, euro area and wider global economies. Therefore, the introduction to this chapter also briefly describes these trends.

In 2017 the economy in the euro area grew by 2.5%, which was the strongest expansion for a decade. Robust growth ensured that the recovery in the labour market continued apace. Employment rose by 1.6%. Unemployment fell to its lowest level since January 2009. However, the improvement observed on the labour market has not yet translated into a more dynamic wage growth. Average headline inflation in the euro area, as measured by the Harmonised Index of Consumer Prices (HICP), increased to 1.5% in 2017 from 0.2% the year before. This increase largely reflected higher contributions of energy prices, and to a lesser extent, food prices.

In 2017 the euro area financial markets were largely driven by the positive macroeconomic outlook as well as continued monetary policy accommodation provided by the ECB. As a result, money market rates and longer-term bond yields remained at very low levels. Furthermore, equity prices of both banks and non-financial corporations (NFCs) increased significantly as the improved macroeconomic outlook translated into higher earnings expectations and greater risk appetite. Money growth was robust, while the gradual recovery in credit growth continued. In 2017 the exchange rate of the euro appreciated in nominal effective terms. In bilateral terms, the euro appreciated vis-à-vis most other major currencies. The appreciation of the euro was particularly pronounced against the US dollar. The euro also appreciated significantly against the Japanese yen and – albeit to a lesser extent – the pound sterling.

Euro area government bond yields were broadly stable in 2017, albeit higher on average than in 2016, reflecting the net impact of the gradual strengthening of both the domestic and global macroeconomic outlook, a related pricing out of the risk of deflation, and the continued monetary policy accommodation by the ECB. The average yield of 10-year GDP-weighted euro area government bonds amounted to 1.0% on 29 December 2017, which was the same as the average level in December 2016. The spread of euro area countries' ten-year government bond yields against the German ten-year Bund yield declined, particularly for Portugal and Greece in the context of the improvement in their credit ratings in the course of 2017.

In 2017 the equity prices in the euro area increased strongly owing to the improvement in the domestic and global economic growth and low interest rates. Thus, a broad index for the equity prices of non-financial companies rose by 12%, while an index of bank equity prices increased by 14%. Equity prices of non-financial companies in the United States rose slightly faster than those in the euro area owing to the expected positive impact on earnings of a planned cut in corporate taxes. Nevertheless, in both the United States and the euro area, the equity risk premium, which measures the excess return required by investors for holding equity rather than long-term bonds, remained significantly higher than before the onset of the financial crisis in 2008⁹.

The optimism on foreign stock markets was also reflected on the domestic stock exchange. The stock index SBI TOP gained 11% over the first ten months of last year. In that period, the market capitalisation of shares on the Ljubljana Stock Exchange grew by 4%, to EUR 5.2 billion, reflecting the positive mood on stock markets. As in recent years, there were no new issues of shares on the Ljubljana Stock Exchange during the first ten months of last year, while shares continued to be delisted. In the first ten months, the average monthly volume of trading in shares increased by 18.1% year-on-year, to EUR 32 million. The significant increase in volume and restrained growth in market capitalisation had an impact on the turnover ratio in 2017. Concentration remained unchanged, as shares in five issuers accounted for 80.4% of total volume, although there was a sharp increase in the proportion of total volume accounted for by the most heavily traded share on the stock exchange, which stood at 42%. The proportion of the market capitalisation of shares on the Ljubljana Stock Exchange accounted for by non-residents declined further to reach 22.2% in October.

The domestic market in debt securities saw continued growth in issuance of government bonds in particular. The market capitalisation of bonds increased by 15.6% over the first ten months of the year to EUR 24.4 billion. The increase was primarily attributable to government activity, which increased its existing bond issues and issued a new 10-year bond for the purpose of buying back and replacing US dollar bonds. The rise in market capitalisation did not have any impact on the volume of trading in bonds, as the majority of trading was on the OTC market. In the first ten months, the average monthly volume of trading in bonds on

⁹ European Central Bank: Annual Report 2017.

the Ljubljana Stock Exchange fell by 25.4% year-on-year, to EUR 10 million. Five bond issues accounted for the majority of the volume of trading in bonds (81%)¹⁰.

In 2017 the cyclical upswing of the global economy continued. The recovery also broadened across countries and components. While consumption continued to be a key driver of global growth, investment demand rebounded, particularly in advanced economies. The recovery in global trade coincided with strengthening business sentiment and a rotation of demand towards more import-intensive regions, in particular Europe¹¹.

Table 13 presents the changes in certain European stock exchange and other indexes and interest rates in the period from 31 December 2016 to 31 December 2017.

Table 13:
Changes in certain European stock exchange and other indexes and interest rates in the period from 31 December 2016 to 31 December 2017

Index	Change in value (in % / percentage points)
Bloomberg Eurozone Sovereign Bond Index	0.96 %
Eurostoxx 50 Index	6.49 %
DAX Index	12.51 %
SBITOP Index	12.39 %
Yield of 10-year German government bonds	0.219 p.p.
3-month Euribor	-0.011 p.p.

Source: Bloomberg.

Table 13 presents the movement of certain European stock exchange indexes, the Bloomberg Eurozone Sovereign Bond Index, the yield of 10-year German government bonds and the 3-months Euribor. The presented parameters were selected because, among other, they also affect the investment policy of the Slovenian (re)insurance companies. The changes in the Bloomberg Eurozone Sovereign Bond Index and the interest rates on 10-year German government bonds show that the yields on government securities increased, while simultaneously the yield on bond portfolios in 2017 was relatively low compared to 2016, reflecting the effect of a low interest rate environment. Owing to the low yield on government bonds, which account for a significant portion of investment in the portfolios of insurance companies, the latter still remain exposed to the effects of the period of persisting low interest rates, which affects their profitability on the long run. The changes in the close prices of individual presented indexes also show that the European stock markets grew over the period observed, which includes the values of shares on the Ljubljana Stock Exchange, which are also represented in the investment portfolios of Slovenian insurance companies. The index of the most important companies SBI TOP ended the year at 806.52 points, which was 12.39% higher than at the end of 2016. Although there is a traditional calm period on the Stock Exchange in the summer months, SBI TOP detected a positive trend throughout the period, reaching the 2017 peak on 24 August – 828.68 points.

Passing to the presentation of the investments of the Slovenian (re)insurance companies, it is important to explain in the introduction that Solvency II no longer prescribes the types of allowed investments and the ceilings of individual types of investments. However, it requests that insurance and reinsurance companies only invest assets in assets and financial instruments where the risks can be properly identified, measured, monitored, managed, controlled and reported, and appropriately taken into account in the assessment of solvency needs. Moreover, insurance and reinsurance companies must invest all assets in such a manner as to ensure the security, quality, liquidity and profitability of the portfolio as a whole.

As at 31 December 2017, the investments of insurance companies amounted to EUR 6,747.7 million, which was EUR 143.6 million or 2.2% more than as at 31 December 2016. The investments of reinsurance companies amounted to EUR 814.5 million and were EUR 78.4 million or 10.7% higher than as at the last day of 2016.

Table 14 presents the total investments of insurance companies and their division to investments of assets arising from contracts where the benefits are index-linked or unit-linked and to investments of assets arising from contracts where benefits are not index-linked or unit-linked.

¹⁰ Bank of Slovenia: Economic and Financial Developments, January 2018.

¹¹ European Central Bank: Annual Report 2017.

Table 14:**Investments of insurance companies by type of contract** (in EUR million)

Type of assets	Insurance companies	Reinsurance companies
Assets under contracts where benefits are not index-linked or unit-linked	5,149.2	814.4
Assets under contracts where benefits are index-linked or unit-linked	1,598.5	0.0

Source: Annual SII Reports.

Follows Table 15, presenting investments by type of assets arising from contracts where benefits are not index-linked or unit-linked. When benefits of contracts are not linked to index or unit, the assets covering the liabilities of the insurance company arising from such contracts constitute market risk for the insurance company. And market risk leads to capital requirement for market risks. On the other hand, investments of assets covering index-linked or unit-linked benefits do not influence the capital requirement, as the market risk is fully transferred to the policyholders. Therefore, the table below and the figures following only present investments of assets arising from contracts under which the benefits are not linked to index or unit.

Table 15:**Structure of assets under contracts under which the benefits are not linked to index or unit, by type of assets** (in EUR million)

Type of investment	Insurance companies	Reinsurance companies
Government debt securities	1,996.3	199.5
Securities of the Republic of Slovenia	787.1	39.1
Securities of other EU Member States	1,125.8	108.3
Securities of other countries	83.3	52.1
Other debt securities	1,714.9	193.2
Equity securities	906.1	382.7
Bank deposits	185.9	22.4
Real estate	241.7	12.0
Loans	80.7	4.6
Other	23.6	0.0
Total investments	5,149.2	814.4

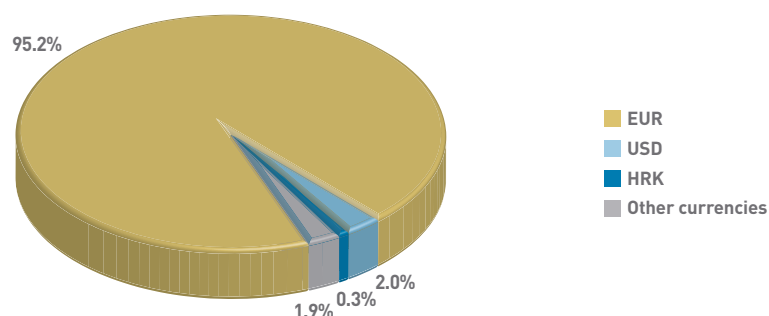
Source: Annual SII Reports.

It arises from Table 15 that at the end of 2017 investments of insurance companies in government securities amounted to 38.8%. This type of investment thus increased and, like in the previous year, represented the largest share. The portion of investments in other debt securities decreased somewhat compared to the end of 2016, by 1.3 percentage points, amounting to 33.3%. The share of equity securities grew by 0.5%, amounting to 17.6% of the total investments arising from contracts where benefits are not index-linked or unit-linked.

As opposed to insurance companies, at the end of 2017 the largest portion of investments of reinsurance companies (47%) belonged to investments in equity securities, which were 4.2 percentage points higher than as at the last day of 2016. The share of government debt securities also increased somewhat, by 1.5 percentage points, compared to the previous year, while the share of other debt securities fell again, amounting to 23.7% at the end of 2017, which was 4.9 percentage points less than at the end of 2016.

Figure 7:

Currency structure of investments of insurance and reinsurance companies under contracts where benefits are not index-linked or unit-linked

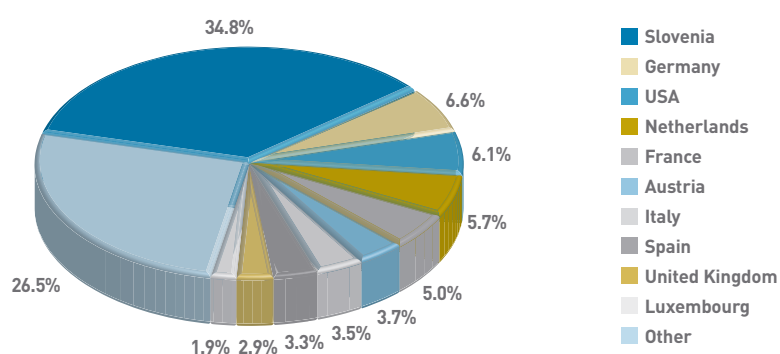


Source: Annual SII Reports.

Considering the currency of investments, investments in euros, with 95.8%, accounted for an almost equal share as in 2016 (95.7%). The share of investments in US dollars, which amounted to 9.9% in 2015, dropped to 2.2% in 2016 and further down to 2% in 2017. Investments in Croatian kunas, amounting to 20 million, accounted to 0.3% of investments of assets arising from contracts under which the benefits are not linked to index or unit. Investments in individual other currencies are much lower and only amount to 1.9% in total. Among them, it is worth to mention investments in Macedonian denar, South Korean won, Russian rouble, Serbian dinar and Indian rupee which amount to 8 to 9 million, and pounds which amount to almost 7 million. The investments in these currencies primarily result from the cross border operations of the two reinsurance companies and the alignment of the currency structure of their assets and liabilities.

Figure 8:

Structure of investments of insurance and reinsurance companies with regard to the country of the issuer under contracts where benefits are not index-linked or unit-linked

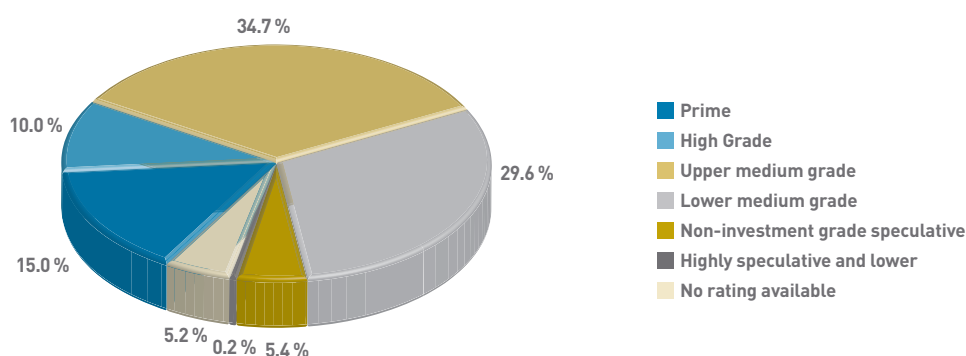


Source: Annual SII Reports.

With regard to the countries issuing securities in which insurance and reinsurance companies invested, in 2017 the largest portion was invested in Slovenia. Five percent of assets or more were also invested in Germany, USA, the Netherlands and France.

Figure 9:

Structure of investments of insurance and reinsurance companies with regard to credit rating under contracts where benefits are not index-linked or unit-linked.



Source: Annual SII Reports.

With regard to credit rating of government debt and other debt securities, insurance and reinsurance companies have the largest portion of investments in the class with high medium grade (from A+ to A-). They are followed by investments with lower medium grade (from BBB+ to BBB-). The third by size are top grade investments (AAA), accounting for 15% or EUR 615.24 million, closely followed by investments with a high grade (from AA+ to AA-), accounting for 10% or EUR 410.9 million. The shares of investments with a non-investment grade (from BB+ to BB-) and without a grade are low. There is a very low share of investments with a highly risky or low grade (CCC and less), amounting to 0.2% or EUR 8.2 million.

As at 31 December 2017 the investments of insurance companies in structured securities amounted to EUR 133.8 million, which was a 20% fall against the end of 2016, when they amounted to EUR 167.1 million. The decrease in the investments of insurance companies in structured securities primarily results from the reduction in their number compared to the previous year, and their selling or maturity.

Most investments in structured securities compose portfolios of insurance products with investment risk (85.31% of all such investments). In 2017 the share of insurance companies' own resources invested in structured securities in the total value of structured securities of the insurance companies only amounted to 1.71% (3.1% at the end of 2016) or EUR 2.3 million (EUR 5.2 million at the end of 2016).

The reinsurance companies disclosed no investments in structured securities as at 31 December 2017 and 31 December 2016.

3.8. Technical provisions

In the Solvency II system, applicable in the European Union since 1 January 2016, the value of technical provisions can be calculated in two ways: as the sum of the best assessment and the risk margin, or as a whole. The Slovenian insurance companies mostly use the first method; therefore, the figures below present this division.

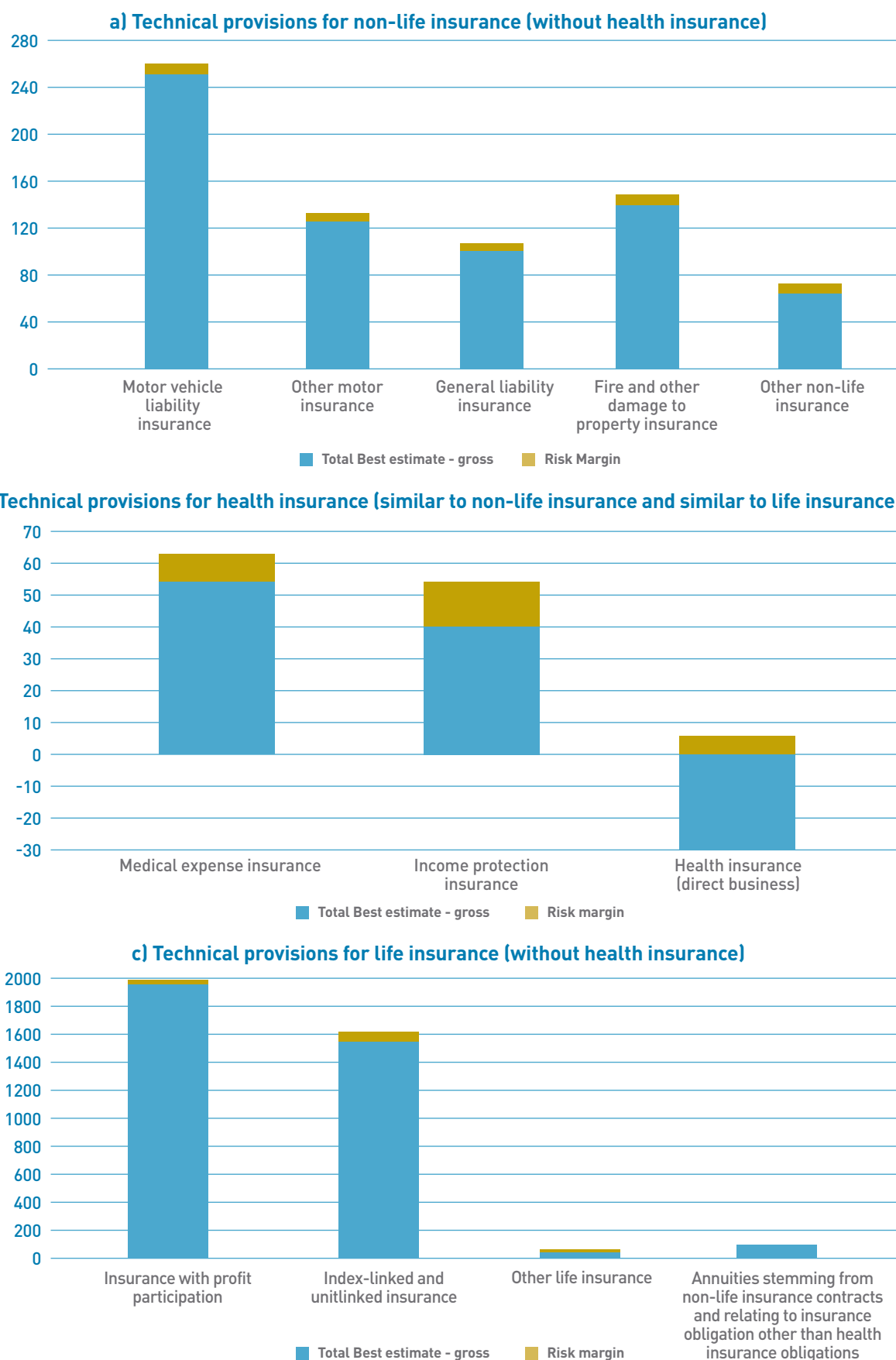
The best estimate represents the weighted average of the future cash flows and takes into account the time value of money (the present value of future cash flows). The present value of expected future cash flows is calculated by using the appropriate risk-free interest rate curve. The risk margin is such as to ensure, together with the best estimate, that the value of the technical provisions is equivalent to the amount that other insurance companies would request in order to take over and meet the obligations to policyholders, the persons insured and other beneficiaries under insurance contracts. The risk margin is calculated by determining the cost of providing an amount of eligible own funds in the amount of the solvency capital requirement necessary to support the insurance obligations over the lifetime thereof, i.e. until their expiry. The cost-of-capital rate is the additional rate above the relevant risk-free interest rate that the insurance company would take into account to ensure eligible own funds in the above amount.

As at 31 December 2017, the insurance companies set aside gross technical provisions in the amount of EUR 4,573 million. The figures below present the value of technical provisions by line of business, as technical provisions are divided into insurance classes according to the same principles as premiums; they are calculated at the level of homogeneous risk types¹². Figure 10 presents the technical provisions for non-life insurance (without health insurance), technical provisions for health insurance (similar to non-life and similar to life insurance) and technical provisions for life insurance (without health insurance). The comparison of their values shows that the highest values are achieved by the technical provisions in the lines of business "insurance with profit participation" and "index-linked and unit-linked insurance". The reason is that these two lines of business have a long-term character, while the lines of business of non-life and health insurance are of short-term nature.

¹² When calculating technical provisions, insurance and reinsurance companies segment the obligations to policyholders, the persons insured and other beneficiaries under insurance contracts into homogeneous groups of risks, or at least by line of business, as defined by the ZZavar-1. As a result, the assignment of technical provisions to lines of business within Solvency II differs from the assignment of technical provisions to insurance types before the introduction of Solvency II.

Figure 10:

Gross technical provisions of insurance companies (best estimate plus risk margin) by line of business as at 31 December 2017 (in EUR million)

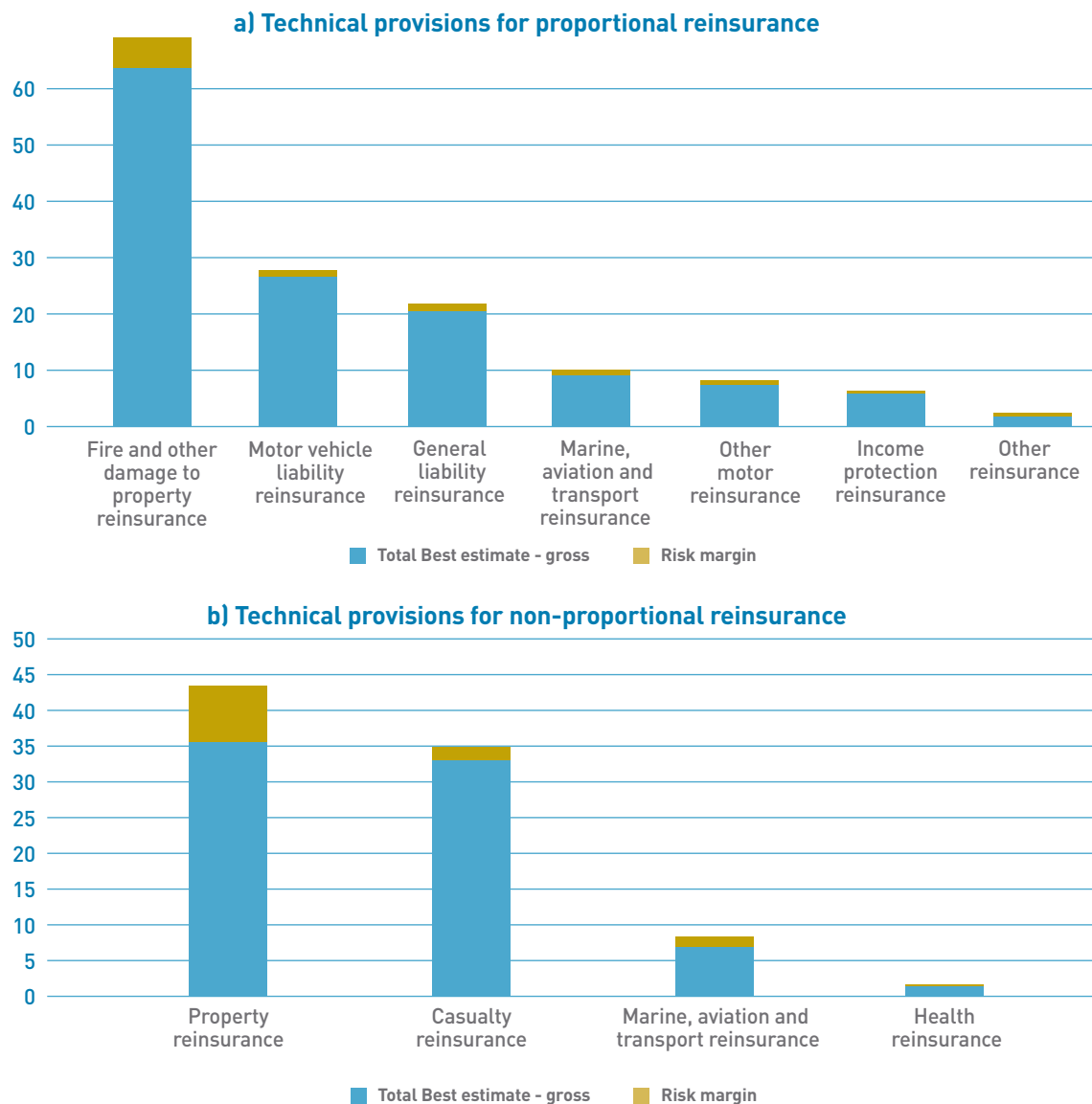


Source: Annual SII Reports.

The next two figures show technical provisions of reinsurance companies, presented by the same lines of business as premiums.

Figure 11:

Gross technical provisions of reinsurance companies (best estimate plus risk margin) by line of business as at 31 December 2017 (in EUR million)



Source: Annual SII Reports.

3.9. Balance Sheets of Insurance and Reinsurance Companies as at 31 December 2017

Compared to Solvency I, Solvency II, applicable for the second year in 2017, brought considerable changes in the valuation of accounting and financial categories of insurance and reinsurance companies, which also led to the obligation to prepare two balance sheets, namely one in accordance with the International Financial Reporting Standards (hereinafter: IFRS) and one in accordance with the Solvency II regulations. Valuation according to Solvency II is strictly valuation according to the market (fair) value (except the valuation of related companies¹³), while in valuation according to the IFRS the legal person may choose between different values (acquisition cost, market value, amortised cost).

Below, we present the balance sheets of insurance and reinsurance companies with items valued according to the IFRS and items valued according to Solvency II as at 31 December 2017.

Table 16:

Balance sheet items of insurance and reinsurance companies valued according to the IFRS as at 31 December 2017 (in EUR million)

	Insurance companies	Reinsurance companies
The total amount of assets of insurance and reinsurance companies valued in accordance with the IFRS	7,116.5	886.5
Intangible assets	42.5	0.9
Deferred tax assets	9.1	1.6
Pension benefit surplus	0.0	0.0
Property, plant and equipment held for own use	143.5	2.6
Investments (other than assets held for unit-linked and index-linked contracts)	4,445.9	610.6
Assets held for unit-linked and index-linked contracts	1,700.6	0.0
Loans and mortgages (except loans on policies)	73.2	4.6
Loans on policies	8.9	0.0
Reinsurance recoverables	287.1	75.8
Deposits to cedants	0.0	11.5
Insurance and intermediaries receivables	164.5	85.2
Reinsurance receivables	35.2	52.1
Receivables (trade, not insurance)	29.6	0.2
Own shares	0.0	24.9
Amounts due in respect of own fund items or initial fund called up but not yet paid in	0.0	0.0
Cash and cash equivalents	107.5	7.8
Any other assets, not elsewhere shown	20.0	0.9
The total amount of liabilities of insurance and reinsurance companies valued in accordance with the IFRS	5,670.5	487.9
Technical provisions	5,244.3	396.1
Other liabilities, excluding subordinated liabilities which are not included in the own funds	404.1	91.8
Subordinated liabilities which are not included in the own funds	22.1	0.0
Excess of assets over liabilities	1,446.0	398.6

Source: Annual SII Reports.

¹³ The valuation of related companies is laid down in Article 13 of Commission Delegated Regulation (EU) 2015/35 of 10 October 2014 supplementing Directive 2009/138/EC of the European Parliament and of the Council on the taking-up and pursuit of the business of Insurance and Reinsurance (Solvency II) (hereinafter: the Commission Delegated Regulation (EU) 2015/35).

Table 17:

Balance sheet of insurance and reinsurance companies according to Solvency II as at 31 December 2017 (in EUR million)

	Insurance companies	Reinsurance companies
The total amount of assets of the insurance and reinsurance companies valued in accordance with Article 75 of Directive 2009/138/EC	7,104.6	910.4
Intangible assets	0.0	0.0
Deferred tax assets	45.7	14.6
Pension benefit surplus	0.0	0.0
Property, plant and equipment held for own use	143.1	3.5
Investments (other than assets held for unit-linked and index-linked contracts)	4,817.6	759.9
Assets held for unit-linked and index-linked contracts	1,600.2	0.0
Loans and mortgages (except loans on policies)	71.8	4.6
Loans on policies	8.9	0.0
Reinsurance recoverables	169.2	54.0
Deposits to cedants	0.0	11.5
Insurance and intermediaries receivables	66.9	19.6
Reinsurance receivables	32.1	7.3
Receivables (trade, not insurance)	29.7	0.2
Own shares	0.0	27.2
Amounts due in respect of own fund items or initial fund called up but not yet paid in	0.0	0.0
Cash and cash equivalents	109.8	7.8
Any other assets, not elsewhere shown	9.7	0.1
The total amount of liabilities of the insurance and reinsurance companies valued in accordance with Articles 75 to 86 of Directive 2009/138/EC	5,056.1	310.9
Technical provisions	4,573.0	232.1
Other liabilities, excluding subordinated liabilities which are not included in the own funds	482.7	78.8
Subordinated liabilities which are not included in the own funds	0.4	0.0
Excess of assets over liabilities	2,048.5	599.4

Source: Annual SII Reports.

The comparison of assets and liabilities items valued according to the IFRS with the items valued for the needs of capital adequacy, i.e. according to Solvency II, shows that the largest difference is in the value of technical provisions. According to Solvency II, it is requested that the cash flows of technical provisions be discounted at market interest rates, while according to the IFRS the majority of provisions, except mathematical provisions, are not discounted. Thus, the technical provisions of insurance companies valued according to the IFRS were higher, amounting to EUR 5,244.3 million as at 31 December 2017, which was 14.7% or EUR 671.3 million more than as at 31 December 2017 in the Solvency II system. With reinsurance companies, the difference is even higher. As at 31 December 2017, the technical provisions set aside according to the IFRS amounted to EUR 396.1 million and were 70.7% higher than the technical provisions according to Solvency II as at 31 December 2017. The reason for this is that the reinsurance companies did not have technical provisions for life insurance, which already had to be discounted according to the IFRS.

The change in the valuation of assets is lower. There are less changes in the valuation of assets as they already used to be valued at market values according to the IFRS to a large extent. Thus, the values of assets of insurance and reinsurance companies according to the IFRS as at 31 December 2017 only differ from the values of assets according to Solvency II by 0.2% (higher) and 2.6% (lower), respectively. More visible differences appear if an insurance or reinsurance company has investments in related companies, which are covered by the above-mentioned rules of the Commission Delegated Regulation (EU) 2015/35, according to which the market value of the related company represents excess assets over liabilities. In addition, there are also significant differences in insurance and intermediaries receivables, since valuation according to Solvency II does not take into account the part of receivables that has not yet fallen due, while according to the IFRS all receivables accounted for are taken into account.

3.10. Performance Indicators

Table 18 presents several major performance indicators.

Table 18:
Selected performance indicators for insurance and reinsurance industry

Indicator	Insurance companies		Reinsurance companies	
	2016	2017	2016	2017
Net claims incurred in net premiums earned – NON-LIFE INSURANCE	70.0 %	71.1 %	63.3 %	61.4 %
Net claims incurred in net premiums earned – LIFE INSURANCE	72.9 %	78.3 %	–	–
Net operating expenses in net premiums earned – NON-LIFE INSURANCE	23.4 %	23.3 %	24.4 %	22.8 %
Net operating expenses in net premiums earned – LIFE INSURANCE	24.0 %	22.5 %	0.0 %	0.0 %
Investment ratio or share of all technical provisions covered by assets	113.7 %	110.5 %	101.5 %	102.0 %
Equity financing rate	20.4 %	20.1 %	42.2 %	43.4 %
Net return on equity	10.1 %	8.7 %	11.4 %	10.8 %
Share of net insurance premium in gross premium written – NON-LIFE INSURANCE	87.0 %	86.1 %	75.7 %	75.6 %
Share of net insurance premium in gross premium written – LIFE INSURANCE	96.6 %	96.6 %	–44.2 %	–28.9 %

Source: Annual statistical forms, audited balance sheets of insurance and reinsurance companies as at 31 December 2016 and 31 December 2017, and audited income statements of insurance and reinsurance companies for 2016 and 2017.

The insurance companies' ratio of net claims incurred against net premiums earned in the segments of non-life and life insurance deteriorated in 2017 compared to 2016 by 1.1 percentage points and 5.4 percentage points, respectively. These results were due to the fact that in the non-life insurance group and the life insurance group net claims incurred increased more than net premiums earned. As regards reinsurance companies, this ratio improved owing to the growth in net premiums earned and also fell in net claims incurred.

The insurance companies' ratio of net operating expenses in net premiums earned improved both in the non-life insurance group and the life insurance group. As regards the former, this resulted from the higher increase in net premiums earned than in operating expenses, while as regard the latter, this resulted from the fall in operating expenses and growth in net premiums earned. The two reinsurance companies also recorded a better result in the segment of non-life insurance in 2017, with the reason being lower operating expenses and higher insurance premiums.

It is shown below that the coverage of technical provisions by assets is also satisfactory.

The equity financing rate shows the share of own capital participation in the overall financing. As regards the insurance companies, this rate fell slightly, while the reinsurance companies recorded a somewhat higher rate.

The net return on equity is calculated as the ratio of net profit against average equity capital. It decreased somewhat in insurance and reinsurance companies in 2017 compared to 2016. As regards insurance and reinsurance companies, this was the consequence of the fact that the net profit fell simultaneously and the average equity capital increased.

In insurance companies, the share of net insurance premium in gross premium written, presenting the retention level, is somewhat lower for non-life insurance, which means that the share of reinsurance is somewhat higher. As regards life insurance, the share is the same. For reinsurance companies which only operated in the segment of non-life insurance in both years observed, the share of reinsurance is almost the same.

3.11. Capital Adequacy of Insurance and Reinsurance Companies as at 31 December 2017

Capital adequacy according to Solvency II is the ratio of the eligible amount of own funds to solvency capital requirement.

Own funds of insurance and reinsurance companies for the purpose of valuing capital adequacy consist of the excess of assets over liabilities valued in accordance with the rules laid down by the ZZavar-1 and subordinated liabilities, which together form basic own funds, and of ancillary own funds. Own funds are divided into three tiers with regard to their quality. Own funds eligible to cover solvency capital requirement are Tier 1 own-fund items with limitations, and Tier 2 and Tier 3 own-fund items up to certain limits. The limits of eligible own funds ensure that the share of value of own-fund items classified into Tier 1 exceeds one-third of the total value of eligible own funds and that the share of the value of own-fund items classified into Tier 3 is lower than one-third of the total value of eligible own funds. Only basic own funds are eligible to cover minimum capital requirement and, among them, Tier 1 own-fund items without limitation, and Tier 2 and Tier 3 basic own-fund items up to a certain limit. The limit of eligible own funds ensures that the share of the value of Tier 1 own-fund items exceeds one-half of the total value of eligible basic own funds.

In accordance with the Solvency II rules, solvency capital requirement is valued by taking into account all quantifiable risks the insurance company is exposed to. The level of solvency capital requirement must correspond to the value-at-risk of the basic own funds of the insurance company with a 99,5% confidence level over a one-year period.

Table 19:

Structure of basic own funds and capital adequacy of insurance and reinsurance companies (in EUR million)

	Insurance companies	Reinsurance companies
The total amount of basic own funds	2,011.2	555.4
Of which, subordinated liabilities	73.9	71.6
The total amount of ancillary own funds	0.0	0.0
The total eligible amount of own funds to cover the solvency capital requirement	2,009.3	555.4
Tier 1 unrestricted	1,937.1	555.4
Tier 1 restricted	1.5	0.0
Tier 2	70.5	0.0
Tier 3	0.2	0.0
The total eligible amount of basic own funds to cover the minimum capital requirement	1,964.6	555.4
Tier 1 unrestricted	1,937.1	555.4
Tier 1 restricted	1.5	0.0
Tier 2	26.0	0.0
The total amount of the solvency capital requirement (SCR)	879.3	197.4
The total amount of the minimum capital requirement (MCR)	287.8	53.3
Ratio of eligible own funds to SCR	228.5 %	281.4 %
Ratio of eligible own funds to MCR	682.6 %	1,042.0 %

Source: Annual SII Reports.

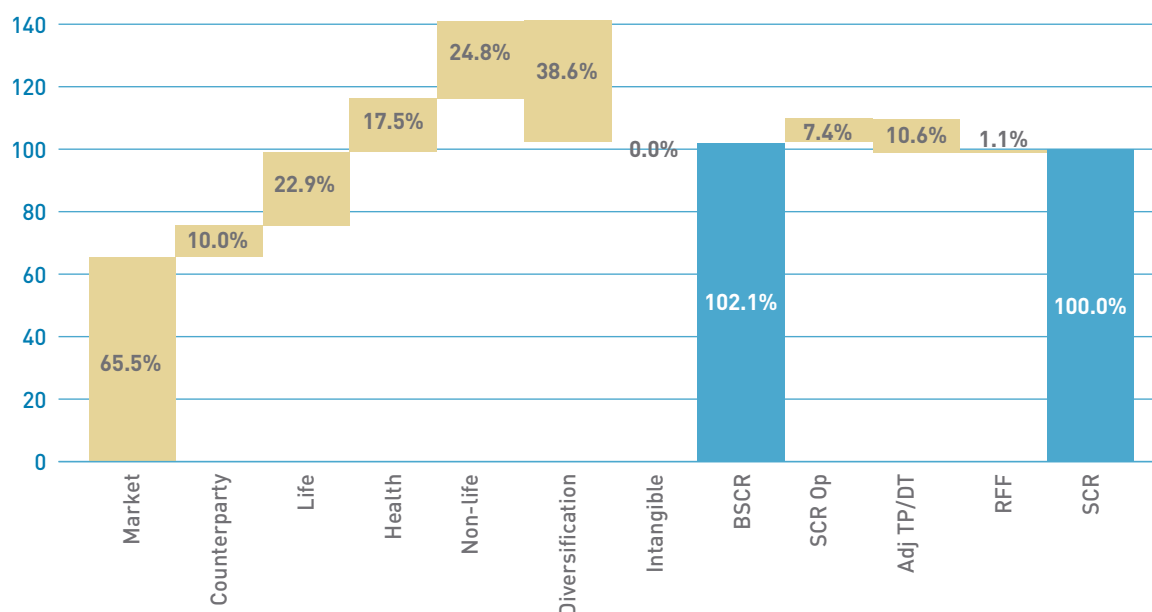
The above table shows that the ratio of eligible own funds to SRC/MCR as at 31 December 2017 was appropriate both for insurance and reinsurance companies. Except for the ratio of eligible own funds to SRC for insurance companies, all presented ratios as at the end of 2017 are even somewhat better than at the end of 2016.

Figures 12 and 13 present the structure of solvency capital requirement of insurance and reinsurance companies based on the standard formula. Solvency capital requirement calculated on the basis of the standard formula is the sum of the basic solvency capital requirement, capital requirement for operational risk and adjustment for the loss-absorbing capacity of technical provisions and deferred taxes. The basic solvency capital requirement comprises at least:

1. non-life underwriting risk module;
2. life underwriting risk module;
3. health underwriting risk module;
4. market risk module and
5. counterparty default risk module.

Where the nature of the risk is appropriate, the design of an individual module takes account of the diversification effects that reduce the basic solvency capital requirement.

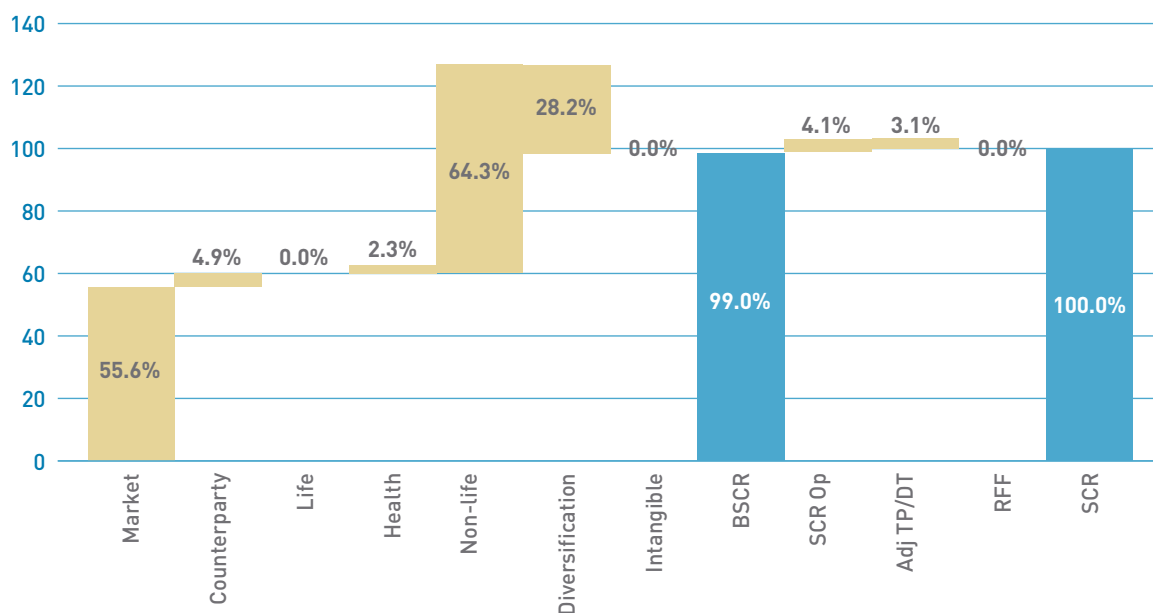
Figure 12:
Structure of solvency capital requirement of insurance companies as at 31 December 2017



Source: Annual SII Reports.

The above figure shows that market risk is far the largest in the operation of insurance companies. It is followed by non-life underwriting risk and, in a very similar amount, life underwriting risk and health underwriting risk. Counterparty default risk is much lower.

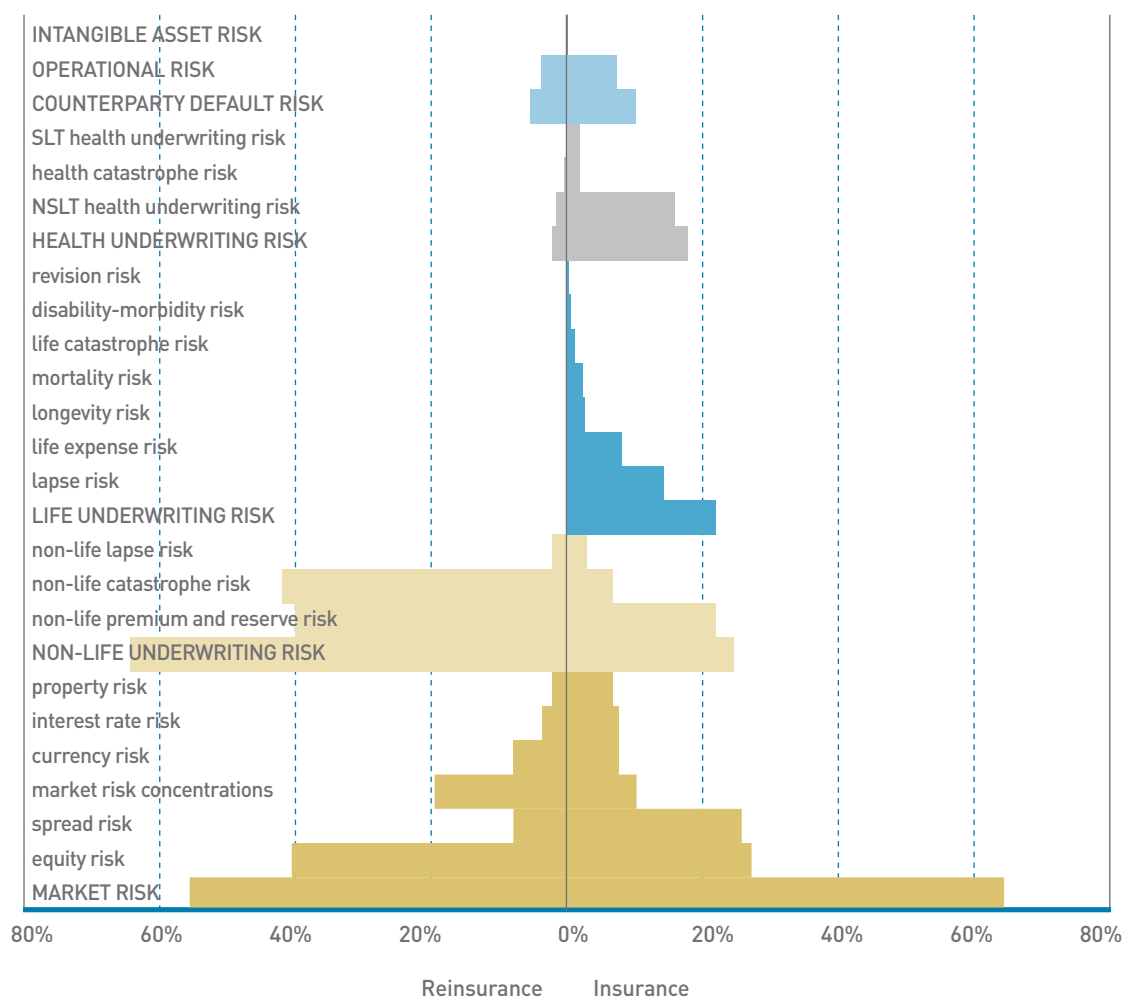
As regards reinsurance companies, the structure of solvency capital requirement is somewhat different because of the different nature of business. The largest portion belongs to solvency capital requirement for non-life underwriting risk, which is followed by market risk. Because of their long-term nature, market risk is higher in relation to life insurance contracts, which the Slovenian reinsurance companies did not reinsure in 2017.

Figure 13:**Structure of solvency capital requirement of reinsurance companies as at 31 December 2017**

Source: Annual SII Reports.

The figure below presents the structure of solvency capital requirement by risk sub-modules for insurance and reinsurance companies. It shows that within market risk the highest risk is equity risk, which is especially obvious for reinsurance companies which have a larger portion of investments in equity securities. Within non-life underwriting risk, the highest risk for insurance companies is premium and reserve risk, and for reinsurance companies non-life catastrophe risk. Within life underwriting risk, only incurred by insurance companies, life expense risk and lapse risk are very similar in size. Within health underwriting risk, the highest risk primarily for insurance companies arises from health insurance similar to non-life insurance (NSLT health underwriting risk).

Figure 14:
Structure of solvency capital requirement by module and sub-module for insurance and reinsurance companies



Source: Annual SII Reports.

Note: The text showing the solvency capital requirement by risk module is in capital letters, while the text showing the solvency capital requirement by risk sub-module is in lower-case.

4. PENSION COMPANIES

4.1. Structure of the Insurance Market with Respect to Market Shares Held by Pension Companies

According to the Pension and Disability Insurance Act (ZPIZ-2), which entered into force on 1 January 2013, a pension company is a legal entity with its registered office in the Republic of Slovenia which has been granted an authorisation to provide voluntary supplementary pension insurance services. Nevertheless, the provisions of a special chapter of the ZZavar-1 and the provisions of the ZPIZ-2 and regulations issued on the basis thereof apply to pension companies which can only be organised as insurance public limited companies. A pension company may only perform voluntary supplementary pension insurance operations, comprising the activities of managing pension funds and paying pension annuities. The authorisation for provision of voluntary supplementary pension insurance services is granted by the Agency on the basis of the positive opinion of the minister responsible for labour. The operators of pension funds providing supplementary pension insurance services, available in Slovenia since 2001, may also be – in addition to pension companies – insurance companies and banks.

The good news is that in 2015 and 2016 the ratio of pensioners against the active population improved. It had still not reached the level of 2009, when there were 1.67 employees per one pensioner, but it was more favourable than in 2014, when it only amounted to 1.36. Owing to the last reform of compulsory pension and disability insurance, in force since 1 January 2013, the growth in the number of pensioners decreased considerably, being the lowest in the last 20 years in 2016, while the ratio of pensioners against active population is still low, amounting to 1.45 employees per one pensioner in 2016¹⁴.

Regardless of the above, additional saving for old age is becoming increasingly important to individuals. Despite government incentives in the form of tax relief, the expectations for such insurance to become an alternative form of saving have not been fulfilled. The reason is that such form of saving for old age is not very attractive due to low profitability and high returns on capital markets in the past.

At the end of 2017, three pension companies held authorisation to perform voluntary supplementary pension insurance operations. For pension companies, 2011 was a turning point, as the first ten years of their operation passed, which means that the first insured persons obtained the right to pension annuities, as well as the right to withdraw the funds collected in their accounts.

Table 20:

Gross insurance premiums written, number of persons insured during the saving period and market shares of pension companies in 2016 and 2017 (in EUR million and %)

Pension company	Gross premium written 2016 in EUR million	%	Number of persons insured 2016	%	Gross premium written 2017 in EUR million	%	Number of persons insured 2017	%
Sava, pokojninska družba, d. d. ¹⁵	10.9	16.3	31,509	24.0	11.0	15.5	32,452	24.1
Skupna pokojninska družba, d. d.	29.2	43.6	56,751	43.3	34.4	48.4	57,694	42.8
Pokojninska družba A, d. d.	26.8	40.1	42,772	32.7	25.7	36.1	44,507	33.1
TOTAL	66.9	100	131,032	100	71.1	100	134,653	100

Source: Audited income statements of pension companies for 2016 and 2017, and annual statistical reports.

In 2017 pension companies disclosed a gross premium written of EUR 71.1 million from insurance during saving, which was EUR 4.2 million or 6.3% more than in 2016. The largest market share with regard to the insurance premium written is still held by Skupna pokojninska družba, d. d., with a market share of 48.4% which grew by 4.8 percentage points year-on-year. It is followed by Pokojninska družba A with a market share of 36.1%, and the third is Sava, pokojninska družba, d. d., whose market share decreased by 0.8 of a percentage point compared to 2016. Skupna pokojninska družba also has the largest number of insureds.

¹⁴ Dobrina, Anton, Pension and Disability Insurance Institute of Slovenia, Demografske spremembe in gmotni položaj upokojencev v Republiki Sloveniji [Demographic changes and financial status of pensioners in Slovenia], Javno zdravje 2017; I(1): 9-14. http://www.nijz.si/sites/www.nijz.si/files/uploaded/dobrina_jz_01-02.pdf

¹⁵ On 3 April 2017 Moja naložba, pokojninska družba, d. d., was renamed to Sava, pokojninska družba, d. d.

The majority of the insured, i.e. 241,848 or 93.3% of all insured persons, concluded collective insurance contracts, while only 17,266 concluded individual insurance contracts. The share of individual contracts grew slightly in 2017 compared to 2016, by 0.3 of a percentage point. In 2017, the average monthly gross premium in an individual pension company, calculated from the ratio of gross premium written to the average number of insureds, ranged from EUR 28.74 to EUR 50.05.

4.2. Performance of Pension Companies

The data on the performance of pension companies for 2016 and 2017 are based on audited annual reports. The pension companies prepared the statements according to the International Financial Reporting Standards and Agency's implementing regulations (Decision on the annual report and quarterly financial statements of insurance undertakings [Official Gazette of the RS, nos. 1/16, 85/16 and 12/18], Decision on the chart of accounts for insurance undertakings [Official Gazette of the RS, nos. 104/15 and 12/18], Decision on the annual report and interim financial statements of pension funds established as long-term business funds and groups of long-term business funds [Official Gazette of the RS, nos. 79/18 and 12/18], Decision on the detailed method of valuation of accounting items and subsidiary chart of accounts of pension funds established as long-term business funds [Official Gazette of the RS, no. 79/13]).

Table 21:

Summary income statement of pension companies for 2016 and 2017 (in EUR million)

B) TECHNICAL ACCOUNT – LIFE INSURANCE OPERATIONS		2016	2017
I.	Net premiums earned	3.1	4.5
II.	Investment revenue	4.3	2.2
IV.	Other net revenue from insurance operations	6.5	6.9
V.	Net claims incurred	2.4	2.4
VI.	Change in other net technical provisions	-1.1	-2.5
VIII.	Net operating expenses	5.0	5.6
IX.	Investment expenses	0.5	0.3
XI.	Other net insurance expenses	1.7	0.3
XII.	Allocated investment return transferred to the non-technical account (-)	3.7	1.8
XIII.	Profit or loss from life insurance operations (I + II + IV - V - VI - VIII - IX - XI - XII)	-0.5	0.7
D) NON-TECHNICAL ACCOUNT			
II.	Profit or loss from life insurance operations (B.XIII)	-0.5	0.7
V.	Allocated investment return transferred from the life insurance technical account (B.XII)	3.7	1.8
IX.	Other revenue from insurance operations	0.0	0.1
X.	Other expenses from insurance operations	0.0	0.0
XI.	Other revenue	0.0	0.0
XII.	Other expenses	0.0	0.0
XIII.	Profit or loss for the accounting period before tax (II + V + IX + X + XI - XII)	3.2	2.6
XIV.	Income tax	0.0	0.0
XVI.	NET PROFIT OR LOSS FOR THE ACCOUNTING PERIOD (II + V + XI - XIII - XIV)	3.2	2.6
E) STATEMENT OF COMPREHENSIVE INCOME OF PENSION COMPANIES			
I.	Net profit/net loss for the financial year after tax	3.2	2.6
II.	Other comprehensive income after tax	-0.7	0.1
III.	Total comprehensive income (I + II)	2.5	2.7

Source: Audited income statements of pension companies for 2016 and 2017.

All three pension companies ended the 2017 financial year with a positive operating result. As a sector, the pension companies made a profit of EUR 2.6 million in 2017. Owing to the disclosed profit, increased by other comprehensive income after tax, the total comprehensive income grew by EUR 2.7 million.

In 2017, the pension companies achieved a positive technical result, which changed from the negative result of EUR -0.5 million in 2016 to the positive EUR 0.7 million in 2017. The improvement of the technical result compared to the previous year primarily results from the increase in net premiums earned.

Table 22:

Summary income statement of assets covering mathematical provisions for supplementary pension insurance in the period of saving for 2016 and 2017 (in EUR million)

INCOME STATEMENT		2016	2017
I.	Paid-in amounts or premiums	70.8	71.2
II.	Finance revenue	29.4	25.1
III.	Revenue from investment property	1.0	1.2
IV.	Revenue from the payments by the operator due to failure to achieve the guaranteed return	0.0	0.0
V.	Expenses arising from the payment of surrender values	36.5	33.1
VI.	Transfer of assets from or to another provider (+/-)	-3.2	0.0
VII.	Change in net technical provisions (+/-)	-49.3	-52.4
VIII.	Costs of the operator charged	6.3	6.8
IX.	Expenses in relation to the custodian bank	0.2	0.2
X.	Other expenses directly debiting assets covering mathematical provisions in accordance with the governance rules	0.3	0.3
XI.	Finance expenses	5.3	4.6
XII.	Expenses from investment property	0.1	0.1
X.	Net profit for the accounting period (I + II + III + IV - V + VI + VII - VIII - IX - X - XI - XII)	0.0	0.0

Source: Audited income statements of pension companies for 2016 and 2017.

The summary income statement of assets covering mathematical provisions for supplementary pension insurance during the period of saving shows the performance of all such assets managed by all three pension companies. This statement reveals that in 2017 on the revenue side paid-in amounts or premiums somewhat increased compared to the previous year, by EUR 0.4 million or 0.6%. Compared to 2016, finance revenue dropped by EUR 4.3 million or 14.6% in 2017. The largest portion belongs to interest income, amounting to almost EUR 16 million or 63.3% of the total investment revenue, followed by revaluation finance revenue with EUR 8.7 million or 34.7% of the total investment revenue. Payments by the operators due to failure to achieve the guaranteed return were also not necessary in 2017.

In 2017 there was no transfer of funds from one operator to another. In 2017 the expenses from payments of the sums insured or surrender values decreased somewhat, i.e. by EUR 3.4 million or 9.3%. After the expiry of the ten-year period, in the case of extraordinary termination, the insureds have the right to cash payment equalling the surrender value of the funds saved. Many insured persons for whom this period expired opted for extraordinary termination of insurance and payment of the surrender value. The three pension companies paid EUR 33.1 million under this item in 2017, while in 2016 they paid EUR 36.5 million, in 2015 EUR 34.1 million, in 2014 EUR 56.4 million, in 2013 EUR 99.7 million and in 2012 EUR 163 million.

The costs of the operator charged increased by EUR 0.5 million or 7.9%.

Finance expenses decreased by EUR 0.7 million or 13.2%. The largest portion among them belonged to revaluation finance expenses, amounting to EUR 3.2 million or 69.6% of investment expenses, followed by interest expenses with EUR 1.2 million or 26.4%.

Net technical provisions in the period of saving grew by EUR 3.1 million in 2017 compared to 2016.

In 2016 the legally prescribed minimum guaranteed return, accounting for 40% of the average interest rate on government securities with maturity in more than one year, was 0.57%. Pension companies set a higher guaranteed return in the pension schemes than the minimum return, namely between 50% and 60%. In all pension companies, in 2016 the actual returns on the assets in the scope of the sub-funds intended to the eldest age group of members and carrying out the investment policy of ensuring minimum guaranteed re-

turn on net paid-in supplementary insurance¹⁶ exceeded the guaranteed return set in the pension schemes and the legally prescribed minimum guaranteed return, and was between 2.28% and 2.64%.

In the first, dynamic sub-fund, which has the most aggressive investment policy, the return in relation to pension companies amounted to -3.23% to 5.37% in 2017, while in the second fund, prudent sub-fund, pursuing a more prudent investment policy, the return in relation to pension companies was 3.32% to 5.06% in 2017.

Table 23:

Summary income statement of assets covering mathematical provisions for supplementary pension insurance in the annuity payment period (supplementary and early supplementary old-age pension) for 2016 and 2017 (in EUR million)

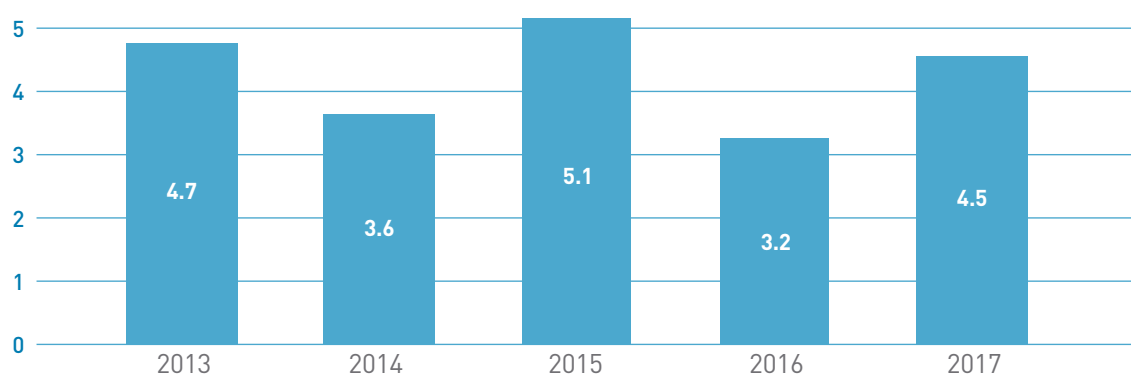
INCOME STATEMENT		2016	2017
I.	Transfer of funds from the pension scheme for supplementary pension insurance	3.2	4.5
II.	Investment revenue	0.5	0.6
III.	Claims incurred	2.4	2.4
IV.	Change in other technical provisions (+/-)	-1.1	-2.5
V.	Costs imputed by policy	0.1	0.1
V.a.	Net operating expenses	0.0	0.0
VI.	Investment expenses	0.1	0.2
VII.	Profit or loss from assets covering mathematical provisions (I + II + III + IV - V - VI)	0.0	0.0
VII.a.	Profit or loss from assets covering mathematical provisions (I + II - III + IV - V.a - VI)	0.1	0.2

Source: Audited income statements of pension companies for 2016 and 2017.

In 2011 the first insured persons obtained the right to supplementary old-age pension. Two pension companies pay supplementary old-age pensions and early supplementary old-age pensions, while one pension company transferred the payment of supplementary and early supplementary pensions to one of the insurance companies by way of an agreement. In 2017 two pension companies together transferred EUR 4.5 million of funds from the savings part to the guarantee fund intended for the payment of annuities; in 2016 this amount was EUR 3.2 million, in 2015 EUR 5.1 million, in 2014 EUR 3.6 million, and in 2013 EUR 4.7 million. These transfers are also presented in the figure below.

Figure 15:

Transfers of funds from the savings part of supplementary pension insurance to the annuities part in the period from 2013 to 2017 (in EUR million)



Source: Audited income statements of pension companies for 2013 to 2016, and for 2017.

¹⁶ In 2016 pension companies and also other pension insurance providers started to offer to the persons insured the possibility to save in funds pursuing the so-called life-cycle investment policy. In accordance with Article 311 of the ZPIZ-2, a life-cycle fund is a supplementary pension insurance fund called the umbrella pension fund, which consists of three sub-funds. The sub-funds of the umbrella pension fund differ with regard to their investment policy, which is, considering the purpose of supplementary insurance and the ZPIZ-2 principles, appropriately adjusted to the target age of the members to whom the individual sub-fund is intended. In accordance with Article 312 of the ZPIZ-2, the operator of the umbrella pension fund (a pension company, an insurance company authorised to perform insurance operations in the life insurance group pursuant to the ZZavar-1, a bank with the authorisation to pursue pension fund operating business in accordance with the ZBan-2) must, in the scope of the sub-fund intended to the eldest age group of members, carry out the investment policy of ensuring minimum guaranteed return on net paid-in supplementary insurance. Considering the legal bases, the operators of pension funds in Slovenia designed the life-cycle fund investment policy in such way that the first, dynamic sub-fund pursues the most aggressive investment policy, the second, prudent sub-fund pursues a more prudent investment policy, while the third sub-fund takes into account guaranteed return. The investment policy pursued by life-cycle funds is adjusted to the age of individuals, with the operators defining three age groups in the governance rules in line with the ZPIZ-2. The dynamic sub-fund is intended to the youngest, the members of the second age group are classified into the sub-fund with a more prudent investment policy, and the last one, which takes into account guaranteed return, includes the eldest target age group of members. With the possibility to save in funds pursuing life-cycle investment policy, the members have investment options which they can choose at any time by completing and sending to the fund operator a special application to change the fund/investment policy.

4.3. Balance Sheets of Pension Companies

As at 31 December 2017, the aggregate balance sheet total of the pension companies amounted to EUR 738.4 million, which was EUR 54.5 million or 8.0% more than as at 31 December 2016.

The largest item on the side of assets, accounting for 90.7%, is assets from financial contracts. As at 31 December 2017 this item stood at EUR 669.9 million, recording an increase of 7.9% compared to the previous year.

As a result, the largest item on the liabilities side of the balance sheet of pension companies was liabilities from financial contracts, amounting to EUR 669.8 million as at 31 December 2017, which was 90.7% of the total liabilities and an increase of 7.9% over the previous period. In line with IFRS 4, liabilities from voluntary supplementary pension insurance contracts are posted among liabilities from financial contracts and not among technical provisions. IFRS 4 therefore treats voluntary supplementary pension insurance policies as financial and not insurance contracts.

The capital of pension companies accounted for 5.9% of the total liabilities as at 31 December 2017 and amounted to EUR 43.5 million. Compared to the end of 2016, the capital grew by EUR 2.7 million or 6.6%, with the share capital remaining unchanged. The increase in the capital was primarily influenced by the growth in the revenue reserves by EUR 10 million or 18.1% year-on-year and retained profit by EUR 11 million or 17.8% year-on-year. Net profit for the financial year decreased somewhat (by EUR 0.6 million or 20%).

Table 24:

Summary balance sheet of pension companies as at 31 December 2016 and 31 December 2017 (in EUR million)

	2016	2017	Index 17/16
ASSETS	683.9	738.4	108.0
A) Intangible assets	0.1	0.2	200.0
B) Property, plant and equipment	0.2	0.3	150.0
F) Financial investments in subsidiaries and associated companies	0.0	0.7	-
G) Financial investments	55.1	59.0	107.1
J) Assets from financial contracts	621.1	669.9	107.9
K) Receivables	3.1	3.2	103.2
M) Cash and cash equivalents	4.3	5.1	118.6
LIABILITIES	683.9	738.4	108.0
A) Equity	40.8	43.5	106.6
C) Technical provisions	15.2	17.7	116.4
E) Other provisions	5.7	5.7	100.0
H) Liabilities from financial contracts	620.9	669.8	107.9
J) Operating liabilities	0.0	0.3	-
K) Other liabilities	1.3	1.4	107.7

Source: Audited balance sheets of pension companies as at 31 December 2016 and 31 December 2017.

4.4. Mathematical Provisions and Liabilities from Financial Contracts

Pension companies calculate mathematical provisions during the saving period as an accumulated value of paid-in premiums, reduced by the input costs. They set aside mathematical provisions as provided for in the pension schemes. For contracts under which supplementary pension annuities are paid in accordance with the act regulating pension and disability insurance, pension companies set aside mathematical provisions in the amount of the present value of the estimated future liabilities.

As at 31 December 2017, the liabilities from the saving part of voluntary supplementary pension insurance of pension companies amounted to EUR 669.8 million (liabilities under financial contracts), and their mathematical provisions in relation to the payment of pension annuities amounted to EUR 17.7 million.

According to IFRS 4, the liabilities from the saving part of voluntary supplementary pension insurance are to be disclosed in the balance sheet under liabilities from financial contracts, although by their nature they correspond to mathematical provisions. Compared to the previous year, the liabilities from the saving part of voluntary supplementary pension insurance grew by EUR 48.9 million or 7.9%, while liabilities from the payment of pension annuities increased by EUR 2.5 million or 16.4%.

4.5. Performance Indicators of Pension Companies

The major performance indicators are summarised in Table 25.

Table 25:

Selected performance indicators of pension companies for 2016 and 2017

INDICATOR	2016	2017
Share of operating expenses in premiums written	7.4 %	7.8 %
Investment ratio or share of mathematical provisions covered by assets ¹⁷	99.9 %	100.2 %
Share of capital in financing	6.0 %	5.9 %
Net return on equity	8.1 %	6.1 %
Share of net insurance premium in gross premium written	100 %	100 %

Source: Audited balance sheets and audited income statements as at 31 December 2016 or for 2016 and as at 31 December 2017 or for 2017, report on investments of assets covering technical provisions and assets covering mathematical provisions as at 31 December 2016 and for 2017.

For 2017, the pension companies disclosed a share of operating expenses in premiums written of 7.8%, which was 0.4 of a percentage point more than in the previous year. This growth in the indicator results from the higher increase in operating expenses (11.6%) than in premium (5.4%).

The investment ratio or share of mathematical provisions covered by assets shows the ratio of investments against liabilities from voluntary supplementary pension insurance, and must amount to at least 100%. As at 31 December 2017 the investment ratio amounted to 100.2.

The equity financing rate shows the share of own capital participation in the overall financing. As at 31 December 2017, this share amounted to 5.9%, which was 0.1 of a percentage point less than in the previous year. The reason for the fall in this share is the higher increase in liabilities from the increase in capital.

In 2017 the net return on equity amounted to 6.1% and was lower than in 2016 owing to the fall in net profit.

In 2016 the share of net insurance premiums in the gross premiums written for pension companies remained unchanged at 100%, the same as in the previous year, indicating that pension companies do not reinsure risks underwritten.

4.6. Investments

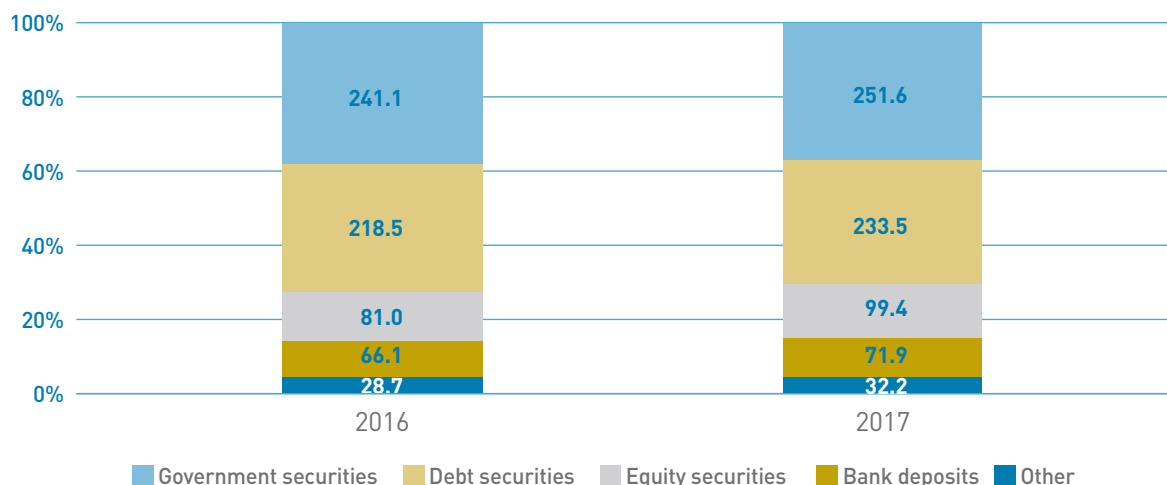
As at 31 December 2017 the value of all investments of pension companies totalled EUR 734.8 million (in 2016 EUR 678.6 million, in 2015 EUR 580.4 million and in 2014 EUR 550.6 million), with the value of investments of assets covering mathematical provisions amounting to EUR 688.6 million and the value of own resources EUR 46.2 million.

The largest share in the structure of investments of assets covering mathematical provisions of pension companies as at 31 December 2017 belonged to investments in government securities and government guaranteed debt securities, which amounted to EUR 251.6 million or 36.5% of the total investments of assets covering mathematical provisions. They were followed by investments in other debt securities with EUR 233.5 million or 33.9% and equity securities, which amounted to EUR 99.4 million or 14.4%. In terms of size, it is also worth to mention investments in bank deposits with EUR 71.9 million or 10.4% of the total investments. The comparison of the structure of investments of assets covering mathematical provisions in 2017 with that of 2016 shows that the fall in the share of investments in government securities and government guaranteed debt securities and investments in other debt securities resulted in an increased share of equity securities (growing by EUR 18.4 million or 1.6 percentage points).

¹⁷ Mathematical provisions also include the liabilities under the saving part of voluntary supplementary pension insurance contracts. In the balance sheet, these liabilities are shown under liabilities from financial contracts.

Figure 16:

Investment structure of assets covering mathematical provisions of pension companies as at 31 December 2016 and 31 December 2017 (in EUR million)



Source: Report on investments of assets covering technical provisions and assets covering mathematical provisions.

With regard to the country issuing the security, at the end of 2017, the assets covering mathematical provisions of the pension companies invested abroad amounted to EUR 401.6 million or good 58 % of the total investments of assets covering mathematical provisions of the pension companies. The share of investments of assets covering mathematical provisions of the pension companies placed abroad increases every year.

Among the investments of assets covering mathematical provisions of the pension companies placed abroad, the largest share at the end of 2017 belonged to foreign government securities, which amounted to 46.5% of the total such investments. They were followed by other debt securities with a share of 43.5% and then, with a much lower 10% share, investments in foreign equity securities, whose share rose by 1.1 percentage points year-on-year owing to foreign government securities.

Table 26:

Structure of investments of assets covering mathematical provisions that pension companies made abroad as at 31 December in the period between 2014 and 2017 (in EUR million)

		Government securities	Debt securities	Equity securities	Other investments	Total investments abroad	Total investments	Share of investments abroad in total investments (%)
Assets covering mathematical provisions	2014	24.3	96.5	15.0	0.0	135.8	538.8	25.2
	2015	50.1	117.3	13.4	0.0	180.7	581.1	31.1
	2016	160.0	148.3	30.2	1.0	339.5	635.3	53.4
	2017	186.7	174.8	40.1	0.0	401.6	688.6	58.3

Source: Report on investments of assets covering technical provisions and assets covering mathematical provisions.

As regards the investments of pension companies with regard to the sector of the security issuer, it should first be explained that for 2016 and 2017 the data are captured according to a different classification than in the previous years. To standardise monitoring at the EU level and enable monitoring with regard to different risk types, the Agency issued a decision¹⁸ prescribing that the reporting entities, in this case pension companies, must report the issuer's sector according to the code list based on the latest version of the statistical classification of economic activities in the EU, i.e. NACE - standard classification of activities.

The highest share was recorded by investments in the sector "Public administration and defence; compulsory social security", which amounted to EUR 233 million or 34%. This may be related to the previously mentioned largest share of investments in government securities and government guaranteed debt

¹⁸ Decision on assets of long-term business funds of pension companies for additional disability and the additional survivor's pension and for the payment of pension annuities and on reporting on investments of these long-term business funds and the investments of pension companies that are not financed from technical provisions (Official Gazette of the RS, no. 18/16).

securities. The second largest share, amounting to EUR 226 million or 33%, which was an increase of 2 percentage points compared to 2016, belonged to investments in the sector of financial and insurance activities, which can be ascribed to the above-mentioned investments in other debt securities and deposits. The third, much lower share, representing EUR 91 million or 13%, belonged to investments in the sector of manufacturing, which can be connected with the above-mentioned investments in equity securities.

As at 31 December 2017 the pension companies did not disclose investments in structured securities. At the end of 2016 one pension company disclosed an investment in structured securities which amounted to EUR 1 million and concerned a structured security which fell due on 21 December 2017.

4.7. Capital Adequacy of Pension Companies

As at 31 December 2016 and 31 December 2017, all three pension companies disclosed a surplus of available capital over minimum capital requirement.

As at 31 December 2017, the Tier 1 capital of the pension companies amounted to EUR 41.1 million, which was EUR 2 million or 7.9% more than one year before. This growth in the Tier 1 capital was influenced by the increase in revenue reserves by EUR 1 million and retained net profit from previous periods by EUR 1.5 million. As at 31 December 2017 none of the pension companies disclosed supplementary capital. The increase in the Tier 1 capital influenced the growth of the available capital of the pension companies, which grew by EUR 2.3 million or 6% year-on-year. The required minimum capital grew by EUR 1.8 million compared to December and thus amounted to EUR 26.7 million as at 31 December 2017.

With a higher available capital and increased minimum capital requirement, as at 31 December 2017 the pension companies disclosed a surplus of available capital over minimum capital requirement in the amount of EUR 13.7 million, which was EUR 0.5 million more than as at 31 December 2016.

Table 27:

Capital adequacy of pension companies as at 31 December 2016 and 31 December 2017 (in EUR million)

EQUITY	2016	2017
Tier 1 capital	38.1	41.1
Guarantee fund	11.1	11.1
Compliance with Article 106(3) of the ZZavar	27.0	30.0
Supplementary capital	0.0	0.0
Available capital of pension companies	38.1	40.4
Minimum capital requirement	24.9	26.7

Source: KUS forms.

5. GROUPS

Four groups with the parent company registered in the Republic of Slovenia operated on the Slovenian insurance market in 2017. The respective parent companies of the four groups are Zavarovalnica Triglav, d. d., Pozavarovalnica Sava, d. d., Adriatic Slovenica, d. d., and Skupina Prva, d. d. The last group differs from the others also by the fact that the parent company is not an insurance or reinsurance company.

The ZZavar-1 dedicates a special chapter to the legal regulation of groups, namely chapter eight entitled "Supervision, risk management and disclosures at group level". The ZZavar-1 also regulates supervision of groups other than insurance groups. A special mention should be made of the subchapter concerning the financial position of the group and, within its scope, the calculation of the group's solvency, the scope and method of consolidation, the elimination of the double use of appropriate own funds and generation of capital within the group, and the subchapter on the supervision of concentration risk and transactions within the group.

Moreover, the new act separately defines the conduct of supervision of a group, which is different from the supervision of individual (re)insurance companies because of the special characteristics and additional risks presented by a group. Since groups are often composed of a variety of legal persons which may be subject to supervision by supervisors other than the Agency, the cooperation of different supervisors and exchange of information between them is especially important for an efficient supervision of groups. The so-called institute of colleges has been established at the level of the European Union. Colleges consist of the representatives of the supervisors of the legal entities that form part of an individual group. The representatives of the supervisors of the EU Member States hold the position of members, while the representatives of the so-called third countries, i.e. non-EU members, hold the position of participants. The members and participants of colleges meet once annually as a rule.

The principal and most extensive activity of the Triglav Group, with Zavarovalnica Triglav as the parent insurance company, is insurance business. The Triglav Group underwrites non-life, life, health and voluntary supplementary pension insurance, and provides reinsurance services.

Zavarovalnica Triglav is the direct owner of insurance companies based in Slovenia, namely Pozavarovalnica Triglav Re and Triglav zdravstvena zavarovalnica. In addition, Zavarovalnica Triglav is also the direct owner of some companies that are not insurance companies, but are based in Slovenia. These are Skupna pokojninska družba, Triglav INT, holdinška družba, Triglav, Upravljanje nepremičnin, Triglav skladi, družba za upravljanje, Triglav Svetovanje, zavarovalno zastopanje, Triglav Avtoservis, družba za storitve in trgovino, Vse bo v redu, Zavod Zavarovalnice Triglav za družbeno odgovorne aktivnosti, Triglavko, zavarovalnozastopniška družba and Nama trgovsko podjetje. In the beginning of 2017, Zavarovalnica Triglav and KGAL Beteiligungsverwaltungs founded TRIGAL Ljubljana, whose activity is assets management and consulting.

Some of the companies above own insurance companies and other companies based outside Slovenia. Thus, Triglav, INT, owns an insurance company in Croatia (Triglav Osiguranje Zagreb) and insurance companies registered in four third-country markets, namely Bosnia and Herzegovina (Triglav Osiguranje, Sarajevo and Triglav Osiguranje, Banja luka), Serbia (Triglav Osiguranje, Belgrade), Montenegro (Lovčen Osiguranje, Podgorica) and Macedonia (Triglav Osiguruvanje, Skopje). In INT Triglav INT increased its stakes in the insurance companies Triglav Osiguranje, Zagreb, Triglav Osiguranje, Sarajevo, Lovčen Osiguranje Podgorica and Triglav Osiguruvanje, Skopje. On the Macedonian market, Triglav INT and Triglav Osiguruvanje Skopje founded a new life insurance company called Triglav Osiguruvanje Život, Skopje, which was included in the annual consolidated financial statements of the Triglav Group in 2017 for the first time.

The insurance companies owned by Triglav, INT, Ljubljana, further participate in insurance and other companies. Thus, Zavarovalnica Lovčen osiguranje Podgorica is 100% owner of the insurance company Lovčen životna osiguranja, Podgorica.

While Triglav, INT, Ljubljana, is direct owner of insurance companies based outside Republic of Slovenia, some companies owned by Zavarovalnica Triglav are direct owners of certain companies other than insurance companies. In addition to the above-mentioned entry of Triglav INT and Triglav Osiguruvanje Skopje in the market of life insurance in Macedonia, Skupna pokojninska družba, together with Penzijski rezervni fond Republike Srpske, Banja Luka, the European Bank for Reconstruction and Development and the Enterprise Fund, entered the pension insurance market in Bosnia and Herzegovina, founding Društvo za upravljanje Evropskim dobrovoljnim penzijskim fondom at Banja Luka.

The gross premium written of the Triglav Group for 2017 amounted to almost one billion EUR and was thus 6.8% higher than in 2016, when it amounted to EUR 936 million. It remains a leading insurance company in the Adria region, consisting of Slovenia, Croatia, Bosnia and Herzegovina, Serbia, Montenegro and Macedonia.

The parent company of the second group is the reinsurer Pozavarovalnica Sava. The Sava Re Group holds the second strongest market position on the Slovenian insurance market and an important position on the SE European markets.

In addition to Sava Re, which is the controlling company, as at 31 December 2017 the insurance segment of the Sava Re Group also consisted of seven insurance companies based in Slovenia and the countries of the Adria region, and a pension company in Slovenia. On the Slovenian insurance market, Pozavarovalnica Sava controls Zavarovalnica Sava and was also 100% owner of Sava pokojninska družba as at 31 December 2017. For Zavarovalnica Sava, 2017 was the first full year of operation after the merger of four insurance companies and change in the name and corporate image¹⁹. In addition to the above subsidiary insurance company registered in Slovenia, as at 31 December 2017 the Pozavarovalnica Sava Group also included six subsidiary insurance companies registered in four third-country markets. Namely, Zavarovalnica Sava neživotno osiguranje and Sava životno osiguranje in Serbia, Illyria and Illyria Life Kosovo in Kosovo, Sava Montenegro in Montenegro and Sava osiguruvanje in Macedonia. In addition to the (re)insurance segment and the pension company, the Pozavarovalnica Sava Group also comprises other companies, namely Illyria Hospital (a company in Kosovo owning a plot of land, but currently not performing any activity and being 100% owned by Sava Re), Sava Car (a company for performing roadworthiness tests, in 100% ownership of the Montenegrin insurance company Sava osiguranje), Sava Agent (a company underwriting insurance, also in 100% ownership of Sava Montenegro), Sava Station (a company for performing roadworthiness tests, in 100% ownership of the Macedonian insurance company Sava osiguruvanje), and ZS Svetovanje (an agency specialised in the marketing of life insurance underwritten by Zavarovalnica Sava, in 100% ownership of Zavarovalnica Sava²⁰).

On 2 November 2017 Sava Re signed a contract for the acquisition of a 75% stake in the company TBS TEAM 24. The latter organises assistance in relation to motor vehicle, health and home insurance. By acquiring this company, the Sava Re Group entered the market of assistance services and obtained a call centre with long years of experience in providing assistance services.

To expand the pension insurance activity, in December 2017 Sava Re signed a purchase and sale agreement between the sellers NLB, d. d., Ljubljana and NLB banka AD Skopje and the buyer Sava Re for 100% stake in the company NLB Nov penzijski fond AD Skopje. NLB NPF manages pillar 3 and 3 pension funds in the Republic of Macedonia. In this way, the Sava Group also enters the Macedonian market in this segment. Expanding the volume of pension insurance business remains the strategic orientation of Sava Re, whose goal is to become the second provider of pension products in the region through acquisitions.

In December Zavarovalnica Sava began to market health insurance and thus entered the health insurance market.

In 2017 Sava Re increased its stake in Zavarovalnica Sava from 99.74% to 100%.

Further, in 2018 Sava Re obtained the approval of the National Bank of Serbia and the required authorisations of other regulators to purchase a 92.94% stake in the Serbian company Energoprojekt Garant. After the purchase of the majority stake and performance of all further steps necessary to acquire 100% ownership, Sava Re intends to merge the acquired company with an existing subsidiary, namely the Serbian non-life insurance company Sava neživotno osiguranje.

In 2017 the Sava Re Group collected a gross premium of EUR 517.2 million, which is a 5.5% increase compared to the previous year.

¹⁹ At the end of 2016, the Sava Re Group underwent a large change, involving a merger of four insurance companies, namely Zavarovalnica Maribor, d. d., Zavarovalnica Tilia, d. d., and Velebit osiguranje and Velebit životno osiguranje, the latter two having their registered offices in the Republic of Croatia. This process had already started some time ago, but in 2016 the final formal steps took place, representing the basis for actual merger. On 2 November 2016 the procedure was officially completed, with the above-described merger of the insurance companies and the change in the name from "Zavarovalnica Maribor, d. d." to "Zavarovalnica Sava, d. d." being entered in the Companies Register. The operations of the Croatian Velebit companies are continued by the subsidiary Zavarovalnica Sava in Croatia.

²⁰ In October 2017, the companies ZS Svetovanje and ZS Vivus merged into ZS Svetovanje.

The third group consists of the parent company Adriatic Slovenica (AS)²¹ and its subsidiaries. In addition to the controlling parent company Adriatic Slovenica Zavarovalna družba, d. d., the group also consists of direct subsidiaries KD skladi, d. o. o., KD IT, d. o. o., Prospera, d. o. o., Viz, d. o. o., Zdravje AS, d. o. o., Agent, d. o. o., and Permanens, d. o. o. (in liquidation), in 100% ownership of AS. AS neživotno osiguranje, a. d. o., Belgrade – in liquidation was deleted from the register on 26 December 2017. The subsidiary KD Skladi, d.o.o., holds a 94.6% stake in the indirect subsidiary KD Fondovi, a. d., Skopje, and a 80% stake in KD Locusta Fondovi, d. o. o., Zagreb. The parent company has a 48.51% stake in Nama trgovsko podjetje, d. d., Slovenia.

The core activities of the Adriatic Slovenica Group are insurance and asset management. The other activities of the companies forming the Group serve as support to the core activities. Adriatic Slovenica operates in the insurance industry in Slovenia. AS provides its services mostly in Slovenia and to a lower extent in Croatia through a branch which entered the Croatian market in supplementary health insurance. The gross premium written amounted to EUR 303.8 million in 2017.

Asset management or investment fund management in Slovenia is carried out by the subsidiary KD skladi, d. o. o., Ljubljana, whose core activity is management of investment funds and other portfolios. As at 31 December 2017 the company operated the umbrella fund KD Krovni sklad with 16 sub-funds. Outside Slovenia, another two management companies operate, together operating 18 investment funds, of which 14 mutual funds in Croatia (KD Locusta Fondovi, d. o. o., Zagreb) and 4 mutual funds in Macedonia (KD Fondovi a. d. Skopje). In 2017 the company expanded its operations to the field of real estate funds, when on 14 July 2017 it obtained the authorisation of the Securities Market Agency to perform the services of managing an alternative investment real estate fund. In Slovenia, KD Skladi manages EUR 721 million of assets, in Croatia EUR 56 million and in Macedonia EUR 16 million.

The supporting smaller companies of the AS Group in Slovenia are the subsidiaries VIZ, d. o. o., involved in the sale of insurance policies, Prospera, družba za izterjavo, d. o. o., Zdravje AS, d. o. o., providing specialised outpatient health care services, Agent, d. o. o., providing insurance agency services, and KD IT, d. o. o., providing IT services to AS as the customer, which is in the process of being merged with its parent company. In Croatia, the company Permanens, d. o. o., is in the liquidation process, with its activities being transferred to the Podružnica Zagreb branch. This company was one of the key sales channels of the company KD životno osiguranje. Owing to the consolidation of the sales activity in Podružnica Zagreb, it is being liquidated.

The fourth insurance group consists of Prva osebna zavarovalnica, controlled by Skupina Prva, d. d.

In addition to the groups where the parent insurance or other company is registered in Slovenia, some insurance companies with the registered office in Slovenia are part of groups where the parent company has its registered office in a European Union Member State. Those are Merkur zavarovalnica, d. d., the parent of which is Merkur Versicherung AG Graz from Austria, GRAWE Zavarovalnica, d. d., which is a subsidiary of the Austrian insurance company GRAZER Wechselseitige Versicherung AG, and GENERALI zavarovalnica, d. d., controlled by Assicurazioni Generali S. p. A.

²¹ AS and the AS Group are part of the KD Group.

6. OTHER COMPANIES PERFORMING INSURANCE OPERATIONS

The Agency also supervises the commercial association Nuclear Insurance and Reinsurance Pool (Nuclear Pool), as well as the Guarantee Fund and the Compensation Body organised within the Slovenian Insurance Association.

The **Nuclear Insurance and Reinsurance Pool** was established in 1994 on the basis of the authorisation issued by the Ministry of Finance of the Republic of Slovenia. This is a commercial association with the primary objective to provide insurance, co-insurance and reinsurance against nuclear risks in connection with nuclear facilities or use of nuclear energy for peaceful purposes in Slovenia and abroad. The Pool's activities involve writing of premiums for domestic insurance and foreign reinsurance products, as well as paying of compensations/policy proceeds concerning these insurance and reinsurance products, and keeping and using the funds during the financial year to be able to settle its liabilities arising from claims of the insureds from Slovenia and those reinsured from abroad. In legal transactions, the Pool acts on its own behalf and for the account of its members. The liabilities assumed by the Pool are the responsibility of its members. Four insurance companies and both reinsurance companies were members of the Pool in 2017. The gross premium written amounted to EUR 3.34 million, which was EUR 0.01 million more than one year before; of this, the shares of reinsurance companies in reinsurance premiums in Slovenia amounted to EUR 1.24 million and the shares of reinsurance companies in reinsurance premiums abroad to EUR 2.10 million. In 2017 the Nuclear Insurance and Reinsurance Pool only disclosed EUR 6,911 of claims under reinsurance contracts.

The **Guarantee Fund** is responsible for payments arising from compensation for damage caused by drivers of unknown and uninsured motor vehicles, aircraft and ships and boats, and compensation for damage suffered by the passengers of uninsured means of public transport. It does not handle compensation claims, but refers them to one of the insurance companies after recording them. Through the authorised insurance company, it requests from the person responsible or the owner of the uninsured motor vehicle to repay the compensation paid. It is financed from the contributions of insurance companies underwriting compulsory motor third-party liability insurance. The contribution of an individual insurance company is proportionate to the share of compulsory insurance policies underwritten in the previous year. In 2017, 264 claims were treated in connection with uninsured vehicles and unknown motor vehicles, with 185 loss events caused by drivers of uninsured motor vehicles, which was 25 claims or 11.9% less than in 2016, and 79 loss events by drivers of unknown motor vehicles, which was 21 loss events or 21% less than in 2016. In 2017 the Guarantee Fund did not treat any claims from other insurance classes for which it is also responsible.

The **Compensation Body** is an independent organisational unit of the Slovenian Insurance Association, operating through the Green Card Bureau and the Guarantee Fund. It is intended for the payment of compensations to claimants residing in the Republic of Slovenia (if the accident was caused in another EU Member State or in a third country whose national insurance bureau is a member of the green card system), as well as to the payment of claims for repayment filed by compensation bodies of EU Member States in the case of liabilities arising from motor vehicle liability insurance contracts of insurance companies that are members of the Association. The liabilities of the Compensation Body apply to all liabilities arising from traffic accidents since 1 May 2004. The Compensation Body does not handle compensation claims itself, but refers them to one of the insurance companies after recording them. The Compensation Body is financed from the contributions paid by insurance companies based on the annual plan and is proportionate to the share of compulsory motor vehicle liability insurance policies underwritten in the previous year. In 2017 a total of 10 cases were treated, of which six in connection with uninsured vehicles, two in connection with unknown vehicles and two in connection with motor vehicle liability insurance underwritten by a foreign insurance company for damage abroad.

II. ANNUAL REPORT OF THE INSURANCE SUPERVISION AGENCY FOR 2017

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I. INTRODUCTION

The Insurance Supervision Agency (hereinafter: the Agency) prepares and publishes the Agency's Annual Report for 2017. The Agency's Annual Report consists of the annual report on its work prepared pursuant to Article 490 of the Insurance Act (Official Gazette of the RS, no. 99/93; hereinafter: ZZavar-1) and the annual statement of account which the Agency drafts based on Article 514 of the ZZavar-1.

The annual report on the work of the Agency for 2017, adopted by the Council of Experts of the Agency in accordance with Article 501 of the ZZavar-1, comprises a description of the legal status, duties and bodies of the Agency, a report on its internal organisation and funding, a report on the authorisations to perform insurance business and other authorisations issued by the Agency, a report on the implementation of supervision and the measures of supervision imposed, a report on the Agency's work concerning the introduction of Solvency II and the transposition of the Directive on insurance distribution, a report on the Agency's cooperation with domestic and foreign supervisory authorities, a report on the work in the area of legislation, a report on legal proceedings and other Agency's activities in 2017. The Agency annually reports to the National Assembly of the Republic of Slovenia about its work.

The annual statement of account for 2017 includes the Agency's financial statements, notes to financial statements and independent auditor's report. Pursuant to Article 514 of the ZZavar-1, the Agency's Council of Experts adopts the annual statement of account for the previous year by 31 March of each year. The Agency's annual statement of account must be examined by a certified auditor. The annual statement of account is acknowledged by minister responsible for finance and the National Assembly of the Republic of Slovenia. The financial statements are part of the Annual Report and are published.

As a rule, the information in this report refers to the financial year 2017, except in individual cases, when it refers to the period before that year or after it, if that is reasonable to enable more complete reporting on individual facts and issues related to the work of the Agency.

II. REPORT ON THE WORK OF THE INSURANCE SUPERVISION AGENCY

1. AGENCY'S LEGAL STATUS, DUTIES AND BODIES

1.1. Establishment and Legal Status of the Agency

The Agency was established on 1 June 2000, when the Government of the Republic of Slovenia appointed its Council of Experts and Director pursuant to the Insurance Act. In performance of its functions the Agency has succeeded the Office for Insurance Supervision, established in 1995 as a body within the Ministry of Finance.

The main goal of the supervision performed by the Agency is to protect the policyholders, the persons insured and other beneficiaries under insurance contracts. The Agency pursues this goal by supervising insurance companies and other supervised entities, thus checking that insurance companies and other entities operate lawfully and in line with the rules on risk management. The supervisory activities of the Agency are directed towards the future and the risks incurred by insurance companies.

The Agency's basic tasks are to encourage economic security and financial soundness of the supervised entities, contribute to an adequate level of protection of the present and future policyholders, persons insured and other beneficiaries under insurance contracts, and ensure that insurance companies are able, with high probability, to meet their obligations to the policyholders and persons insured on time.

To achieve these goals, the Agency issues various authorisations in the field of insurance business, and prepares and adopts implementing regulations which form the basis for its activities and supervision of the insurance market in the Republic of Slovenia.

The Agency is a self-governing and independent legal entity, and as such accountable to the National Assembly of the Republic of Slovenia.

The Agency's registered office is in Ljubljana, at Trg republike 3.

1.2. Agency's Bodies

The Agency's bodies are the Council of Experts and the Director.

1.2.1. Council of Experts

The Agency's Council of Experts consists of the President of the Council of Experts and four members, appointed by the National Assembly of the Republic of Slovenia at the proposal by the Government of the Republic of Slovenia. The members of the Council of Experts are appointed for a term of six years and may be re-appointed after its expiry. The Director of the Agency is a member of the Council of Experts of the Agency and may also be the President of the Council of Experts of the Agency.

The Council of Experts adopts decisions on authorisations, approvals and other individual matters on which, unless otherwise stipulated by the ZZavar-1 or other act, decisions are taken by the Agency, issues regulations where the law so prescribes, and adopts the rules of procedure of the Agency, the report on business performance of the insurance industry, the annual report of the Agency, the annual action plan of the Agency's technical services, the annual statement of account of the Agency and the financial plan of the Agency.

In 2017, the Council of Experts of the Agency consisted of:

- Sergej Simoniti, President until 22 November 2017,
- Gorazd Čibej, MSc, Member, President since 23 November 2017,
- Dr Miran Jus, Member until 19 June 2017,
- Andrej Zupančič, MSc, Member,
- Primož Damjanovič, Member,
- Florjan Lörger, Member since 20 June 2017.

In 2017, the Council of Experts of the Agency held 20 regular meetings and 9 correspondence meetings.

The decision-making procedures of the Agency are governed by the provisions of the General Administrative Procedure Act (Official Gazette of the RS, nos. 24/06 - official consolidated text, 105/06 - ZUS-1, 126/07, 65/08, 8/10 and 82/13), unless otherwise stipulated by the ZZavar-1. The procedure bodies are the Senate and the President of the Senate. The members of the Council of Experts are simultaneously the members of the Senate. The Senate decides on individual matters, unless the law lays down that a specific matter should be decided on by the President of the Senate.

1.2.2. Agency's Director

The Director of the Agency is appointed by the National Assembly of the Republic of Slovenia for a period of six years at the proposal by the Government of the Republic of Slovenia. The Director represents the Agency, manages its operations, organises the work of the Agency and its technical services, and performs other tasks, unless the ZZavar-1 stipulates that another Agency's body is responsible for those tasks. In 2017, the Director of the Agency was Sergej Simoniti. In December 2017 the Government of the Republic of Slovenia appointed Gorazd Čibej, MSc, Acting Director of the Agency. Mr. Čibej started his term of office on 1 January 2018 for a period of 6 months or until the appointment of the new director of the Agency.

1.3. Agency's Duties

According to the ZZavar-1, the Agency is responsible for issuing regulations on the basis thereof and for supervising insurance companies, insurance agencies and insurance brokerage companies, as well as insurance agents and brokers. The Agency also conducts supervision of legal persons related to insurance companies if that is necessary for the purpose of supervising an insurance company's operation, as well as control of insurance companies within an insurance group, insurance holding companies and mixed-activity insurance holding companies.

It also performs supervision of the operations of the Nuclear Pool, and the Guarantee Fund and the Compensation Body within the Slovenian Insurance Association.

In accordance with the Pension and Disability Insurance Act (96/12, 39/13, 46/13 - ZIPRS1314-A, 63/13 - ZIUPTDSV, 99/13 - ZSVarPre-C, 101/13 - ZIPRS1415, 111/13 - ZMEPIZ-1, 44/14, 85/14 - ZUJF-B, 95/14 - ZIUPTDSV-A, 97/14 - ZMEPIZ-1A, 95/14 - ZUJF-C, 31/15 - ZISDU-3, 90/15 - ZIUPTD, 90/15 - ZUPPJS16, 96/15 - ZIPRS1617, 102/15, 42/16 - Constitutional Court Decision, 80/16 - ZIPRS1718, 88/16 - ZUPPJS17, 40/17, 23/17, 75/17 - ZIUPTD-A, 65/17 in 71/17 - ZIPRS1819; hereinafter: ZPIZ-2), the Agency is responsible for issuing authorisations to pension companies, for supervising the operations of pension companies and insurance companies providing supplementary pension insurance, and for issuing implementing regulations. Pursuant to Article 354 of the ZPIZ-2, the Agency also supervises payers of occupational pensions.

Further, in line with Article 23 of the First Pension Fund of the Republic of Slovenia and Transformation of Authorised Investment Corporations Act (Official Gazette of the RS, no. 26/05 - official consolidated text, 85/09 and 32/16), the Agency also supervises the First Pension Fund of the Republic of Slovenia.

Moreover, pursuant to the Financial Conglomerates Act (Official Gazette of the RS, nos. 43/06, 87/11 and 56/13), the Agency also conducts supplementary supervision of supervised persons based in the Republic of Slovenia on top of a financial conglomerate or being controlled by a financial holding company.

Based on the provisions of the Macro-prudential Supervision of the Financial System Act (Official Gazette of the RS, no. 100/13; hereinafter: ZMbNFS), the Agency participates in the Financial Stability Committee, which includes the representatives of all three Slovenian supervisors of the financial sector entities. In addition, pursuant to the above act, the Agency exercises macro-prudential supervision over financial companies by monitoring, collecting and examining reports and notifications from financial companies, by inspecting the operations of financial companies, by imposing measures of supervision in accordance with the sectoral legislation, and by imposing macro-prudential supervision measures and instruments in accordance with the above act.

Based on its powers conferred to it by the legislation, the Agency primarily exercises supervision by regularly examining the reports and notifications received from those liable to report to it and by inspecting their operations.

The principal duties of the Agency are the following:

1. issuing of authorisations to perform insurance business;
2. issuing of authorisations to extend business to other classes of insurance;
3. issuing of authorisations to increase the share capital through contributions in kind – shares of another insurance company;
4. issuing of authorisations to acquire a qualifying holding;
5. issuing of authorisations to perform the function of a member of the management board or executive member of the board of directors;
6. issuing of authorisations to take over and transfer insurance contracts;
7. issuing of authorisations to merge or divide;
8. issuing of authorisations to establish a branch abroad;
9. issuing of authorisations to exceed the limitation on allowed investments in a pension company;
10. issuing of authorisations to perform insurance brokerage or agency services;
11. issuing of approvals of the method and amendments to the method of allocating income and expenses to the insurance groups of non-life and life insurance;
12. issuing of approvals of the articles of association and rules on the election into the general meeting of representatives of a mutual insurance company;
13. issuing of approvals of insurance statistical standards;
14. supervision of insurance companies, pension companies, insurance agents, insurance brokers, the Nuclear pool, the Guarantee Fund and the Compensation Body of the Slovenian Insurance Association, and imposing of supervision measures for eliminating established violations and irregularities;
15. preparation of implementing regulations based on insurance and pension legislation;
16. keeping of the obligatory registers of supervised entities;
17. conduct of minor offence proceedings in relation to violations of the ZZavar-1;
18. cooperation with other supervisors.

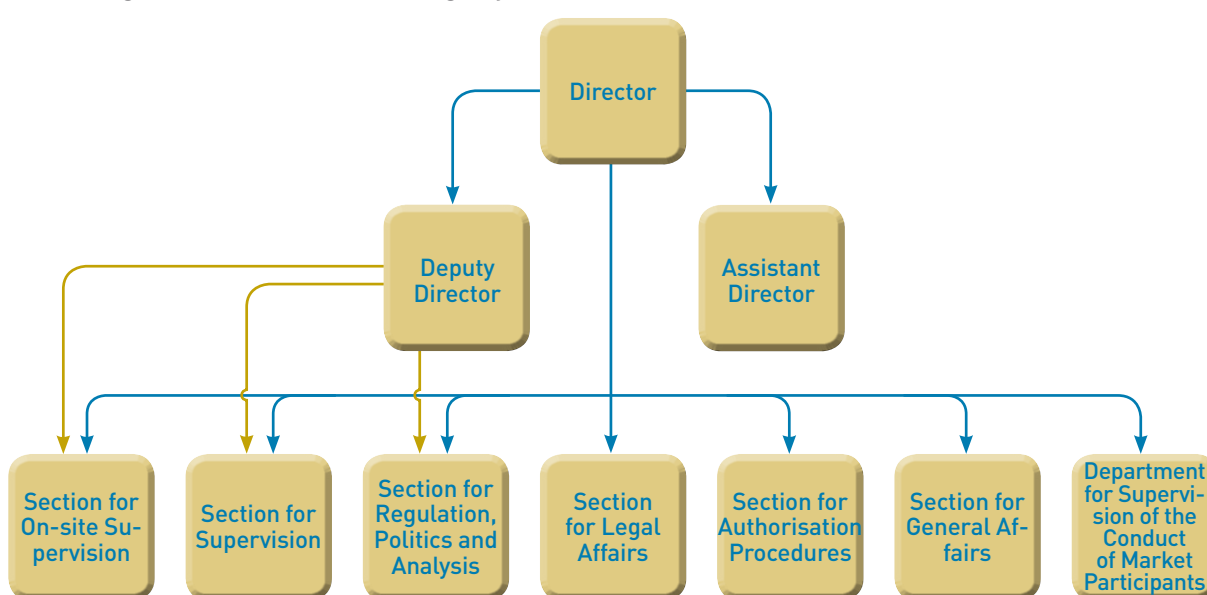
Since Slovenia's joining the European Union (EU) on 1 May 2004, the insurance companies and insurance brokers from the European Economic Area (EEA) have been able to directly perform insurance business in the Republic of Slovenia. Likewise, Slovenian insurance companies and insurance brokers may provide such services on the markets of other member states. Thus, the Agency's powers have extended outside the territory of the Republic of Slovenia, as in a certain part the Agency supervises the operations of Slovenian insurance companies on foreign markets and keeps records of all insurance service providers on the market of the Republic of Slovenia.

2. INTERNAL ORGANISATION AND FINANCING OF THE AGENCY

2.1. Internal Organisation and Number of Employees

Based on its Rules on Internal Organisation and Job Classification of November 2015, the Agency consists of six sections and one department: Section for Regulation, Politics and Analysis, Section for Supervision, Section for On-site Supervision, Section for Authorisation Procedures, Section for Legal Affairs, Section for General Affairs and Department for Supervision of the Conduct of Market Participants.

Figure 1:
Internal organisational structure of the Agency



Source: Rules on Internal Organisation and Job Classification.

The responsibilities of the organisational units in 2017 and until the preparation hereof are described below.

The **Section for Regulation, Politics and Analysis** primarily prepares market analyses with the identification of systemic risks, carries out macro-prudential supervision functions based on the act regulating macro-prudential supervision, prepares reports on business performance of the insurance industry and other internal and external reports and information on the insurance market, supervises the reporting and notification of insurance, reinsurance and pension companies and entities providing insurance agency and brokerage services, and proposes measures in relation to its findings, prepares proposals for amendments to acts and draft implementing regulations, cooperates with the Bank of Slovenia, the Securities Market Agency and other domestic supervisory authorities, holds responsibility for the submission of cross-border statistics, designs supervision policies, designs the contents of the Agency's website and administrates the contents in the area of work of the Section, proposes and prepares measures against supervised entities on the basis of the violations of the regulations discovered, prepares the positions of the Agency in court and other procedures following measures of supervision prepared by the Section, cooperates, in the scope of the area of work of the Section, with the European Insurance and Occupational Pensions Authority (EIOPA), the International Association of Insurance Supervisors (IAIS), the EU and EEA bodies and institutions, and other international supervisory authorities and their associations and other international institutions.

The **Section for Supervision** primarily supervises the operations of entities supervised by the Agency in accordance with the law through monitoring, collecting and verifying reports and notifications of insurance companies and other entities liable to submit reports to the Agency or to notify it of individual facts and circumstances in compliance with the law, supervises insurance groups and financial conglomerates, performs work and tasks related to the coordination and cooperation with the supervisory authorities of

the Member States and third countries and with other bodies in charge of supervision over the members of insurance groups and financial conglomerates, proposes and prepares measures against supervised entities on the basis of the violations of regulations discovered, performs work and tasks in relation to the supervision of the work of insurance company branches in the Republic of Slovenia and of the work of the insurance companies directly providing their services in the Republic of Slovenia, and cooperates with the competent supervisory authorities of the Member States and third countries, prepares the Operational Annual Plan of the Agency, performs the administrative function in line with the internal act Operational Annual Plan, conducts analysis of operations of the supervised entities by preparing the assessment of risks incurred by individual supervised entities, performs supervision in accordance with the European Market Infrastructure Regulation (EMIR), prepares the positions of the Agency in court and other procedures following measures of supervision prepared by the Section, cooperates in the preparation of proposals for amendments to acts and draft implementing regulations in its area of work, cooperates, in the scope of the area of work of the Section, with the supervisory institutions within the EIOPA and supervisory institutions in other countries, in particular within the international association IAIS, with the EU and EEA authorities and institutions and other international institutions.

The **Section for On-site Supervision** primarily performs inspections of operations of the supervised entities and work and tasks in relation to that, cooperating with other sections and including employees from other sections in the inspections, organises and conducts supervisory college meetings, participates in supervisory colleges organised by other supervisory authorities, proposes and prepares measures of supervision against the supervised entities on the basis of the violations discovered during inspections of operations of the supervised entities, cooperates in the preparation of the Operational Annual Plan of the Agency, performs the administrative function in line with the internal act Operational Annual Plan, keeps records in the area of work of the Section, including the record of the issued minutes of the inspections of operations of the supervised entities, the record of the measures of supervision imposed on the basis of inspections of operations of the supervised entities and the record of eliminated violations, keeps the entire documentation received during inspections of operations, prepares the positions of the Agency in court and other procedures following measures of supervision prepared by the Section, cooperates in the preparation of proposals for amendments to acts and draft implementing regulations in its area of work, cooperates, in the scope of the area of work of the Section, with the supervisory institutions within the EIOPA and supervisory institutions in other countries, in particular within the international association IAIS, with the EU and EEA authorities and institutions and other international institutions.

The **Section for Authorisation Procedures** primarily prepares proposals for decisions on the applications for authorisations, consents, opinions and approvals issued by the Agency on the basis of the act regulating insurance and other acts to insurance, reinsurance and pension companies, entities providing insurance agency and brokerage services, and other applicants, prepares proposals for decisions on the expiry of authorisation granted to supervised entities if the conditions for the expiry of the authorisation are met in accordance with the law, inspections the meeting of the conditions for performing the office of a member of the supervisory or management board of an insurance, reinsurance or pension company for which the law prescribes conditions for performing the office, keeps the registers of authorisations issued prescribed by the act regulating insurance and other records of issued, withdrawn and expired authorisations, consents, opinions and approvals, regularly publishes appropriate registers on the Agency's website, proposes and prepares measures against the supervised entities on the basis of violations of regulations established, prepares the positions of the Agency in court and other procedures following measures of supervision prepared by the Section, cooperates in the preparation of proposals for amendments to acts and draft implementing regulations in its area of work, cooperates, in the scope of the area of work of the Section, with the supervisory institutions within the EIOPA and supervisory institutions in other countries, in particular within the international association IAIS, with the EU and EEA authorities and institutions and other international institutions.

The **Section for Legal Affairs** primarily conducts the administrative procedures of the Agency, carries out legal review of the draft acts and implementing regulations of the Agency, carries out legal review of the draft internal regulations of the Agency, carries out legal review in relation to public tenders, conducts minor offence procedures within the competence of the Agency, handles the received complaints against the conduct of the supervised entities, carries out tasks in the field of money laundering prevention within the competence of the Agency, drafts legal opinions and provides support in the interpretation of regulations, prepares applications of the Agency in court and other procedures, performs legal work and tasks in relation to the implementation of the duties and powers of the Agency and in relation to the Agency's operation as a legal person, cooperates in the preparation of proposals for amendments to acts and draft imple-

menting regulations in the area of work of the Agency, cooperates, in the scope of the area of work of the Section, with the supervisory institutions within the EIOPA and supervisory institutions in other countries, in particular within the international association IAIS, with the EU and EEA authorities and institutions and other international institutions.

The **Section for General Affairs** primarily provides expert and administrative support to the Director of the Agency, performs the tasks of the Agency's main office and mail room, prepares the Agency's internal regulations, performs the tasks concerning the establishment, upgrade and maintenance of the entire information system and information security system of the Agency, takes care of the administration and updating of the Agency's website, performs tasks in the area of the Agency's accounting and financial operations, performs tasks in the labour law area and in the area of public procurement, coordinates the participation of the Agency's employees in training courses and working groups in Slovenia and abroad, and cooperates in the preparation of proposals for amendments to acts and draft implementing regulations in the area of its work.

The **Department for Supervision of the Conduct of Market Participants** primarily supervises the conduct of insurance companies when offering and marketing insurance products, regardless of the distribution channel or communication channel, and the controlling of the distribution channels, the general insurance conditions and notification of the policyholders, the establishment and appropriateness of the internal procedures for resolving complaints at the supervised entities, supervises the appropriateness of the procedures of treating insured events, supervises insurance agents and brokers, companies providing insurance agency or brokerage services and banks providing insurance brokerage services, proposes inspections of operations and cooperates with the Section for On-site Supervision in the inspections of operations in the scope of the area of work of the Section, prepares proposals for decisions on the expiry of authorisations of insurance agencies and brokerage companies if the conditions for the expiry of the authorisation are met in accordance with the law, cooperates in the keeping of the registers of natural and legal persons providing insurance agency and brokerage services in the part concerning changes or deletion of data or persons, cooperates in the preparation of the Operational Annual Plan of the Agency, identifies bad practices on the insurance market and performs tasks of raising the awareness in the area of financial literacy and consumer protection, proposes and prepares measures against the supervised entities on the basis of the violations of regulations established, proposes initiation of minor offence procedures in the area of work of the Department, cooperates in the preparation of proposals for amendments to acts and draft implementing regulations in the area of its work, cooperates, in the scope of the area of work of the Department, with the supervisory institutions within the EIOPA and supervisory institutions in other countries, in particular within the international association IAIS, with the EU and EEA authorities and institutions and other international institutions.

As at 31 December 2017, the Agency employed 42 people, of whom one with a PhD in natural sciences, 15 with a Master's degree (11 in economics, two in law, one in economic information technology and one in administration), one with a second Bologna degree in financial mathematics, 17 with university education, seven with higher education and one with secondary education. In 2017 the Agency additionally employed a worker for a specified period of time to replace an employee on maternity and childcare leave.

Table 1:
Number of Agency employees per educational level as at 1 January 2017 and 31 December 2017

Educational level	Number of employees	
	1 January 2017	31 December 2017
V - secondary education	1	1
VII - higher education	6	7
VII - university education	17	17
VII - second Bologna degree	1	1
VIII - Master's degree	15	15
IX - PhD	1	1
Total	41	42

Source: Agency's data.

Table 2:**Number of employees per professional title as at 1 January 2017 and 31 December 2017**

Professional title	Number of employees	
	1 January 2017	31 December 2017
Economic technician	1	1
B.Sc. in German Studies	0	1
B.Sc. in Administration	3	3
B.Sc. in Economics	3	3
B.Sc. in Economics (Univ.)	8	8
B.Sc. in Mathematics (Univ.)	1	1
B.Sc. in Mathematics (Univ.)	1	1
B.Sc. in Electrical Engineering (Univ.)	1	1
B.A. in Law (Univ.)	3	3
B.Sc. in Sociology (Univ.)	1	1
B.Sc. in Computer Science (Univ.)	2	2
M.Sc. (second Bologna degree)	1	1
Master of Science	15	15
Doctor of Science	1	1
Total	41	42

Source: Agency's data.

2.2. Financing of the Agency

The Agency is financed from fees as laid down in the Tariff on fees, annual fees and lump-sum fees (Official Gazette of the RS, no. 52/16; hereinafter: the Tariff). The Tariff is adopted by the Council of Experts of the Agency and enters into force after it has been approved by the Government of the Republic of Slovenia and published in the Official Gazette of the Republic in Slovenia. The new Tariff, issued on the basis of the new Insurance Act which entered into force at the end of 2015, began to apply in 2016. In accordance with Article 11 of the Tariff, the persons liable began to pay the annual fees based on the changed base on 1 January 2017.

Pursuant to the Tariff, in 2017 the Agency collected EUR 2,915,737 of annual fees, and EUR 145,014 of fees and lump-sum fees. This revenue accounted for 99.96% of the total revenue of the Agency, the rest being financial revenue and other revenue of the Agency.

Supervision over the lawfulness, purpose, and economic and efficient use of the Agency's assets is performed by the Court of Audit of the Republic of Slovenia.

3. REPORT ON AUTHORISATIONS TO PERFORM INSURANCE BUSINESS AND OTHER AUTHORISATIONS ISSUED BY THE AGENCY

In 2017, the Agency decided on various matters concerning the operation of supervised entities based on the provisions of the ZZavar-1 and the ZPIZ-2.

The authorisations, approvals and other decisions issued in 2017 are described below, and their number compared to 2016 is presented in Table 3.

Based on the second indent of Article 28(1) of the ZZavar-1, the Agency issued an approval to two insurance companies to change the method of allocating income and expenses.

A person intending to directly or indirectly acquire shares of an insurance or pension company based on which it would achieve or exceed the qualifying holding must obtain the Agency's approval prior to acquiring such holding in accordance with Article 31 of the ZZavar-1 or Article 332 of the ZPIZ-2. In 2017, the Agency issued one authorisation to acquire a qualifying holding in a reinsurance company, namely an authorisation to acquire a direct holding in the capital which equals or exceeds the qualifying holding and is lower than 20%, or a direct holding of voting rights which equals or exceeds the qualifying holding and is lower than 20%.

Further, the Agency refused application for acquisition of a qualifying holding in a reinsurance company, namely for the acquisition of direct or indirect holding in the capital which, in total, equals or exceeds 20% and is lower than one-third, or a direct or indirect holding of voting rights which equals or exceeds 20% and is lower than one-third.

In line with Article 59(4) of the ZZavar-1, the Agency issued eight authorisations to perform the function of a member of the management board in an insurance company. It rejected to issue one authorisation to perform the function of a member of the management board in an insurance company.

In line with Article 59(6) of the ZZavar-1, the Agency issued eight decisions establishing the expiry of authorisation to perform the function of a member of the management board in an insurance company.

On the basis of Article 65 of the ZZavar, in 2017 the Agency issued one authorisation to establish an insurance company, namely authorisation to perform insurance business in the insurance class motor vehicle liability insurance.

In addition, the Agency issued an authorisation to perform insurance business in an additional insurance class, namely the insurance class of accident insurance, on the basis of Article 118(2) of the ZZavar-1. On the basis of Article 113(1) of the ZZavar-1, the Agency issued the authorisation to perform reinsurance business in the non-life insurance group to one insurance company.

Pursuant to Article 122 of the ZZavar-1, the Agency issued one decision on the termination of performance of insurance business in the life insurance class under item 19 of the second paragraph of Article 7 of the ZZavar-1 and in the insurance class life insurance with investment risk under item 21 of the second paragraph of Article 7 of the ZZavar-1.

Based on Article 73(1)(d) of Commission Delegated Regulation (EU) 2015/35 of 10 October 2014 supplementing Directive 2009/138/EC of the European Parliament and of the Council on the taking-up and pursuit of the business of Insurance and Reinsurance, a reinsurance company was issued a decision on prior approval of the refund of the item of own funds. Based on Article 71(1)(h) of Commission Delegated Regulation (EU) 2015/35 of 10 October 2014 supplementing Directive 2009/138/EC of the European Parliament and of the Council on the taking-up and pursuit of the business of Insurance and Reinsurance, an insurance company was issued a decision on prior approval of the refund of the item of own funds.

On the basis of Article 304(3) in conjunction with Article 323(6) of the ZPIZ-2, in 2017 the Agency issued approvals of the rules on the governance of supplementary pension insurance funds to two insurance companies and one pension company.

In 2017, the Agency granted altogether 596 authorisations to perform insurance agency and insurance brokerage services. Of this, 187 authorisations were issued to companies and sole traders providing insurance agency or brokerage services for the provision of insurance agency and brokerage services and companies underwriting insurance policies in direct connection with their main activity, and 409 authorisations were issued to natural persons for the provision of insurance agency and brokerage services.

Pursuant to Article 558(5) of the ZZavar-1, in 2017 the Agency issued two prior opinions on the issue of authorisation to perform insurance brokerage services in the sale of insurance policies.

Pursuant to Article 570(4) of the ZZavar-1, an authorisation to provide insurance agency or brokerage services ceases to be in force if an insurance agency or an insurance brokerage company fails to start up its operations within six months after the authorisation was issued, if it ceases to perform insurance agency or brokerage services for more than one year, upon the commencement of bankruptcy proceedings or a compulsory liquidation procedure, upon the deletion of an insurance agency or an insurance brokerage company from the register of companies or any other suitable register, or upon receiving a statement from an insurance agency or an insurance brokerage company stating that it ceased to perform insurance agency or brokerage services and upon receiving supporting documentation concerning the entry of a change of activities in a register of companies or any other suitable register or concerning the adoption of a procedural decision by a competent authority when such entry is not foreseen. In that case, the Agency issues a decision establishing the expiry of authorisation. In 2017 the Agency issued 231 such establishing decisions on the basis of its findings.

In 2017 the Agency dismissed five applications for authorisations in the area of pursuit of insurance agency and brokerage business on procedural grounds, and rejected three applications for authorisation due to failure to meet the statutory conditions.

Further, on the basis of Article 642(2) of the ZZavar-1, the Agency issued a decision establishing the obtaining of the authorisation to perform the activity of an insurance or reinsurance pool.

In addition to the above-mentioned administrative procedures, in 2017 the Agency also treated notifications by two insurance companies on the intended commencement of direct performance of insurance operations in the territory of another EU Member State(s). Based on the requests received from the supervisors from other EU Member States, in 2017 the Agency notified the provision of services for 50 insurance companies and their branches in other EU Member States which are registered for the performance of insurance business in their countries and may, based on notification, directly conduct business in the territory of the Republic of Slovenia. According to the regulations, the Agency regularly updated the register of persons performing insurance activity in the territory of the Republic of Slovenia. The register is publicly available on the Agency's website.

Table 3:**Authorisations, approvals and other decisions issued in 2016 and 2017**

Type of authorisation	2016	2017
Approval of the method of allocating income and expenses	2	2
Authorisation to acquire a qualifying holding in an insurance/pension company	1	1
Decision refusing application for acquisition of a qualifying holding in an insurance/pension company	1	1
Decision establishing the expiry of authorisation to acquire a qualifying holding	3	0
Authorisation to perform the function of a member of the management board in an insurance/pension company	4	8
Decision establishing the expiry of authorisation to perform the function of a member of the management board	10	8
Decision refusing application for an authorisation to perform the function of a member of the management board in an insurance/pension company	0	1
Decision on merger by acquisition of an insurance company	1	0
Authorisation to perform insurance business (foundation)	0	1
Authorisation to perform insurance business in the specific class of insurance	1	1
Authorisation to perform reinsurance business in the specific class of insurance	3	1
Decision establishing the expiry of authorisation to perform insurance business	2	1
Decision on prior approval of the refund of the item of own funds	1	2
Approval of the rules on governance	3	3
Authorisation to perform insurance brokerage/agency services (natural persons)	777	409
Authorisation to perform insurance brokerage/agency services (legal persons)	154	187
Prior opinion on the issue of authorisation to perform insurance brokerage services in the sale of insurance policies	0	2
Decision establishing the expiry of the authorisation to perform insurance agency or brokerage services	321	231
Refusal or dismissal of issuing an authorisation to perform insurance brokerage or agency services	10	5
Decision establishing the obtaining of the authorisation to perform the function of a member of the management of an insurance or reinsurance pool	1	0
Authorisation to perform the activity of an insurance or reinsurance pool	0	1
Decision on the replacement of standardised parameters with the parameters of an insurance company	1	0
TOTAL	1,296	865

Source: Agency's data.

The table shows that in 2017 the Agency issued 431 less decisions than in 2016. Among decisions, the number of authorisations to perform insurance brokerage or agency services increased the most.

4. IMPLEMENTATION OF SUPERVISION AND MEASURES OF SUPERVISIONS IMPOSED

The Agency provides supervision by monitoring and examining reports and notifications by insurance companies and other persons obliged to report to it pursuant to the ZZavar-1 and other laws, and by inspecting the operations of supervised entities. When, during supervision, the Agency identifies violations of the ZZavar-1 or other regulations on the operations of supervised entities, it issues to the supervised entity an order to eliminate the violations or irregularities, or to eliminate or abandon certain acts.

4.1. Examination of Reports and Notifications

The Agency receives regular and extraordinary reports based on the law. Regular reports refer to periodic reporting on the operations of the supervised entities. The latter submit different types of regular reports into the Agency's information system: reports based on the EU Solvency II Directive, qualitative reports and other reports prescribed by law.

Extraordinary reports refer to reports requested by the Agency (when implementing measures of supervision or as additional reporting by an individual supervised entity) and to occasional reports that the supervised entities must submit to the Agency (e.g. reports on the convocation and resolutions of the general meeting and on changes in the management bodies).

In relation to reporting, the Agency examines the timeliness and correctness of reports, and endeavours to establish any material misstatements through detailed analysis and cross-examination. If any violation or irregularity in reporting is established, the Agency requests the supervised entity to eliminate them, but may also decide to take other appropriate supervisory measures, including detailed on-the-spot inspection. In September 2017, the Agency implemented the software for reporting by the supervised entities. The software novelties are described in more detail in the chapter Activities in the Area of Information Technology.

4.2. Inspections of Operations

Through inspections of operations, the Agency checks whether the supervised entities operate in a way that ensures protection of the policyholders, the persons insured and other beneficiaries under insurance contracts. Inspections of operations may be comprehensive, focused on individual high risk areas in relation to an individual entity, or thematic. In addition to conducting regular inspections of operations in the scope of the three-year cycle, when planning inspections the Agency also takes into account information based on the monitoring of reports and notices in the scope of regular reporting, initiatives from other sectors in relation to the performance of the Agency's tasks, information based on the assessment of risks associated with the supervised entities, and information from publicly available sources. When conducting inspections of operations, the Agency, if necessary, cooperates with other Slovenian and foreign supervisors. Inspections of operations primarily enable the Agency to check operations in practice and provide data and information that are not available to it based on regular reporting.

If any unreasonableness, inconsistencies or violations in the operation of the supervised entities are established, the Agency imposes measures of supervision based on the findings of its experts. The experts monitor the elimination of unreasonableness, inconsistencies or violations by examining the reports on elimination of violations and, if appropriate, by follow-up inspections of operations within the scope necessary to determine whether the violations have been eliminated.

A pending case from 2014 was ended in 2017 with the rejection of action by the Administrative Court. A case in relation to a supervised entity from 2015 is still open and is in the stage of eliminating the violations in accordance with the order issued. Out of nine procedures started with supervised entities in 2016, eight were completed in 2017 (three with a letter on the completion of the inspection of operations, one with a decision establishing the elimination of violations, three with internal minutes, one with a decision on the termination of the procedure and letter on the completion of the inspection of operations which was issued in the first week of 2018), while only one entity is in the stage of eliminating the violations after the issue of a notification.

For 2017 the Agency planned 15 inspections of operations, of which six with insurance companies, six with insurance agency and brokerage companies and three together with foreign supervisors. All 15 planned inspections were started; 10 were completed in the same year, of which:

- at insurance companies:
 - one inspection ended with three letters on the completion of the inspection of operations;
 - another ended with a letter on the completion of the inspection of operations;
- at insurance agency and brokerage companies:
 - six inspections ended with a letter on the completion of the inspection of operations;
- two inspections with foreign supervisors ended with minutes.

In 2017 the Agency issued to insurance companies additionally – based on inspections conducted in 2016 – three orders to eliminate violations and two notifications on intended measure of supervision. The deadline for eliminating the violations expires in 2018, therefore, the total number of open cases in relation to insurance companies is ten (five based on inspections conducted in 2017 and five based on inspections conducted in 2016).

At the end of 2017, a total of twelve cases were open: one started in 2015 (order), one started in 2016 (notification), five started based on findings from the inspections conducted in 2016 and five started based on findings from the inspections conducted in 2017. One has to consider that sometimes it takes more time from the beginning to the end of the inspection because supervised entities must have sufficient time to eliminate the violations and/or their larger input is necessary to eliminate the violations.

4.3. Imposing Measures of Supervision

In 2017 the Agency imposed measures of supervision based on the findings from inspections of operations, based on the findings from regular and extraordinary reports, and based on publicly available information. Pursuant to Article 434 of the ZZavar-1, the Agency imposed measures of supervision ex officio.

The ZZavar-1 introduced two new measures of supervision: recommendation and warning. The Agency issues recommendations to the management board of the insurance company to improve the operations of the company if, when reviewing its operations, it establishes a dysfunction or inconsistencies in the operations which do not constitute a violation of the regulations. The Agency issues a warning to an insurance company, instead of an order to eliminate violations, if, when reviewing its operations, it establishes violations of the regulations which, in terms of their characteristics and scope, do not have significant effects. In 2017, the Agency issued one recommendation and eight warnings concerning primarily elimination of violation that the Agency found based on inspections of operations and in relation to incorrect reporting by supervised entities.

In 2017, the Agency issued 14 notifications prior to issuing an order to eliminate violations. The Agency issues a notification based on the reporting request and the rules on administrative procedure, so that the supervised entity can, within the period set, state its opinion on the facts and circumstances indicated in the notification, important for the issue of the order to eliminate violations. If the insurance company eliminates the violation indicated in the notification, it notifies the Agency within the same period, providing the relevant evidence. The Agency examines the statement received and the documents attached. If it finds that it has not been demonstrated that violations were made or that it has been demonstrated that they were eliminated, it issues a decision on the termination of the procedure of measure of supervision. Based on the finding that violations were eliminated, the Agency terminated 13 procedures of measure of supervision.

The Agency issued 10 orders to eliminate violations to different supervised entities in 2017. The violations concerned the provisions of the ZZavar-1 relating to disclosure of the amount of fees in insurance policies; provision of insurance brokerage services for insurance companies through companies that did not have the Agency's authorisation; members of the supervisory board who did not meet the regulatory conditions; valuation of assets; general meeting; alignment of assets with the legislation; and governance system.

The Agency issued one decision establishing the elimination of violations in 2017.

The agency issued two decisions on the beginning of the procedure of withdrawing the authorisation to an insurance brokerage company because of the repeated violation of the reporting and notification obligation. The two insurance brokerage companies did not eliminate the violations; therefore, the Agency withdrew their authorisations.

The Agency issued four decisions on the beginning of the procedure of withdrawal of the authorisation to perform insurance agency services due to a conviction by a final decision and severe violations of good business practices.

The Agency issued three decisions on withdrawal of the authorisation to perform insurance agency services. One authorisation was withdrawn from an insurance agent because of severe violations of good business practices in the provision of insurance agency services, while two authorisations were withdrawn because of a conviction by a final decision.

In the area of minor offence law, in 2017 the Agency issued a decision on a minor offence by which it issued a reminder to an insurance brokerage company because its management did not carry out all the necessary legal measures to ensure due control over the compliance with the provisions of the ZZavar-1. The Agency also issued a warning to an individual entrepreneur because he did not submit to the Agency copies of liability insurance policies and did not report on the structure and volume of brokerage business.

A summary overview of the situation is given in Table 4, together with a comparison with the previous year.

Table 4:
Data on the measures of supervisions imposed in 2016 and 2017

TYPE OF MEASURE	2016	2017
Recommendation, warning	2	9
Notification prior to issuing an order to eliminate violations	26	14
Order to eliminate violations	4	10
Decision on appeal against an order	2	0
Decision on the beginning of the procedure of withdrawing the authorisation	1	5
Decision on withdrawal of an authorisation	4	5
Decision establishing the elimination of violations	7	1
Decision on termination of the procedure	10	13
TOTAL	54	57

Source: Agency's data.

As shown, the Agency issued 57 measures of supervision in 2017. Compared to 2016, in 2017 more warnings and orders to eliminate violations were issued.

4.4. Supervision of the Conduct of Market Participants

In the field of supervising the conduct of market participants, in 2017 the Agency performed activities related to the preparation and implementation of legislation in the area of supervising market participants.

The work in this area primarily comprised cooperation with the Ministry of Finance and other stakeholders in the transposition of the requirements of the IDD to the ZZavar-1. Based on the IDD requirements, the Agency also examined the need to amend implementing and other regulations in this field, and began to prepare proposals for amendments to the existing implementing regulations and proposals for new implementing regulations to be adopted in 2018.

Moreover, the Agency performs regular tasks of supervising the conduct of market participants, which include analyses of the market and conduct of market participants and conduct of procedures in relation to violations found. In this context, in 2017 the Agency conducted inspections of operations of brokers in the area where the Agency discovers violations of the applicable legislation.

5. LEGAL PROCEEDINGS

5.1. Legal Proceedings before the Administrative Court of the Republic of Slovenia

As at 1 January 2017, the Agency was a party to four proceedings before the Administrative Court of the Republic of Slovenia.

In August 2015 an action was filed against the Agency by a supervised entity, by which the latter challenges the Agency's decision on the appeal against the order to eliminate violations in relation to the valuation of investments. At the end of February 2017, the Agency received the decision of the Administrative Court, by which the latter ruled in favour of the Agency. In May 2016, two members of the supervisory board filed an action against the decision on the appeal by which the Senate of the Agency confirmed the order to eliminate violations, in which it was found that the two members of the supervisory board did not meet the conditions for holding the position of a member of the supervisory board of the insurance company. The Agency received the judgements in May and June 2017, respectively. The court rejected both actions.

In November 2016 an action was filed against the decision by which the Senate of the Agency refused to issue an authorisation to acquire a qualifying holding in a reinsurance company. In September 2017 an action was also filed against the decision by which the Senate of the Agency refused the application for an authorisation to acquire a qualifying holding in a reinsurance company.

As at 31 December 2017, the Agency was a party to two proceedings before the Administrative Court of the Republic of Slovenia.

5.2. Legal Proceedings before the Supreme Court of the Republic of Slovenia

As at 1 January 2017 two proceedings were pending before the Supreme Court of the Republic of Slovenia against the Agency on the basis of applications for a judicial review in relation to the issue of changing premiums during the period of an insurance contract filed by supervised entities in 2014 against the ruling of the Administrative Court of the Republic of Slovenia which rejected the actions filed by the supervised entities against the Agency's decisions. At the end of January and in the beginning of February 2017, the Agency received the decisions of the Supreme Court by which the latter rejected the applications for a judicial review.

As at 31 December 2017, the Agency was not involved in any open proceedings before the Supreme Court of the Republic of Slovenia.

5.3. Other Legal Proceedings

As at 31 December 2017, the Agency was involved in one labour law dispute pending before the Labour and Social Court of Ljubljana. The Agency is the defendant in the labour law dispute, in which the first judgement was issued in 2015. Both the Agency and the plaintiff filed an appeal against the judgement. In May 2016 the Higher Labour and Social Court granted the appeals and remanded the case to the court of first instance, which issued the second judgement in July 2016. The Agency and the plaintiff also filed an appeal against this judgement, after which the Higher Labour and Social Court issued its judgement. The plaintiff filed an application for a judicial review, which the Supreme Court of the Republic of Slovenia has not yet ruled upon. In relation to this case, the Agency is also involved in another proceeding before the Labour and Social Court of Ljubljana as an intervener, which it became in 2015. The Agency filed an appeal against the judgement with the Higher Labour and Social Court and then also an application for a judicial review, which the Supreme Court of the Republic of Slovenia rejected in January 2018.

6. AGENCY'S WORK IN RELATION TO THE TRANSPOSITION OF EU LEGISLATION

6.1. Activities in the Field of Legislation

In the field of legislation, in 2017 the Agency was strongly involved in the process of preparing the Act Amending the Insurance Act (proposal for ZZavar-1A).

With ZZavar-1A, the Directive (EU) 2016/97 of the European Parliament and of the Council of 20 January 2016 on insurance distribution (hereinafter: IDD) will be transposed into the ZZavar-1 in 2018, by which the IDD requirements will also enter into force in the Republic of Slovenia. The IDD has several goals, of which we primarily emphasise the following:

- stronger consumer protection in the distribution of insurance products and activities related to the preparation of insurance products, and equal level of consumer protection regardless of the distribution channel;
- provision of a high level of expertise and qualification and constant training of insurance brokers, and thus equal competition conditions for all distributors;
- possibility for insurance agents and brokers to freely operate in all EU and simultaneous provision to the competent authorities of the Member States of all the necessary means to ensure correct operation of insurance agents and brokers;
- stricter requirements in relation to the distribution of insurance-based investment products;
- setting of the rules to prevent any conflicts of interest encountered by insurance distributors to adversely affect the interests of customers;
- requirements concerning information and disclosures to be given to customers;
- the sale of insurance products will always have to be accompanied by a demands-and-needs test, and when advice is provided prior to the sale of an insurance product, a personalised recommendation of the distributor will also be required.

The proposal for ZZavar-1A also eliminates deficiencies found in relation to the application of the ZZavar-1 and provides for a more appropriate implementation of certain provisions of the Solvency II Directive.

6.2. Work in the Area of Risk-based Supervision

The Agency already began to introduce the principles of risk-based supervision in 2015. This is a form of prospective supervision focused on risks, which the Agency also continued in 2017. Based on reporting by insurance companies, in 2017 the Agency performed sets of supervisory activities which are described in more detail below.

The Agency regularly conducts supervisory procedures to ensure examination of quantitative and qualitative data and information that the insurance companies prepare in accordance with the Solvency II requirements. The data received in the scope of reporting in 2017 and information were reviewed in terms of accuracy and completeness with regard to the Solvency II requirements. The insurance companies where irregularities, ambiguities or deficiencies were discovered were notified about these in writing, and invited to eliminate them and prepare a new report with corrected data and information.

In addition to these activities, in 2017 the Agency performed risk-based supervision on the basis of the internal Methodology for the assessment of risks associated with the supervised entities. In doing so, it identified the most important risks associated with individual supervised entities. At the same time, these procedures are designed in a way that ensures that supervisory procedures are objective, traceable and transparent, taking into account the size and nature of the business and the risk profile of an individual supervised entity. In the scope of risk assessment, a group of experts analyses the business model and examines the main business segments of each entity. Thus, the assessment also includes all areas of review defined in Article 36(2) of the Solvency II Directive. In the scope of this supervision segment, the Agency prepared a composite assessment of risks and risk trends, together constituting a prospective regulatory assessment. Such regulatory assessment allows the Agency to prioritise supervisory activities, and simultaneously contributes to early detection and elimination of potential outbreaks at the level of an individual supervised entity and at the level of the insurance industry.

The obtained data are also the basis for the identification of risks for the financial stability for the needs of the work of the Financial Stability Committee.

7. ACTIVITIES IN RELATION TO OTHER LEGISLATION AREAS

7.1. Activities in Relation to the Preparation of Laws

In 2017 the Agency was, on request or on its own initiative, also involved in the process of adopting and amending other regulations concerning or influencing the work of the Agency directly or indirectly. The amended regulations listed below thus influence the operations of the entities supervised by the Agency:

1. Implementation of the Regulation (EC) on Key Information Documents for Packaged Retail and Insurance-based Investment Products Act (ZIUDPNP);
2. Personal Data Protection Act (ZVOP-2);
3. Consumer Protection Act (ZVPot-1);
4. Act Amending the Public Agencies Act;
5. Physical Assets of the State and Local Government Act (ZSPDSLS) and Decree on physical assets of the state and local government;
6. Information Security Act (ZIV);
7. Regulation of the European Parliament and of the Council on a pan-European Personal Pension Product (PEPP);
8. Financial Instruments Market Act (ZTFI-1);
9. Act Implementing the Regulation (EU) on the transparency of securities financing transactions and of reuse;
10. Regulation amending Regulation (EU) No 648/2012 as regards the clearing obligation, the suspension of the clearing obligation, the reporting requirements, the risk-mitigation techniques for OTC derivatives contracts not cleared by a central counterparty, the registration and supervision of trade repositories and the requirements for trade repositories;
11. Act on Judicial Relief Granted to Holders of Qualified Bank Credit (ZPSVIKOB);
12. Act Amending the Compulsory Motor Third-Party Liability Insurance Act (ZOZP-C);
13. Act Amending the Contentious Civil Procedure Act (ZPP-E);
14. Regulation of the European Parliament And of the Council on a framework for the recovery and resolution of central counterparties and amending Regulations (EU) No 1095/2010, (EU) No 648/2012, and (EU) 2015/2365, and Directives 98/26/EC, 2002/47/EC, 2004/25/EC, 2005/56/EC, 2007/36/EC;
15. Commission Delegated Regulation (EU) 2017/2358 of 21 September 2017 supplementing Directive (EU) 2016/97 of the European Parliament and of the Council with regard to product oversight and governance requirements for insurance undertakings and insurance distributors (DU POG);
16. Commission Delegated Regulation (EU) 2017/2359 of 21 September 2017 supplementing Directive (EU) 2016/97 of the European Parliament and of the Council with regard to information requirements and conduct of business rules applicable to the distribution of insurance-based investment products (DU IBIPs);
17. Directive of the European Parliament and of the Council amending Directive 2014/65/EU on markets in financial instruments and Directive 2009/138/EC on the taking-up and pursuit of the business of Insurance and Reinsurance (Solvency II);
18. Commission Delegated Regulation (EU) concerning the calculation of regulatory capital requirements
19. Regulation of the European Parliament and of the Council amending Regulation (EU) No 1095/2010 establishing a European Supervisory Authority (European Securities and Markets Authority) and amending Regulation (EU) No 648/2012 as regards the procedures and authorities involved for the authorisation of CCPs and requirements for the recognition of third-country CCPs.

7.2. Activities in Relation to the Preparation of Implementing Regulations

The Agency issued no implementing regulation in 2017.

8. REPORT ON THE AGENCY'S COOPERATION WITH DOMESTIC AND FOREIGN SUPERVISORS

8.1. Cooperation with Domestic and Foreign Supervisors

The Agency regularly cooperates with the Bank of Slovenia, the Securities Market Agency, the Slovenian Insurance Association, the Slovenian Institute of Auditors, the Agency for Public Oversight of Auditing, the Office for Money Laundering Prevention and the Commission for the Prevention of Corruption.

In addition to the cooperation with the supervision authorities, in discharging its functions the Agency also regularly cooperates with all ministries competent in the insurance area, in particular with the Ministry of Finance, the Ministry of Labour, Family, Social Affairs and Equal Opportunities, and the Ministry of Health.

Pursuant to the Code of Practice for cooperation between supervisory authorities, the members of the Cooperation Commission, which is composed of the Vice-Governor of the Bank of Slovenia or Director of the Banking Supervision Department of the Bank of Slovenia, the Director of the Securities Market Agency, and the Director of the Insurance Supervision Agency, held four meetings in 2017. In accordance with Article 6(2) of the Code of Practice, the duty of convening meetings and preparing the minutes rotates, being assumed by a different supervisory authority every year. In 2017, these tasks were performed by the Securities Market Agency, while in 2018 they will be handed over to the Agency.

The Financial Stability Committee, operating in line with the provisions of the ZMbnFS, is responsible for the preparation of the macro-prudential policy in the Republic of Slovenia. The objective of the Committee's activities is to contribute to the protection of the stability of the whole financial system, including the strengthening of its resilience and reduction of accumulation of systemic risks, and to thus ensure a sustainable contribution of the financial sector to economic growth. The Committee members are the Governor of the Bank of Slovenia and its Vice-governor responsible for the supervision of banking operations, the Director and Deputy Director of the Securities Market Agency, the Director and Deputy Director of the Insurance Supervision Agency, and two representatives of the Ministry of Finance, with the latter two not having a voting right. The Committee members are independent in their decision-making and are not obliged to follow the instructions of their superior, state or other authorities. For its work, the Committee is only liable to the National Assembly of the Republic of Slovenia, to which it reports once annually. If necessary, the Committee also reports to the authorities of the European Union and the European systemic risk committee. The Governor of the Bank of Slovenia is the Chairman of the Committee and chairs its meetings. The Committee adopts decisions at meetings that its Chairman convenes four times a year as a rule. If considered necessary, additional Committee meetings may be convened, even at the initiative of other members. In 2017 the Financial Stability Committee held four meetings. At Committee meetings, the Agency participates by preparing presentations of overall risks in the insurance sector and also analyses of individual risks. In 2017 the Agency's representatives, together with other members of the Financial Stability Committee, also attended the meetings of the General Board of the European Systemic Risk Board (ESRB). Following the increased interest of the public in blockchain methods and cryptocurrencies, in 2017 the Financial Stability Committee founded two special work groups for financial technology (fintech) and cyber security, in which the Agency's representative also participate.

In 2017 the Agency cooperated in the projects of the Office for Money Laundering Prevention in the part concerning the insurance industry. It participated in the updating of the Report of the Republic of Slovenia on Money Laundering And Terrorist Financing Risk Assessment with the data for 2014 and 2015 in the chapter on the vulnerability of the insurance industry. It also cooperated in the fifth round of evaluation by the Committee of Experts on the Evaluation of Anti-Money Laundering Measures and the Financing of Terrorism (MONEYVAL) concerning the regulation of money laundering prevention in the insurance industry. The evaluation was based on the recommendations by the Financial Action Task Force (FATF).

The Agency also cooperates with insurance supervisory and financial control authorities from other EEA members and the republics of the former Yugoslavia. Within the mutual cooperation, the Agency also informally advises certain supervisory authorities regarding the introduction of insurance legislation.

Also in 2017, the Agency's staff actively participated at the college meetings of the supervisors of insurance groups from EU Member States with subsidiaries in the Republic of Slovenia, namely in relation to the groups of Merkur zavarovalnica, Zavarovalnica Grawe and Zavarovalnica Generali.

8.2. European Insurance and Occupational Pensions Authority (EIOPA)

The European Insurance and Occupational Pensions Authority (EIOPA) was established on 1 January 2011 with the Regulation of the European Parliament and of the Council of 9 November 2010 establishing a European Supervisory Authority (ESA) and replaced the Committee of European Insurance and Occupational Pensions Supervisors (CEIOPS). The European Insurance and Occupational Pensions Authority was established simultaneously with the European Banking Authority (EBA) and the European Securities and Markets Authority (ESMA) as a response to the global financial crisis. The main task of the EIOPA is to connect the national supervisory authorities in order to standardise supervision regulations and practices. The EIOPA is managed by its Chairman, Executive Director, Board of Supervisors and Management Board.

In 2017 the Chairman of the EIOPA was a representative of the Portuguese supervision institution, while the Executive Director since March 2016 has been a representative of the Italian supervision institution. In addition to the Chairman, the Management Board of the EIOPA also consists of six elected representatives of the supervisory authorities of the Member States. In 2016 the Management Board of the EIOPA consisted of the representatives from Germany, Romania, Italy, Slovakia, Belgium and France.

In 2017, the Agency attended six meetings of the Board of Supervisors, composed of all the heads of supervisors of the Member States, which were held at Frankfurt.

Due to the introduction of Solvency II on 1 January 2016, in 2016 the EIOPA carried out internal reorganisation, comprising the system of permanent working groups and the reorganisation of the EIOPA organisational units. In 2017, in accordance with the resolution of the Board of Supervisors, the existing Steering Committee was also joined by the Supervisory Steering Committee, and the Insurance Policy Committee was renamed to Policy Steering Committee and its area of work was expanded to pension insurance. The members of all three committees may only be the members of the Board of Supervisors or their deputies. The purpose of the committees is to direct the work on current projects, regular monitoring of their work and treatment of the advisability of new proposed projects.

In addition to the steering committees, the following task forces also operated within EIOPA in 2017:

- IT and Data Committee,
- Committee on Consumer Protection and Financial Innovation,
- Task Force on Personal Pensions.

At the level of the national supervisory authorities, the so-called Expert Networks also began to operate in 2016. They include experts in quantitative requirements, and the management of risks, data, internal models and financial stability. These experts, employed with the national supervisory authorities, participate in the implementation activities, exchange of information on regulations and preparation of answers to technical and substantive questions submitted by the supervised entities and other stakeholders to the national supervisory authorities or the EIOPA. In 2017, the existing five expert networks were joined by two more, namely the expert network for accounting and the expert network for pensions.

In 2017, the Agency employees actively participated in the Risk and Financial Stability Committee, the Expert Networks and the SCR review project.

8.3. International Association of Insurance Supervisors (IAIS)

The International Association of Insurance Supervisors, established in 1993, brings together insurance supervisors from over 200 countries and observers. The IAIS publishes the Insurance Core Principles, standards and guidelines, and organises courses and other forms of support required for an efficient work of supervisors. The IAIS cooperates with other bodies publishing supervision, regulation and operation standards for the financial sector, and international organisations endeavouring for financial stability. The IAIS includes the Financial Stability Committee with the Technical Committee, the Implementation Committee, the Budget Committee and the Audit Committee with the Risk Committee. The first two committees also include many working groups. The former Director of the Agency was a member of the Governance Working Group and the Market Conduct Working Group, and the Chair of the Financial Inclusion Working Group, operating within the Implementation Committee. In 2017 the Agency employees performed activities within the Implementation Committee, the Market Conduct Working Group and the Pension Insurance Working Group.

Besides, two employees attended the annual conference of the IAIS.

9. REPORT ON OTHER ACTIVITIES

9.1. Reporting to Other Supervision Authorities and Institutions

According to the regulations and agreements, the Agency regularly prepares reports for domestic and foreign supervisory authorities. The Agency regularly reports on the situation in the insurance market to the Bank of Slovenia by submitting quarterly standardised reports; four times a year, it also reports on the situation on the market to the Statistical Office of the Republic of Slovenia; and four times a year, it prepares a report on the performance of pension insurance activities for the Ministry of Labour, Social Affairs and Equal Opportunities. In addition, it prepares regular half-year reports on the situation on the insurance market and separately on the situation on the pension insurance market for the EIOPA. Once annually, the Agency also drafts separate reports on the operations of the Slovenian insurance and pension companies for the needs of the Organisation for Economic Cooperation and Development (OECD).

9.2. Activities in the Area of Information Technology

In 2016 the Agency published a tender for the procurement of new support software for the purpose of reporting. In September 2017, the implementation of the software was completed on time and the handover and acceptance minutes were signed. The new software also includes functionalities that were not available in the previous version: examination of SII forms, automated sending of digitally-signed data to the EIOPA and the Bank of Slovenia, automated preparation of pre-defined reports for reporting to external institutions, simple implementation of complex analyses of different types of data with the possibility of exporting to Excel, comparison of reported data between different periods of time or report versions.

Since the transition to Solvency II, the supervised entities have sent most data and reports in the electronic form, and the Agency, showing due care, wishes to ensure security of the information received and reduce the risk of non-operation upon natural disasters or other extraordinary events. Therefore, in 2017, after the completion of the installation of the above-mentioned software, the Agency established a backup location outside Ljubljana, which has suitable infrastructure and software to enable appropriate replication of data and undisturbed functioning during extraordinary events.

9.3. Keeping of Registers and Other Publicly Available Lists

In accordance with Article 562(1) of the ZZavar-1, the Agency is obliged to keep the following registers:

1. the register of insurance agencies which have obtained the Agency's authorisation to perform insurance agency services;
2. the register of insurance brokerage companies which have obtained the Agency's authorisation to perform insurance brokerage services;
3. the register of individuals who have obtained the Agency's authorisation to perform insurance agency services;
4. the register of individuals who have obtained the Agency's authorisation to perform insurance brokerage services;
5. the register of other persons underwriting insurance policies in direct connection with their main activity (e.g. freight forwarders or persons performing roadworthiness tests);
6. the register of Member State insurance agencies and insurance brokerage companies entitled to perform insurance agency or brokerage services in the territory of the Republic of Slovenia through a branch established in the territory of the Republic of Slovenia;
7. the register of Member State insurance agencies and insurance brokerage companies and other persons, and Member State insurance agents and brokers entitled to directly perform insurance agency or brokerage services in the territory of the Republic of Slovenia;
8. the register of third country insurance agencies and insurance brokerage companies entitled to perform insurance agency or brokerage services in the territory of the Republic of Slovenia through a branch which obtained the Agency's authorisation.

In accordance with Article 562(4) of the ZZavar-1 all these registers are public.

An important novelty is the publication of the registers of natural persons with the authorisation to perform services, i.e. the register of individuals who have obtained the Agency's authorisation to perform

insurance agency services and the register of individuals who have obtained the Agency's authorisation to perform insurance brokerage services. A novelty is also the publication of the register of other persons underwriting insurance policies in direct connection with their main activity.

Moreover, on its website the Agency updated and expanded the set of search data within all published registers.

The Agency also keeps a publicly available list of insurance entities (insurance companies, pension companies and other supervised institutions) based in the Republic of Slovenia with the indication of the insurance classes for which individual entities have obtained the Agency's authorisation to perform the activity, as well as a publicly available list of insurance entities based abroad that have registered their activity in the territory of the Republic of Slovenia with the indication of the insurance classes to which the registration applies.

9.4. Professional Training of the Staff

In 2017, the Agency's employees attended a number of working meetings, as well as seminars and professional conferences at home and abroad.

Abroad, the employees mostly attended courses taking place within the EIOPA, primarily concerning the Solvency II project, group supervision, developments on the European pension market and supervision of the conduct of market participants. Training within the EIOPE is a key tool for encouraging a common culture in the area of supervision and exchange of good practice with other supervisors across the European Union.

In 2017, the employees, among other, participated at the 24th Days of Slovenian Insurance, the Days of Slovenian Lawyers, the Accountants Conference, the Internal Auditors Conference and the Tax Conference.

10. SATISFACTION OF THE USERS WITH THE AGENCY'S WORK

In 2018 the Agency conducted a survey on the satisfaction of the users with its work in 2017, which it sent to 20 supervised entities, i.e. to all insurance, reinsurance and pension companies, the Nuclear Insurance and Reinsurance Pool, and the Slovenian Insurance Association.

The survey was responded by 10 insurance companies, 3 pension companies and no other entity.

The survey results are presented in the table below.

Table 5:

Results of the survey on the satisfaction of the users with the Agency's workThe average assessment on a 5-grade scale (1 = very dissatisfied, 5 = very satisfied) was 4.0, which was the same as last year. [in %]

No.	Question	Very dissatisfied	Dissatisfied	Neither satisfied nor dissatisfied	Satisfied	Very satisfied	Irrelevant question for the entity
		1	2	3	4	5	6
1	What is your general satisfaction with the Insurance Supervision Agency (hereinafter: the Agency)?	0.0	0.0	0.0	100	0.0	-
2	What is your satisfaction with the work of the Agency in 2017?	0.0	0.0	7.69	84.62	7.69	0.0
3	What is your satisfaction with the expertise of the answers you set to the Agency in the last year?	0.0	0.0	7.69	69.23	23.08	0.0
4	What is your satisfaction with the response time in which you received feedback from the Agency in relation to your official question?	0.0	7.69	7.69	69.23	15.38	0.0
5	What is your satisfaction with the response time in which you received feedback from the Agency in relation to your other questions?	0.0	7.69	15.38	61.54	7.69	7.69
6	What is your satisfaction with the work and expertise of the employees conducting inspections with the supervised entities?	0.0	0.0	7.69	46.15	23.08	23.08
7	What is your satisfaction with the duration of on-site supervision (from time of arrival to time of departure of supervisors)?	0.0	0.0	23.08	30.77	23.08	23.08
8	What is your satisfaction with the communication of the supervisors on site?	0.0	0.0	0.0	38.46	30.77	30.77
9	What is your satisfaction with the user experience (navigation menus, design...) of the Agency's website www.a-zn.si ?	0.0	0.0	0.0	61.54	30.77	7.69
10	What is your satisfaction with the content (all information required is available, the content is well organised...) of the website of the Agency www.a-zn.si ?	0.0	0.0	0.0	69.23	23.08	7.69
11	What is your satisfaction with the renewed Agency's portal for submitting reports (since 01/10/2017)?	15.38	7.69	7.69	53.85	15.38	0.0
12	What is your satisfaction with the renewed Agency's portal for submitting reports (since 01/10/2017) with regard to the previous portal (InReg, Vizor)?	7.69	15.38	7.69	46.15	15.38	7.69

Source: Agency's data.

The average assessment on a 5-grade scale (1 = very dissatisfied, 5 = very satisfied) was 4.0, which was the same as last year.

The comparison of the survey results with last year's shows that the level of satisfaction remains the same in relation to most questions.

III. ANNUAL STATEMENT OF ACCOUNT FOR 2017 (audited data)



Audit-i.n.g. revizijske storitve, d.o.o.
Ukmarjeva ulica 4
1000 Ljubljana

INDEPENDENT AUDITOR'S REPORT

To the Council of
INSURANCE SUPERVISION AGENCY
Trg republike 3
Ljubljana

Opinion

We have audited the financial statements of the Insurance supervision Agency, which comprise the statement of financial position as at December 31, 2017, and the income and expenditure statement for the year then ended, and notes to the financial statements, including a summary of significant accounting policies. We have also reviewed the annual report.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Insurance supervision Agency (hereon AZN) as at December 31, 2017, and its financial performance for the year then ended in accordance with the Law of Accounting and the Slovenian Accounting Standards.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Agency 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 financial statements in [jurisdiction], 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.

Other Informations

Other informations comprises the information included in the Annual Report other than financial statements and auditor's report thereon. Management is responsible for the other information.

Our opinion on 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 financial statements, our responsibility is to read other information and, doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. In addition, our responsibility is to assess, if other information's are compliant with the law and other legislation on formal demands and procedures for the preparation of other information's in regard of materiality and, whether an inconsistency with those demands could affect the judgment, based on those other information's.

Based on conducted procedures, as far as we can assess, we report:

- other information's, which describe the facts represented in the financial statements, are in all material aspects compliant with the financial statements; and
- other information is prepared in accordance with the applicable law or regulations.



In addition, our responsibility is to report, based on knowledge and understanding of the Agency obtained in the audit, 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 and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with the Law of Accounting Slovenian and Accounting Standards and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

To the Council of the Agency AZN is responsible for overseeing the Agency's financial reporting process and for confirming the audited annual report.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the 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 ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Agency'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 Agency'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 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 Agency to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures,



and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

Ljubljana, 21. March 2018.

Milan Jerić,
certified auditor

Audit-i.n.g. d.o.o.
Ukmarjeva ulica 4
1000 Ljubljana



BALANCE SHEET as at 31/12/2017 (in EUR)

Breakdown of the group of accounts	Name of the group of accounts	EDP code	Amount	
			Current year	Previous year
1	2	3	4	5
	A) NON-CURRENT ASSETS AND ASSETS UNDER MANAGEMENT (002-003+004-005+006-007+008+009+010+011)	001	315,580	211,743
00	INTANGIBLE ASSETS AND LONG-TERM DEFERRED ITEMS	002	595,382	426,116
01	ACCUMULATED AMORTISATION OF INTANGIBLE ASSETS	003	387,419	359,417
02	REAL ESTATE	004	0	0
03	ACCUMULATED DEPRECIATION OF REAL ESTATE	005	0	0
04	EQUIPMENT AND OTHER TANGIBLE FIXED ASSETS	006	533,370	530,209
05	ACCUMULATED DEPRECIATION OF EQUIPMENT AND OTHER TANGIBLE FIXED ASSETS	007	425,753	385,165
06	LONG-TERM INVESTMENTS	008	0	0
07	LONG-TERM LOANS TO OTHERS AND DEPOSITS	009	0	0
08	LONG-TERM OPERATING RECEIVABLES	010	0	0
09	RECEIVABLES FOR ASSETS GIVEN TO MANAGEMENT	011	0	0
	B) CURRENT ASSETS; LESS INVENTORIES, AND DEFERRED ITEMS (013+014+015+016+017+018+019+020+021+022)	012	3,091,106	3,491,277
10	CASH IN HAND AND HIGHLY LIQUID SECURITIES	013	0	0
11	BALANCES HELD WITH BANKS AND OTHER FINANCIAL INSTITUTIONS	014	316,616	465,722
12	SHORT-TERM ACCOUNTS RECEIVABLE	015	4,227	2,805
13	PAID ADVANCES AND WARRANTIES	016	0	311
14	SHORT-TERM RECEIVABLES FROM USERS OF THE UNIFORM CHART OF ACCOUNTS	017	2,700,000	3,000,000
15	SHORT-TERM INVESTMENTS	018	0	0
16	SHORT-TERM RECEIVABLES FROM FINANCING	019	0	0
17	OTHER SHORT-TERM RECEIVABLES	020	36,045	14,605
18	UNPAID EXPENSES	021	0	0
19	DEFERRED ITEMS	022	34,218	7,834
	C) INVENTORIES (024+025+026+027+028+029+030+031)	023	0	0
30	ACCOUNTING OF PURCHASE OF MATERIAL	024	0	0
31	INVENTORIES OF MATERIAL	025	0	0
32	STOCK OF SMALL INVENTORIES AND PACKAGING	026	0	0
33	WORK-IN-PROGRESS	027	0	0
34	PRODUCTS	028	0	0
35	ACCOUNTING OF PURCHASE OF GOODS	029	0	0
36	INVENTORIES OF GOODS	030	0	0
37	OTHER INVENTORIES	031	0	0
	I. TOTAL ASSETS (001+012+023)	032	3,406,686	3,703,020
99	ASSETS ACCOUNTS OF OFF-BALANCE SHEET RECORDS	033	0	0

Breakdown of the group of accounts	Name of the group of accounts	EDP code	Amount	
			Current year	Previous year
1	2	3	4	5
	D) CURRENT LIABILITIES AND ACCRUED ITEMS (035+036+037+038+039+040+041+042+043)	034	236,023	251,342
20	SHORT-TERM LIABILITIES IN RELATION TO RECEIVED ADVANCES AND WARRANTIES	035	0	0
21	SHORT-TERM LIABILITIES TO EMPLOYEES	036	139,456	140,962
22	SHORT-TERM ACCOUNTS PAYABLE	037	62,395	81,575
23	OTHER SHORT-TERM OPERATING LIABILITIES	038	33,951	28,557
24	SHORT-TERM LIABILITIES TO USERS OF THE UNIFORM CHART OF ACCOUNTS	039	221	248
25	SHORT-TERM LIABILITIES TO FINANCIERS	040	0	0
26	SHORT-TERM LIABILITIES FROM FINANCING	041	0	0
28	UNPAID INCOME	042	0	0
29	ACCRUED ITEMS	043	0	0
	E) OWN SOURCES AND NON-CURRENT LIABILITIES (045+046+047+048+049+050+051+052+053+054+055+056+057+058-059)	044	3,170,663	3,451,678
90	GENERAL FUND	045	0	0
91	RESERVE FUND	046	0	0
92	LONG-TERM ACCRUED ITEMS	047	0	0
93	LONG-TERM PROVISIONS	048	0	0
940	FUND OF APPROPRIATED ASSETS IN PUBLIC FUNDS	049	0	0
9410	FUND OF ASSETS IN OTHER LEGAL ENTITIES UNDER PUBLIC LAW IN THEIR OWNERSHIP FOR TANGIBLE AND INTANGIBLE FIXED ASSETS	050	0	0
9411	FUND OF ASSETS IN OTHER LEGAL ENTITIES UNDER PUBLIC LAW IN THEIR OWNERSHIP FOR INVESTMENTS	051	0	0
9412	SURPLUS OF REVENUES OVER EXPENSES	052	3,403,057	3,403,057
9413	REVENUES LESS EXPENDITURES	053	0	0
96	LONG-TERM FINANCIAL LIABILITIES	054	0	0
97	OTHER LONG-TERM LIABILITIES	055	0	0
980	LIABILITIES FOR TANGIBLE AND INTANGIBLE FIXED ASSETS	056	841	841
981	LIABILITIES FOR LONG-TERM INVESTMENTS	057	0	0
985	SURPLUS OF REVENUES OVER EXPENSES	058	0	47,780
986	REVENUES LESS EXPENDITURES	059	233,235	0
	I. TOTAL LIABILITIES (034+044)	060	3,406,686	3,703,020
99	LIABILITIES ACCOUNTS OF OFF-BALANCE SHEET RECORDS	061	0	0

Income statement of selected users from 01/01/2017 to 31/12/2017 (in EUR - without cents)

Breakdown of the group of accounts	Name of the subgroup of accounts	EDP code	Amount	
			Current year	Previous year
1	2	3	4	5
	A) OPERATING REVENUES (861+862-863+864)	860	3,061,438	3,158,417
760	REVENUES FROM SALES OF PRODUCTS AND SERVICES	861	3,061,438	3,158,417
	INCREASE IN VALUE OF STOCKS OF PRODUCTS AND WORK-IN-PROGRESS	862	0	0
	DECREASE IN VALUE OF STOCKS OF PRODUCTS AND WORK-IN-PROGRESS	863	0	0
761	REVENUES FROM SALES OF GOODS AND MATERIAL	864	0	0
762	B) FINANCE INCOME	865	163	651
763	C) OTHER REVENUES	866	0	110
	Č) REVALUATION OPERATING REVENUES (868+869)	867	320	0
part of 764	REVENUES FROM SALES OF FIXED ASSETS	868	320	0
part of 764	OTHER REVALUATION OPERATING REVENUES	869	0	0
	D) TOTAL REVENUES (860+865+866+867)	870	3,061,921	3,159,178
	E) COSTS OF GOODS, MATERIAL AND SERVICES (872+873+874)	871	1,000,087	1,124,642
part of 466	HISTORICAL COST OF GOODS AND MATERIAL SOLD	872	0	0
460	COSTS OF MATERIAL	873	25,947	27,337
461	COSTS OF SERVICES	874	974,140	1,097,305
	F) LABOUR COSTS (876+877+878)	875	2,188,777	1,915,355
part of 464	SALARIES, WAGES AND COMPENSATIONS FOR SALARIES AND WAGES	876	1,796,724	1,573,722
part of 464	EMPLOYER'S SOCIAL SECURITY CONTRIBUTIONS	877	295,314	255,480
part of 464	OTHER LABOUR COSTS	878	96,739	86,153
462	G) AMORTISATION AND DEPRECIATION	879	92,345	78,345
463	H) PROVISIONS	880	0	0
465	J) OTHER COSTS	881	1,665	1,747
467	K) FINANCE EXPENSES	882	5	258
468	L) OTHER EXPENSES	883	11,651	0
	M) REVALUATION OPERATING EXPENSES (885+886)	884	626	27
part of 469	EXPENSES FROM SALES OF FIXED ASSETS	885	0	0
part of 469	OTHER REVALUATION OPERATING EXPENSES	886	626	27
	N) TOTAL EXPENSES (871+875+879+880+881+882+883+884)	887	3,295,156	3,120,374
	O) SURPLUS REVENUES (870-887)	888	0	38,804
	P) SURPLUS EXPENSES (887-870)	889	233,235	0
part of 80	Corporate income tax	890	0	11,299
part of 80	Surplus revenue of the accounting period accounting for income tax (888-890)	891	0	27,505
part of 80	Surplus expenses of the accounting period accounting for income tax (889+890) or (890-888)	892	233,235	0
	Surplus revenues from previous periods used to cover expenses for the period	893	0	0
	Average number of employees calculated on the basis of working hours put in the accounting period (rounded to 1)	894	38	39
	Number of months of operations	895	12	12

1. FINANCIAL STATEMENTS

Pursuant to the second paragraph of Article 20 of the Accounting Act (Official Gazette of the RS, nos. 23/99, 30/02 - ZJF-C, 114/06 - ZUE; hereinafter: ZR) and the Rules on Drawing up Annual Reports for the Budget, Budget Spending Units and other Entities of Public Law (hereinafter: the Rules on Drawing up Annual Reports), the form and the contents of financial statements are prescribed.

According to the Rules on Drawing up Annual Reports, the Agency must compile the following financial statements:

- balance sheet compiled in the form Balance sheet (Attachment 1 to the Rules on Drawing up Annual Reports) and
- income statement compiled in the form Income statement of selected users (Attachment 3 to the Rules on Drawing up Annual Reports).

2. NOTES TO FINANCIAL STATEMENTS

The notes to financial statements comprise value notes, descriptive notes and notes to financial statements.

2.1. Value Notes to Financial Statements

Pursuant to the Rules on Drawing up Annual Reports, the value notes to the balance sheet and income statement are prescribed in the form of obligatory attachments and statements of records.

Obligatory attachments to the balance sheet are two tables in the following forms:

- Balance and changes in tangible and intangible fixed assets (Attachment 1/A to the Rules on Drawing up Annual Reports) and
- Balance and changes in long-term investments and loans (Attachment 1/B to the Rules on Drawing up Annual Reports).

An obligatory attachment to the income statement is a table compiled in the form Income statement of selected users by type of activity (Attachment 3/B to the Rules on Drawing up Annual Reports).

The statements of records laid down in Articles 21 to 25 of the Rules on Drawing up Annual Reports are compiled in the forms:

- Income statement of selected users according to the cash flow principle (Attachment 3/A to the Rules on Drawing up Annual Reports);
- Statement of account of financial receivables and assets of selected users (Attachment 3/A-1 to the Rules on Drawing up Annual Reports), and
- Statement of account of financing of selected users (Attachment 3/A-2 to the Rules on Drawing up Annual Reports).

2.2. Descriptive Notes to Financial Statements

2.2.1. Underlying Accounting Assumptions Used

According to the ZZavar-1, the Agency is a legal person under public law. Pursuant to the Public Finance Act (Official Gazette of the Republic of Slovenia, nos. 79/99, 124/00, 79/01, 30/02, 110/02 and others; ZJF) and the Rules Determining Central and Local Government Budget Direct and Indirect Spending Units, the Agency is defined as an indirect user of the government budget. In line with the Accounting Act and the Rules on Breaking Down and Measuring Revenues and Expenses of Legal Entities under Public Law (hereinafter: Rules on Breaking Down and Measuring), the Public Finance Act and the Rules on Drawing up Annual Reports, the Agency is defined as a selected user of the uniform chart of accounts.

In the keeping of its books of accounts and compilation and submission of annual reports, the Agency follows the provisions of the Accounting Act and other regulations, including the Public Finance Act, as well

as – pursuant to Article 2 of the Accounting Act – the Slovenian Accounting Standards (SAS) issued by the Slovenian Institute of Auditors.

Based on Article 31 of the Accounting Act, the Agency evaluates financial statement items in accordance with the accounting standards, unless stipulated otherwise in the Accounting Act or other regulations.

In the use of the SAS, Article 16 of the Rules on Breaking Down and Measuring also applies, stipulating that selected users of the uniform chart of accounts identify and break down revenues and expenses, and evaluate assets and liabilities pursuant to the Accounting Act and regulations issued on its basis. In breaking down and disclosing revenues and expenses, they must also follow the provisions of the rules on the uniform chart of accounts. Accounting standards apply to other matters that are not regulated by the above regulations.

The Agency has its own accounting department, where all documents are kept and compiled in the Slovenian language and in euros. The financial year is the same as the calendar year.

2.2.2. Financing

Based on the ZZavar-1, the funds needed for the work of the Agency are provided from the funds obtained by providing services of a public service, i.e. fees, annual fees and lump-sum fees determined in the Tariff issued by the Agency in agreement with the Government of the Republic of Slovenia, and from other revenues generated by the Agency through its operations. The Tariff lays down the levels of the annual fee for exercising supervision paid by insurance companies, reinsurance companies, pension companies and other supervised entities. The Tariff also defines the level of the fees payable for adopting decisions in individual matters and for issuing copies from registers kept by the Agency, and the level of lump-sum fees which entities are obliged to pay for the supervision performed by the Agency pursuant to the ZZavar-1. According to the latter, part of the surplus of revenue over expenditure recorded in the past year is allocated to the reserves of the Agency in the amount laid down in its financial plan for the year in which the surplus was achieved, while the remainder is allocated to the budget of the Republic of Slovenia. The ZZavar-1 also lays down that the surplus of operating expenses over income of the Agency is covered by the Agency's reserves; when the reserves do not suffice, the surplus of operating expenses over income is covered from the budget of the Republic of Slovenia. Funds may only be allocated from the budget when the operation of the Agency would otherwise be seriously threatened.

Except upon its foundation in June 2000, the Agency has never received budget funds.

2.3. Notes to Financial Statements

2.3.1. Income statement of selected users for the period from 1 January 2017 to 31 December 2017

■ A. REVENUE of EUR 3,061,921

The revenue for the accounting period is recognised on accrual basis. To enable the monitoring of the changes in the government revenue and expenditure, it is identified and broken down according to the cash flow principle, which is laid down in the Rules on Drawing up Annual Reports.

The Agency obtains the funds needed to implement the statutory authorisations and competences (administrative authorisations) from the fees, annual fees and lump-sum fees as well as other revenues generated through its operation, but does not generate revenue by selling goods and services on the market or from profitable activities.

The main source of income of the Agency in 2017 was annual, lump-sum and other fees determined by the Tariff, accounting for 99.9% of all revenue.

The Tariff also determines the level of the fees payable for adopting decisions in individual matters and for issuing copies from registers kept by the Agency, and the level of lump-sum fees for exercising supervision. In August 2016, the new Tariff entered into force. It changed the amount of points in relation to individual matters decided by the Agency, and thus also the amount of fees and lump-sum fees. It also lays down a different basis for the calculation of the annual fee for exercising supervision, while the levels of

the annual fee remained the same. The amendments to the Tariff also directly influenced the amount of revenues from fees and lump-sum fees in 2017, which was the first whole year in which the Tariff applied.

Table 1:

Revenues of the Agency in the period from 1 January 2017 to 31 December 2017

	EUR	%
1. Operating revenue	3,061,438	100
a) Annual fees for exercising supervision	2,915,737	95.2
b) Fees and lump-sum fees	145,701	4.8
2. Finance revenue	163	0.0
3. Other revenue		0
4. Revaluation revenue	320	0
Total revenue	3,061,921	100

Source: Agency's data.

In 2017, the revenues from annual fees amounted to EUR 2,915,737, while the financial plan for 2017 envisaged revenues of EUR 2,880,230.

The revenues from fees and lump-sum fees amounted to EUR 145,701 in 2017. Based on the revenues from fees and lump-sum fees in the previous years (in 2014 EUR 282,448, in 2015 EUR 202,416, in 2016 EUR 304,367), the Agency planned a revenue of EUR 250,000 in the financial plan for 2017. The lower amount of fees and lump-sum fees resulted from less authorisations issued (compared to 2016, the Agency issued 431 authorisations less) and the new Tariff which directly affected the level of revenue from fees and lump-sum fees in 2017, which was the first whole year in which it applied.

The finance revenues of the Agency consist of the interest accrued in relation to receivables based on investments in the form of deposits in the Treasury Single Account (TSA). They can also be disclosed due to delayed payments of receivables and exchange rate differentials, but those are very low amounts. In 2017 these revenues amounted to EUR 163.

Revaluation revenue of EUR 320 is the revenue from the sale of written-off computer equipment with zero book value to the employees.

B. COSTS AND EXPENSES of EUR 3,295,156

Expenses for the accounting period are the amounts of costs incurred in an individual accounting period and other costs that influence the profit or loss for the accounting period in accordance with the adopted accounting rules (regulations, accounting standards, internal rules) on the inclusion of costs in the expenses for the accounting period. Since the Agency implements the duties and authorisations stipulated by the legislation, and does not carry out a manufacturing activity, for instance, the costs incurred in an individual accounting period represent the expenses for this accounting period, unless the costs are, according to the accounting rules, included in expenses in the period following the accounting period (deferral of costs, particularly through deferred costs and accrued revenues). Expenses are recognised on accrual basis. To enable the monitoring of the changes in the government revenue and expenditure, the Agency must also record expenses according to the cash flow principle, which is laid down in the Rules on Drawing up Annual Reports.

As a rule, expenses also include the value of the (input) VAT, as the Agency is not a VAT payer.

Table 2:**Costs and expenses of the Agency in the period from 1 January 2017 to 31 December 2017**

	EUR	%
Costs of material	25,947	1
Costs of services	974,141	30
Labour costs	2,188,776	66
Depreciation/amortisation	92,345	2.7
Other costs	1,665	0.0
Finance expenses	5	0.0
Other expenses	11,651	0.3
Revaluation expenses	626	0.0
Total costs and expenses	3,295,156	100

Source: Agency's data.

The Agency's costs and expenses amounted to EUR 3,271,788 in the financial plan for 2017.

The comparison of the total costs and expenses incurred with the financial plan for 2017 shows that the incurred costs were 0.7% or EUR 23,368 higher than planned. Attachment 1 at the end of written explanations presents a comparison of the incurred and planned costs by type.

The **COSTS OF MATERIAL** comprise the purchase of specialised literature, newspapers and magazines, office material and other costs of material. The costs of material amounted to EUR 25,947 in 2017. The financial plan for 2017 envisaged costs of material in the amount of EUR 27,980.

The **COSTS OF SERVICES** comprise intellectual services (education, consulting, legal, translation services), costs of business trips, rents, postal and telecommunication services, session fees and other services.

Table 3:**Costs of services in the period from 1 January 2017 to 31 December 2017**

	EUR	%
Costs of intellectual services (education, consulting, legal, translation etc.)	110,865	3.3
Costs of business trips	101,797	3.1
Rents with operating costs	257,459	7.8
Postal and telecommunication services	37,833	1.1
Session fees	51,291	1.5
Author's and work contracts	1,890	0.0
Other services (publication of URL, maintenance, membership fees for international organisations, entertainment, etc.)	413,006	12.5
Total services	974,141	30.3

Source: Agency's data.

Under **intellectual services** the Agency records the costs of employee education, seminars, auditing of the Agency's financial statements, internal auditing, consulting, legal services and translation services. In 2017 the costs of these services amounted to EUR 110,865, while in 2016 they stood at EUR 198,895. The financial plan for 2017 envisaged EUR 144,020 under this item.

The **costs of business trips** of the employees for 2017 and 2016 amounted to EUR 101,797 and EUR 109,240, respectively. The financial plan for 2017 envisaged the costs under this item in the amount of EUR 84,345. The Agency accounts for the travel costs of the employees according to the Decree on the Reimbursement of Costs for Travelling Abroad on Official Mission, the Collective Agreement for the Public Sector, the Collective Agreement for the Non-economic Sector and the Act Fixing the Reimbursement Amounts for Work Related Expenses and Certain Other Receipts (hereinafter: ZPSDP).

The costs of business trips in Slovenia refer to inspections operations of supervised entities that the Agency's employees conducted outside Ljubljana and the costs (daily allowances, mileages) of employees' participation at expert seminars, conferences and consultations outside Ljubljana, while the costs of business trips abroad primarily refer to the employees' cooperation in the committees and working groups of EIOPA and the International Association of Insurance Supervisors IAIS, and training of employees within the EIOPA.

The **costs of rents** comprise the rent for the business premises of the Agency, the operating costs of the rented business premises, renting of parking lots and renting of halls for the organisation of individual events of the Agency.

In 2017 the Agency allocated EUR 257,459 to the costs of rents, while the financial plan for 2017 envisaged EUR 270,459 for this purpose.

The **costs of postal and telecommunication services** for 2017 amounted to EUR 37,833. The financial plan for 2017 envisaged EUR 42,470 under this item.

In 2017 the **costs of session fees** amounted to EUR 51,291, while in 2016 they stood at EUR 56,319. The funds envisaged for this item in the financial plan amounted to EUR 46,800.

Under the item **other services**, the income statements for 2017 join several types of services that the Agency records under different accounts.

For 2017 the financial plan allocated EUR 414,055 to the item **other services** in the income statement, while the actual costs under this item amounted to EUR 413,006. The item other services comprises services needed to perform the activity (publication in the Official Gazette of the Republic of Slovenia, student work), regular and replacement maintenance services, costs of entertainment and costs of other services (membership fees for international organisations – EIOPA, IAIS, annual licences, software etc.).

The **LABOUR COSTS** comprise gross salaries and wages and compensations for salaries and wages of the employees, contributions and taxes on gross salaries and wages, allowances for an increased amount of work, holiday pays, meal and travel allowances, long-service awards, and costs of supplementary pension insurance of civil servants.

As at 31 December 2017 the number of employees was 42 (of which one employee was recruited for a specified period of time to replace an employee on maternity and childcare leave).

Table 4:
Labour costs in the period from 1 January 2017 to 31 December 2017

	EUR	%
Gross salaries	1,796,724	54.5
Holiday pays	22,454	0.7
Employer's salary contributions	289,682	8.8
Supplementary voluntary pension insurance	5,631	0.2
Other labour costs	74,285	22.0
Total labour costs	2,188,776	66.4

Source: Agency's data.

For 2017 the costs of gross salaries and wages together with the charges of the payer and reimbursement of work-related costs amounted to EUR 2,188,776. The financial plan for 2017 allocated EUR 2,143,395 to gross salaries and wages together with the charges of the payer and reimbursement of work-related costs.

The costs were higher than planned because in 2017 the Agency paid the salary to a former employee based on the judgement of the Higher Labour and Social Court in relation to extraordinary termination of the employment by which the employment contract of the former employee was terminated in 2016; the Agency had to pay to him salaries for the period from March 2014 to July 2016, together with statutory default interest.

The **COST OF DEPRECIATION** is accounted for in line with the Rules on the Method and Rates of Depreciation of Intangible Fixed Assets and Tangible Fixed Assets. These rules prescribe the straight-line method.

Regular depreciation or allocation of depreciation is value adjustment of fixed assets and intangible long-term assets in the books of accounts for the depreciation amount accounted for according to the annual statement of account. Extraordinary depreciation is carried out in the case of disposal, permanent exclusion from use or due to the revaluation of fixed assets owing to impairment.

The depreciation amount for 2017 was EUR 92,345. The financial plan envisaged an amount of EUR 98,264.

Out of the investments planned for 2017 in the total amount of EUR 236,400, the Agency managed to realise investments of EUR 196,183. The funds were spent for the purchase of computer hardware and software, company telephones and office equipment. For 2017 the Agency also planned an investment in the modernisation of software for receiving and analysing data of insurance companies; it implemented it in the envisaged amount of around EUR 160,000.

■ **C. CORPORATE INCOME TAX**

Although the Agency is an entity under public law founded based on a special act for executing the regulatory and supervision powers delegated to it by the act which operates for a non-profitable purpose and also actually operates in accordance with the purpose of its foundation based on the special act, it pays corporate income tax on the income generated by performing a profitable activity.

After recording all revenues and all costs and expenses, in 2017 the Agency established that there was a surplus of expenses over revenue. It also established a tax loss when accounting for the corporate income tax; therefore, the corporate income tax liability for 2017 is EUR 0. In 2017 the Agency paid monthly tax advances in accordance with the statement of account for 2016, and consequently claims EUR 15,425 from the Financial Administration of the Republic of Slovenia.

■ **D. SURPLUS OF EXPENSES OVER REVENUE of EUR 233,235**

In the period from 1 January 2017 to 31 December 2017, EUR 3,061,921.02 of revenue was generated and EUR 3,295,156.12 of expenses were incurred, which means that the surplus of expenses over revenue amounted to EUR 233,235.10. The financial plan for 2017 envisaged a surplus of expenses over revenue of EUR 141,258.

The reason for the higher surplus of expenses is primarily lower revenue from fees and lump-sum fees (explained in more detail in the scope of the Agency's revenues) and higher costs of wages and salaries due to the payment made to a former employee in accordance with the court ruling (explained in more detail in the scope of labour costs).

In line with the second paragraph of Article 512 of the Insurance Act, the Agency transfers surplus revenue to reserves within group 94 up to the amount envisaged in the approved financial plan for the year.

When the Agency records a surplus of expenses over revenue, it covers it from the reserves within group 94 in accordance with the first paragraph of Article 513. The reserves will thus be reduced by EUR 233,235.10 and will, after the coverage of the surplus expenses, amount to EUR 3,169,821.79.

2.3.2. Balance Sheet as at 31 December 2017

■ **A. NON-CURRENT ASSETS AND ASSETS UNDER MANAGEMENT**

Under class 0, the Agency only discloses intangible long-term assets and tangible fixed assets and assets under management represented by the equipment received from the Ministry of Finance upon the foundation of the Agency as an independent legal person on 1 June 2000.

Table 5:**Non-current assets and assets under management of the Agency as at 31 December 2017** (in EUR)

	ACQUISITION COST	DEPRECIATED AMOUNT	CURRENT VALUE
Software	444,468	236,504	207,964
Software – foreign financing	150,914	150,914	0
Equipment – computers	93,258	76,671	16,587
Other computer equipment	223,964	194,708	29,256
Office equipment	93,323	73,149	20,174
Company cars	15,890	10,262	5,628
Small tools	68,472	68,472	0
Equipment under management	3,333	2,492	841
Other fixed assets – pictures	35,130	0	35,130
Total	1,128,752	813,172	315,580

Source: Agency's data.

The share of non-current assets in the assets of the Agency's balance sheet amounted to 9.3%, while in 2016 and 2015 the shares were 5.7% and 6.3%, respectively.

B. CURRENT ASSETS

The share of current assets in all assets amounted to 90.7%. These assets primarily comprise cash on the Agency's account, representing 9.3% of all assets, and short-term deposits, representing 79.2% of all assets, as well as short-term operating receivables and paid advances and other short-term receivables (1.2%), where the highest item is the claim on the Health Insurance Institute of Slovenia (ZZZS) for sick leaves exceeding 30 days, or from the first day on in individual cases, for October, November and December. Deferred costs and accrued revenues concerned short-term deferred costs (subscription fees for certain specialised publications for 2018, memberships for 2018), and their share in the total Agency's assets was 1%.

At the end of the year, the Agency had all its deposits, totalling EUR 2,700,000, in the Treasury Single Account (TSA). Pursuant to the Order on the Establishment of Treasury Single Account Systems, the Agency is included in the national TSA system. The Order lays down the criteria for classifying the entities involved, system definition, types of subaccounts etc. According to the Rules on Investing Available Funds of Central and Local Government Budget Spending Units and Central Parts of Communities as Legal Entities, the Agency must offer any available funds of at least EUR 50,000 to the TSA. In 2017 the average interest rate on deposits in the TSA (1-year time deposits) amounted to 0%, the same as on the assets in transaction accounts.

C. LIABILITIES

Current liabilities

Table 6:**Current liabilities of the Agency as at 31 December 2017**

	EUR	%
Advances received, overpayment of receivables	0	0
Liabilities to employees	139,456	4.1
Accounts payable	62,616	1.8
Other current liabilities	33,951	0.9
Total	236,023	6.9

Source: Agency's data.

The share of current liabilities in the Agency's liabilities amounted to 6.9%. The liabilities to employees comprise the December gross salary of the employees. Accounts payable do not include overdue liabilities, but only those that fall due in 2018, usually in January.

Other current liabilities, amounting to EUR 33,951 include contributions from gross salaries of the employees, liabilities from supplementary pension insurance and liabilities to users of the uniform chart of accounts.

Own sources and non-current liabilities

Table 7:

Own sources and non-current liabilities of the Agency as at 31 December 2017

	EUR	%
Long-term accrued costs and deferred revenue	0.0	0.0
Liabilities for intangible long-term assets and tangible fixed assets under management	841	0.0
Surplus of expenses over revenue in 2017	233,235	
Provisions established according to the ZZavar-1	3,403,057	93.1
Total	3,170,663	93.1

Source: Agency's data.

The share of own sources in the liabilities of the Agency's balance sheet amounted to 93.1%.

The surplus of expenses over revenue recorded in 2017 amounts to EUR 233,235; the Agency will cover it from reserves within group 94.

The Annual Report was adopted on 27 March 2018 at the 459th meeting of the Council of Experts of the Agency.

Gorazd Čibej, MSc, Acting Director



Attachments:

- Attachment 1: Income statement compared to the financial plan 2017
- Other attachments consist of the prescribed forms (obligatory submission to the Agency of the Republic of Slovenia for Public Legal Records and Related Services (AJPES))

Attachment 1

INCOME STATEMENT OF SELECTED USERS (in EUR)

	2017	FP 2017	IND
	1	2	1/2
A. REVENUE			
1. Revenue from public funding	0	0	
2. Revenue from performance of operations (a + b)	3,061,438	3,130,230	98
a. Annual fees for exercising supervision	2,915,737	2,880,230	101
b. Fees and lump-sum fees	145,701	250,000	58
I. TOTAL operating revenue (1 + 2)	3,061,438	3,130,230	98
II. Revenue from financing	163	0	
III. Other revenue	0	0	
IV. Revaluation revenue	320	300	107
TOTAL REVENUE (I. + II. + III. + IV.)	3,061,921	3,130,530	98
B) EXPENSES			
I. Costs of goods, material and services (1 + 2)	1,000,088	1,030,129	97
1. Costs of material	25,947	27,980	93
2. Costs of services (a + b + c + d + e + f)	974,141	1,002,149	97
a) Intellectual services (education, consulting, legal, translation etc.)	110,865	144,020	77
b) Costs of business trips	101,797	84,345	121
c) Rents	257,459	270,459	95
d) Postal and telecommunication services	37,833	42,470	89
e) Session fees	51,291	46,800	110
f) Author's contracts, work contracts	1,890	0	
g) Other services	413,006	414,055	100
II. Labour costs (1 + 2 + 3)	2,188,776	2,143,395	102
1. Gross salaries of employees and holiday pays	1,819,178	1,784,497	102
2. Employer's salary contributions (including coll. suppl. pens. ins.)	295,313	286,250	103
3. Other labour costs	74,285	72,648	102
III. Depreciation/amortisation	92,345	98,264	94
IV. Other costs	1,665	0	
V. Finance expenses	5	0	
VI. Other expenses	11,651	0	
VII. Revaluation expenses	626	0	
TOTAL EXPENSES (I. + II. + III. + IV. + V. + VI. + VII.)	3,295,156	3,271,788	101
C) SURPLUS OF REVENUES OVER EXPENSES	-233,235	-141,258	165
D) Corporate income tax	0	0	
E) PROFIT OR LOSS FOR THE PERIOD	-233,235	-141,258	165

Statement of account of financial receivables and assets of selected users from 01/01/2017 to 31/12/2017 (in EUR)

Breakdown of accounts	Name of account	EDP code	Amount	
			Current year	Previous year
1	2	3	4	5
750	IV. REPAYMENTS OF LOANS (501 + 502 + 503 + 504 + 505 + 506 + 507 + 508 + 509 + 510 + 511)	500	0	0
7500	Repayments of loans from individuals	501	0	0
7501	Repayments of loans from extrabudgetary funds	502	0	0
7502	Repayments of loans from public enterprises and companies owned by the state and local communities	503	0	0
7503	Repayments of loans from financial institutions	504	0	0
7504	Repayments of loans from private enterprises	505	0	0
7505	Repayments of loans from other levels of general government	506	0	0
7506	Repayments of loans from abroad	507	0	0
7507	Repayments of loans from the state budget	508	0	0
7508	Repayments of loans from state agencies	509	0	0
7509	Repayments of paid state budget guarantees	510	0	0
751	Disposal of equities	511	0	0
440	V. LENDING (513 + 514 + 515 + 516 + 517 + 518 + 519 + 520 + 521 + 522 + 523)	512	0	0
4400	Lending to individuals	513	0	0
4401	Lending to extrabudgetary funds	514	0	0
4402	Lending to public enterprises and companies owned by the state and by local communities	515	0	0
4403	Lending to financial institutions	516	0	0
4404	Lending to private enterprises	517	0	0
4405	Lending to other levels of general government	518	0	0
4406	Lending abroad	519	0	0
4407	Lending to the state budget	520	0	0
4408	Lending to state agencies	521	0	0
4409	Payments of overdue guarantees	522	0	0
441	Acquisition of equities	523	0	0
	VI/1 Acquisition of equities	524	0	0
	VI/2 LENDING MINUS REPAYMENTS (512 – 500)	525	0	0

Statement of account of financing of selected users from 01/01/2017 to 31/12/2017 (in EUR)

Breakdown of accounts	Name of account	EDP code	Amount	
			Current year	Previous year
1	2	3	4	5
50	VII. BORROWING (551 + 559)	550	0	0
500	Domestic borrowing (552 + 553 + 554 + 555 + 556 + 557 + 558)	551	0	0
5001	Loans from commercial banks	552	0	0
5002	Loans from other financial institutions	553	0	0
part of 5003	Loans from the state budget	554	0	0
part of 5003	Loans from the budgets of local communities	555	0	0
part of 5003	Loans from social security funds	556	0	0
part of 5003	Loans from other extrabudgetary funds	557	0	0
part of 5003	Loans from other domestic creditors	558	0	0
501	Borrowing abroad	559	0	0
55	VIII. AMORTISATION OF DEBT (561 + 569)	560	0	0
550	Amortisation of domestic debt (562 + 563 + 564 + 565 + 566 + 567 + 568)	561	0	0
5501	Amortisation of loans from commercial banks	562	0	0
5502	Amortisation of loans from other financial institutions	563	0	0
part of 5503	Amortisation of loans from the state budget	564	0	0
part of 5503	Amortisation of loans from the budgets of local communities	565	0	0
part of 5503	Amortisation of loans from social security funds	566	0	0
part of 5503	Amortisation of loans from other extrabudgetary funds	567	0	0
part of 5503	Amortisation of loans from other domestic creditors	568	0	0
551	Amortisation of external debt	569	0	0
	IX/1 NET BORROWING (550 – 560)	570	0	0
	IX/2 NET AMORTISATION OF DEBT (560 – 550)	571	0	0
	X/1 INCREASE IN CASH AND DEPOSITS (485 + 524 + 570) – (486 + 525 + 571)	572	0	86,060
	X/2 DECREASE IN CASH AND DEPOSITS (486 + 525 + 571) – (485 + 524 + 570)	573	426,728	0

Income statement of selected users according to the cash flow principle from 01/01/2017 to 31/12/2017 (in EUR)

Breakdown of accounts	Name of account	EDP code	Amount	
			Current year	Previous year
1	2	3	4	5
	I. TOTAL REVENUE (402 + 431)	401	3,007,111	3,180,665
	1. REVENUE FROM THE PROVISION OF PUBLIC SERVICES (403 + 420)	402	3,007,111	3,180,665
	A) Revenue from public funding (404 + 407 + 410 + 413 + 418 + 419)	403	0	0
	a) Transfers from the state budget (405 + 406)	404	0	0
part of 7400	Transfers from the state budget for current spending	405	0	0
part of 7400	Transfers from the state budget for investments	406	0	0
	b) Transfers from local government budgets (408 + 409)	407	0	0
part of 7401	Transfers from local government budgets for current spending	408	0	0
part of 7401	Transfers from local government budgets for investments	409	0	0
	c) Transfers from social security funds (411 + 412)	410	0	0
part of 7402	Transfers from social security funds for current spending	411	0	0
part of 7402	Transfers from social security funds for investments	412	0	0
	d) Transfers from other extrabudgetary funds and state agencies (414 + 415 + 416 + 417)	413	0	0
part of 7403	Transfers from other extrabudgetary funds for current spending	414	0	0
part of 7403	Transfers from other extrabudgetary funds for investments	415	0	0
part of 7404	Transfers from state agencies for current spending	416	0	0
part of 7404	Transfers from state agencies for investments	417	0	0
part of 740	e) Transfers from the budgets arising from foreign grants	418	0	0
741	f) Transfers received from the state budget provided from the EU budget appropriations	419	0	0
	B) Other revenue from the provision of public services (421 + 422 + 423 + 424 + 425 + 426 + 427 + 428 + 429 + 430)	420	3,007,111	3,180,665
part of 7130	Revenue from sales of goods and services from the provision of public services	421	3,007,111	3,180,665
part of 7102	Interest received	422	0	0
part of 7100	Revenues from participation in profits and dividends and excess of revenues over expenses	423	0	0
part of 7141	Other current revenue from the provision of public services	424	0	0
72	Capital revenues	425	0	0
730	Domestic donations	426	0	0
731	Foreign donations	427	0	0
732	Natural disaster relief donations	428	0	0
786	Other receipts from the EU budget	429	0	0
787	Receipts from other EU institutions	430	0	0
	2. REVENUE FROM THE SALE OF GOODS AND SERVICES ON THE MARKET (432 + 433 + 434 + 435 + 436)	431	0	0
part of 7130	Revenue from the sale of goods and services on the market	432	0	0
part of 7102	Interest received	433	0	0
part of 7103	Revenue from rents and leases and other revenue from property	434	0	0
part of 7100	Revenues from participation in profits and dividends and excess of revenues over expenses	435	0	0
part of 7141	Other current revenue not arising from the provision of public services	436	0	0

Breakdown of accounts	Name of account	EDP code	Amount	
			Current year	Previous year
1	2	3	4	5
	II. TOTAL EXPENSES (438 + 481)	437	3,433,839	3,094,605
	1. EXPENSES FOR THE PROVISION OF PUBLIC SERVICES (439 + 447 + 453 + 464 + 465 + 466 + 467 + 468 + 469 + 470)	438	3,433,839	3,094,605
	A) Wages and salaries and other personnel expenditure (440 + 441 + 442 + 443 + 444 + 445 + 446)	439	1,898,570	1,666,776
part of 4000	Salaries and allowances	440	1,801,293	1,580,575
part of 4001	Holiday pays	441	22,454	15,583
part of 4002	Refunds and compensations	442	74,823	69,896
part of 4003	Performance bonuses	443	0	0
part of 4004	Overtime pay	444	0	0
part of 4005	Non-resident wages under contract	445	0	0
part of 4009	Other personnel expenditure	446	0	722
	B) Employers' social security contributions (448+449+450+451+452)	447	295,903	256,575
part of 4010	Pension and disability insurance contributions	448	159,634	139,881
part of 4011	Health insurance contributions	449	127,888	112,062
part of 4012	Unemployment insurance contributions	450	1,089	976
part of 4013	Parental protection contributions	451	1,804	1,581
part of 4015	Premiums for additional pension insurance of government employee, based on the ZKDPZJU	452	5,488	2,075
	C) Expenditure on goods and services for the provision of public services (454 + 455 + 456 + 457 + 458 + 459 + 460 + 461 + 462 + 463)	453	1,046,337	1,116,033
part of 4020	Office and general supplies and services	454	257,287	321,231
part of 4021	Specialised materials and services	455	0	0
part of 4022	Utilities and communications	456	43,380	37,501
part of 4023	Transport expenses	457	4,037	2,254
part of 4024	Travel expenses	458	98,233	116,621
part of 4025	Routine maintenance	459	25,565	21,920
part of 4026	Operational leases	460	260,511	258,476
part of 4027	Penalties and compensations	461	0	0
part of 4028	Payroll tax	462	0	0
part of 4029	Other operating expenses	463	357,324	358,030
403	D) Domestic interest payment	464	0	0
404	E) External interest payment	465	0	0
410	F) Subsidies	466	0	0
411	G) Transfers to individuals and households	467	0	0
412	H) Transfers to non-profit organisations and institutions	468	0	0
413	I) Other domestic current transfers	469	0	0
	J) Capital expenditure (471 + 472 + 473 + 474 + 475 + 476 + 477 + 478 + 479 + 480)	470	193,029	55,221

Breakdown of accounts	Name of account	EDP code	Amount	
			Current year	Previous year
1	2	3	4	5
4200	Acquisition of buildings and other premises	471	0	0
4201	Acquisition of vehicles	472	0	0
4202	Acquisition of equipment	473	193,029	55,221
4203	Acquisition of other fixed assets	474	0	0
4204	Construction and reconstruction works and improvements	475	0	0
4205	Major maintenance and renovation	476	0	0
4206	Acquisition of land and natural resources	477	0	0
4207	Acquisition of of intangible assets	478	0	0
4208	Project feasibility studies, project documents, supervision and investment engineering	479	0	0
4209	Acquisition of commodity and intervention stocks	480	0	0
	2. EXPENSES FOR THE SALE OF GOODS AND SERVICES ON THE MARKET (482 + 483+ 484)	481	0	0
part of 400	A) Salaries, wages and other personnel expenditures from the sale of goods and services on the market	482	0	0
part of 401	B) Employers' social security contributions from the sale of goods and services on the market	483	0	0
part of 402	C) Expenditure on goods and services from the sale of goods and services on the market	484	0	0
	III/1 SURPLUS OF REVENUE OVER EXPENDITURE (401 – 437)	485	0	86,060
	III/2 REVENUES LESS EXPENDITURES (437 – 401)	486	426,728	0

Income statement of selected users by type of activity from 1/1/2017 to 31/12/2017 (in EUR)

Breakdown of account subgroups	Name of the subgroup of accounts	EDP code	Amount	
			AMOUNT - Revenue and expenses from the provision of public services	AMOUNT - Revenue and expenses from the sale of goods and services on the market
1	2	3	4	5
	A) OPERATING REVENUES (661 + 662 – 663 + 664)	660	3,061,438	0
760	REVENUES FROM SALES OF PRODUCTS AND SERVICES	661	3,061,438	0
	INCREASE IN VALUE OF STOCKS OF PRODUCTS AND WORK-IN-PROGRESS	662	0	0
	DECREASE IN VALUE OF STOCKS OF PRODUCTS AND WORK-IN-PROGRESS	663	0	0
761	REVENUES FROM SALES OF GOODS AND MATERIAL	664	0	0
762	B) FINANCE INCOME	665	163	0
763	C) OTHER REVENUES	666	0	0
	Č) REVALUATION OPERATING EXPENSES (668 + 669)	667	320	0
part of 764	REVENUES FROM SALES OF FIXED ASSETS	668	320	0
part of 764	OTHER REVALUATION OPERATING REVENUES	669	0	0
	D) TOTAL REVENUES (660 + 665 + 666 + 667)	670	3,061,921	0
	E) COSTS OF GOODS, MATERIAL AND SERVICES (672 + 673 + 674)	671	1,000,087	0
part of 466	HISTORICAL COST OF GOODS AND MATERIAL SOLD	672	0	0
460	COSTS OF MATERIAL	673	25,947	0
461	COSTS OF SERVICES	674	974,140	0
	F) LABOUR COSTS (676 + 677 + 678)	675	2,188,777	0
part of 464	SALARIES, WAGES AND COMPENSATIONS FOR SALARIES AND WAGES	676	1,796,724	0
part of 464	EMPLOYER'S SOCIAL SECURITY CONTRIBUTIONS	677	295,314	0
part of 464	OTHER LABOUR COSTS	678	96,739	0
462	G) AMORTISATION AND DEPRECIATION	679	92,345	0
463	H) PROVISIONS	680	0	0
465	J) OTHER COSTS	681	1,665	0
467	K) FINANCE EXPENSES	682	5	0
468	L) OTHER EXPENSES	683	11,651	0
	M) REVALUATION OPERATING EXPENSES (685 + 686)	684	626	0
part of 469	EXPENSES FROM SALES OF FIXED ASSETS	685	0	0
part of 469	OTHER REVALUATION OPERATING EXPENSES	686	626	0
	N) TOTAL EXPENSES (671 + 675 + 679 + 680 + 681 + 682 + 683 + 684)	687	3,295,156	0
	O) SURPLUS REVENUES (670 – 687)	688	0	0
	P) SURPLUS EXPENSES (687 – 670)	689	233,235	0
part of 80	Corporate income tax	690	0	0
part of 80	Surplus revenue of the accounting period accounting for income tax (688 – 690)	691	0	0
part of 80	Surplus expenses of the accounting period accounting for income tax (689 + 690) oz. (690 – 688)	692	233,235	0
	Surplus revenues from previous periods used to cover expenses for the accounting period	693	0	0

Balance and changes in tangible and intangible fixed assets (in EUR)

Name	EDP code	Acquisition cost (1 Jan)	Value adjustment (1 Jan)	Increase in acquisition cost	Increase in value adjustment	Decrease in acquisition cost	Decrease in value adjustment	Depreciation/amortisation	Carrying amount (31 Dec)	Revaluation owing to increase	Revaluation owing to impairment
1	2	3	4	5	6	7	8	9	10 (3-4+5-6-7+8-9)	11	12
I. Intangible assets and tangible fixed assets under management (701 + 702 + 703 + 704 + 705 + 706 + 707)	700	841	0	0	0	0	0	0	841	0	0
A) Long-term deferred costs	701	0	0	0	0	0	0	0	0	0	0
B) Long-term property rights	702	0	0	0	0	0	0	0	0	0	0
C) Other intangible assets	703	0	0	0	0	0	0	0	0	0	0
D) Land	704	0	0	0	0	0	0	0	0	0	0
E) Buildings	705	0	0	0	0	0	0	0	0	0	0
F) Equipment	706	0	0	0	0	0	0	0	0	0	0
G) Other tangible fixed assets	707	841	0	0	0	0	0	0	841	0	0
II. Intangible assets and tangible fixed assets owned (709 + 710 + 711 + 712 + 713 + 714 + 715)	708	955,483	744,581	196,183	0	23,756	23,756	92,345	314,740	0	0
A) Long-term deferred costs	709	0	0	0	0	0	0	0	0	0	0
B) Long-term property rights	710	426,116	359,415	170,414	0	1,147	1,147	29,149	207,966	0	0
C) Other intangible assets	711	0	0	0	0	0	0	0	0	0	0
D) Land	712	0	0	0	0	0	0	0	0	0	0
E) Buildings	713	0	0	0	0	0	0	0	0	0	0
F) Equipment	714	494,236	385,166	25,769	0	22,609	22,609	63,196	71,643	0	0
G) Other tangible fixed assets	715	35,131	0	0	0	0	0	0	35,131	0	0
III. Intangible assets and tangible fixed assets held under finance lease (717 + 718 + 719 + 720 + 721 + 722 + 723)	716	0	0	0	0	0	0	0	0	0	0
A) Long-term deferred costs	717	0	0	0	0	0	0	0	0	0	0
B) Long-term property rights	718	0	0	0	0	0	0	0	0	0	0
C) Other intangible assets	719	0	0	0	0	0	0	0	0	0	0
D) Land	720	0	0	0	0	0	0	0	0	0	0
E) Buildings	721	0	0	0	0	0	0	0	0	0	0
F) Equipment	722	0	0	0	0	0	0	0	0	0	0
G) Other tangible fixed assets	723	0	0	0	0	0	0	0	0	0	0

Balance and changes in long-term investments and loans (in EUR)

Name	EDP code	Amount of investments and loans to others (31 Dec)	Amount of adjustment of investments and loans to others (31 Dec)	Amount of increase in investments and loans to others	Amount of increase in adjustments of investments and loans to others	Amount of decrease in investments and loans to others	Amount of decrease in adjustments of investments and loans to others	Amount of investments and loans to others (31 Dec)	Amount of adjustment of investments and loans to others (31 Dec)	Book value of investments and loans to others (31 Dec)	Amount of investments and loans written off
1	2	3	4	5	6	7	8	9 (3+5-7)	10 (4+6-8)	11 (9-10)	12
I. Long-term investments (801 + 806 + 813 + 814)	800	0	0	0	0	0	0	0	0	0	0
A) Investments in shares (802 + 803 + 804 + 805)	801	0	0	0	0	0	0	0	0	0	0
1. Investments in shares in public companies	802	0	0	0	0	0	0	0	0	0	0
2. Investments in shares in financial institutions	803	0	0	0	0	0	0	0	0	0	0
3. Investments in shares in private companies	804	0	0	0	0	0	0	0	0	0	0
4. Investments in shares abroad	805	0	0	0	0	0	0	0	0	0	0
B. Investments in holdings (807 + 808 + 809 + 810 + 811 + 812)	806	0	0	0	0	0	0	0	0	0	0
1. Investments in holdings in public companies	807	0	0	0	0	0	0	0	0	0	0
2. Investments in holdings in financial institutions	808	0	0	0	0	0	0	0	0	0	0
3. Investments in holdings in private companies	809	0	0	0	0	0	0	0	0	0	0
4. Investments in holdings in state-owned limited liability companies	810	0	0	0	0	0	0	0	0	0	0
5. Investments in holdings in state-owned limited liability companies	811	0	0	0	0	0	0	0	0	0	0
6. Investments in holdings abroad	812	0	0	0	0	0	0	0	0	0	0
C) Investments in precious metals, precious stones, works of art and similar	813	0	0	0	0	0	0	0	0	0	0
D) Other long-term capital investments (815 + 816 + 817 + 818)	814	0	0	0	0	0	0	0	0	0	0
1. Special-purpose assets transferred to public funds	815	0	0	0	0	0	0	0	0	0	0
2. Assets transferred to the ownership of other legal entities under public law owning the assets	816	0	0	0	0	0	0	0	0	0	0
3. Other domestic long-term capital investments	817	0	0	0	0	0	0	0	0	0	0
4. Other long-term capital investments abroad	818	0	0	0	0	0	0	0	0	0	0
II. Long-term loans to others and deposits (820 + 829 + 832 + 835)	819	0	0	0	0	0	0	0	0	0	0
A) Long-term loans to others (821 + 822 + 823 + 824 + 825 + 826 + 827 + 828)	820	0	0	0	0	0	0	0	0	0	0
1. Long-term loans to individuals	821	0	0	0	0	0	0	0	0	0	0
2. Long-term loans to extrabudgetary funds	822	0	0	0	0	0	0	0	0	0	0
3. Long-term loans to public companies	823	0	0	0	0	0	0	0	0	0	0
4. Long-term loans to financial institutions	824	0	0	0	0	0	0	0	0	0	0
5. Long-term loans to private companies	825	0	0	0	0	0	0	0	0	0	0
6. Long-term loans to other levels of general government	826	0	0	0	0	0	0	0	0	0	0
7. Long-term loans to the state budget	827	0	0	0	0	0	0	0	0	0	0
8. Long-term loans to others abroad	828	0	0	0	0	0	0	0	0	0	0
B) Long-term loans to others with purchase of securities (830 + 831)	829	0	0	0	0	0	0	0	0	0	0
1. Domestic securities	830	0	0	0	0	0	0	0	0	0	0
2. Foreign securities	831	0	0	0	0	0	0	0	0	0	0
C) Long-term deposits made (833 + 834)	832	0	0	0	0	0	0	0	0	0	0
1. Long-term deposits made with commercial banks	833	0	0	0	0	0	0	0	0	0	0
2. Other long-term deposits made	834	0	0	0	0	0	0	0	0	0	0
D) Other long-term loans to others	835	0	0	0	0	0	0	0	0	0	0
III. Total (800 + 819)	836	0	0	0	0	0	0	0	0	0	0



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