Zavarovalnica Triglav, d.d.,
Miklošičeva 19, Ljubljana

Solvency and financial condition report
of the Triglav Group
for 2017

Ljubljana, april 2018

Triglav Group

€ 394.8 million
solvency capital requirement

€ 878 million
own funds to cover solvency capital requirement

€ 149.5 million
minimum consolidated group capital requirement

222 %
solvency ratio

credit rating
“A”
with a stable medium-term outlook

€ 863.7 million
net premiums earned

€ 2.228 million
in investments

€ 69.7 million
net profit

MEMBERS OF THE MANAGEMENT BOARD OF ZAVAROVALNICA TRIGLAV:

President: Andrej Slapar

Members of the Management Board:

Uroš Ivanc

Tadej Čoroli

Barbara Smolnikar

Marica Makoter

Contents

Summary

Summary

Triglav Group is the leading insurance and financial group in Slovenia and the Adria region as well as one of the leading groups in SE Europe. The parent company of the Triglav Group is Zavarovalnica Triglav, which was established 118 years ago. In addition to the parent company, the Group comprised of 31 subsidiaries and 6 associated companies at the end of 2017. Within the Group, the subsidiaries do business with the parent company and among themselves on an arm's length basis whereby their operation is based on the principle of increasing the operating performance of each company individually as well of the Group as a whole. Group operates in seven markets of six countries in the Adria region, while it also provides reinsurance globally. Its biggest market is Slovenia where it generates 77% of the consolidated premium from **insurance, coinsurance and reinsurance where the share of the premium generated in Slovenia is slowly increasing.**

Triglav Group's core activities include **insurance business and asset management**. Triglav Group performs non-life, life, health and pension insurance activity as well as reinsurance activity within the scope of the insurance business carried on by its 13 insurance undertakings. Asset management at Triglav Group includes savings via the insurance services provided by insurance undertakings of the Group as well as investments in mutual funds. Triglav Group pursues a relatively conservative investment policy that emphasises the safety and liquidity of investments as well as achieving adequate return. The major share of Triglav Group's investments is held in the form of debt securities and other fixed-income securities.

Triglav Group is rated by two recognised ratings agencies, S&P Global Ratings and A.M. Best. In 2017, both gave the Group an **independent rating of "A"** with a **stable** medium-term outlook thus confirming its financial stability, high capital adequacy and profitability of its operations. The Group's activity is supervised by the Slovenian regulator, the Insurance Supervision Agency, *while its* ***external auditor for 2017 financial year was the auditing firm ERNST & YOUNG Revizija, poslovno svetovanje, d.o.o..***

The parent company is a **listed company** with over 14 thousand shareholders from 37 countries, with the ownership stake of the top ten shareholders at the end of 2017 amounting to 77% which is similar to the year before. The company again paid out a dividend of EUR 2.50 gross per share for 2016, which represented 69% of the Group's net profit for 2016.

TriglavGroup's operations were again **profitable and safe in 2017**. It generated a consolidated pre-tax profit of EUR 84.4 million, whereby the plan was between EUR 70 and 80 million. The year was marked with extreme mass events resulting from natural disasters that affected the entire insurance sector. The Group was able to successfully compensate for the unfavourable developments in the area of claims with premium growth and well-controlled costs. It generated premium growth on all insurance markets and in all insurance operations segments, and also increased the value of its assets under management. Returns on investments decreased in 2017, but the decrease was not as high as expected, while they were positively affected by certain one-off events. Last year was marked by mass loss events, mainly hail and gales storms. Despite the claims ratio increasing, the Group's combined ratio remained at the favourable level of 93.9%. Triglav Group's operations in 2017 are presented in more detail in section A of this Report.

Year 2017 was the first year of the planned strategic period. Triglav Group worked actively on its strategic orientations. In line with the objectives of growth and development, the Group entered the life insurance market in Macedonia and the pension insurance market in Bosnia and Herzegovina, and it also set up the Trigal trading platform for alternative investments in conjunction with the German partner, the KGAL Group. Takeovers of minority shareholdings in the Group's strategic subsidiaries took place in 2017, which is described in greater detail in section A.1.4 of this Report.

Group members are united by the common mission of "We create a safer future" as well as the common vision and values that are part of the Group's culture. The Triglav INT insurance holding plays an important role in the management of insurance undertakings outside Slovenia. All of the activities of Group members are geared towards the Group's development into a modern, innovative and dynamic insurance financial group that holds its position of market leader in Slovenia and the broader region.

The parent company has set up a risk management system at the Group level that allows it to control all underwritten and potential risks. The main building blocks of the comprehensive risk management process are the published Strategy of the Triglav Group and the Business Plan of Zavarovalnica Triglav.

The risk management system at the Group members is based on the **three lines of defence model**. The first line of defence includes all business functions that identify business risks. **The second line of defence** is composed of decision-making bodies and business functions that together perform the measurement of individual risks, monitor exposure to such risks and determine the exposure limit system. The **four key functions** play an active role as they actively ensure coordinated work of the Group's subsidiaries with the parent company and for the transfer of knowledge and good practices to the Group's subsidiaries. The third line of defence is represented by the Internal Audit. Risk management is performed primarily at the level of individual companies and secondarily at the Group level. The risk management system is set up at the Group members in accordance with the principles of the parent company that were determined by the minimum standards applying at the Group as well as subject to the size, complexity and the business profile of an individual company. The main business risks and their tolerances as well as the risk appetite are subject to the defined objectives and tolerances.

The parent company performs the ORSA process regularly and in doing so it takes into account all the risks, to which it is exposed, as well as potential risks that could have an impact on its operations over the next three-year period. Zavarovalnica Triglav uses the results of the ORSA to determine its existing and future capital needs. The ORSA process at the Group is harmonised with the process at the parent company and is performed according to the proportionality principle. This means that the overall ORSA results include the results of the most important subsidiaries. Other companies are included by their risk profile, the proportionality principle and the materiality criterion at the Group level. The ORSA process represents the basis for the decisions of the Management Board of Zavarovalnica Triglav related to capital management in the strategic period and is closely tied to strategic planning. Zavarovalnica Triglav performed the ORSA process for the 2017 financial year at the Group level. When implementing the ORSA process, it took into account all the material risks, to which Group members are exposed until the calculation date, as well as any potential risks that could have an impact on its operations over the next three-year period.

Group members measure and assess risks using internal methodologies and indicators according to regulatory capital adequacy criteria under the standard formula and through capital adequacy according to the S&P risk assessment method. The regulatory solvency capital requirement (SCR) of Zavarovalnica Triglav is calculated for the entire Group for the four most important risk types in accordance with the standard formula laid down in Commission Delegated Regulation (EU)[1]. These are **underwriting, market, credit and operational risks.** Section C of this Report outlines the exposure, concentration, mitigation techniques and sensitivity for each of these risk types.

As at the end of 2017, the Group's SCR, which does not take into account mutual risk effects (i.e. diversification), amounted to EUR 590 million for the main four risk types. Taking into account the SCR of the subsidiaries from other financial sectors and other non-financial companies, the Group's SCR totalled EUR 612.3 million. Zavarovalnica Triglav has formed two ring-fenced funds, i.e. PDPZ and PDPZ renta, for which risks are calculated separately for each risk category under the standard formula – even at the Group level. The chart below applies the simplification at risk module level method and also takes into account the risks of the ring-fenced funds that contribute EUR 15.6 million to the overall SCR of the Group. The method is presented in more detail in section E of this Report as is the effect of the change to the methodology for the calculation of capital adequacy for 2016.

[1] 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)

Risk profile of the Triglav Group* as at 31 December 2017

* non-diversified value of capital requirements for risks underwritten by the Triglav Group using the standard formula

Triglav Group is most exposed to **underwriting risk,** the bulk of which is represented by the risk of loss or of adverse change in the value of underwriting liabilities due to inadequate premiums and assumptions taken into account in the calculation of technical provisions. When taking on underwriting risks, the Group is moderately conservative, meaning that it underwrites a wider range of risks, thereby ensuring their diversification. By actively managing underwriting risks, Zavarovalnica Triglav achieves such quality of the portfolio that provides for stable and safe operations while maximising return.

Another important risk type is **market risk**, which Group faces when investing collected premiums and own funds. Group members hold a broad range of various financial instruments in their investment portfolios whereby the value of the instruments depend on the fluctuations in financial markets. Market risk includes interest rate risk (the risk of loss due to changes in interest rates that affect the value of interest rate sensitive items of assets and liabilities), equity risk (sensitivity of the value of assets and liabilities to adverse changes in the values or volatility of the market prices of equities), property risk, spread risk, FX risk and concentration risk.

The Report presents the Group's balance sheet for solvency purposes as at 31 December 2017 which differs from the balance sheet for financial reporting purposes. The differences between them are presented in greater detail in section D of this Report. Assets and liabilities are **valued at fair value** for solvency, whereby the valuation applies the risk-free interest rate curve published by EIOPA[2], i.e. without any adjustments of the curve. At the Group level, the best estimate for underwriting liabilities is calculated as the sum of the best estimates for underwriting liabilities of individual insurance undertakings of the Group less intra-Group transactions.

[2] European Insurance and Occupational Pensions Authority (EIOPA)

At the beginning of 2018, the objectives related to **capital management** were adjusted at the Group level which meant that the dividend policy was re-defined (see more in section E of this Report). Capital management is centralised at the Group level, i.e. through capital concentration which ensures optimum and cost-effective capital allocation and use to the parent company. Capital management relies on the abovementioned risk management system and is based on strategic objectives of the Group, regulatory requirements, good practice and internally established methodologies. Within the scope of the capital management process, the Group takes into account the capital needs as well as the options and restrictions for capital transfer between individual insurance segments and from subsidiaries to the parent company. The criterion for capital transfer from subsidiaries is long-term stability and safety of their operations, taking into account the local capital adequacy regulations. Each method of capital withdrawal from subsidiaries not in the form of dividend payment is previously coordinated with the competent local supervisory institution.

Effective capital management at the Group ensures safety and profitability of operations, the attainment of suitable capital adequacy, maintenance of a high credit rating and confidence of all stakeholders. These objectives were achieved in 2017 as well. There were no major changes in the previous year in the system of governance at the Group other than the ones already mentioned.

Capital adequacy or the capital adequacy ratio of the Group is calculated as the ratio between the total eligible own funds and the solvency capital requirement. The Group solvency calculation includes Zavarovalnica Triglav and all of its associated companies. All subsidiaries that perform the principal and ancillary activities are subject to full consolidation in the calculation of the Group's capital adequacy. Triglav Skladi d.o.o. and Skupna pokojninska družba d.d. are not consolidated for the purpose of determining the Group's solvency. Capital adequacy of the two companies is namely calculated according to their sector/industry rules and both are consolidated for financial reporting purposes. Other associated companies of the Group that do not perform the principal or ancillary activity are not consolidated in the solvency calculation, with their solvency capital requirement calculated separately and without the inclusion of diversification effects.

As at 31 December 2017, the Group was adequately capitalised and had sufficient capital available to meet both the solvency capital requirement (222% with target capital adequacy set at between 200 and 250%) and the minimum consolidated capital requirement (587%).

Solvency ratio the Triglav Group (as at 31 December 2017) =

$$\frac{\textit{Eligible own funds}}{\textit{SCR}} = \frac{878{,}0}{394{,}8} = 222\%$$

Capital adequacy of the Group decreased by 20 pp compared to last year, which is mostly the result of the change in the methodology for the calculation of the adjustment for the loss-absorbing capacity of deferred taxes, which causes the increase of the solvency capital requirement by EUR 41.1 million. Capital adequacy is also affected by the increase in eligible own funds and other changes to the risk profile that are explained in greater detail in section E.1 of this Report. Details of the calculation and comparison with year 2016 are provided in the table below.

Capital adequacy of the Triglav Group as at 31 December 2017 and 31 December 2016

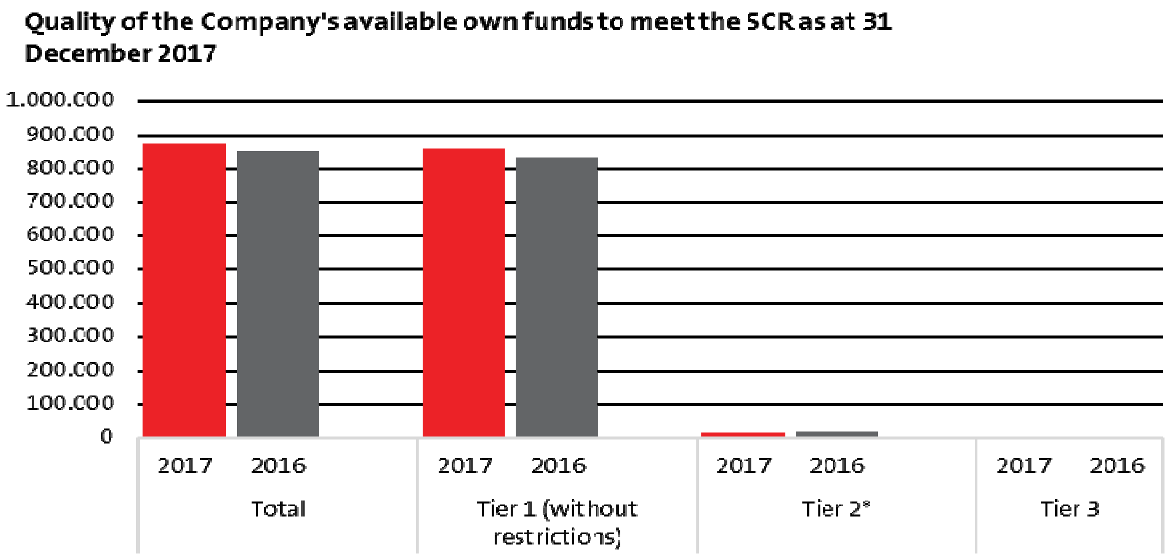
In EUR thousands

Capital adequacy of the Triglav Group	31 December 2017	31 December 2016	31 December 2016*
Total eligible own funds to meet the SCR	878,039	854,694	843,651
Total eligible own funds to meet the MCR	878,039	854,694	843,651
SCR excluding ring-fenced funds	0	0	342,585
SCR with ring-fenced funds	394,778	353,629	0
Minimum consolidated capital requirement	149,459	140,828	140,828
Capital adequacy to SCR	222 %	242 %	246 %
Capital adequacy to MCR	587 %	607 %	599 %

*Values from the SFCR of the Triglav Group for 2016; the difference compared to values in the second column is the result of the different account of the SCR depending on ring-fenced funds is outlined in greater detail in section E of this Report.

The Group's capital adequacy amount is affected by eligible own funds with which the Group must meet its SCR as well as by its SCR. The Group holds the highest quality **eligible own funds** (details are provided in the chart below).

Quality of the Group's available own funds to meet the SCR as at 31 December 2017:



* Tier 2 own funds are suitable for the coverage of the MCR as long as they do not exceed 20% of the MCR.

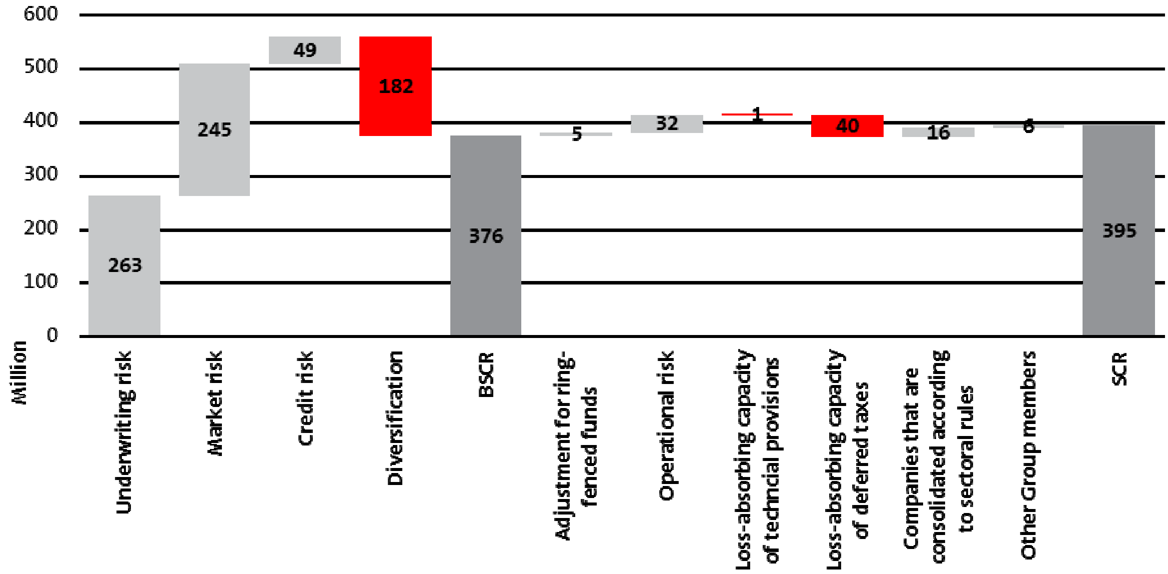
The quality of own funds is measured by the extent of their availability to cover potential losses and their subordination to underwriting liabilities. The duration of the item, absence of incentives for payment, absence of mandatory fixed servicing costs and the absence of encumbrances are all taken into account in this regard as well. Tier 1 thus includes the highest quality basic own funds, while Tier 2 only includes those that are characterised by subordination to a large extent. All other items are classified into Tier 3. All three tiers are eligible to meet the SCR up to the defined thresholds, while only Tier 1 and a part of Tier 2 capital are eligible to meet the minimum consolidated requirement.

Own funds are calculated as the difference between assets and liabilities whereby both sides of the balance sheet are valued at market value. They are composed of the share capital (EUR 73.7 million), subordinated liabilities (EUR 17.9 million) and the reconciliation reserve (EUR 786.4 million). The calculation of own funds takes into account the expected dividends for the 2017 financial year (EUR 56.8 million). The second deductible item are the so-called unavailable funds. They are represented by two values, i.e. the difference between the market values of Triglav Skladi, d.o.o. and Skupna pokojninska družba, d.d. and the sectoral value of available eligible capital to meet the sectoral capital requirement of the companies and minority stakes of Group members.

The Group's parent company **changed the methodology for the SCR calculation at Zavarovalnica Triglav and the Triglav Group** in 2017, i.e. in the phase of the determination of the adjustment for the loss-absorbing capacity of deferred taxes. It introduced a more conservative estimate of the amount of the adjustment for deferred taxes. It thus increased the SCR, which in turn decreased the Group's capital adequacy ratio. The published EIOPA analyses showed a mismatch in the methods applied at insurance companies and there are also announcements about changes to the standard formula. The announced changes could increase the regulatory and consequently business risk which is also the reason for the decision of Zavarovalnica Triglav to change the methodology. According to the new methodology, the adjustment for the loss-absorbing capacity of deferred taxes up to the amount that Zavarovalnica Triglav can justify using net deferred tax liabilities from the balance sheet for solvency purposes estimated prudently based on professional judgement. Details are explained in section E.2.1 of this Report.

The solvency capital requirement of the Group is calculated using the standard formula and without simplification. The SCR is the sum of the SCR for the four main risks, as indicated in the Group's risk profile, and of the other items shown below**.**

Structure of the Group's SCR



*Adjustment for the aggregation of the notional SCR of ring-fenced funds/matching adjustments portfolios

The legislation does not prescribe the minimum consolidated capital requirement for the Group. The floor for the consolidated SCR at the Group level corresponds to the minimum consolidated solvency capital requirement at the Group level and is the sum of the MCR of the Company and the proportionate share of the MCR of all associated (re)insurance companies. The calculation for insurance companies that are not subject to Commission Delegated Regulation (EU) takes into account the local MCRs in proportionate amounts.

At the end of 2017, 83% of its SCR related to underwriting and market risks, while practically all of its own funds were classified as Tier 1 which makes them high-quality funds. The Triglav Group manages own funds efficiently, which ensures safety and profitability of operations as well as the implementation of the strategy.

Section A

Operations and business results

A. Operations and business results

A.1. Business and performance

1.1 About the Triglav Group

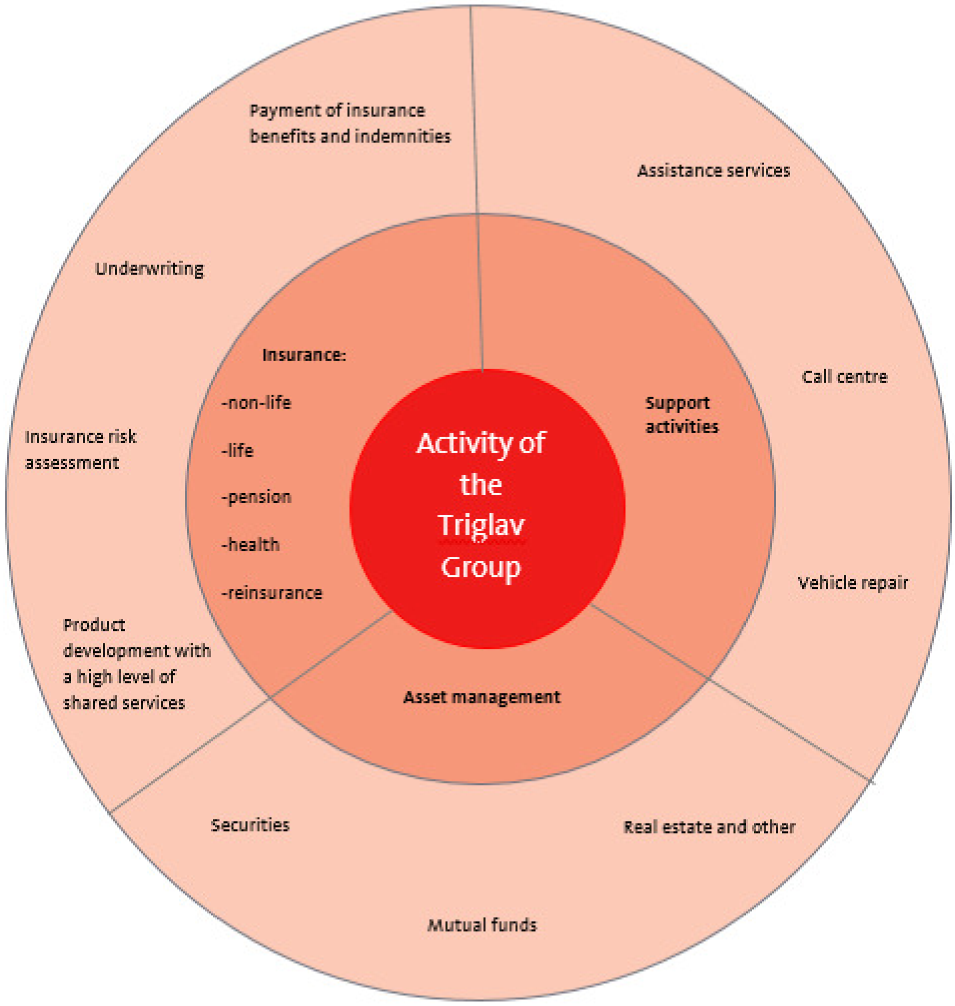
The Triglav Group (hereinafter: the Group) is the leading insurance-financial group in Slovenia and the Adria region as well as one of the leading groups in South eastern Europe. Zavarovalnica Triglav d.d. (hereinafter: the Company) headquartered in Ljubljana, Miklošičeva 19 is the parent company of the Group comprising 31 subsidiaries and 6 associated companies at the end of 2017.

The Group operates on seven markets in six countries.

Figure 1: Insurance market of the Triglav Group as at 31 December 2017

The Group's activities include insurance business, asset management and activities that support the core financial pillars.

Figure 2: Activity of the Group as at 31 December 2017



The insurance business of the Group is covered:

- **in Slovenia**: Zavarovalnica Triglav, d.d., Triglav, Zdravstvena zavarovalnica, d.d., Pozavarovalnica Triglav Re, d.d. and Skupna pokojninska družba, d.d.;
- **outside Slovenia**: insurance undertakings in Croatia, Serbia, Montenegro, Bosnia and Herzegovina and in Macedonia.

The Group performs non-life, life, health and pensions insurance activity as well as reinsurance activity. The Group operated in all segments of non-life insurance in 2017. Of all the insurance segments, the Group earns most ot the premium from property insurance against fire and other damage to property, motor vehicle liability insurance and other motor vehicle insurance.

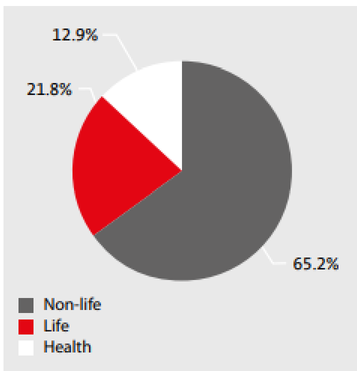
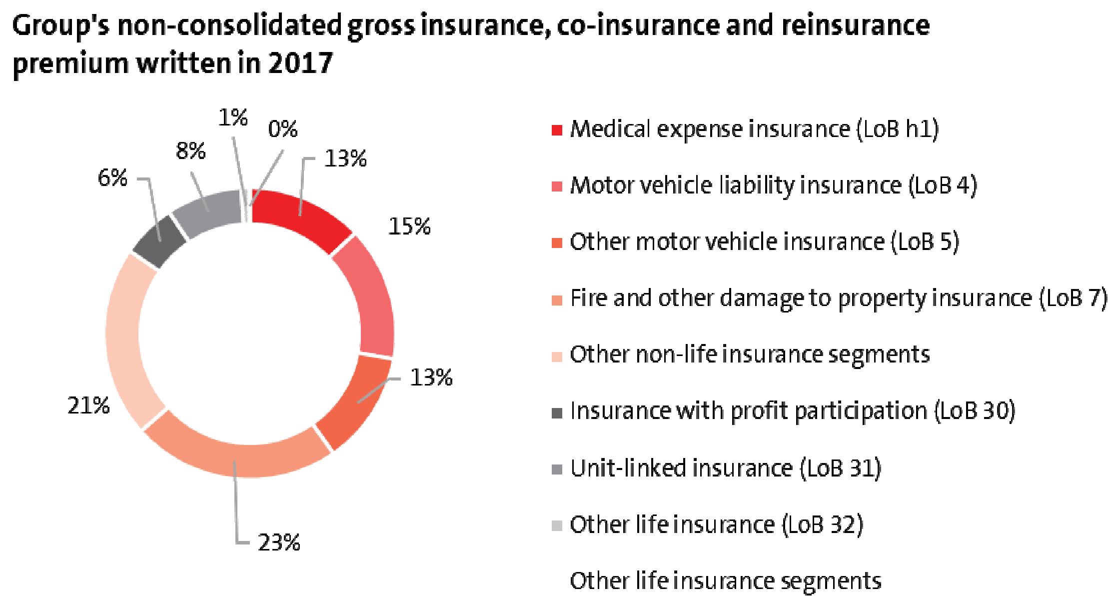


Chart 1: Group's non-consolidated gross insurance, co-insurance and reinsurance premium written in 2017



Asset management is performed for the clients who save via the Group's insurance services and for investors who invest in the Group's mutual funds. This activity is performed by the life insurers of the Group: Triglav Skladi d.o.o., Triglav, Upravljanje nepremičnin d.d. and Trigal, d.o.o.

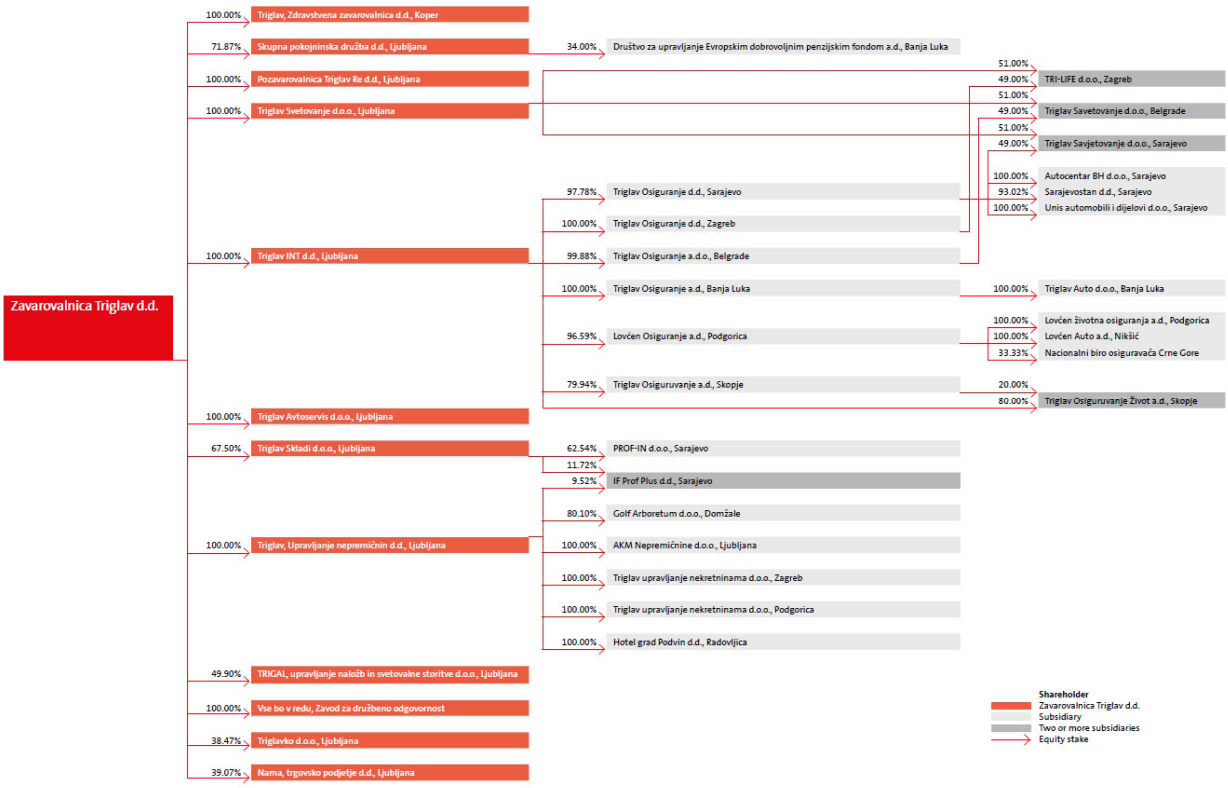
Group companies that carry on or support the Group's core activities

	Insurance	Asset management	Other
Slovenia	▪ Zavarovalnica Triglav, d.d. ▪ Pozavarovalnica Triglav Re, d.d. ▪ Triglav, Zdravstvena zavarovalnica, d.d. ▪ Skupna pokojninska družba, d.d.	▪ Triglav Skladi, d.o.o. ▪ Triglav, Upravljanje nepremičnin, d.d. ▪ Trigal, d.o.o.	▪ Triglav INT, d.d. ▪ Triglav Svetovanje, d.o.o. ▪ Triglav Avtoservis, d.o.o. ▪ Triglavko, d.o.o.
Croatia	▪ Triglav Osiguranje, d.d., Zagreb		▪ TRI-LIFE, d.o.o.
Bosnia and Herzegovina	▪ Triglav Osiguranje, d.d., Sarajevo ▪ Triglav Osiguranje, a.d., Banja Luka ▪ Društvo za upravljanje Evropskim ▪ dobrovoljnim penzijskim fondom, ▪ a.d., Banja Luka	▪ PROF-IN, d.o.o.	▪ Triglav Savjetovanje, d.o.o. ▪ Triglav Auto, d.o.o. ▪ Autocentar BH, d.o.o. ▪ Unis automobili i dijelovi, d.o.o.
Serbia	▪ Triglav Osiguranje, a.d.o., Beograd		▪ Triglav Savetovanje, d.o.o.

Montenegro	▪ Lovćen Osiguranje, a.d., Podgorica ▪ Lovćen životna osiguranja, a.d., Podgorica		▪ Lovćen Auto, a.d.
Macedonia	▪ Triglav Osiguruvanje, a.d., Skopje ▪ Triglav Osiguruvanje Život, a.d., ▪ Skopje		

The structure of the Group as at 31 December 2017 is shown in Figure 3.

Figure 3: Structure of the Group as at 31 December 2017



Detailed information on subsidiaries and associated companies such as: the country of the company, type of activity, corporate form, supervisory body, consolidation method, equity interests, holdings of voting rights, etc. are provided in template QRT S.32.01 in Annex 6 to this Report.

A.1.2 External audit

Based on the resolution of the General Meeting of Shareholders of the Company, the following audit firm was appointed the external auditor of the Company for the 2017 financial year:

ERNST & YOUNG Revizija, poslovno svetovanje, d.o.o.
Dunajska cesta 111,
1000 Ljubljana,
Slovenia

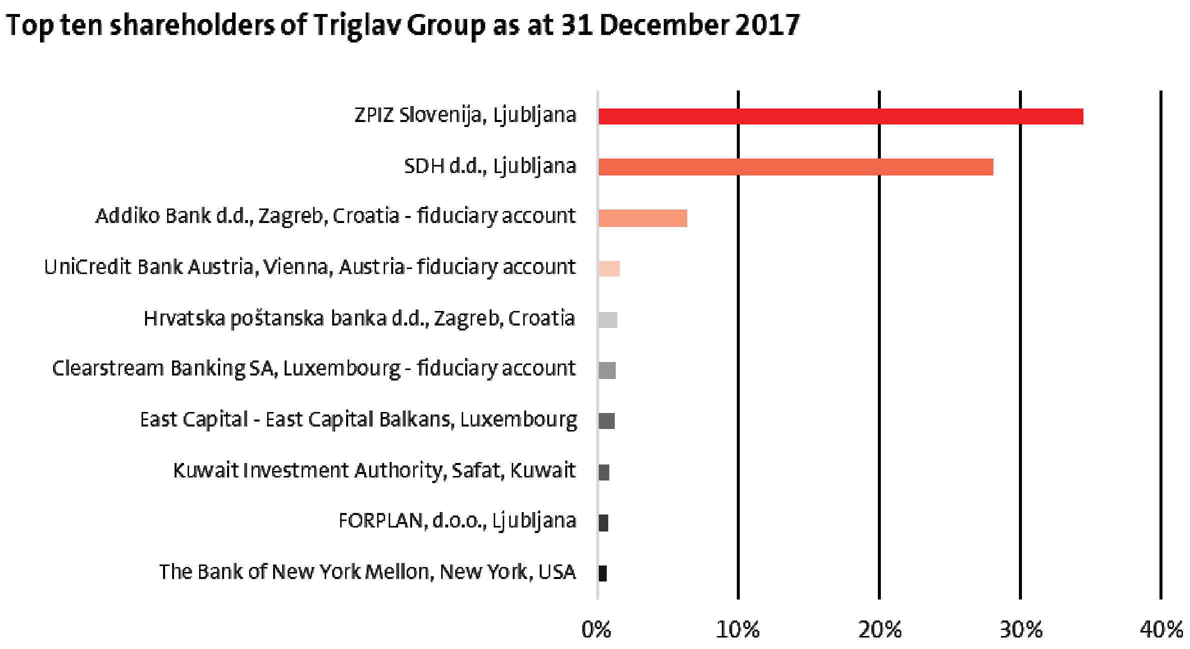
A.1.3 Supervisory body

The Company's supervisory body is:
Insurance Supervision Agency (hereinafter: ISA),
Trg Republike 3,
1000 Ljubljana,
Slovenia

A.1.4 Ownership structure of Zavarovalnica Triglav

The Company had 14.297 shareholders at the end of 2017. The number of shareholders dropped by 22% in year 2017, mainly on account of Slovenian natural person shareholders who owned a small number of shares exiting the Company. Their sales of the shares is an expected reaction to the legally prescribed termination of free registry accounts at the Central Securities Clearing Corporation (KDD). The majority of the Company's shareholders are from Slovenia, with 3.1% of the others being from 37 countries. Their number and shareholdings strengthened in 2017 as well. At the end of the year, they held 18.0% of the Company's shares, which is 0,9 pp more than the year before. There were no major changes to the ownership structure of the Company as the parent company of the Group in 2017. The concentration of ownership of the top ten shareholders at the end of the year stood at 76.7%, an increase of 0.4 pp compared to previous year. The stakes of the largest owners remained unchanged, while Unicredit Bank Austria – fiduciary account increased its holding by 1.6 pp. Clearstream Banking SA, Luxembourg - fiduciary account reduced its stake in 2017 and is thus no longer part of the top shareholder group. The change meant that Forplan d.o.o., Ljubljana rose through the ranks to take the tenth place.

Chart 2: Top ten shareholders of Zavarovalnica Triglav as at 31 December 2017



CHANGES IN THE GROUP'S STRUCTURE

The following changes to the interests in Group members were made in 2017:

Triglav INT acquired a 19.0% equity interest in Triglav Osiguranje, Sarajevo from non-controlling owners, which brought its stake in the company to 88.0%. The acquisition cost was KM 8.8 million or EUR 4.5 million. Triglav Osiguranje, Sarajevo simultaneously repurchased 4.156 or 10% of its own shares from non-controlling owners at the cost of KM 4.6 million or EUR 2.4 million. The equity interest of non-controlling owners thus decreased from 31.0 to 2.0%, which reduced the value of the minority equity interest by EUR 3.3 million. The Company reduced its share capital at the end of the year by the share of its treasury stock, which increased the equity interest of Triglav INT to 97.78%.

Triglav INT acquired a 0.09% interest in Triglav Osiguranje, Zagreb thus becoming its 100% owner. The acquisition cost of the interest came in at HRK 0.1 million or EUR 13.625.

Triglav INT acquired a 0.12% interest in Lovćen Osiguranje, Podgorica from non-controlling owners thus increasing its stake to 96.59%. The acquisition cost of the interest was EUR 10.540.

Triglav INT acquired a 6.56% interest in Triglav Osiguruvanje, a.d., Skopje from non-controlling owners and increased its stake in the company to 79.94%. The acquisition cost of the interest came in at MKD 57.8 million or EUR 0.9 million.

In December 2017, Salnal, d.o.o. was taken out from the register of companies under a fast-track procedure without liquidation. After the deletion from the register, its entire property was taken over by the parent company of the Group which was its sole shareholder.

A.1.5 Major business events and achievements in 2017

- Good performance: The Group's operations were profitable again, exceeding the planned operating results. It generated premium growth on all insurance markets and in all insurance operations segments.
- The Group maintained the high "A" credit rating: The S&P Global Ratings and A.M. Best rating companies confirmed the Group's A rating with a stable medium-term outlook.
- Dividend distribution: Dividends accounted for 69% of the Group's 2016 net profits.
- Entrance into the life insurance market in Macedonia and the pension insurance market in Bosnia and Herzegovina: The Group founded a new life insurance company on the Macedonian market. It founded a pension fund management company in Bosnia and Herzegovina together with the EBRD, Pension Reserve Fund of the Republic of Srpska and the Enterprise Expansion Fund (ENEF).
- Setup of the Trigal trading platform for alternative investments: In conjunction with the German partner KGAL Group, the parent company of the Group founded a company for the collection of institutional investor assets and their investment into various types of investments and projects (real estate, infrastructural projects and other alternative investments).
- Changes in the Supervisory Board and Management Board of Zavarovalnica Triglav: Owing to the expiry of the terms of office of five Supervisory Board members who were the shareholders' representatives, the shareholders appointed five new members. Barbara Smolnikar was appointed as the new Management Board member responsible for the Life Insurance Division and the Life Insurance Development and Actuarial Department. On 2 November 2017, the term of office of Benjamin Jošar as a Management Board member expired.
- Mass loss events: On the whole, 2017 was a record year in terms of catastrophic loss events. Hail storms, frost, Hurricane Irma, floods and gale caused EUR 33.5 million worth of claims.

A.1.6 Treatment of subsidiaries in consolidation for solvency purposes

As the parent company of the Group, the Company calculates the capital adequacy at the Group level. The Group solvency calculation includes the Company and all of its associated companies. All subsidiaries that perform the principal and ancillary activities are subject to full consolidation in the calculation of capital adequacy. Triglav Skladi d.o.o. (hereinafter: Triglav Skladi) and Skupna pokojninska družba d.d. (hereinafter: Skupna pokojninska) are not fully consolidated for the purpose of determining the Group's solvency. Capital adequacy of Triglav Skladi and Skupna pokojninska is namely calculated according to the sector/industry rules. Both companies are consolidated for financial reporting purposes. Other associated companies of the Group that do not perform the principal or ancillary activity are not consolidated in the solvency calculation, with their capital requirements calculated separately and without any diversification effects among them.

The criterion for choosing a consolidation method for solvency purposes is the equity stakes and activities of individual associated companies of the Group.

Table 1: List of associated companies of the Group and consolidation methods used for solvency and financial reporting purposes*

31 December 2017

Group member	Consolidation method for solvency purposes	Consolidation method for financial reporting purposes
Zavarovalnica Triglav, d.d.	Full consolidation	Full consolidation
Pozavarovalnica Triglav RE, d.d., Ljubljana	Full consolidation	Full consolidation
Triglav, Zdravstvena zavarovalnica, d.d., Koper	Full consolidation	Full consolidation
Triglav Skladi, d.o.o.	Financial investment - FV	Full consolidation
Skupna pokojninska družba, d.d., Ljubljana	Financial investment - FV	Full consolidation
Triglav upravljanje nepremičnin, d.d., Ljubljana	Full consolidation	Full consolidation
Triglav Svetovanje, d.o.o., Ljubljana	Full consolidation	Full consolidation
Triglav Avtoservis, d.o.o., Ljubljana	Full consolidation	Full consolidation
AKM nepremičnine, d.o.o., Ljubljana	Consolidated within the parent company Triglav upravljanje nepremičnin	Full consolidation
Golf Arboretum, d.o.o., Domžale	Financial investment - FV	Full consolidation
Hotel grad Podvin, d.o.o., Radovljica	Financial investment - FV	Financial investment - FV
Vse bo v redu, Zavod za družbeno odgovornost	Financial investment - FV	Financial investment - FV
Triglav INT, d.d., Ljubljana	Full consolidation	Full consolidation
Triglav Osiguranje, d.d., Zagreb	Full consolidation	Full consolidation
Triglav Osiguranje, a.d., Banja Luka	Full consolidation	Full consolidation
Triglav BH Osiguranje, d.d., Sarajevo	Full consolidation	Full consolidation
Triglav Osiguranje, a.d.o, Beograd	Full consolidation	Full consolidation
Lovčen Osiguranje, a.d., Podgorica	Full consolidation	Full consolidation
Lovčen životna osiguranja, Podgorica	Full consolidation	Full consolidation
Triglav Osiguruvanje, a.d., Skopje	Full consolidation	Full consolidation
Triglav Osiguruvanje Život, a.d, Skopje	Full consolidation	Full consolidation
Lovćen Auto, d.o.o., Nikšić	Full consolidation	Full consolidation
Unis automobili i dijelovi, d.o.o., Sarajevo	Full consolidation	Full consolidation
Autocentar BH, d.o.o., Sarajevo	Full consolidation	Full consolidation
Triglav Auto, d.o.o., Banja Luka	Full consolidation	Full consolidation
TRI-Life, d.o.o. Zagreb	Full consolidation	Full consolidation
Triglav Savjetovanje, d.o.o., Sarajevo	Full consolidation	Full consolidation
Triglav Savetovanje, d.o.o., Beograd	Full consolidation	Full consolidation
PROF-IN, d.o.o., Sarajevo	Consolidated within the parent company Triglav Skladi	Financial investment - FV
Sarajevostan, d.d., Sarajevo	Financial investment - FV	Full consolidation
Triglav upravljanje nekretninama Zagreb, d.o.o.	Full consolidation	Full consolidation
Triglav upravljanje nekretninama Podgorica, d.o.o.	Full consolidation	Full consolidation
ZIF Prof Plus, d.d., Sarajevo	Financial investment - FV	Financial investment - EM
Nama, trgovsko podjetje, d.d. Ljubljana	Financial investment - FV	Financial investment - EM
Triglavko, d.o.o, Ljubljana	Financial investment - FV	Financial investment - EM
Trigal, upravljanje naložb in svetovalne storitve, d.o.o.	Financial investment - FV	Financial investment - EM
Društvo za upravljanje Evropskim dobrovoljnim penzijskim fondom, a.d., Banja Luka	Consolidated within the parent company Skupna pokojninska	Financial investment - EM

*Financial investment - EM: investments in companies under consolidation are valued according to the equity method
**Financial investment - FV: investments in companies under consolidation are valued at fair value

The activity and equity interest of individual Group members are presented in template QRT S.32.01 in Annex 6 to this Report.

A.2 Underwriting performance

The insurance undertakings of the Group sell a complete range of insurance, i.e. non-life, life and health insurance products, including supplementary health insurance and voluntary supplementary pension insurance and reinsurance.

The Group's net profit in 2017 amounted to EUR 69.7 million, down 15% compared to previous year. A comparison with 2016 shows that the decrease is mainly the result of higher claims incurred and lower returns on investments owing to lower interest income.

The Group further strengthened its capital position in 2017. The total value of the Group's equity for financial reporting purposes at the end of the previous year was EUR 756.6 million, which is an increase of 2% compared to year 2016. ROE stood at 9.3%.

Table 2: Net profit or loss of the Group in 2017 and 2016

	In EUR thousands	
	2017	2016
Net profit or loss	**69,708**	**82,332**
- Non-life insurance	52,560	63,294
- Health insurance	3,182	3,304
- Life insurance including health insurance	15,190	15,588
- Other	-1,223	147
Profit or loss before tax	**84,445**	**95,138**
Non-Life and health insurance combined ratio	**93.90%**	**92.90%**
ROE	**9.30%**	**11.37%**

The insurance undertakings that are included in the consolidation for solvency purposes and Pozavarovalnica Triglav Re, d.d., (hereinafter: Triglav Re) jointly booked EUR 1,052.3 million worth of non-consolidated gross insurance, co-insurance and reinsurance premium in 2017. EUR 888.8 million worth of premium was booked in the non-life and health insurance segments, while the premium booked in the life insurance segment amounted to EUR 163.5 million. The biggest share of the non-life and health insurance premium is derived from fire insurance and other damage to property insurance segments. These were followed by motor vehicle liability insurance and medical expense insurance. The gross written premium grew by EUR 65.9 million when compared to 2016. The growth was mainly from non-life insurance including health insurance, i.e. EUR 60.9 million.

Gross claims incurred in 2017 amounted to EUR 668.2 million, where EUR 492.4 million came from non-life insurance including health insurance and EUR 175.7 million came from life insurance. Most of the gross claims incurred among non-life insurance including health insurance arose from claims in the fire insurance and other damage to property insurance as well as other motor vehicle insurance segments. The values for the Group item grew by EUR 66.2 when compared to 2016, mainly – EUR 53.9 million – arising under non-life insurance including health insurance.

The Group's expenses (excluding the reinsurers' share) in 2017 amounted to EUR 268.7 million. EUR 235.6 million of the abovementioned amount came from non-life insurance including health insurance and EUR 33.1 million from life insurance. Considering the segmentation applying at the Group, the highest expenses incurred from the fire insurance and other damage to property insurance segment. The Group's expenses decreased by EUR 6.4 million when compared to 2016. Other expenses amounted to EUR 4.9 million, where EUR 4.7 million came from non-life insurance including health insurance and EUR 0.2 million from life insurance.

Table 3 presents the gross premium written, gross claims incurred and the expenses incurred under the major insurance segments used for solvency purposes. The amounts for other insurance segments are presented in template QRT S.05.01 in Annex 2 to this Report.

Table 3: Premium, claims and expenses of the Group by major insurance segments in 2017 and 2016

	In EUR thousands	
	2017	2016
Gross written premium	**1,052,258**	**986,333**
- Non-life insurance including health insurance	**888,806**	**827,897**
-- Medical expense insurance (LoB h1)	132,528	115,933
-- Motor vehicle liability insurance (LoB 4)	159,571	155,503
-- Other motor vehicle insurance (LoB 5)	132,158	122,236
-- Fire insurance and other damage to property insurance (LoB 7)	240,841	222,087
-- Other non-life insurance segments	223,708	212,137
- Life insurance	**163,452**	**158,436**
-- Insurance with profit participation (LoB 30)	66,315	67,851
-- Index-linked and unit-linked insurance (LoB 31)	86,393	82,224
-- Other life insurance (LoB 32)	10,743	8,327
-- Other life insurance segments	0	34
Gross claims incurred	**668,153**	**601,961**
- Non-life insurance including health insurance	**492,577**	**438,729**
-- Medical expense insurance (LoB h1)	106,549	93,893
-- Motor vehicle liability insurance (LoB 4)	73,119	66,842
-- Other motor vehicle insurance (LoB 5)	90,521	84,957
-- Fire insurance and other damage to property insurance (LoB 7)	134,376	99,967
-- Other non-life insurance segments	88,012	93,069
- Life insurance	**175,576**	**163,233**
-- Insurance with profit participation (LoB 30)	74,346	78,596
-- Index-linked and unit-linked insurance (LoB 31)	92,884	79,598

-- Other life insurance (LoB 32)	2,954	1,366
-- Other life insurance segments	5,393	3,672
Expenses incurred	**268,747**	**262,370**
- Non-life insurance including health insurance	**235,641**	**229,914**
-- Income protection insurance (LoB h2)	24,779	24,576
-- Motor vehicle liability insurance (LoB 4)	48,591	53,318
-- Other motor vehicle insurance (LoB 5)	39,025	35,371
-- Fire insurance and other damage to property insurance (LoB 7)	70,916	67,474
-- Other non-life insurance segments	52,331	49,174
- Life insurance	**33,106**	**32,456**
-- Insurance with profit participation (LoB 30)	12,918	13,470
-- Index-linked and unit-linked insurance (LoB 31)	15,833	15,385
-- Other life insurance (LoB 32)	4,299	3,530
-- Other life insurance segments	56	71
Other expenses	**4,922**	**15,220**

The Group operates in seven markets of six countries in the Adria region. In other markets, the Group also provides active reinsurance and fronting services, ceding most of the business to foreign reinsurance companies.

The Group records the majority of the premium in Slovenia, i.e. as much as 76% of its total unconsolidated premium. Considering the geographic distribution of the Group's operations, the majority of the premium coming from these countries is to be expected. The share of the premium by country did not change materially compared to 2016.

Similarly to the case of the gross written premium, the biggest share of gross claims incurred comes from Slovenia. The geographic distribution of claims did not change much materially when compared to 2016.

Table 4 shows the Group's non-consolidated gross written premiums and incurred claims.

Table 4: Geographic distribution of the Group's premium and claims by TP 5 countries of operation in 2017 and 2016

	In EUR thousands	
Geographic distribution of the premium and claims	2017	2016
Gross written premium	**989,131**	**932,788**
-- Slovenia	801,600	766,812
-- Croatia	58,835	53,325
-- Serbia	45,679	34,409
-- Montenegro	33,020	31,169
-- Bosnia and Herzegovina	27,702	25,517
-- Macedonia	22,295	21,555
Gross claims incurred	**634,908**	**564,449**
-- Slovenia	536,916	483,913
-- Croatia	45,706	34,418
-- Serbia	15,366	13,028

-- Montenegro	16,310	14,820
-- Bosnia and Herzegovina	11,101	9,408
-- Macedonia	9,509	8,861

Details of the geographic distribution of premiums and claims by country are provided in template S.05.02 in Annex 3 to this Report.

A.3 Investment performance

The investment result is most affected by the structure of the Group's investments and the developments on capital markets. The Group pursues a relatively conservative investment policy that emphasises the safety and liquidity of investments as well as adequate return. The major share of the Group's investments is held in the form of debt securities and other fixed-income securities. This chapter presents the Group's investment result broken down by main sources. A comparison with the investment result published by the Group last year is provided. The Group also published the shown investment result in its financial statements.

Returns on financial assets (excluding the returns on investments of unit-linked life insurance contracts) are the difference between income and expenses from financial assets. They declined by 4% to EUR 78.1 million. The reason for the lower return lies mainly in the lower net interest income and higher other financial expenses resulting from negative exchange rate differences under investments and are reflected directly in returns in financial statements despite the closed currency structure. The returns on investments also affect the amount of technical provisions and the Group's profit or loss.

Table 5: Income and expenses from the Group's investment activities in 2017 and 2016

In EUR thousands

Income and expenses from investing activities		
	31 December 2017	**31 December 2016**
Interest	**62,360**	**67,521**
- Income	63,991	68,836
- Expenses	1,631	1,315
Dividends	**5,346**	**3,357**
- Income	5,346	3,357
- Expenses	0	0
Changes in fair value*	**2,198**	**866**
- Income	8,397	8,002
- Expenses	6,199	7,136
Gains and losses on sales	**17,562**	**14,530**
- Income	29,790	36,908
- Expenses	12,229	22,377
Permanent impairments	**-335**	**-3,197**
- Income	0	0
- Expenses	335	3,197

Other financial income	**-9,041**	**-1,541**
- Income	3,866	5.461
- Expenses	12,907	7,003
Total	**78,089**	**81,535**

* includes profit/loss on equity investments in associates and jointly controlled companies accounted using the equity method

No Group member currently invests in securitised products.

A.4 Performance of other activities

A.4.1 Other income and expenses

In 2017, the Group generated EUR 56.6 million worth of other income, whereby this item changed mainly in terms of the types of income compared to last year. Income of non-insurance undertakings (which are part of this item) decreased in 2017 on account of the sale of Slovenijales trgovina and the one-off sale of land in 2016. Income from reinsurance commission increased in 2017.

The Group's other expenses in 2017 amounted to EUR 67.5 million. Operating expenses of non-insurance companies and commission expenses accounted for the bulk of the abovementioned amount. Commission expenses changed the most in 2017 (because of the changed presentation method), while operating expenses of non-insurance companies decreased the most compared to 2016.

Detailed information on the Group's other income and expenses are presented in the financial statement section of the Annual Report of the Triglav Group and Zavarovalnica Triglav, d.d. for 2017, i.e. sections 4.6, 4.7, 4.13 and 4.14

Table 6: Other income and expenses of the Group in 2017 and 2016

	In EUR thousands	
	2017	2016
Other income	**56,602**	**58,929**
- other insurance income	22,569	5,392
- other income	34,033	53,537
Other expenses	**67,485**	**71,771**
- other insurance expenses	26,855	17,038
- other expenses	40,630	54,733

A.4.2 Lease agreements

In the reporting period, the Group had several lease agreements concluded both as lessor and as lessee. Among the contractual relationships where a Group member acts as the lessor, only investment property is considered material. Of the total value of investment properties of EUR 94 million, the annual leasing income amounted to EUR 4.9 million, 86% of which is the income of the parent company.

Group members act as the lessee when leasing business premises and parking spaces, leasing software and data lines, leasing multi-function devices and leasing cars. The Group's total annual leasing cost amounts to EUR 5.7 million. All lease agreements are operating lease agreements, meaning that all cost effects are shown as leasing costs and have no impact on the value of the underlying asset.

A.4.3 Material intra-group transactions within the Triglav Group

The most material intra-group transactions arise from reinsurance operations between Triglav Re on one hand and the Company and the subsidiaries on the other.

In reinsurance operations in 2017, the most material transactions were:

- total reinsurance transactions[3] between Triglav Re and the Company amounted to EUR 96.5 million;
- transactions between Triglav Re and Triglav Osiguranje d.d., Zagreb - EUR 10.9 million in turnover;
- transactions between Triglav Re and individual subsidiaries, whereby total reinsurance transaction turnover stayed below EUR 3.5 million.

Reinsurance business within the Group is also provided by the Company. Its reinsurance transaction turnover with individual subsidiaries does not exceed EUR 5 million.

Other material intra-group transactions include insurance contract acquisition and financial asset management. These transactions did not exceed the materiality threshold either.

A.5 Other information

EVENTS IN 2018

Based on the announced activities of EIOPA[4] regarding the change of the standard formula, mainly in the part for the determination of the adjustment for the loss-absorbing capacity of deferred taxes (LAC DT) and based on the additionally established different practices of insurance companies in their calculation, the Company adjusted the methodology for the calculation of capital adequacy for the first time on 31 December 2017 for the Company and the Group. Following the expert analyses performed in cooperation with external advisers, the Company found that regulatory and subsequently operational risk would increase excessively if the current methodology were kept and if the standard formula were changed as announced.

The Company thus more conservatively assesses the amount of the adjustment for deferred taxes thus increasing the capital requirement. The effect on capital adequacy is outlined in section E of this Report. In March of 2018, the Company correspondingly adjusted the objectives related to capital management and the dividend policy. The target capital adequacy is set between 200 and 250% (pursuant to the former calculation methodology, it was set at

[3] Total reinsurance transactions include the reinsurance premium, reinsurance share for claims settled and reinsurance fees and commissions.
[4] European Insurance and Occupational Pensions Authority (EIOPA)

between 250 and 300%). A detailed presentation of the capital management policy is provided section E.0 of this Report.

All other information relating to the operations and performance of the Group is disclosed in sections A.1 through A.4.

Section B

System of governance

B.1 General information on the system of governance

B.2 Fit and proper requirements

B.3 Risk management system, including the own-risk and solvency assessment

B.4 Internal control system

B.5 Internal audit function

B.6 Actuarial function

B.7 Outsourcing

B.8 Any other information

B. System of governance

B.1 General information on the system of governance

Corporate governance of the Group's subsidiaries is conducted by actively exercising management rights held by the Company as the parent company of the Group pursuant to the legislation that applies to each individual company whereby the internal rules of the subsidiaries are also taken into account.

Subsidiaries in the Group operate as independent legal entities in accordance with the applicable local legislation, the resolutions adopted by general meetings and the management and supervisory bodies of subsidiaries, business cooperation agreements and other adopted rules and instructions implemented by the individual subsidiaries.

Following the Group's values is a continuous process for all subsidiaries and a key guideline in terms of subsidiary management. By transposing minimum standards and searching for the options of centralising business processes at subsidiaries, we observe the following values: simplicity, professionalism and modernity. The values of responsibility and safety are pursued through effective management and supervision of subsidiaries. Subsidiaries are encouraged and ties are established between them in order to ensure effective implementation and transposition of good practices. The abovementioned goal is realised through continuous monitoring of the subsidiaries' operations and the review of the realisation of the set objectives. Another important objective is the care for increasing the value of the Group's assets over the long-term. When it comes to the management of subsidiaries, we follow the Group's strategy with the aim of building and maintaining a modern, innovative and dynamic insurance financial group.

Corporate governance of the Group's subsidiaries is performed through mechanisms that provide for the monitoring and effective supervision or cooperation in professional fields, the harmonisation of the standards for operation, and mutual information exchange between the Group's subsidiaries:

- in areas of professional coordination of activities in the Group by transposing minimum standards regarding the operations of divisions;
- by convening strategic conferences where current operating performance and strategic guidelines for future operating performance of the Group are discussed; and
- through various training courses, the purpose of which is to standardise business processes and to transpose know-how, corporate culture and good business practices.

Within the Group, the subsidiaries do business with the parent company and among themselves on an arm's length basis whereby their operation is based on the principle of increasing the operating performance of each subsidiary individually as well as of the Group as a whole.

Activities related to subsidiaries encompass governance, strategic, development and operational activities. Governance activities are related to the management and supervision of subsidiaries. Strategic and development activities relate to overall development, the implementation of new products, IT solutions and other development activities. Operational activities relate to the performance of administrative, financial and other services.

On the basis of the applicable legislation, the Articles of Association and other internal documents of the Group, the members of the management body of the subsidiary are required to report in detail and accurately to the supervisory body of the subsidiary on the progress of transactions, the financial standing of the subsidiary as well as its solvency, and in particular on the following transactions or legal acts:

- statement of financial position, income statement and statement of cash flows of the company are reported at least quarterly;
- balanced performance indicators are reported quarterly;
- other matters are reported at the request of the supervisory body.

The divisions of subsidiaries are required to report on their activities to the divisions of the parent company in accordance with the adopted minimum standards of operation, whereby the parent company's divisions carry out regular control of the monitoring of the subsidiaries' operations and the supervision of subsidiaries through the prescribed reports.

An important role in the Group's management of insurance undertakings abroad is played by the Triglav INT insurance holding company, which works with various expert departments of the Company to ensure the transposition of minimum standards and good practices to the subsidiaries of Triglav INT. The corporate governance system in the Triglav INT Group complies with the Group's objectives.

By participating in the supervisory boards of subsidiaries, the Company provides for the realisation of the Group's strategy.

Table 7: Management Board members in the Supervisory Board (Board of Directors) of individual subsidiaries as at 31 December 2017

Company's Management Board	Membership in the Supervisory Board (Board of Directors) of individual subsidiaries
Andrej Slapar President of the Management Board	Pozavarovalnica Triglav Re, d.d. Triglav Skladi, d.d. Triglav INT, d.d.
Uroš Ivanc Management Board member	Triglav INT, d.d. Triglav upravljanje nepremičnin, d.d.
Tadej Čoroli Management Board member	Triglav, Zdravstvena zavarovalnica, d.d. Skupna pokojninska družba, d.d. Triglav INT, d.d.
Barbara Smolnikar Management Board member	Triglav INT, d.d.
Marica Makoter Management Board member - Workers' Director	Triglav INT, d.d.

B.1.1 Management bodies of the Group

The Group's management and supervisory bodies are the Management Board, the General Meeting of Shareholders and the Supervisory Board of the Group's parent company.

B.1.1.1 Management Board

The main powers and tasks of the Management Board of the Group's parent company are as follows: management and organisation of the company's operations, representation of the company vis-à-vis third parties; responsibility for the legality of operations, adoption of the development strategy of the company and the annual plan of operations, reporting to the Supervisory Board on the performance of both the Company and the Group.

The composition of the Management Board changed in 2017 as the Supervisory Board appointed Barbara Smolnikar as the new Management Board member on 17 August 2017. Her term of office began on 17 October 2017. The term of office of Management Board member Benjamin Jošar ended on 2 November 2017.

As at 31 December 2017, the Management Board composition was as follows:

Company's Management Board	Function	Competences
Andrej Slapar	President of the Management Board	- Management Board Office - Legal Office - Internal Audit Department - Corporate Communication Department - Business Intelligence (BI) - Compliance Office - Non-Life Insurance Development and Actuarial Department - Investment Department - Corporate Accounts - Senior management staffing - Arbitration - Nuclear Insurance and Reinsurance Pool (GIZ) - Reinsurance and Asset Management Division
Uroš Ivanc	Management Board member	- Strategic Purchasing Department - Risk Management Department - Strategic Planning and Controlling Department - Subsidiary Management Department - Accounting Division - Finance Division (except the Investment Department)
Tadej Čoroli	Management Board member	- Innovation and Digitalisation of Operations Service - Client Contact Unit - Marketing Department - Insurance Sales Division - Non-Life Insurance - Non-Life Insurance Claims Division
Barbara Smolnikar	Management Board member	- Life Insurance Division - Life Insurance Development and Actuarial Department - Health and Pension Insurance Division - Money Laundering Prevention Division
Marica Makoter	Management Board member - Workers'	- Organisation Development and Business Process Management Department

	Director	- Fraud Prevention, Detection and Investigation - Project Portfolio and Change Management Department - IT - Back Office Division - HRM Division, except senior management staffing

B.1.1.2 General Meeting of Shareholders

Shareholders exercise their rights in Company matters at the General Meeting of Shareholders that is convened no less than once a year. The powers and operation of the General Meeting are defined by the Companies Act and the Company's Articles of Association. The Articles of Association do not stipulate special rules relating to changes and amendments to the Articles of Association. A parent company's share provides each owner with the right to: one vote at the Company's General Meeting of Shareholders, proportionate dividend from the profit and – in the event of bankruptcy or liquidation – a proportionate share of the remaining bankruptcy or liquidation estate. A shareholder registered in the share register kept by the Central Securities Clearing Corporation (KDD) as the holder of the shares at the end of the fourth day prior to the General Meeting session may participate in the General Meeting of Shareholders.

B.1.1.3 Supervisory Board

The Supervisory Board has 6 (six) members who are shareholder representatives and 3 (three) members who are employee representatives. The members of the Supervisory Board - shareholder representatives are elected by the General Meeting of Shareholders. The Members of the Supervisory Board who act as employee representatives are elected by the Company's Works Council, which informs the General Meeting of Shareholders of its decision. The Chairman and Vice Chairman act as shareholders' representatives. The term of office of Supervisory Board members is 4 years, whereby they may be re-elected without limitation.

The Supervisory Board supervises the management of the Company and grants its consent to the decisions of the Management Board where the stake of the parent company or the value exceeds the limit and in the establishment of companies with share capital in Slovenia and abroad, the acquisition or sale of the Company’s stakes in foreign or domestic companies and the like. The Supervisory Board grants its consent to the appointment and dismissal of the Internal Audit Department Director.

The Supervisory Board composition was as follows at the end of 2017.

Member of the Supervisory Board	Function	Competences
Igor Stebernak	Chairman, shareholders' representative	Appointments and Remuneration Committee
Nataša Damjanovič	member, shareholders' representative	Audit Committee, Appointments and Remuneration Committee
Žiga Škerjanec	member, shareholders' representative	Appointments and Remuneration Committee, Strategic Committee
Dr. Mario Gobbo	member, shareholders' representative	Audit Committee
Andrej Andoljšek	Vice Chairman, shareholders' representative	Strategic Committee
Milan Tomaževič	member, shareholders' representative	Strategic Committee

Ivan Sotošek	member, workers' representative	Audit Committee
Boštjan Molan	member, workers' representative	Appointments and Remuneration Committee
Peter Celar	member, workers' representative	Strategic Committee

SUPERVISORY BOARD COMMITTEES

The Supervisory Board may appoint one or several committees, which prepare proposed resolutions of the Supervisory Board, assure their realisation and perform other expert tasks. A committee or commission may not decide on issues that fall under the competence of the Supervisory Board.

The following Supervisory Board committees operated at the Company in 2017: Audit Committee, Appointments and Remuneration Committee, Strategic Committee and the Nominations Committee.

The Audit Committee was composed of the following until 12 June 2017: Dr. Mario Gobbo, Chairman, members Rajko Stanković and Ivan Sotošek, and Barbara Nose, independent external expert, while its composition as of 21 June 2017 onwards was: Dr. Mario Gobbo, Chairman, and members Nataša Damjanovič and Ivan Sotošek, and from 19 August 2017 onwards also Simon Kolenc, independent external expert.

The Appointments and Remuneration Committee operated in the following composition until 12 June 2017: Igor Stebernak, Chairman, and members dr. Dubravko Štimac and Boštjan Molan, while its composition was as follows as of 21 June 2017 onwards: Igor Stebernak, Chairman, and members Nataša Damjanovič, Žiga Škerjanec and Boštjan Molan.

The Strategic Committee operated in the following composition until 12 June 2017: Gregor Kastelic, MSc, Chairman, and members dr. Mario Gobbo and Peter Celar, while its composition was as follows as of 21 June 2017 onwards: Milan Tomaževič, Chairman and members: Andrej Andoljšek, Žiga Škerjanec and Peter Celar.

Because the 4-year term of office of five Supervisory Board members – shareholders' representatives expired on 12 June 2017, the Supervisory Board formed the Nominations Committee on 18 November 2016 for the period until the election of new Supervisory Board members, i.e. until 30 May 2017. The committee operated in the following composition: Igor Stebernak, Chairman, and members Gregor Kastelic, MSc, Peter Celar and external members Mitja Svoljšak and Milena Pervanje.

The composition of Supervisory Board committees as at 31 December 2017:

Supervisory Board committees	Competences
AUDIT COMMITTEE - dr. Mario Gobbo, committee Chairman - Nataša Damjanovič, member - Ivan Sotošek, member - Simon Kolenc, independent external expert	- monitoring the financial reporting process, preparing reports and drafting proposals for ensuring its comprehensiveness; - monitoring the efficiency and effectiveness of internal controls, internal audit and risk management systems; - monitoring the mandatory audit of annual and consolidated financial statements and reporting on the audit findings to the

	Supervisory Board; - being in charge of the auditor selection procedure and proposing a candidate to the Supervisory Board to audit the Company's annual report and participating in the drafting of an agreement between the auditor and the Company; - supervising the integrity of financial information provided by the Company and evaluating the drafting of the annual report, including a draft proposal for the Supervisory Board; - cooperation with the Internal Audit Department, monitoring its quarterly reports, examination of the internal acts and rules on the functioning of the Internal Audit Department and the annual plan of the Internal Audit Department; - examination of the decision on the appointment, dismissal and remuneration of the Internal Audit Department Director.
APPOINTMENTS AND REMUNERATION COMMITTEE - Igor Stebernak, committee Chairman - Žiga Škerjanec, member - Nataša Damjanovič, member - Boštjan Molan, member	- drafting proposals regarding the criteria for membership in the Management Board; - drafting proposals regarding the policy on remuneration, compensation and other benefits for the Management Board members; - preliminary consideration of proposals made by the President of the Management Board related to the management of the Company; - performance of the fit and proper assessment of the Management and Supervisory Board members; - support and drafting of proposals in areas that concern the Supervisory Board.
STRATEGIC COMMITTEE - Milan Tomaževič, committee Chairman - Andrej Andoljšek, member - Žiga Škerjanec, member - Peter Celar, member	- drafting and discussing proposals for the Supervisory Board with respect to the Triglav Group strategy and monitoring the implementation thereof; - drafting and discussing proposals and opinions for the Supervisory Board related to the Group's strategic development.
NOMINATIONS COMMITTEE (ad-hoc committee)	- preparation of selection criteria; - making of a list of the candidates for the position of Supervisory Board member; - inviting the Appointments and Compensation Committee to produce a fit and proper assessment of the candidates; - submitting to the Supervisory Board a nomination proposal for one or several candidates for the position of Supervisory Board member - shareholders' representatives together with the draft fit and proper assessment.

B.1.2 Remuneration policy at the Group

The remuneration policy is implemented so to ensure the realisation of a solid and reliable system of governance as well as the integrity and transparency of the Group's operations.

MANAGEMENT BOARD OF THE GROUPS PARENT COMPANY

The remuneration of the Management Board, i.e. both the basic salary and the annual operating performance-based bonus, are set and paid out (deferral of the payout of the variable part) pursuant to the Act Governing the Remuneration of Managers of Companies with Majority Ownership Held by the Republic of Slovenia or Self-Governing Local Communities. Management Board members are entitled to a perk in the form of premium for voluntary pension insurance. No special retirement schemes or early retirement schemes apply to Management Board members.

The same rules on bonuses also apply for the management boards of companies in the Slovenian part of the Group.

Executive and management employees and other employees working under individual agreements

The basic salary (fixed part of pay) for the members of the Group's governance bodies is stipulated in the employment contract, with the amount of the bonus being subject to the attained results of an individual company in line with the bonus methodology applicable at any relevant time.

Employees working under a collective agreement

The rules that comply with the legislation applicable at any relevant time apply to other employees at individual companies, while the option of additional bonuses depends on strategic guidelines subject to the attained results.

B.1.3 Related party transactions

Related parties of the Group are:

- shareholders of the parent company and of all subsidiaries;
- members of the Management Board of the parent company and of all subsidiaries;
- members of the Supervisory Board of the parent company and of all subsidiaries.

The only materially significant transaction with related parties in 2017 was the distribution of dividends of the parent company for 2016. The Pension and Disability Insurance Institute of Slovenia received EUR 19.5 million and the Slovenian Sovereign Holding received EUR 16 million.

No other materially significant amounts in relation to dividend distribution were made to other related parties of the Group in the reporting year

B.2 Fit and property assessment policy

The Group's parent company implements the fit and proper assessment for Management Board and Supervisory Board members as well as the holders of key functions in order to ensure diligent management or supervision as well as responsible performance of key functions, which enables the realisation of strategic goals and long-term creation of value for all key stakeholders.

The fit and proper assessment process is implemented through regular (prior to the award of the term of office), periodic (during the term of office) and extraordinary (in case of circumstances that raise doubts as to their fit and proper status) assessment of Management Board and Supervisory Board members as well as the Management Board and Supervisory Board as a collective body.

As part of the assessment, Management Board and Supervisory Board members are assessed in terms of the meeting of criteria regarding fitness (professional qualifications, experience, competences) and suitability criteria (clean criminal record, professional reputation, goodwill and personal integrity). As part of the assessment of the Management Board and Supervisory Board as a collective body, it is checked whether all members possess collective knowledge and experience related to insurance and financial markets, the business strategy and business models, system of governance, financial and actuarial analyses, risk management and regulative frameworks as well as other legal requirements that are binding on the Company.

The fit and proper assessment of the key function holders is performed regularly (prior to the granting of the authorisation), periodically (during the validity of the authorisation) and in an extraordinary assessment (upon the occurrence of circumstances that raise doubt as to their fit and proper status). As part of the assessment, the fitness (professional qualifications, specialised knowledge, experience and competences) and suitability criteria (clean criminal record, professional reputation, goodwill and personal integrity) are verified. Key function holders must in addition to the above fitness conditions that general in nature and apply to everyone also meet the following conditions:

THE HOLDER OF THE ACTUARIAL FUNCTION must possess knowledge in the field of actuarial science and mathematical finance in accordance with the requirements of the ISA, no less than five years of experience in this field of work, a valid licence for a certified actuary; they must have full membership in a full member of the International Actuarial Association – IAA and must have performed the actuarial function and tasks of a certified actuary on a comparable portfolio for at least the last two years prior to certification;

THE HOLDER OF THE RISK MANAGEMENT must possess the knowledge on the application of risk management models and methods as well as no less than five years of work experience;

THE HOLDER OF THE COMPLIANCE FUNCTION must possess no less than five years of work experience;

THE HOLDER OF THE INTERNAL AUDIT FUNCTION must possess no less than five years of work experience in the field of auditing or ten years of experience in a related activity as well as the title of certified internal auditor pursuant to the act governing auditing.

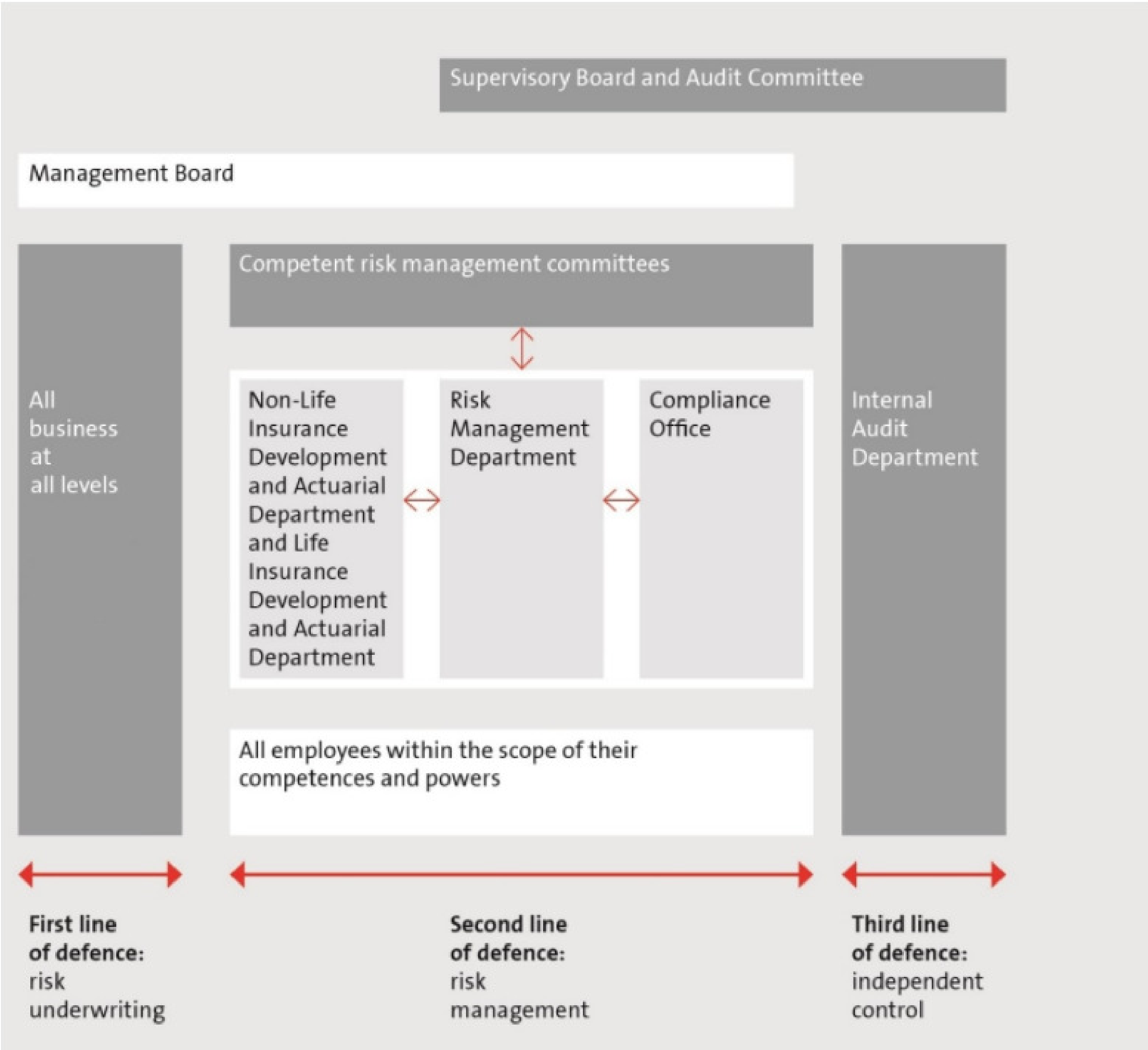
B.3 Risk management system, including own-risk and solvency assessment

B.3.1 Description of the risk management system

The risk management system is a set of rules, powers, responsibilities and activities established by the Company at the level of the entire Group with the aim of risk underwriting at all levels being performed in accordance with the set strategic goals and with the aim of the main risks being suitably identified, assessed or measured, managed and monitored. A part of this system also involves the assurance that information on the assessments performed is provided to all stakeholders who require such information to perform their work better. The risk management system covers all areas, focusing on those having a material impact on operations and set business objectives. The system is transparent and designed in a way that allows for continuous upgrading and adapting to business processes. It provides timely identification of all material risks and a standardised set of procedures for understanding the consequences of realised potential risks.

It is also important to build a suitable culture of the Company, mainly in terms of the awareness of risks as well as cooperation and open communication about the risks, in respect of which the Management Board and the Group's leadership play a key role. The main building blocks of the comprehensive risk management system of the Company are the Strategy of the Group and the Business Plan of the Company. The main operational risks and their tolerances as well as the risk appetite are defined subject to the defined objectives and tolerances. The risk management system at the Group is based on the three lines of defence model and is integrated into the system of governance.

Figure 4: Risk management system at the Group



The first line of defence consists of business functions, which actively manage specific business risks through their business decisions and are primarily responsible for risk identification, underwriting and reporting.

The second line of defence is composed of business functions and decision-making bodies forming the risk management system, which includes exposure identification, measurement and monitoring procedures as well as the exposure limit system.

The third line of defence includes the internal audit function. This function executes and is in charge of the processes and activities associated with regular reviews of the effectiveness of the internal control environment in individual functional areas as well as the effectiveness of the risk management system.

The Management Board and the Supervisory Board are the primary stakeholders in the three lines of defence system; they are simultaneously responsible for the functioning of the risk management system and control processes. The Company's Supervisory Board grants its consent to the Management Board for the written rules of the risk management system at the highest level. It is briefed on the reports of the key functions within the scope of its responsibilities and competences. At its meetings, it regularly monitors the risk profile and capital adequacy as well as the findings of the own risk and solvenvcy assessment. The Supervisory Board grants its consent to the Management Board for the Solvency and Financial Condition Report (SFCR) as part of the consideration of the comprehensive risk report and has a working body for the provision of expert assistance and support in the drafting of position statements on risk management. The Audit Committee of the Supervisory Board supervises the suitability and effectiveness of the risk management system and monitors the overall risk profile of the Company.

The Company's Management Board formulates business objectives and the risk appetite, and also approves the strategy and policies related to the management of the same. It is also competent for the assurance of the effectiveness of the risk management system. It confirms the more important internal risk management documents and work plans of the individual key functions and is regularly briefed on capital adequacy. It confirms the more important reports, including the Regular Supervisory Report (RSR) and Solvency and Financial Condition Report (SFCR).

The Management Board works actively within the scope of committees as well as independently, steers the ORSA process and ensures its compliance and coordination with the capital planning and management process. Business functions at the Company and individual subsidiaries underwrite and identify risks in their field of operations in accordance with the guidelines of the Management Board. They also manage concrete risks within the scope of the permitted exposure limits.

The second line of defence is implemented by the key functions of the risk management system – Risk Management Department, Non-Life and Life Insurance Development and Actuarial Department, and the Compliance Office. The third line of defence is implemented by the key function Internal Audit Department. Their responsibilities and key tasks are outlined in sections B.3.2, B.3.3, B.4, B.5 and B.6.

All key functions actively provide for the transposition of knowledge and good practices to the Group's subsidiaries as well as for coordinated operation at the Group's subsidiaries. The risk management system is set up at the Group members in accordance with the principles of the parent company that were determined by the minimum standards applying at the Group as well as subject to the size, complexity and the business profile of an individual company. Risk management at the Group is performed primarily at the level of individual companies and secondarily at the Group level. The leadership of subsidiaries and their appointed responsible persons, the Subsidiary Management Department and Triglav INT in cooperation with the Risk Management Department of the Company are responsible for the setup and functioning of the risk management system at the level of individual companies in accordance with the provisions of the minimum standards. Effective communication and quality data and information exchange are especially important in this regard (temporal availability, methodological compliance, verifiability in accounting terms, and comprehensibility). Triglav INT holding company as the direct owner of subsidiary insurance undertakings on markets outside Slovenia is important for the management of risks mainly in terms of the supervision of the management of the system, policies and processes for the implementation of the strategy and the realisation of the objectives, vision and mission of the Group on foreign markets.

The Company has a risk management system in place that defines the responsibilities of business functions and the rules regarding the risk monitoring, measurement and reporting method. At the highest level, the risk management strategy and the risk appetite that outlines the key indicators for each materially important risk as well as their target and extreme values are defined. The internal rules on the management of individual risk categories are subordinate to the previously mentioned umbrella documents and define in greater detail the material risks and the objectives of risk management within a risk category.They further define the methods for the measurement and monitoring of exposures and the level of risks, including the defined limitations on risk underwriting. They also define the competences and responsibilities and the reporting system.

The risk management system at the Group is composed of the following activities at all divisions and with respect to all risk categories:
- identification of risks;
- assessments of detected perceived risks and the definition of their materiality;
- clear definition of the objectives and limitations regarding the underwritten risks and the establishment of a system of measures in the event of major deviations;
- monitoring and management of underwritten and new emerging risks arising from operations by ensuring compliance of the operations with the strategy;
- reporting on the risks and provision of information to all key stakeholders;
- defining the procedures for action and taking action in the event of identified deviations and adverse operating conditions.

Process-dependent activities are defined subject to the source and consequently the risk category.

The risk management system at the Group is established at two levels. At the first level, risk management is performed at all Group companies where all risk management system activities are primarily performed. Subsidiaries are tasked with the setup and upgrading of the risk management system, which includes the setup and regular adaptation of the internal risk management rules as well as risk identification, measurement, monitoring and reporting. Risk reporting is additionally performed regularly, whereby it is also reported to the risk management function of the parent company in the event of a material change in exposure to any material risk type that could affect the capital or liquidity standing of the Company. Reporting is performed within the scope of regular meetings and in the form of standardised reports. Current issues in the internal and external environment in the area of risk are monitored regularly in meetings. The reports include regulatory and internal indicators for all risk and operations segments that are important for the risk assessment. At the second level, the risk management system is implemented at the level of the Group's parent company where committees operating within the risk management system and regular reporting to the Group's risk management function perform comprehensive reviews of the underwritten risks in the Group, including their management and appropriate diversification through the monitoring of concentrations at the Group level. Suitable risk diversification is ensured through the setup of an exposure limit system which ensures that the level of risk is always appropriate. Measures have been put in place for cases when limits are exceeded whereby such measures allow the mitigation of the risk level.

The parent company's risk management function helps subsidiaries in the setup of the risk management system by preparing guidelines and minimum standards for the risk management system, which in turn allows the harmonisation of the risk management system at the Group level subject to the special features of individual companies.

B.3.2 Risk management function

The risk management function is implemented in each individual Group member whereas overall risk management is performed at the Group level. The person responsible for implementing the risk management function and the company's management are responsible for identifying, measuring, monitoring and reporting the risks at the subsidiary.

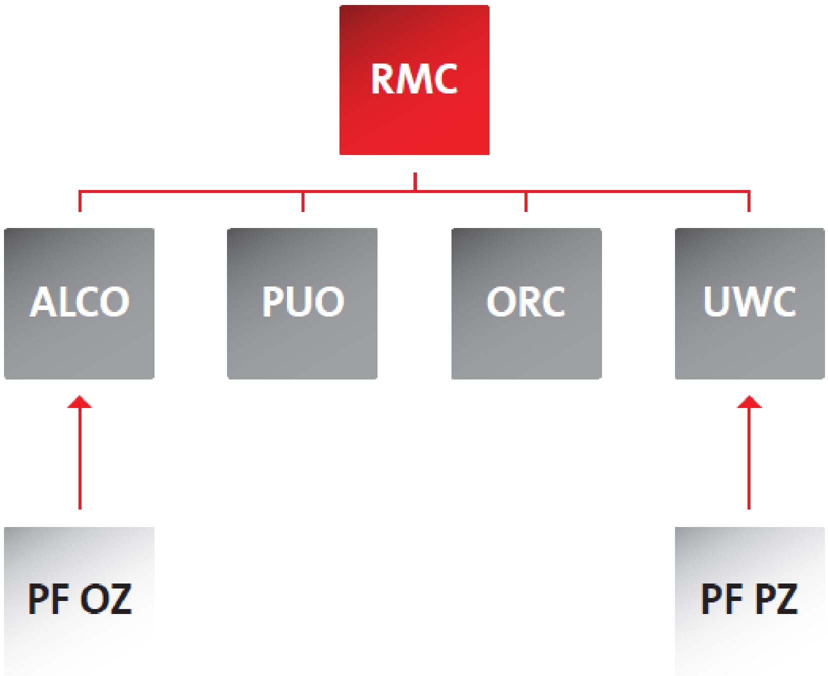
The key tasks of the risk management function at the parent company are to support the Management Board and the Supervisory Board in the effective implementation of the risk management system, to put in place and monitor the risk management system, to monitor the overall risk profile of the Group as a whole, to report in detail on risk exposure and to advise both the Management Board and the Supervisory Board on matters in the area of risk management. All of the above includes identification and assessment of emerging risks, active cooperation to provide for good operation of the committees that are part of the risk management system of the Company, coordination and calculation of capital requirements, process coordination and preparation of regulatory and other reports.

The holder of the risk management function is appointed to provide for the functioning of the said function. Such a person is authorised by the Management Board subject to the consent from the Supervisory Board and reports directly to the Management Board while working independently from other functions. The function holder is incorporated into the organisational structure so as to be able to supervise and report objectively on the performance of tasks stipulated in the legislation as key tasks. The risk management function holder is the custodian of the minimum standards required for the performance of the risk management function at the Group level.

B.3.3 Committees operating within the scope of the risk management system

Committees form the second line of defence within the risk management system and are appointed by the Management Board. Their role is of a consultative nature whereby they may also be granted certain decision-making rights by the Management Board. Their purpose is to support the Management Board in the regular monitoring, coordination and provision of information on risk management at the Group. The powers and authorisations of committees for the comprehensive monitoring and reporting on all risk categories were audited last year. In the event of major changes to the risk profile, identified risks are also considered by the Risk Management Committee or the Management Board.

Figure 5: Organisational chart of the committees within the Company's and Group's risk management system as at 31 December 2017



The Risk Management Committee (RMC) is the committee of the Management Board, the fundamental objectives of which are to assist the Management Board in assessing exposure to business risks, monitoring exposure and the level of material risks as well as weaknesses in the internal control environment. Apart from that, the committee works by assisting in risk identification and management as well as in fostering the risk culture at individual divisions at the Company and the Group. The committee is responsible for the confirmation of limits for individual risk categories and also verifies the effectiveness of the functions that manage risk and ensures that the there is an appropriate infrastructure in place as well as adequate resources and systems that allow for a satisfactory level of business risk management.

The Assets and Liabilities Committee (ALCO) is the committee that is primarily responsible for the monitoring of market and liquidity risk as well as life underwriting risk. The committee also monitors investment portfolio credit risk. An important objective of the committee is the creation of the Group members' asset and liability management strategy aimed at achieving the strategic goals in line with the applicable legal and implementing regulations taking into account the risk appetite, risk exposure limits and any other restrictions that affect the asset and liability management process.

The Underwriting Committee (UWC) is an integral part of the Company's and the Group's risk management system, which monitors and identifies non-life underwriting risks and develops the non-life underwriting risk management system. The basic purpose of the committee is to monitor and optimise the level and concentration of assumed underwriting risks and to propose limits or an optimum ceding/transfer of assumed underwriting risks to reinsurance, taking into account both the Company's Risk Appetite and the risks arising from counterparty exposure in the event of the transfer/ceding of non-life insurance risks. The committee confirms internal documents on the management of non-life insurance underwriting and credit risk.

The Operational Risk Committee (ORC) monitors the functioning of the integrated operational risk management system and works on system upgrades. Its operations relate to all seven of the Group's operational risks (internal fraud or unauthorised activity of internal staff; external fraud or unauthorised activity of third parties; system failure and associated disruptions to operation; damage to physical assets; unsuitable HRM and working environment safety; non-compliance with the regulations, unsuitable business or market practice and customers and products; unsuitable process and control environment implementation and management, including suppliers and business partners). It also monitors the recommendations of the Internal Audit Department relating to the structure of the operational risk management system.

Non-life and life insurance product forums (NLI PF and LI PF) propose the adoption of decisions to the Management Board, i.e. decisions relating to insurance product development, monitor the status and trends in the development and overhaul of insurance products, prepare insurance product development plans, and monitor product and insurance class profitability as well as legislative amendments relating to insurance products.

The aim of the Project Steering Committee (PSC) is to ensure comprehensive project management as well as provide the basis for transparent and traceable project implementation and project risk identification and management. This includes providing a coordinated and efficient project workflow and establishing appropriate and mutually coordinated projects conducted by the Company in relation to the Group and for Group companies. The committee confirms internal documents on the management of project risk.

B.3.4 Own risk and solvency assessment process

The main purpose of the Own Risk and Solvency Assessment (hereinafter: ORSA) process is for the Company as the parent company of the Group to disclose its own assessment of risks arising from operation that affect its current and future capital requirements. In order to suitably perform the ORSA process, suitable and robust processes for the identification, monitoring and assessment of own risks and solvency requirements have been put in place, whereby responsible persons are additionally informed of the own risk assessment which ensures the use of the said results in decision-making procedures at the Company and Group companies.

The solvency requirement assessment process builds on the basic elements of the risk management system and takes into account the risk profile, confirmed limits and the business strategy. The purpose of the solvency requirements assessment is to use the assessments to arrive at conclusions regarding important business decisions such as the retention or ceding/transfer of risks, capital management and structure, suitability of premium rates. This creates the foundations for other strategic decisions.

The Group's ORSA process is harmonised with the ORSA process of the Company, whereby the proportionality principle is applied in the ORSA process at the Group level. This means that the overall ORSA results must include the result of the ORSA of the most important subsidiaries.

Other companies are included subject to the risk profile, the proportionality principle and the materiality criterion at the Group level.

The Group level ORSA takes into account the adequacy of own funds taking into account the availability, transferability and fungibility of own funds as well as eventual needs for additional capital. In doing so, the Group takes into account the information on the planned transfers of own funds within the Group that can importantly affect any entity in the Group as well as their consequences, the impact of the harmonisation of Group members' strategies with the strategy of the Group as well as all important risks to which the Group is exposed.

A portion of the ORSA process entails the definition of the main risks, assessment of the suitability of the regulatory standard formula as the measure of risk, definitions and the assessments of stress scenarios with an impact on capital adequacy. The ORSA process is reconciled with strategic planning as the calculation of planned capital adequacy is prepared in a coordinated manner and based on a financial plan. Upon the completion of the process, everything is documented and a final report is compiled with the results reported to all stakeholders. This ensures the transposition and incorporation into the Group's operations. The ORSA process represents the basis for the Management Board's decisions related to capital management in the strategic period. The parent company additionally provides adequate information to the Supervisory Board about the course and important findings of the ORSA process.

The ORSA process is implemented regularly at the Group level, i.e. at least once a year. In extraordinary situations, the ORSA process is implemented upon any change in the business strategy or upon any major change either in the current risk profile or in case of the identification of potential future events or scenarios on the markets where the Group operates that could have a material impact on the achievement of strategic goals or capital adequacy.

The Company keeps a record on every ORSA implemented at the Group level, which presents the entire relevant documentation, assumptions, methods, calculations and other information used for its implementation during the business plan period.

B.4 Internal control system

Internal control is ensured through prudent management and the setup of business processes in observance of all obligations and emerging risks, through the assurance of a risk management system, internal and external reporting, assurance of compliance with the law, the regulator's requirements and the adopted external and internal rules as well as the adopted Code of Ethical Conduct of the Group. It comprises a clear organisational structure with the establishment of internal control functions and internal controls in all business processes through meaningful implementation of the internal control environment of the parent company in the Group's subsidiaries, including a clear division of powers and responsibilities, up-to-date policies and procedures, and monitoring, improvement and documentation of business processes.

B.4.1 Compliance function

The compliance function is organised within the framework of the Company's headquarters department and is directly subordinated to the Management Board. It is not only autonomous and independent from the other business functions, but also one of the key functions in the system of governance of the Company and the Group. Furthermore, it is part of the second line of defence in the three-level internal control system. It supervises and monitors the compliance of the Company's operations with regulations and other commitments, and in this context assesses the compliance risks, educates, assesses the potential impacts of changes in the legal environment on business operations. It informs the Management Board and the Supervisory Board or its Audit Committee on compliance with regulations and other commitments. The compliance function is also responsible for ensuring the compliance of the operations at the Group's subsidiaries and for the implementation of ethical standards and the development of an ethical culture at the Group.

At the Group level, the compliance function is established in such a way that the compliance function of the parent company prepares compliance guidelines and minimum standards for all subsidiaries within the Group, monitors their implementation, advises and provides for uniform business practices, establishes a system of regular and uniform reporting and provides for the development of a compliance system in the Group subsidiaries. Furthermore, it monitors the compliance of the Group's subsidiaries and the resulting risks through regular and ad hoc reporting from subsidiaries to the compliance function, by providing advisory services in the implementation procedures and through joint training courses. It informs the Management Board and the competent Risk Management Committee about its work. The Supervisory Board and the Audit Committee of the Company are also briefed on its work on an annual basis. The Company's compliance function holder is placed in the organisational structure of the Company in a way, which allows for their monitoring of and impartial reporting on the implementation of the risk and compliance management system at the Group.

B.5 Internal audit function

The internal audit function executes risk assessment-based control over the operations of individual subsidiaries and the Group by impartially, systematically and methodically assessing the adequacy and effectiveness of the governance of the subsidiaries and the Group, risk management and internal controls as well as by making recommendations for their improvement. Apart from that, the internal audit function provides advice, cooperates with external auditors and other supervisory bodies, and monitors the realisation of internal and external auditors' recommendations.

The group internal audit function is established at the Company and in insurance and other financial companies of the Group. In each company, the internal audit function is autonomous and independent from the other business functions and organisational units of the company and is directly accountable to the management and supervisory bodies of the company. It has full and unrestricted access to all areas, records, assets and employees, which are necessary for effective implementation of internal auditing. The function holder also has direct and unrestricted access to the members of the management and supervisory bodies of the company. The internal audit function of an individual company is obligated to ensure compliance with the statutory requirements and the professional and ethical rules of internal auditing that apply to each company.

The Internal Audit Department of the Company is in charge of the implementation of the internal audit function at the Group level. The department performs continuous and comprehensive control of the operations of the Company, whilst paying due attention to the areas and risks that are material at the Group level. Apart from that, it is responsible for maintaining an adequate level of internal audit quality within the Group and to this end prepares minimum standards and detailed methodological guidelines for the operation of the internal audit function at the Group, which are designed in accordance with the International Standards for the Professional Practice of Internal Auditing, ethical rules and the good practices in internal auditing. It advises subsidiaries on the implementation of these standards and guidelines, monitors their implementation and, as appropriate, performs internal audits at subsidiaries. The internal audit function of an individual subsidiary is required to submit the adopted work plans and periodic internal audit reports to the Company's Internal Audit Department as well as inform it of all matters that could have a significant impact on the compliance, effectiveness and efficiency of the function. The internal audit function holder at the Company regularly communicates with the internal audit function holders in subsidiaries; they are also informed about the planning procedures, the content and implementation of the work plans of the internal audit functions at subsidiaries, important findings based on the conducted internal audits and other important areas of operation of this function at subsidiaries and, as appropriate, provides additional guidance and assistance.

The Company's internal audit function reports to the Management Board, the Audit Committee and the Supervisory Board on the work of the internal audit function at the Group, the findings of internal audits, the realisation of recommendations and an assessment of the adequacy and effectiveness of internal control and risk management systems in audited areas.

In their work, internal auditors must be impartial and must avoid any conflict of interest. Furthermore, they are not allowed to perform any development and operational tasks that could cause a conflict of interest and impair their objectivity, nor do they decide on activities in the areas that are subject to internal auditing. Internal auditors are required to inform the internal audit function holder, who in turn informs the management and supervisory bodies, of any circumstances that could cause a conflict of interest, thereby affecting their impartiality when performing the internal audit tasks. The function holder is obliged to inform the management and supervisory bodies of the Company of potential limitation of the divisions and funds required for the execution of the risk-based internal audit plan.

The organisational placement, roles, powers and responsibilities as well as other rules of the internal audit function, including its reporting obligations, are defined in detail at the Company and subsidiaries and enable their independent performance of tasks.

B.6 Actuarial function

The actuarial function for a particular insurance undertaking of the Group is implemented in each individual company within the scope of organisational units responsible for actuarial matters. Each insurance undertaking within the Group has designated an actuarial function holder or appointed a certified actuary.

The actuarial function for the Group is performed at the Company, i.e. separately for non-life and life insurance. This function is implemented in cooperation with the Subsidiary management department at the Company and Triglav INT. The actuarial function operates autonomously and independently of the other business functions and has full, free and unlimited access to all information, data, activities and personnel of the Group, which it requires to perform its tasks.

The key tasks of the actuarial function within the Group are as follows: monitoring the adequacy of the level of technical provisions at the Group level, monitoring the appropriateness of the general risk underwriting policy, verification of the appropriateness of the reinsurance cover for the Group, participation in the implementation and application of the risk management system, particularly in the development, application and monitoring of the suitability of models for the calculation of capital requirements and implementation of the ORSA at the Group level, setting minimum standards for the drafting of rules, policies and processes relating to actuarial activities and transposing them to subsidiaries; care for the transposition of the relevant know-how and good practices and, as appropriate, provision of professional assistance in the implementation of the agreed minimum standards, and assistance in the development and upgrading of products.

The actuarial function holders at the Company level are responsible for the implementation of tasks of the actuarial function at the Group level. They are positioned in the organisational structure in a way, which allows them to monitor and objectively and independently report on the implementation of actuarial tasks.

The actuarial function holder is the custodian of the minimum standards required for the performance of the actuarial function at the Group level. Appointed certified actuaries or actuarial function holders of insurance subsidiaries are obliged to provide the required data in accordance with the prescribed methodology and deadlines.

The actuarial function holder reports regularly to the Management Board and the Supervisory Board on major findings in relation to the reliability and relevance of the methods, models and assumptions used in the calculation of consolidated technical provisions, the risk underwriting policy at the Group level, and the adequacy of reinsurance at the Group level.

B.7 Outsourcing

The management of outsourced operations at the Group is arranged in accordance with the legislation so that it encompasses both the operations that are outsourced to third parties and those that are outsourced within the Group. The providers of outsourced operations are thus subject to the same level of supervision and are obliged to comply with the defined standards applying to the company that is outsourcing the operation.

Special attention with respect to outsourcing is paid to the risks arising from an outsourced operation or the outsourced operation provider. These risks are considered both in making a decision to outsource an operation and in the selection of a provider, thereby ensuring – that despite a certain service being outsourced – the same level of service is provided to the policyholders as well as the same level of stability of operations as if the services were provided using own resources.

Outsourced services are regularly monitored by the respective responsible persons who are responsible for the functioning of the process. Supervision is also performed by assessing the ability of the provider and the risks arising from an outsourced process. In the event of increased risk from an outsourced service, the person responsible for the outsourced service is obligated to notify the relevant risk management body thereof and propose measures to manage this risk.

With a view to establishing a record of outsourced services, the subsidiaries have made an inventory of all operations or concluded agreement by way of which the company transfers the performance of a particular business process or service, which is considered a key operating function at the company, to another provider (external provider or another Group company). Within the Group, the outsourcing of operations among the members is performed on the basis of mutual outsourcing service-level agreements. Both the needs of the individual company outsourcing an operation and the needs of the company providing the operation are taken into account so as not to jeopardize the operations of any of the companies or the Group. Group members thus outsource several materially important operations to one another whereby these operations relate in terms of their content to the management of own assets and asset-backing liabilities of the individual Group members, and the implementation of the major portion of the process of insurance sales and the maintenance of the IT system for the support of key processes at individual Group members, while two Group members also outsource key functions, i.e. internal auditing or actuarial functions.

The materially important services that Group members outsource to external providers are mainly the operations in the area of maintenance of certain essential IT systems, while one Group member also outsources the internal audit function.

B.8 Any other information

SYSTEM OF GOVERNANCE ADEQUACY ASSESSMENT

The Company, as the parent company, has set up an adequate system of governance in the Group, which is proportionate to both the nature and scope of its operations and the complexity of the risks arising in the course of its operations. That is confirmed by the results of regular internal audits of this system, which are performed annually by the competent departments of the parent company.

All other information relating to the system of governance was disclosed by the Group in sections B.1 through B.7.

Section C

Risk profile

C. Risk profile

The parent company monitors and manages risk arising from the operations of Group members, which it does at the Group level in conjunction with its subsidiaries and in accordance with the process described in section B of this Report. In order to ensure adequate familiarity with the risk profile, the Company has processes in place for each risk type as well as exposures and risk measures that help it assess the level of risk. Appropriate exposure limits that prevent excessive risk underwriting and ensure adequate portfolio diversification are also defined as appropriate. The Company monitors and balances the risk profile at the Group level by monitoring the utilisation of exposure to individual risks at the Group and setting limits at the Group level. An important element of risk management is also the risk mitigation techniques that represent an important tool for the reduction of the concentration of individual risk types.

The parent company and subsidiaries measure and assess risks using internal methodologies and indicators according to regulatory capital adequacy criteria and through capital adequacy according to the S&P risk assessment method.

The regulatory solvency capital requirement of the Group is calculated in accordance with the standard formula defined in the Commission Delegated Regulation[5].

Sound capital adequacy also importantly affects the credit rating. When adopting the decision on the management of capital at the Group level, capital models are taken into account that are the basis for the Group's credit ratings. The S&P Global Ratings and A.M. Best rating companies rated the Group in 2017, giving it a long-term rating and financial strength rating of A. Both credit ratings have a stable medium-term outlook.

The capital requirement for the entire Group is calculated using the standard formula. It is calculated for each fund separately and accounts for the following types of risk:

- underwriting risks;
- market risks;
- credit risks;
- operational risks.

As at the end of 2017, the capital requirement, which does not take into account mutual risk effects (i.e. diversification), amounted to EUR 590 million for the above four risks (EUR 566.6 million in 2016). Capital requirements shown in chart 3 contain the above four types of risk as well as the risks at subsidiaries from other financial sectors and the risks of other companies, all totalling EUR 612.3 million.

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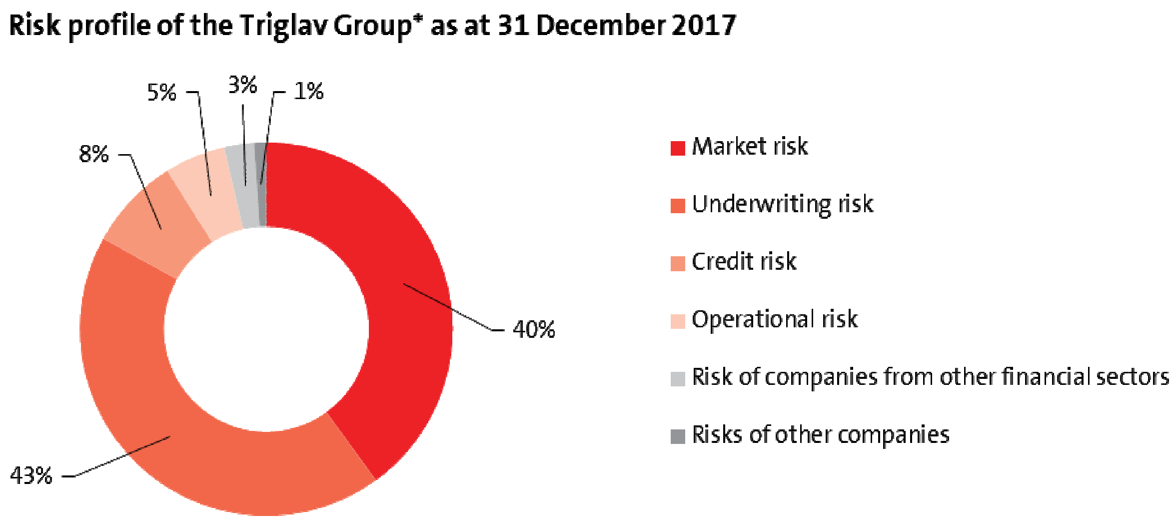
[5] COMMISSION DELEGATED REGULATION (EU) 2015/35 of 10 October 2014 supplementing Directive 2009/138/EC of the European Parliament and of the Council on the taking-up and pursuit of the business of Insurance and Reinsurance (Solvency II)

Chart 3: Risk profile taking into account the non-diversified capital requirement for Group risks as at 31 December 2017



* non-diversified value of capital requirements for risks underwritten by the Triglav Group using the standard formula

The Group has formed two ring-fenced funds, i.e. VSPI and VSPI renta, for which risks are calculated separately for each risk category under the standard formula. The above chart applies the simplification at risk module level method and also takes into account the risks of the ring-fenced funds that contribute EUR 15.6 million to the overall capital requirements of the Group. The method is presented in more detail in section E.1 of this Report.

In addition to the risks, for which the capital adequacy is calculated under the standard formula, the Group monitors liquidity and other risks as well as the risks of other Group companies, for which capital requirements are determined according to sector-dependent rules.

Below, material risk exposures are described for each risk category, including a description of the measures used to manage such risks at the Group, a description of material concentrations as well as a description of risk mitigation methods and sensitivity.

C.1 Underwriting risks

Underwriting risk is the risk of loss or of adverse change in the value of underwriting liabilities due to inadequate pricing (of premiums) and provisioning assumptions taken into account in the calculation of technical provisions. The Group assumes underwriting risks when performing insurance transactions, which represent its core business.

The main objective of underwriting risk management is to achieve and maintain such quality of the portfolio that provides for stable and safe operations while maximising return. Every type of insurance has its own specific underwriting risks, which the parent company and subsidiaries suitably identify and manage. In order to achieve the main objective, the parent company has put in place procedures to ensure an appropriate level of underwriting risk exposure at the Group level.

As at 31 December 2017, underwriting risk accounted for 43% (41% in 2016) of the non-diversified capital requirement for the risks arising from the Group's portfolio.

Using the standard formula for underwriting risks, the Group identifies the following in respect of its portfolio:

- non-life underwriting risk;
- health underwriting risk;
- life underwriting risk.

When underwriting risks, the Group is moderately conservative, meaning that it underwrites a wider range of risks, thereby ensuring their diversification and managing them actively based on its understanding of the risks.

C.1.1 Non-life and health insurance

Under non-life and health insurance, individual insurance or reinsurance undertakings of the Group underwrite premium and reserve risks, lapse risks and catastrophe risks.

Premium and reserve risks

Premium risk is the risk that the written premium will be insufficient to meet all obligations arising from the conclusion of an insurance contract. This risk largely depends on the volume and range of insurance by insurance segment.

Individual insurance or reinsurance undertakings monitor this risk in quantitative terms independently using the combined ratios that measure the suitability of actual claims and costs arising from concluded insurance policies. The changes in ratios are additionally monitored at the Group level.

Reserve risk is the risk that the actual payments of claims will deviate from the expected payments. Technical provisions for solvency purposes represent the best estimate of expected losses from existing non-life and health insurance contracts whereby the time value of money is observed and risk margin. In the event that the future realization of paid claims is higher than the volume of formed provisions, the Group will generate a loss from the existing obligations in the amount of such a surplus. However, if the future realization is lower than expected, the Group will generate profit. Reserve risk therefore represents potential loss from provisions for claims already incurred (statistically) in an extreme 200-year event.

Lapse risk

Lapse risk is the risk of the lapse rate under concluded non-life and health insurance contracts being higher than the expected lapse rate.

Catastrophe risk

Catastrophe risk under non-life and health insurance arises due to the concentration of an insurance transaction in individual geographical areas, sectors or economic activities, or insured perils. It may also arise as a result of a correlation between individual insurance classes. This risk represents the risk of a single loss event with a loss potential that is significantly higher than the estimated average incurred claims at the Group's insurance undertakings.

In order to calculate the capital requirement for underwriting risks under non-life and health insurance, the Group applies the standard formula. As at 31 December 2017, it represents 34% of the non-diversified capital requirement for the risks in the Group's portfolio.

Table 8: Group's capital requirement for underwriting risks under non-life insurance including health for 2017 and 2016

In EUR thousands

	2017	2016
Premium and reserve risks	176,891	170,196
Lapse risk	32,871	8,149
Catastrophe risk	66,659	46,889
Diversification	-62,861	-37,235
Underwriting risk under non-life insurance including health insurance	**207,058**	**187,997**

The capital requirement for non-life including health insurance for 2017 increased mainly on account of the increase in the capital requirement for lapse risk. The difference is not the result of the risk profile, but rather arises from the improvement in the gathering of data for the calculation. Premium and reserve risk increased due to the rise in the Group's premium, which in turn increases capital requirements for catastrophe risk. Higher underwritten risks also caused the abovementioned increase, which is most evident in the increase of the capital requirement for catastrophe risk under health insurance.

Risk exposure

Underwriting risk under non-life and health insurance can result from the premium being set too low considering the underwritten risks, too high claims considering the formed provisions, the number of withdrawals from concluded agreements being higher than expected and from a larger (catastrophe) events. The latter is broken down into natural disasters and catastrophes arising from human actions according to the standard formula. Capital requirements for both types of catastrophes originate mainly from credit and surety insurance as well as insurance of property damage that may result from flood peril.

The Group is most exposed to premium risk in the motor vehicle liability insurance segment. The exposure of the volume measure for premium risk ranges in accordance with the net earned premium increased by EUR 38.5 million in year 2017. Details on the net earned premium of the Group as at 31 December 2017 are shown in template QRT S.05.01, Annex 2 to this Report.

Table 9: Exposure measured as net earned premium of the Group for underwriting risks under non-life and health insurance for 2017 and 2016

	In EUR thousands	
	2017	2016
Net earned premium	**700,698**	**662,166**
- Other motor vehicle insurance (LoB 5)	116,200	105,944
- Fire insurance and other damage to property insurance (LoB 7)	136,928	133,064
- Motor vehicle liability insurance (LoB 4)	149,081	145,445
- Medical expense insurance (LoB 1)	131,182	114,684
- other insurance segments	167,307	163,028

The Group is most exposed to reserve risk in the motor vehicle liability insurance segment. The Group's exposure is measured using the volume measure for reserve risk which increased by EUR 0.9 million in year 2017. The volume measure for reserve risk at the Group is determined as the sum of volume measures for reserve risk of all insurance undertakings of the Group.

Table 10: Exposure of the Group's volume measure for reserve risk for underwriting risks under non-life and health insurance for 2017 and 2016

	In EUR thousands	
	2017	2016
Volume measure for reserve risk	**290,376**	**289,475**
- Motor vehicle liability insurance (LoB 4)	101,489	114,105
- General liability insurance (LoB 8)	42,022	48,218
- Fire insurance and other damage to property insurance (LoB 7)	55,000	41,505
- Income protection insurance (LoB 2)	35,096	29,311
- Other insurance segments	56,770	56,336

Concentration risk

The concentration of underwriting risks is managed by individual insurance and reinsurance undertakings of the Group by using a suitable form of reinsurance or retrocession that is based on the tables of maximum own shares of individual companies. These may not exceed the maximum own shares stipulated at the Group level because even the occurrence of such an event in a particular segment of operations may have a material effect on the ability to meet liabilities. When managing concentration risk, individual insurance and reinsurance companies strive to set up functioning procedures for the mitigation of the probability of the occurrence of loss and mitigation of loss as a result of underwriting risk concentration. A reinsurance undertaking additionally ensures that underwritten reinsurance risks are retroceded in a sufficiently diversified manner depending on the type of perils reinsured.

Risk mitigation techniques

The Group's insurance undertakings mitigate risk mainly by purchasing various forms of reinsurance protection. Reinsurance protection for certain insured peril types at the Group level is also arranged through the reinsurance undertaking within the Group provided this is allowed by local legislation. In case of individual insurance, under which risks are underwritten based on consideration on a case by case basis, Group members transfer a part of the risk by purchasing facultative reinsurance protection or retrocede part of reinsured perils whereby they take into account both the maximum own shares, the PML as indicated in the risk appetite. The risk of the remainder of the portfolio is transferred to reinsurance or retrocession by purchasing various forms of proportional or non-proportional reinsurance or is retroceded. The reinsurance undertaking mitigates the risk also by transferring risks to reinsurance companies with a good credit rating. The effectiveness of the risk mitigation techniques is monitored regularly by the Group which reconciles the amount of the transferred/ceded risks with the risk appetite no less than once a year.

Sensitivity

The Company performs sensitivity tests regularly in order to ensure risks are managed suitably at the group level as well. If the volume measure for premium risk (or reserve risk) were to decrease by 10% in the non-life sub-module, the solvency ratio would rise by 3 pp (or 1 pp).

If the volume measure for premium risk (or reserve risk) were to decrease by 10% in the health sub-module, the solvency ratio would rise by 1 pp (or would remain unchanged).

C.1.2 Life insurance

Under life insurance, the Group underwrites the risks of mortality, longevity, disability and morbidity, expenses, lapse, revision of conditions and catastrophes under life insurance.

Exposure to individual life underwriting risks is measured based on the best estimate of provisions under the policies, which are negatively affected by this risk, meaning that it increases liabilities arising from such policies.

The Group measures risk separately for its three sub-portfolios: portfolio of voluntary supplementary pension insurance (VSPI) in the saving phase, portfolio of VSPI pensions during the payment phase, and the remainder of the Group's portfolio. Risks of these portfolios are measured without any diversification effects between the remainder of the portfolio and the ring-fenced funds recognized in the Group.

The capital requirement for life insurance risk as at 31 December 2017 represents 9% of the non-diversified capital requirement for the risks arising from the Group's portfolio.

Mortality risk

Mortality risk is the risk that the persons covered for the event of death will on average die more frequently than expected.

Longevity risk

Longevity risk is the risk that the persons receiving an annuity or pension payments under insurance contracts will on average die less frequently than expected.

Disability and morbidity risk

Disability and morbidity risk is the risk of an actual increase in the probability of occurrence of disability, illness or morbidity in beneficiaries under insurance contracts that contain such coverage when compared to the expected probabilities. The Group is exposed to this risk in policies that cover critical and serious diseases and disability.

Expense risk under life insurance

Expense risk is the risk that future actual expenses will be greater than expected due to changes in the value, trend or volatility of expenses incurred in the process of meeting the Company's obligations vis-à-vis beneficiaries under insurance contracts. The Group is exposed to expense risk in all policies.

Lapse risk

Lapse risk is the risk of changes in the value or the volatility of probabilities taken into account for early termination of premium payments, and termination, renewal and surrender of insurance contracts compared to the expected probabilities. All policies allowing policyholders to change the policy (surrender of the policy, change of coverage or premium amounts, decide what proportion of saved assets they will use to purchase the annuity, etc.) are exposed to this risk.

Revision risk

Revision risk is the risk of the implemented revisions of values deviating from expected revisions determined using indexation.

Catstrophe risk under life insurance

Catastrophe risk arising from life insurance is the risk caused by typical uncertainty about the set premium and inadequate assumptions taken into account in the calculation of technical provisions related to extreme and exceptional events that affect mortality.

Table 11: Group's capital requirement for underwriting risks under life insurance for 2017 and 2016

In EUR thousands

	2017	2016
Mortality risk	6,253	6,253
Longevity risk	10,575	10,575
Disability and morbidity risk	295	295
Lapse risk	21,194	21,194
Expense risk	22,961	22,961
Revision risk	1,248	1,248
Catastrophe risk	3,991	3,991
Diversification	-10,219	-10,219
Capital requirement under life insurance	**56,298**	**55,028**

The capital requirement for 2017 did not change materially ompared to previous year because the life insurance risk profile did not change importantly over the course of 2017.

Capital requirements are calculated at the level of the entire Group whereby the capital requirements for the ring-fenced funds are added without any diversification effects to the capital requirements for the remainder of the portfolio. As at 31 December 2017, the capital requirement for risks under life insurance contracts of ring-fenced funds amounted to EUR 11 million.

Risk exposure

Risk exposure is presented below as the net best estimate of risk-sensitive life insurance liabilities. The exposure includes the net liability from non-life insurance claims, which are paid out as annuities.

Table 12: Group's exposure to underwriting risks under life insurance for 2017 and 2016

In EUR thousands

	2017	2016
Mortality risk	1, 247,310	1,259,777
Longevity risk	1,295,432	1,324,478
Disability and morbidity risk	18,841	17,976
Lapse risk	1,167,024	1,184,312
Expense risk	1,306,052	1,334,799
Revision risk	48,327	64,698
Catastrophe risk	1,169,430	1,187,099
Exposure to life underwriting risk	**6,252,416**	**6,373,139**

The Group's exposure to life insurance underwriting risks did not change materially in 2017.

Mortality risk

The Group is exposed to mortality risk under policies that cover the peril of death and where the coverage at the moment of the policyholder's death is higher than the provisions for this purpose. Life insurance policies for the event of death and life insurance policies of borrowers have the highest exposure because the sums insured in the event of death are high and technical provisions arising from these types of coverage are relatively low.

For similar reasons, life insurance policies with a savings component have a high exposure as well. Other policies have a low exposure to mortality risk. The Group calculates liabilities under such insurance using mortality rates that represent the probability of death of an individual beneficiary subject to their gender, age and risk class (depending on the insured person's health status and lifestyle).

Longevity risk

The Group is exposed to this risk in policies where the insurance benefit is paid in the form of an annuity or similar regular payments as long as the beneficiary is alive. Annuity and pension insurance policies therefore represent the highest exposure.

The Group calculates liabilities under such insurance using mortality rates that represent the probability of death of an individual beneficiary subject to their gender and age. If the overall life expectancy of the insured population increases significantly, the probability of death is decreased, which increases the Group's liabilities arising from the exposed policies

Disability and morbidity risk

The Group is exposed to this risk in policies that cover critical and serious diseases and disability.

Expense risk under life insurance

The Group is exposed to expense risk in respect of all policies.

Lapse risk

All policies allowing policyholders to change the policy (surrender of the policy, change coverage or premium amounts, decide what proportion of saved assets they will use to purchase the annuity, etc.) are exposed to this risk.

Revision risk

Non-life insurance claims paid out in the form of annuities are exposed to revision risk. The periodic annuity payment may increase (most often due to the deterioration of the medical condition of the annuity beneficiary) which in turn increases the nominal amount of the Group's liability.

Catstrophe risk under life insurance

All policies that cover the mortality risk are exposed to this risk.

Concentration risk

The fact that the Group's sales network is widespread in Slovenia ensures geographic diversification and simultaneously contributes to increasing the sales volume of the entire Group. The extensive and diversified scope of underwritten risks is beneficial to matching of the risks.

A broad range of life insurance products ensures the simultaneous servicing of the customers' needs and diversification between various risk types that are covered by the products. The mentioned broad range of products services the needs of customers that fall into various categories subject to age and other risk factors.

The concentration of risks is managed by the Group also by using reinsurance protection: reinsurance of the excess risk eliminates exposure to individual high-level risks.

Risk mitigation techniques

The most important aspect for life insurance products is the management of underwriting risk that is performed during the underwriting (risk underwriting) phase. This is performed according to the rules that have been set in advance and which were defined in cooperation with reinsurance companies. The process involves a medical questionnaire, financial reasoning, review of existing medical documentation and medical tests. The scope and depth of the process depend on the sum insured. Low sums insured and waiting periods are prescribed as protection against adverse selection for insurance products without an underwriting process.

The second part of risk management is performed in the claim adjustment phase where the medical documentation from the claim report is cross-referenced with the data from the concluded policy.

Risk monitoring is performed regularly using the analysis of portfolio mortality, morbidity and market practices. The result of these analyses is a the best estimate of the assumptions for all underwriting risks that are then used to calculate provisions, set new product prices and calculate capital adequacy.

Sensitivity

The Group perform sensitivity tests regularly in order to ensure risks are managed suitably.

Table 13: Group's life insurance portfolio sensitivity test as at 31 December 2017

In percentage points (pp)

Life insurance portfolio shock	Change in the solvency ratio
Increase in mortality	-2%
Increase in longevity	-3%
Deterioration of disability and morbidity	0%
Increase in lapses	-5%
Increase in expenses	-6%
Revision of annuities	0%
Catastrophe in mortality	-1%

All shocks were defined based on effects on own funds and taking into account the standard formula.

C.2 Market risk

The investment of the collected premium and own funds of Group members represents one of the main activities at the Group. The Group holds a broad range of various financial instruments in the investment portfolios of subsidiaries whereby the value of the instruments depends on the fluctuations on financial markets. Market risk is the risk of loss or adverse changes in the financial standing of the Group resulting from fluctuations in the level and volatility of the market prices of assets, liabilities and financial instruments that can negatively affect the Group's financial standing. The Group identifies the following types of market risk:

- THE RISK OF CHANGES IN INTEREST RATES or INTEREST RATE RISK is the risk of loss due to changes in interest rates that affect the value of interest rate sensitive items of assets and liabilities. The main elements include the repricing gap, the yield curve shift, the basis risk and the embedded options of interest rate sensitive items.
- THE RISK OF CHANGES IN THE PRICE OF EQUITIES or EQUITY RISK refers to the sensitivity of the value of assets and liabilities to adverse changes in the values or volatility of the market prices of equities.
- PROPERTY RISK refers to the sensitivity of the value of assets and liabilities to adverse changes in the market prices of real estate.
- THE RISK OF CHANGES IN CREDIT SPREADS or SPREAD RISK refers to the sensitivity of the value of assets and liabilities to adverse changes in credit spreads. The main elements of

spread risk are the level and volatility of credit spreads over the term structure of the risk-free rate.

- FX RISK is the risk of loss arising from an adverse change in exchange rates. It is affected by the amount of the open FX position (i.e. the currency mismatch of assets and liabilities), the volatility of the relevant exchange rate and the liquidity of markets for the relevant currency.

- CONCENTRATION RISK is the risk arising from insufficient portfolio diversification or extensive exposure to the risk of default on the part of a single security issuer or group of related issuers.

Table 14: Group's capital requirement for market risks in 2017 and 2016

In EUR thousands

	2017	2016
Interest rate risk	27,580	27,791
Equity risk	48,859	71,034
Property risk	51,839	52,020
Spread risk	138,118	119,998
FX risk	32,076	33,040
Concentration risk	20,433	10,993
Diversification	-73,763	-65,967
Market risk	**245,142**	**248,909**

As at 31 December 2017, market risk accounted for 40% (42% in 2016) of the non-diversified capital requirement for the risks arising from the Group's portfolio.

Capital requirements are calculated at the level of the entire Group whereby the capital requirements for the ring-fenced funds are added without diversification to the capital requirements for the remainder of the portfolio. As at 31 December 2017, the capital requirement for market risks from both ring-fenced funds amounted to EUR 3.7 million.

Market risk decreased by EUR 3.8 million compared to the previous reporting period. Changes in the investment portfolio composition result in changed contributions of individual risk types to the overall amount of the capital requirement: lower equity risk was replaced by increased spread risk.

Risk exposure

The Group is exposed to market risks as part of the investment portfolios and portfolios of liabilities of the associated companies in the Group. The main contribution to market risk exposure arises from the parent company's portfolios. In view of the structure of investments, the Group is most exposed to spread risk, property risk and equity risk.

Table 15 shows the exposure to market risk, however only the exposure on the asset side, meaning that it does not take into account the decrease in exposure resulting from the matching of assets and liabilities.

Table 15: Group's exposure to market risk as at 31 December 2017 and 31 December 2016

In EUR thousands

Group's exposure to market risk	2017	2016
Own real estate	102,774	102,706
Investment property	99,656	105,373
Investments in subsidiaries	52,821	61,943
Shares	76,361	57,334
Bonds	1,897,887	1,822,736
- Government bonds	953,281	921,919
- Corporate bonds	934,718	883,199
Investments in investment funds	56,241	96,053
Derivatives	1,871	1,423
Deposits other than cash and cash equivalents	38,841	49,458
Other financial assets	4,325	4,410

INTEREST RATE RISK depends on the matching of assets and liabilities. All assets and liabilities, the value of which depends on the change in the interest rate (bonds, loans, deposits, interest-sensitive derivatives, cash flows from insurance policies), are exposed to interest rate risk. The Group balances interest rate risk through the management of assets vis-à-vis liabilities at the level of an individual company or portfolio. The Company takes advantage of the fact that the life and non-life insurance segments represent natural mutual safeguards for the two segments at the Company as they have distinctly different tenors of liabilities. The tenor of financial assets contracted slightly compared to previous year as a result of the extension of the tenor in the corporate bond segment and the simultaneous more extensive shortening of the portfolio tenor in the government bond segment. The increase in interest risk at the Group is compensated by the lowering of the interest rate risk at other Group companies. The capital requirement for the Group's interest rate risk remained nearly unchanged in year 2017.

Investments, the value of which is sensitive to a change in the level or volatility of stock market values, are exposed to EQUITY RISK. These are mainly stocks, undertakings for collective investment into shares and derivatives associated with stock markets. An important part of the Group's exposure to stock markets is the result of investments into associated companies that are not consolidated fully for solvency purposes (subsidiary financial undertakings, non-strategic subsidiaries, affiliated companies). The capital requirement of these companies is added without the diversification effect to the Group's capital requirement. The Group holds equity investments in order to generate higher long-term returns and for diversification purposes. The change in the capital requirement for equity risk was affected the most by the significant decrease in exposure to equity risk in collective investment undertakings. The Group has carried out the comprehensive approach of reviewing the entire spectrum of collective investment undertakings.

THE PROPERTY RISK arises from investment properties, own real estate and property, plant and equipment of the Group. At the end of 2017, the Group received valuations from certified real estate valuers for the majority of properties in its real estate portfolio. The total value of the Group's immovable property was slightly lower compared to previous year. The Company is also exposed to property risk through the investments of the alternative investment fund. The capital requirement for the coverage of property risk remains at similar levels in year 2017.

THE SPREAD RISK represents an important source of returns generated by the Group through bond portfolio management. It depends entirely on the assets because liabilities are valued according to the risk-free interest rate curve. All assets and liabilities, the value of which depends on the change in the interest rate or more precisely of the part of the interest rate that the investor is compensated for because they are underwriting credit risk, are exposed to interest rate risk. These are mainly bonds, loans and deposits. The Group increased its exposure to bond investments by EUR 75.2 million compared to previous year, EUR 43.8 million of which went into corporate bonds and EUR 31.4 million into government bonds. It also increased exposure to interest rate risk by EUR 7 million, which it did through investments into undertakings for collective investment in bonds. The credit rating structure of the bond portion of the Group's portfolio remained nearly unchanged in year 2017. In the segment of corporate bonds, which contribute the most to the capital requirement for the spread risk, the duration increased by 0.2 years. The increase in assets that are exposed to credit risk alongside the increase in the duration of these assets results in YOY increase in the capital requirement for spread risk. The Group considers the bonds, which are issued by the governments from the EEA and not denominated in the currency of the issuer country, to be ordinary corporate bonds for capital requirement purposes. The Group's FX (currency) risk arises from the mismatched asset and liability FX positions. The Group's liabilities are denominated in the currencies of countries, in which the Group operates, i.e. mostly in euros. The Group pursues the policy of currency matching and invests the majority of its assets in accordance with the FX structure of liabilities. The capital requirement for FX risk arises mainly from the USD, KM, KN, RSD and MKD long positions. Open positions in other currencies are mainly the result of non-euro investments through collective investment undertakings with a global and non-European geographic orientation. The Group's open FX position is controlled, meaning that the capital requirement for FX risk is stable or slightly lower in year 2017.

Concentration risk

The major share of the Group's assets is held in the form of debt securities. These are nearly uniformly divided into government and corporate bonds with the later again being uniformly divided into financial sector bonds and non-financial sector bonds.

The Group continuously monitors exposure and compliance with the system of limits on exposure to issuers at the level of individual issuers or groups of related issuers. The basis for the limit system is the standard formula with threshold amounts subject to the credit rating. The biggest exposure to a single issuer is represented by the exposure to the Republic of Slovenia with EUR 241 million. Exposures where the threshold value for concentration risk according to the standard formula is exceeded are mainly the exposures to the debt of countries that is not denominated in the country's own currency, and to the remaining Group companies that are not fully consolidated. The Group considers the bonds, which are issued by the governments from the EEA and not denominated in the currency of the issuer country, to be ordinary corporate bonds for capital requirement purposes.

Risk mitigation techniques

The Company has (as the parent company of the Group) put in place methods and processes with clearly defined powers and responsibilities regarding market risk management. The said methods and processes allow it to identify, assess, manage and monitor market risks in a timely manner. The system that is in place also allows quality analyses and reporting on market risks as well as the drafting of proposals and the implementation of measures for the prevention of a sudden decrease in the excess of assets over its liabilities owing to changes on financial markets, including the real estate market. Such good practices and minimum standards are transposed via minimum standards to the subsidiary insurance companies of the Group subject to the size and complexity of an individual company.

The Company and Group members have a limit system in place for market risk monitoring that defines the restrictions on the underwriting of risks at the highest level as well as the desired structure of the investment portfolio and the maximum acceptable exposure to counterparties, thus limiting the possibility of losses from underwritten risks to a level that is still acceptable considering the complexity of the business model, strategic goals and the capital strength of the Group. The basic principles for the setting of limits are derived from the identified risks that arise from the investment portfolio trading and management activity.

In order to mitigate market risk, the Group has a suitably diversified investment portfolio and also uses various types of financial instruments as appropriate. Financial instruments are only used when they enable additional flexibility in assets management and for the achievement of effects that would be more difficult to achieve save for the said instruments.

The use of such a range of instruments is assessed from various points of view in terms of security, economy and use of the capital. The use of derivatives must focus on the comprehensive aspect of hedging individual portfolios whereby the derivatives used to hedge against interest rate risk are currently in the forefront.

Sensitivity

As part of the ORSA process in 2017, the Group tested stress scenarios where it verified the sensitivity to extreme changes in market parameters. The Group's stress test results show that the Group would remain adequately capitalised even after stress events.

The Group's solvency ratio sensitivity analysis as at 31 December 2017 shows how the solvency ratio would change under individual isolated market scenarios. Market scenarios are taken from the stress scenarios used in the calculation of the capital requirement for market risk according to the standard formula.

Table 16: Effect of individual market scenarios on the Group's solvency ratio as at 31 December 2017

In percentage points (pp)

Market shocks to the Group's portfolio	Change in the solvency ratio
Effect of a decrease in interest rates	-7 %
Effect of a drop in the prices of equities	-12 %
Effect of a drop in the value of real estate	-13 %
Effect of an increase in spreads	-35 %
Effect of a drop in the value of a foreign currency	-5 %

All shocks were defined based on effects on own funds and taking into account the standard formula.

C.3 Credit risk

Credit risk is defined as the risk of loss or adverse change in the value of assets and liabilities resulting from an unexpected change in the credit rating or solvency of a counterparty. Credit risk is divided into type 1 and type 2 credit risk subject to the counterparty.

Type 1 credit risks are risks resulting from non-diversified exposures to a counterparty with a credit rating. These risks arise mainly from the Group's own exposures to reinsurance companies and banks.

Type 2 credit risk are risks resulting from non-diversified exposures to counterparties that mostly do not have a credit rating. These risks depend on the amount of receivables from direct insurance operations and other past-due receivables.

Table 17: Group's capital requirement for credit risks in 2017 and 2016

In EUR thousands

	2017	2016
Type 1	37,466	36,772
Type 2	8,305	8,064
Diversification	3,549	-1,685
Credit Risk	**49,320**	**43,151**

The standard formula is used to calculate the credit risk capital requirement. As at 31 December 2017, it accounted for 8% (7% in 2016) of the non-diversified capital requirement for the risks arising from the Group's portfolio.

Capital requirements are calculated at the level of the entire Group whereby the capital requirements for the ring-fenced funds are added without diversification to the capital requirements for the remainder of the portfolio. As at 31 December 2017, the capital requirement for counterparty default risks from both ring-fenced funds amounted to EUR 5.2 million.

The credit risk capital requirement grew by EUR 6.2 million in 2017. The main reason for the increase is the effect of diversification, which increased by EUR 5.2 million as a result of the inclusion of the Company's ring-fenced funds. The capital requirement increases – and is positive – because of the method for the calculation of the Group's capital requirement when the ring-fenced funds are taken into account (details are available in section E.2 of this Report). Because the sum of the capital requirements for both of the ring-fenced funds is greater than the effect of diversification on the remaining part, the diversification effect for the Group is positive.

Risk exposure

The Group is exposed to credit risks when:

- managing investments where there is the risk of the deterioration of the credit rating or solvency of a counterparty, in which the Group invests its assets. Every exposure to banks is also monitored (type 1);
- concluding agreements with reinsurers where there is the risk of non-payment of claims or the deterioration of the credit standing of reinsurers in the event of a loss event (type 1);
- concluding transactions with customers that have a different financial standing at the time of the existence of the liability (type 2).

The Group is exposed to credit risks mainly from reinsurance operations with reinsurance companies and from assets at banks that the Company does business with.

Concentration risk

The notion of credit risk also includes concentration risk. The Group monitors and measures concentration risk by taking into account the exposures to individual segments of the operations, counterparties, sectors, countries or sales channels in all segments of the operations as part of the consideration of individual risk types.

The Group limits its exposure to credit risk by ensuring that this exposure never exceeds 15 percent of the available economic capital for solvency purposes given the target solvency position.

Risk mitigation techniques

The Group's orientation in the area of credit risk underwriting is conservative and based on a predetermined risk appetite, assessment of underwriting risks, assurance of credit quality and diversification of the investment portfolio, and the management of exposures arising from reinsurance, non-payment of premiums and recourse.

Credit risk of the investment portfolio is balanced using a professional analysis of the counterparty's credit quality and a sufficient rate of portfolio diversification. A process has been set up at the Group level for the monitoring and reporting of exposures of the companies to the parent company where the Group's counterparty exposure is determined. Limits for the maximum permissible exposures to individual counterparties and groups of related parties as well as the limits for similar groups of counterparties have been set.

Credit risk from the group's investment portfolio is balanced by investing assets with a suitable credit rating, through a professional analysis of the counterparty's credit risk and a sufficient rate of portfolio diversification. Exposure to these counterparties without a credit rating is monitored and limited separately at the Company and other insurance companies of the Group.

When underwriting credit risks resulting from reinsurance, the Group actively manages credit risks through a diligent assessment of the adequacy of business partners for reinsurance purposes and by regularly monitoring their adequacy (credit rating, maximum permissible exposures, diversification). The adequacy of the reinsurers' credit ratings is defined and monitored by the Group subject to criteria of the S&P ratings agency in order to achieve and maintain the Group's A rating.

Sensitivity

The Company regularly analyses credit risk sensitivity at the Group. Exposure to credit risk resulting from the Group's reinsurance mainly comes from three insurance companies rated AA as at 31 December 2017.

Credit risk sensitivity is measured through the change of the rating of the main reinsurer and the bank whereby all other capital requirement calculation parameters remain the same.

Table 18: Effect of the change in the rating of the Group's larger reinsurer and largest bank as at 31 December 2017

In percentage points (pp)

Shock of a change in the counterparty's rating	Change in the solvency ratio
Effect of the downgrading of the major reinsurer's rating	0 %
Effect of the downgrading of the major bank's rating	1 %

C.4 Liquidity risk

Liquidity risk is the risk of loss resulting from the Company's inability to meet its due liabilities and obligations arising from major losses or from the fact that the Company is forced to acquire the necessary funding at a costs that is significantly above the usual. Liquidity risk also refers to the risk of more difficult access to financing required for the settlement of liabilities arising from insurance and other contracts. Liquidity risk usually materializes in the form of the inability to liquidate investments without selling at a significant discount to the current market prices.

Risk exposure

Insurance companies in the Group have liquidity ratios defined for the assurance of sufficient liquidity, whereby target values are defined and safeguards are in place (portfolio of high quality and liquid assets, lines of credit, repo agreements, etc.). As part of their regular inflows within the scope of ordinary operations, insurance companies are subject to minor liquidity risk. In case of important investments into investments that are by their very nature less liquid (alternative investments), special attention is devoted prior to investing to the effect on liquidity.

Concentration risk

The parent company and its subsidiaries manage investments and liabilities so that they are able to meet all of their matured liabilities at any moment, and they at the same time ensure a suitable structure of assets subject to their nature, tenor and quality in order to ensure the meeting of their liabilities. In order to ensure an adequate liquidity position, actual and potential net cash outflows are planned, an adequate amount and structure of liquid investments is ensured and managed, and the structure of liabilities and financial assets is monitored regularly. By putting in place appropriate limit systems, the Group ensures the limitation of exposure to liquidity risk.

Risk mitigation techniques

Liquidity risk mitigation techniques are two-fold at Group members. The first part involves the management of liquidity prior to the acquisition of financial instruments and following such acquisition. Prior to the acquisition aimed at the management of liquidity risk, limits for investments that are agreed subject to the nature of investments are considered. The second part of liquidity risk management entails the ongoing monitoring of liquidity indicators that measure the liquidity position both in ordinary and extraordinary circumstances.

The Company has put in place the envisaged procedures that stipulate the actions to be taken when a major change in the liquidity level is detected.

Subsidiaries manage their liquidity in accordance with the local regulations and the minimum standards for risk management applying at the Group.

Sensitivity

Investment funds are prudently invested subject to the liquidity requirements of a transaction, its nature and the long-term character of liabilities.

EXPECTED PROFIT FROM FUTURE PREMIUMS

A portion of the Group's own funds is represented by expected profits included in the future premiums under existing insurance contracts. These are estimated at EUR 78.8 million at the Group level. They are equal to the sum of expected profits included in the future premiums under existing insurance contracts of the individual Group members. The profit of an individual company is calculated by first calculating the best estimate of cash flows assuming that the expected premiums from concluded insurance contracts are not paid with the other assumptions remaining unchanged.

The amount of the expected profit included in future premiums as at 31 December 2017 is shown in the table below.

Table 19: Amount of expected profit included in future premiums as at 31 December 2017 and 31 December 2016

Expected profit included in future premiums		In EUR thousands
	2017	**2016**
Life insurance	36,746	29,240
Non-life insurance including health insurance	42,053	14,616
Total	**78,800**	**43,856**

The amount of the expected profit included in future premiums grew by EUR 34.9 million in year 2017. In the previous year, the amount of expected profit from future premiums at the Group level did not include the amount of expected profit from future premiums of the Group's reinsurance undertaking, TriglavRE[6], in the amount of EUR 19.9 million. The remaining change arises from the increase in reinsurance operations.

C.5 Operational risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes, conduct of employees, functioning of systems or the management of external events and their effects. It includes IT risk, legal risk, compliance risk, conduct risk, model risk, project risk and outsourcing risk.

The Group applies the standard formula to calculate the capital requirement for operational risk. The so calculated operational risk as at 31 December 2017 represents 5% of the non-diversified capital requirement for the risks arising from the Group's portfolio, which comes in at EUR 32.2 million.

Capital requirements are calculated at the level of the entire Group whereby the capital requirements for the ring-fenced funds are added without diversification to the capital requirements for the remainder of the portfolio. As at 31 December 2017, the capital requirement for operational risk from both ring-fenced funds amounted to EUR 0.6 million.

Risk exposure

The Group estimates that it is currently most exposed to regulatory risk, which increases operational risk as a result of changes, and external fraud risk with the latter mainly represented by cyber risk. The increasingly more demanding reporting requirements pursuant to the existing regulatory requirements and a high rate of amendments to the legislation and new legislation in the legislative environment (especially the General Data Protection Regulation, Directive on insurance distribution, IFRS 17) is bringing regulatory risk to the forefront. Even though the insurance sector is most exposed to insurance fraud, fraud can occur in all areas of operations. We are seeing cyber risk becoming the most important external fraud risk, i.e. due to the computerisation, digitalization and the rise of sophisticated cyber attacks. Being acutely aware of this, we have prepared scenarios for the ORSA in 2017 that represent the greatest vulnerability for the Group and are associated with cyber risks that can

[6] Pozavarovalnica Triglav Re, d.d.

adversely affect the functioning of processes or data security. In order to manage these risks, the Group has fast-tracked the implementation of existing activities and the implementation of new security functionalities that will ensure a uniform information system that is first and foremost adequate for cyber threats we are facing.

Concentration risk

The Company is aware that the influence of IT on operations is increasing from the point of view of operational risk concentration and importance. The Company and its operations are already highly dependent on the suitable functioning of IT as a major IT security incident or suspension of operations can severely affect the operations of Group members. This is why the Company devotes special attention to the management of IT risk, IT security and disruptions or suspension of operations as well as the transposition of good practices to Group members. In order to ensure continuous functioning of critical business process, the Company has put in place a business continuity management system. As part of the system, we have drafted business continuity plans for critical business processes and IT recovery plans.

Risk mitigation techniques

The Group has an internal controls system in place that allows it to continuously ensure the mitigation of exposure to operational risk. Using minimum standards, the Company introduces an effective system for operational risk management such as the one that has been set up at the parent company. The parent company regularly monitors the actual exposure to operational risk based on the identification and assessment of potential operational risks, reporting of realised operational loss events and the monitoring of the key operational risk indicators which include early warning signals. If the operational risk appetite and tolerances are exceeded, the Company begins preparing risk mitigation measures. If the risk is mitigated to an acceptable level, the Company assesses the measures as successful. The Company can thus verify the success of measure implementation.

Sensitivity

Capital requirements for operational risk according to the standard formula are not dependent on the actual exposure to this risk, but are rather associated with the volume of operations (premium income and technical provisioning). In the current phase of the introduction of the operational risk management system, the Company generally assesses potential effects of operational risks and determines the ways of managing them once a year, i.e. as part of the workshops on potential operational risks. It also monitors the realised operational loss events and operational risk indicators. The Company additionally tests sensitivity to realised operational risk at the Group level by performing stress tests.

C.6 Other risks

NON-FINANCIAL RISKS

The Group's operations are exposed to the following non-financial risks: major strategic risks, capital risk, reputational risk and group risk. Non-financial risks are very closely connected to other risks at the Group, especially operational risks, and they usually result from several realised factors within and outside the Group.

STRATEGIC RISK is the risk of loss due to inappropriate strategic decisions, inconsistent implementation of adopted strategic decisions and insufficient responsiveness to changes in the business environment (including legal and regulatory risks).

CAPITAL RISK represents the possibility of loss due to an inappropriate capital structure given the volume and manner of operations or the problems that the parent company faces when acquiring fresh capital, particularly in adverse operating conditions, or if it needed to increase capital fast.

REPUTATIONAL RISK is the risk of loss of future or current business because of a negative image in the eyes of the Group's policyholders, business partners, employees, shareholders and investors and/or competent or supervisory bodies and other interested public.

GROUP RISK arises from the business model of the Company, which operates as the parent company or a group of related parties. They include risks that may jeopardize the achievement of strategic goals due to an ineffective system of governance of the Group and insufficient knowledge of the business environment where the Group companies operate. The parent company's risk profile is also affected by transactions between related companies and the increased complexity of concentration risk management.

STRATEGIC RISKS are difficult to quantify, but can in the event of sub-optimal strategic decisions importantly affect the financial position and position of the Group in the future. The parent company mitigates risks through effective implementation of the strategy that includes highly clear and measureable strategic goals. The ORSA process is essential in this regard as is it assesses the effect on the Group's solvency.

In 2018, new provisions of the new regulation on Packaged Retail and Insurance-based Investment Products (PRIIP) began to apply. The new legislative framework increases requirements for disclosure of information to consumers which in turn increases exposure to conduct risk.

The non-financial risk appetite or tolerance to this segment of risks is defined as low, with the internal culture and the system of governance of the Group as well as the entirety of its business conduct avoid these risks and minimise their adverse effects on operations.

C.7 Other information

PRUDENT PERSON PRINCIPLE

Group members manage assets with the due skill, care and diligence of a good businessman and in the best interest of all policyholders and beneficiaries. Management of investments and technical provisions is performed by pursuing the objectives aligned with policyholders' objectives: to maximise safety, liquidity, diversification, profitability and provision coverage with investments. The assets of Group members are invested in a manner to ensure their availability.

There is an investment policy in place for every investment portfolio. In accordance with the mission and risk tolerance of individual portfolios, the policies define investment targets that provide long-term profitability in accordance with the expected risk appetite. The limit system, which is part of the investment policies, is primarily designed to take into account both the requirements and the capacity of individual insurance portfolios and secondarily those of the Company and then the Group.

Investment portfolio assets are for the most part managed centrally. Despite this however, associated Group companies are responsible for drafting investment policies and for the management of their assets in accordance with the set group objectives whereby the approach of centralised asset management at the Group level is observed.

Current liquidity is ensured by individual companies of the Group in coordination with the manager. The valuation of investments in the Group's portfolios is centralised and performed by the competent departments of the parent company, i.e. according to the same standards at the level of the entire Group.

The safety and profitability of investment portfolios as well as their compliance with the established limits are monitored daily, weekly and monthly. Highly centralised asset management is ensured by common system support to the investment process, which is centrally managed by the competent departments of the parent company.

The structure of the Group's financial assets remains relatively conservative, focusing on fixed-return investments. Such are also the individual portfolios of subsidiaries.

When investing assets, Group insurance companies pursue the principle of asset and liability tenor matching. The observation of the interest of all policyholders and beneficiaries is ensured even in the case of the potential conflict of interest resulting from the assets of one Group member being managed by another subsidiary.

Each individual investment is treated from the point of view of the portfolio which requires the investment to be assessed primarily in terms of the effect on the existing invested assets, their variability and contribution to the return. Each investment is reviewed or analysed whereby the depth of the analysis depends on the complexity of the investment and its share in total assets.

All other information relating to the risk profile was disclosed by the Group in sections C.1 through C.6.

Section D

Valuation for solvency purposes

D. Valuation for solvency purposes

Assets and liabilities are valued for solvency purposes at the Group level at fair value. Valuation is performed in accordance with the process described in section B of this Report.

When assets and liabilities are valued, the Group uses the risk-free interest rate curve published by EIOPA and does not apply any adjustments of the curve.

Table 20 shows the balance sheet of the Group for solvency and financial reporting purposes.

Table 20: Balance sheet of the Group as at 31 December 2017

31 December 2017 **In EUR thousands**

Balance sheet		**Value for solvency purposes**	**Value for financial reporting purposes**
Assets		**3,224,576**	**3,674,676**
Intangible assets	D.1.1	0	78,841
Deferred tax assets	D.1.2	32,813	13,769
Property, plant and equipment for own use	D.1.3	102,774	111,209
Financial asset	D.1.4	2,228,003	2,452,352
Assets held for index-linked and unit-linked contracts	D.1.5	648,768	648,198
Loans and mortgages	D.1.6	30,405	28,625
Reinsurance recoverables	D.1.7	50,349	83,816
Deposits to cedants	D.1.8	5,668	5,668
Insurance & intermediaries receivables	D.1.9	32,632	85,722
Reinsurance receivables	D.1.10	14,090	44,940
Receivables (trade not insurance)	D.1.11	18,623	33,216
Cash and cash equivalents	D.1.12	54,508	82,120
Any other assets, not elsewhere shown	D.1.13	5,943	6,200
Liabilities		**2,299,687**	**2,918,031**
Technical provisions	D.2	2,081,995	2,699,186
Other technical provisions		0	33,059
Other provisions	D.3.1	15,736	17,774
Deferred tax liabilities	D.3.2	87,277	26,397
Debts owed to credit institutions	D.3.3	455	455
Financial liabilities	D.3.4	5,111	5,134
Liabilities from direct insurance operations	D.3.5	29,725	18,875
Liabilities from reinsurance and co-insurance operations	D.3.6	3,808	28,758
Operating liabilities	D.3.7	45,817	1,748
Subordinated liabilities	D.3.8	18,343	15,459
Any other liabilities, not elsewhere shown	D.3.9	11,420	71,184
Excess of assets over liabilities		**924,889**	**756,646**

The valuation methods for solvency purposes and financial reporting purposes by asset and liability class are described in greater detail below. A comparison with the results of the previous period is also shown.

D.1 Assets

Several valuation methods may be used for the valuation of assets for the Group's financial reporting purposes, whereby the methods comply with the IAS (e.g. fair value, amortised cost, cost, etc.), while assets may be valued for solvency purposes only according to the method that is consistent with the requirements of the Commission Delegated Regulation (EU) and the EIOPA guidelines.

The assets disclosed in financial statements in a manner that is inconsistent with solvency requirements are revalued to fair value for solvency purposes. The best estimate of the fair value is the active market quotation or if such is not available the valuation models that reflect raw data from financial markets as much as possible are used to arrive at the fair value.

Asset-side balance sheet items are presented below.

D.1.1 Intangible assets

Intangible assets consist of software and property rights, which however are valued at zero for solvency purposes due to the problem of demonstrating their true value.

For financial reporting purposes, intangible assets are valued at cost. As at the balance sheet date, assets are disclosed at their cost less accumulated amortisation and any accumulated impairment loss. The amortisation period is determined subject to the useful life. Subsequent recognition of an intangible asset is possible in so far as it corresponds to the definition of an intangible asset and meets the recognition criteria. Intangible assets with an indefinite useful life are not amortised. An impairment test is performed for these assets every year.

Table 21: Balance sheet of the Group as at 31 December 2017

31 December 2017	In EUR thousands		
Balance sheet	**Value for solvency purposes**		**Value for financial reporting purposes**
	31 December 2017	**31 December 2016**	**31 December 2017**
Intangible assets	0	0	78,841

D.1.2 Deferred tax assets

Deferred tax assets are valued for solvency purposes as the product of the difference between the assets in the statutory and market value balance sheets, without taking into account the investments in related undertakings and the currently applicable tax rate of 19%.

For financial reporting purposes, deferred tax assets are accounted for all deductible temporary differences between the value of assets and liabilities for tax purposes and their carrying amount, for unused tax losses and unused tax relief when it is probable that taxable profit will be available in future periods, which the Group will be able to encumber with deductible temporary differences. The calculation of deferred tax assets is made at the tax rate, which is expected to be applied when the tax asset is refunded.

Table 22: Deferred tax assets of the Group as at 31 December 2017

31 December 2017	In EUR thousands		
Balance sheet	**Value for solvency purposes**		**Value for financial reporting purposes**
	31 December 2017	**31 December 2016**	**31 December 2017**
Deferred tax assets	32,813	31,256	13,769

The value of deferred tax assets did not change materially in 2017.

D.1.3 Property, plant and equipment held for own use

Property, plant and equipment held for own use at the Group level represent plant, land and buildings. These items are valued at amortised cost for financial reporting purposes.

Items of property, plant and equipment held for own use are valued at fair value for solvency purposes. The Company performs valuation of the Group's real estate through a certified real estate valuer over a two-year cycle, during which time own appraisals (e.g. adjustments of appraised values in the event of significant changes on local real estate markets, adjustments in case of significant investments and other one-off events) can represent the fair value.

Table 23: Property, plant and equipment held for own use at the Group as at 31 December 2017

31 December 2017	In EUR thousands		
Balance sheet	**Value for solvency purposes**		**Value for financial reporting purposes**
	31 December 2017	**31 December 2016**	**31 December 2017**
Property, plant and equipment held for own use	102,774	102,706	111,209

As at 31 December 2017, the certified real estate valuer performed another valuation for the majority of properties in the real estate portfolio. The value of this items did not change materially in2017. The decrease in the value of property, plant and equipment held for own use by the parent company of the Group neutralised the increase in the value of this item at nearly all other Group members.

The difference between the value of the item for financial reporting purposes and the value for solvency purposes is within the scope of the companies that are fully consolidated for both of the said purposes. The biggest contribution to the abovementioned difference is represented by the immovable property of Triglav skladi, d.o.o., Sarajevostan, d.d. and Golf Arboretum, d.o.o. The difference between the items is additionally the result of the different valuation method.

D.1.4 Investments

Investments represent the major portion of balance sheet assets. Pursuant to the provisions of the Commission Delegated Regulation (EU) and the relevant guidelines, these investments are valued at fair value.

The Group values financial assets using publicly available market prices on the active markets for the same instrument. If this is not possible, such valuation is performed using publicly available data from the active markets of similar instruments. The activity of the market or the question of whether it is an active market or not is determined for an individual financial instrument subject to the available information and circumstances. Factors that need to be heeded when assessing a market's activity include the following among others: low number of transactions in the period, extensive differences between bid and ask prices, great price volatility in the period and between sellers. Low market activity requires an additional analysis of transactions or quoted prices.

Alternative methods include all methods that predominantly apply parameters in the valuation method, which are not obtained entirely from active markets and include a subjective component.

Table 24: Investments of the Group as at 31 December 2017

31 December 2017 **In EUR thousands**

Balance sheet	Value for solvency purposes	Value for financial reporting purposes
Financial asset	**2,228,003**	**2,452,352**
Real estate, except real estate held for own use	99,656	94,008
Holdings in related undertakings	52,821	9,303
Equities	76,361	81,133
Bonds	1,897,887	2,069,934
Collective investment undertakings	56,241	146,859
Derivatives	1,871	1,871
Deposits other than cash and cash equivalents	38,841	44,816
Other investments	4,325	4,427

D.1.4.1 Real estate, except real estate held for own use

The same rules apply to the valuation of investment property, i.e. real estate not held for own use, as those that apply to the valuation of property, plant and equipment held for own use as presented in section D.1.3.

Table 25: Group's real estate, except real estate held for own use as at 31 December 2017

31 December 2017	In EUR thousands		
Financial asset	**Value for solvency purposes**		**Value for financial reporting purposes**
	31 December 2017	**31 December 2016**	**31 December 2017**
Real estate, except real estate held for own use	99,656	105,373	94,008

The value of real estate (except real estate held for own use) decreased by EUR 5,7 million in 2017. As at 31 December 2017, the certified real estate valuer performed another valuation of the majority of properties in the real estate portfolio. The biggest contributor to the change in the value of this item in 2017 was the revaluation of properties in the portfolio of Triglav, Upravljanje nepremičnin, d.d., and the portfolios of its subsidiaries Triglav upravljanje nekretninama, Zagreb and Lovčen osiguranje, Podgorica. The biggest positive revaluation of real estate, i.e. by EUR 9 million, was made in the portfolio of the Group's parent company.

The difference between the value of the item for financial reporting purposes and the value for solvency purposes is within the scope of the companies that are fully consolidated for both of the said purposes. The difference from the above is represented by the immovable property of Triglav skladi, d.o.o. The difference between the items is additionally the result of the different valuation method.

D.1.4.2 Holdings in related undertakings

Subsidiaries are fully consolidated in the consolidated financial statements. Related undertakings are consolidated in the consolidated financial statements according to the equity method. The holdings in subsidiary insurance companies, reinsurance companies, insurance holdings and companies for the provision of ancillary services are fully consolidated in financial statements for solvency purposes. The holdings in strategic financial companies, non-strategic subsidiaries and related undertakings are valued according to the following valuation method hierarchy:

a. the default valuation method: the default valuation method (hereinafter: DVM) entails valuation using publicly available market prices on the active markets for the same assets;

b. the adjusted equity method: under the adjusted equity method, holdings in related undertakings are valued subject to the share of the participating entity in the excess of assets over liabilities of the related undertaking. When calculating the excess of assets over liabilities for related undertakings, the undertakings' individual assets and liabilities are valued according to the principles of Solvency II (adjusted equity method; hereinafter: AEM S2). When calculating the excess of assets over liabilities for related undertakings other than insurance or reinsurance undertakings, the participating undertaking may consider the equity method as set out in the International Accounting Standards, where the value of goodwill and other intangible assets is deducted from the value of the related undertaking (adjusted equity method; hereinafter: AEM S1);

c. adjusted prices for similar assets in active markets or alternative valuation methods: if neither valuation in accordance with paragraph a) nor paragraph b) is possible and the undertaking is not a subsidiary undertaking, holdings in related undertakings are valued using an alternative valuation method (alternative valuation method; hereinafter: AVM), which the Group applies in the preparation of consolidated financial statements. In such cases, the value of goodwill and other intangible assets is deducted from the value of an individual undertaking.

The holdings in subsidiary insurance companies, reinsurance companies, insurance holdings and companies for the provision of ancillary services are fully consolidated for the Group's solvency purposes. Holdings in other related undertakings that are not fully consolidated are valued according to the AEM whereby the calculation of the excess of assets over liabilities applies the equity method in accordance with IAS less the value of goodwill and other intangible assets. The exceptions to the above are the shareholding in Nama, d.d., which is valued according to the AVM which basically closely follows the AEM using fair value of assets and liabilities, and the shareholding in ZIF Prof plus, Sarajevo, which is valued according to the default valuation method (DVM).

Table 26 provides the values of the Company's equity holdings in related undertakings according to the valuation methods for solvency purposes.

Table 26: Values of the Group's equity holdings in related undertakings according to valuation methods as at 31 December 2017

31 December 2017 In EUR thousands

Valuation method	Value for solvency purposes		Value for financial reporting purposes
	31 December 2017	31 December 2016	31 December 2017
DVM	630	1,157	1,341
AEM SI	42,883	36,821	1,067
AVM	9,308	23,965	6,895
Total	52,821	61,943	9,303

The biggest difference between the value of the item for financial reporting purposes and the value for solvency purposes is the result of the fact that the scope of companies, which are fully consolidated for both of the said purposes, differs. The item for solvency purposes includes the following in addition to associated companies: non-strategic subsidiaries and strategic financial companies, i.e. Triglav Skladi, d.o.o. and Skupna pokojninska družba, d.d.

Table 27: Holdings in the Group's related undertakings as at 31 December 2017

31 December 2017 In EUR thousands

Financial asset	Value for solvency purposes		Value for financial reporting purposes
	31 December 2017	31 December 2016	31 December 2017
Holdings in related undertakings	52,821	61,943	9,303

The value of holdings in related undertakings decreased in 2017. The main reason is the winding up of Salnal, d.o.o., whereby the parent company took over its investment that was previously split off into two portfolio investments. The holdings in these companies were sold under suspensive conditions at the total value that equals the value of the holding in Salnal that was used for Solvency II purposes at the end of 2016. The transaction was completed in the beginning of 2018.

D.1.4.3 Equities

Investments into equities (except related undertakings) are valued – provided there is an active market for such equities – according to the closing offered buying price on that market (local stock exchange). In the event of an inactive market, the value of the investment is determined by the last known price – provided that the assessment that the economic circumstances since the last transaction have not changed substantially remains valid – by the price in a liquid grey market or by a valuation model. Estimating the value using a valuation model is performed internally or through certified valuers. Depending on the features of the asset being valued, the appropriate valuation methods will include the discounted cash flow method, the comparable company analysis (public market multiples) and the net asset value method. Exceptionally, in cases of immateriality of an individual asset and the total value of assets valued in such a manner, the cost value is relevant for determining the value of the asset. Valuation for financial reporting purposes generally does not deviate from the valuation for solvency purposes.

Table 28: Equities of the Group as at 31 December 2017

31 December 2017	**In EUR thousands**		
Financial asset	**Value for solvency purposes**		**Value for financial reporting purposes**
	31 December 2017	**31 December 2016**	**31 December 2017**
Equities	**76,361**	**57,334**	**81,133**
Listed equities	52,207	48,451	56,429
Unlisted equities	24,154	8,883	24,704

The value of equities increased mainly in the unlisted securities segment in 2017. This increase is mainly the result of the takeover of the investments of Salnal, d.o.o. by the parent company and the simultaneous transformation of the main investment in the portfolio of the said company into two portfolio investment totalling EUR 14.5 million. The remaining changes are mostly the result of the revaluation of the portfolio that followed the positive trend on global stock markets.

D.1.4.4 Bonds

Bonds are valued for financial reporting purposes in accordance with the requirements for the financial statement category in which they are classified upon recognition (at fair value through profit or loss, available-for-sale, held to maturity, loans and receivables). Investments in the category "available for sale" or "at fair value through profit or loss" are valued at fair value. Investments classified as held-to-maturity investments or loans and receivables are valued at amortised cost.

When an investment is listed on an active market, its fair value is represented by its closing offered buying price on that market (BVAL, local stock exchange, market operator's price). If the market is not active or is not deep enough, fair value is determined using valuation techniques:

a) the price is determined by the last arm's length transaction provided the following assessment is true: economic circumstances from the last transaction did not change materially;

b) valuation model.

The main parameter of the model for the valuation of investments in the monetary item set (present value of contractual cash flows) is the discount curve composed of the risk-free interest rate for an individual currency and credit spread characteristic of the issuer or group of issuers. When determining an individual discount curve, we rely on unadjusted data from financial markets to the greatest possible extent. In the case of complex financial instruments, such as compound securities or bonds with call options, specialised models are used for valuation, which may require additional parameters (volatility, correlation, etc.). Bond investments are valued at fair value for solvency purposes.

Table 29: Bonds of the Group as at 31 December 2017

31 December 2017	In EUR thousands		
Investments	**Value for solvency purposes**		**Value for financial reporting purposes**
	31 December 2017	**31 December 2016**	**31 December 2017**
Bonds	**1,897,887**	**1,822,736**	**2,069,934**
Government bonds	953,281	921,919	1,030,070
Corporate bonds	934,718	883,199	1,029,977
Structured notes	9,888	17,618	9,888
Collateralised securities	0	0	0

The value of bonds increased in 2017 as a result of inflows from other forms of investments (mainly collective investment undertakings) and positive valuation. Aimed at improved returns, the increase is more significant in the corporate bond segment. The segment of structured notes decreased in 2017 mainly as a result of the natural maturity of the instruments.

The main difference between the value of the items for financial reporting purposes and the value for solvency purposes is within the scope of the companies that are fully consolidated for both of the said purposes. The biggest contribution to the difference is represented by the predominant bond portfolio of Skupna pokojninska družba, d.d. Owing to the different valuation method for investments that are classified as "held to maturity" or "loans and receivables" in financial statements, we have a difference of EUR 46 million up to the value for solvency purposes. Owing to the low interest rates and the narrow credit spreads, the fair value of these investments is generally higher than the amortised cost. The major portion of the revaluation comes from the government bond segment.

D.1.4.5 Collective investment undertakings

Collective investment undertakings are valued for financial reporting purposes and solvency purposes as provided in section D.1.4.3. The price of unlisted funds is additionally set by the closing price of the fund issuer.

Table 30: Collective investment undertakings of the Group as at 31 December 2017

31 December 2017	In EUR thousands		
Financial asset	**Value for solvency purposes**		**Value for financial reporting purposes**
	31 December 2017	**31 December 2016**	**31 December 2017**
Collective investment undertakings	56,241	96,053	146,859

The value of the item decreased in 2017 mainly as a result of outflows into other investment classes (mainly bonds). The biggest drop was recorded by money market funds and funds with a bond component – with a total decrease of EUR 51 million. The share of funds with debt exposure rose by EUR 7 million, while exposure to alternative investment funds increased by EUR 8 million.

The main difference between the value of the item for financial reporting purposes and the value for solvency purposes is within the scope of the companies that are fully consolidated for both of the said purposes. The biggest contribution to the difference is represented by the portfolios of Triglav Skladi, d.o.o., which comprises predominantly collective investment undertakings, and the portfolios of Skupna pokojninska družba, d.d.

D.1.4.6 Derivatives

The value of derivatives is determined by the closing offered buying price in an active market (the stock exchange, price of the market operator). In the event that there is no active market, the value is determined by a specialised valuation model (Black-Scholes, network models). Model parameters (the discount rate, volatility, correlation, etc.) are defined as unadjusted data from financial markets to the greatest possible extent.

Table 31: Derivatives of the Group as at 31 December 2017

31 December 2017	In EUR thousands		
Financial asset	**Value for solvency purposes**		**Value for financial reporting purposes**
	31 December 2017	**31 December 2016**	**31 December 2017**
Derivatives	1,871	1,423	1,871

The value of the item increased in 2017 owing to the positive revaluation resulting from the growth of stock markets.

D.1.4.7 Deposits other than cash and cash equivalents

For financial reporting purposes, deposits other than cash and cash equivalents are valued at amortised cost. These investments are valued at fair value for solvency purposes. The fair value is estimated using the valuation model outlined in section D.1.4.4.

Table 32: Group's deposits other than cash and cash equivalents as at 31 December 2017

31 December 2017	In EUR thousands		
Investments	**Value for solvency purposes**		**Value for financial reporting purposes**
	31 December 2017	**31 December 2016**	**31 December 2017**
Deposits other than cash and cash equivalents	38,841	49,458	44,816

The value of the item decreased in 2017 mainly as a result of outflows into other investment classes (bonds, short-term deposits) that are more attractive in terms of returns and liquidity.

The main difference between the value of the item for financial reporting purposes and the value for solvency purposes is within the scope of the companies that are fully consolidated for both of the said purposes. The difference up to the value for solvency purposes resulting from the different method of valuation of the investments that are classified as "loans and receivables" is small because deposits are on average shorter than 1 year.

D.1.4.8 Other investments

Other investments in the Group represent works of art, funds in the uninsured motorist funds and financial assets not classified in any of the other categorised from preceding sections of this Report. For solvency purposes, the value of these assets follows the value as used for the preparation of financial statements.

Table 33: Other investments of the Group as at 31 December 2017

31 December 2017	In EUR thousands		
Investments	**Value for solvency purposes**		**Value for financial reporting purposes**
	31 December 2017	**31 December 2016**	**31 December 2017**
Other investments	4,325	4,410	4,427

The value of the item remained practically unchanged in 2017.

D.1.5 Assets held for index-linked and unit-linked contracts

Assets held for index-linked and unit-linked contracts are assets arising from insurance or investment products where the policyholder assumes investment risk. These assets are valued at fair value for solvency purposes while other valuation methods are used for financial reporting purposes, whereby these methods comply with the requirements for individual financial reporting categories (e.g. valuation at amortised cost for assets classified under "Loans and receivables").

Table 34: Group's Assets held for index-linked and unit-linked contracts as at 31 December 2017

31 December 2017	In EUR thousands		
Balance sheet	**Value for solvency purposes**		**Value for financial reporting purposes**
	31 December 2017	**31 December 2016**	**31 December 2017**
Assets held for index-linked and unit-linked contracts	648,768	649,810	648,198

The changes in assets under this item are primarily linked to the changes in the amount of insurance liabilities. These may be volatile owing to the inflows or outflows from premiums and payments and partly also because of the changes in the value of liabilities that are subject to the changes in indices or reference values applying to the liability.

D.1.6 Loans and mortgages

Loans and mortgages are valued at amortised cost for financial reporting purposes. For solvency purposes, these assets are valued using the valuation model that is based as far as possible on the market assumptions regarding the discount rate. The credit spread that is a component part of the discount rate is determined for each issuer separately.

Table 35: Loans and mortgages of the Group as at 31 December 2017

31 December 2017	In EUR thousands		
Balance sheet	**Value for solvency purposes**		**Value for financial reporting purposes**
	31 December 2017	**31 December 2016**	**31 December 2017**
Loans and mortgages	**30,405**	**34,795**	**28,625**
Loans on policies	2,824	2,353	2,824
Loans and mortgages to individuals	46	86	47
Other loans and mortgages	27,535	32,357	25,754

The assets listed under the loans and mortgages item decreased by EUR 4.4 million in 2017. The main reason for this was the revaluation of investments.

The difference between the value of the item for financial reporting purposes and the value for solvency purposes is the different valuation method.

D.1.7 Reinsurance recoverables

The value of reinsurance recoverables is determined for financial reporting purposes in line with the methodology of each Group member, whereby non-past due reinsurance contract receivables are taken into account for financial reporting purposes.

For solvency purposes, these are determined based on recoverable amounts from reinsurance contracts that are calculated in accordance with the thresholds from insurance and reinsurance contracts, to which the amounts relate. Recoverable amounts from reinsurance contracts for liabilities under non-life insurance are calculated for the technical provisions separately, i.e. for premium and for claims provisions. Recoverable amounts from reinsurance contracts for claims under non-life and health insurance that are paid in the form of annuities are disclosed at the Group level as non-life insurance liabilities under the life insurance item.

Table 36: Reinsurance recoverables of the Group as at 31 December 2017

31 December 2017	In EUR thousands		
Assets	**Value for solvency purposes**		**Value for financial reporting purposes**
	31 December 2017	**31 December 2016**	**31 December 2017**
Reinsurance recoverables	**50,349**	**51,097**	**83,816**
Non-life and health insurance	48,199	46,593	83,816
Life insurance	2,150	4,504	0

The value of reinsurance recoverables did not change materially in year 2017.

D.1.8 Deposits to cedants

Deposits to cedants at the Group include deposits of reinsurance companies provided to cedants under reinsurance contracts.

For financial reporting purposes, they are valued at amortised cost using the effective interest rate method. They are valued in the same manner for solvency purposes.

Table 37: Group's deposits to cedants as at 31 December 2017

31 December 2017	In EUR thousands		
Balance sheet	**Value for solvency purposes**		**Value for financial reporting purposes**
	31 December 2017	**31 December 2016**	**31 December 2017**
Deposits to cedants	5,668	5,172	5,668

The value of deposits to cedants did not change materially in year 2017.

D.1.9 Insurance & intermediaries receivables

Insurance & intermediaries receivables are measured for financial reporting purposes at amortised cost using the effective interest rate method.

Items are valued in the same manner for solvency purposes, while data gathering differs. For solvency purposes, this item only includes past due receivables because non-past due receivables from policyholders are included for solvency purposes into the calculation of the best estimate of the premium provision and are correspondingly excluded from this item.

Table 38: Group's insurance & intermediaries receivables as at 31 December 2017

31 December 2017	In EUR thousands		
Balance sheet	**Value for solvency purposes**		**Value for financial reporting purposes**
	31 December 2017	**31 December 2016**	**31 December 2017**
Insurance receivables	32,632	18,884	85,722

Insurance receivables increased in 2017 mainly due to growth of the portfolio.

D.1.10 Reinsurance receivables

For financial reporting purposes, reinsurance receivables are valued at amortised cost using the effective interest rate method.

They are valued in the same manner for solvency purposes. The difference in the values for solvency purposes and financial reporting purposes arises because the value for financial reporting purposes shows the receivables for both active and passive reinsurance transactions, while the value for solvency purposes only shows past-due receivables from passive reinsurance transactions.

Table 39: Group's reinsurance receivables as at 31 December 2017

31 December 2017	In EUR thousands		
Balance sheet	**Value for solvency purposes**		**Value for financial reporting purposes**
	31 December 2017	**31 December 2016**	**31 December 2017**
Reinsurance receivables	14,090	10,851	44,940

The Company began performing active reinsurance operations in 2017. Because receivables from premiums for active reinsurance are posted under this item, the item increased slightly.

D.1.11 Receivables (trade not insurance)

Receivables (trade not insurance) comprise receivables from financing activities, while the remainder is represented by operating receivables (trade receivables). For financial reporting purposes, these receivables are generally measured at amortised cost using the effective interest rate method. They are valued in the same manner for solvency purposes. The difference between the value for financial reporting purposes and the value for solvency purposes arises from difference in the included subsidiaries that are fully consolidated within the Group. Different classification of balance sheet items is also used for the two valuation methods

Table 40: Group's receivables (trade not insurance) as at 31 December 2017

31 December 2017	In EUR thousands		
Balance sheet	**Value for solvency purposes**		**Value for financial reporting purposes**
	31 December 2017	**31 December 2016**	**31 December 2017**
Receivables (trade not insurance)	18,623	14,001	33,216

The Group's receivables (trade) increased by EUR 4.6 million in year 2017. The difference between the value for financial reporting purposes and the value for solvency purposes arises from difference in the included companies that are fully consolidated within the Group.

D.1.12 Cash and cash equivalents

Cash and cash equivalents comprise bank balances and cash in hand. This item is valued according to its nominal value for both valuation purposes, whereby values differ because of the different consolidation under both valuations.

Table 41: Cash and cash equivalents of the Group as at 31 December 2017

31 December 2017	In EUR thousands		
Assets	**Value for solvency purposes**		**Value for financial reporting purposes**
	31 December 2017	**31 December 2016**	**31 December 2017**
Cash and cash equivalents	54,508	45,783	82,120

The values under this item increased by EUR 8.7 million in 2017. The increase is the most extensive at the Group's parent company, i.e. EUR 11.7 million, and is mainly the result of inflows from other investment classes whereby the aim is to maintain excess liquidity that will allow the Group to make use of potential investment opportunities in the following year.

D.1.13 Any other assets, not elsewhere shown

The item includes non-current deferred taxes, assets invested into software for the Group, inventories and other assets. Valuation for financial reporting purposes is the same as for solvency purposes. The difference between the value for financial reporting purposes and the value for solvency purposes arises from difference in the included subsidiaries that are fully consolidated within the Group. Different classification of balance sheet items is also used for the two valuation methods

Table 42: Group's any other assets, not elsewhere shown as at 31 December 2017

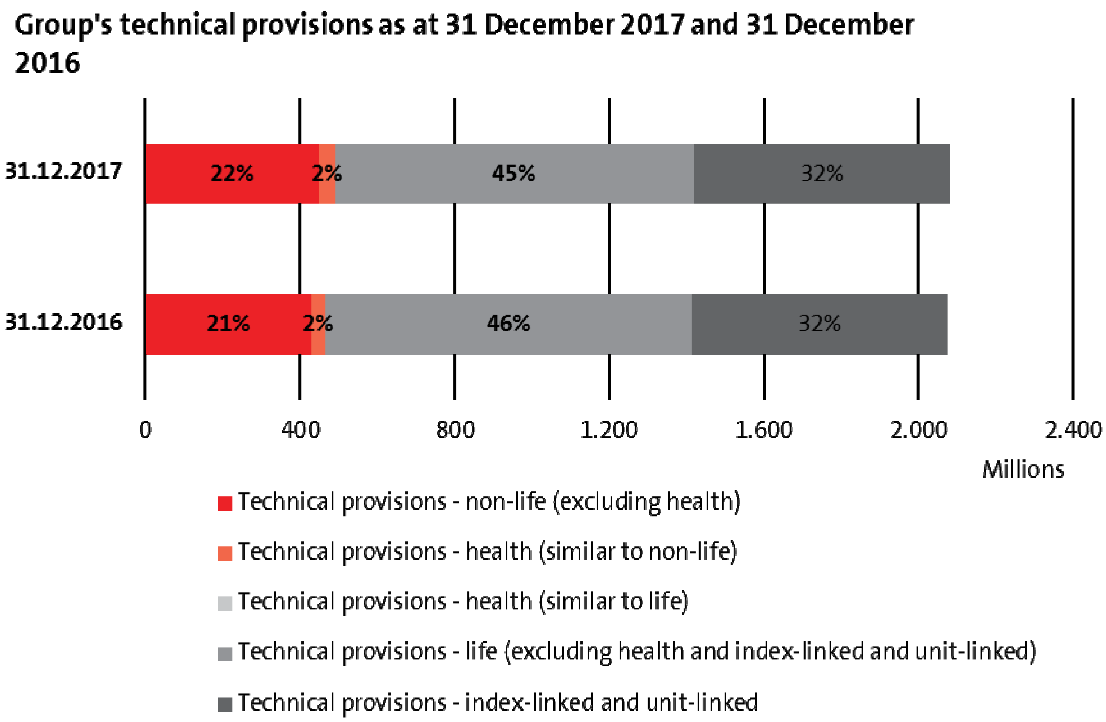
31 December 2017	In EUR thousands		
Assets	**Value for solvency purposes**		**Value for financial reporting purposes**
	31 December 2017	**31 December 2016**	**31 December 2017**
Any other assets, not elsewhere shown	5,943	3,737	6,200

The amount of the Group's other assets not elsewhere shown increased by EUR 2.2 million in year 2017. The difference between the value for financial reporting purposes and the value for solvency purposes arises from difference in the included companies that are fully consolidated within the Group.

D.2 Technical provisions

At the level of an individual insurance subsidiary, the value of technical provisions for solvency purposes is equal to the sum of the best estimate and risk margin, both of which are calculated separately. The best estimate corresponds to the present value of expected future cash flows from insurance contracts. The present value of future cash flows is calculated using the relevant risk-free interest rate curve. Group companies calculate technical provisions separately for non-life and health as well as life insurance and allocate them according to the selected calculation method.

Chart 4: Group's technical provisions as at 31 December 2017 and 31 December 2016



At the Group level, the best estimate for insurance liabilities is calculated as the sum of the best estimates for insurance liabilities of individual insurance subsidiaries within the Group less intra-Group transactions. The risk margin is the present value of opportunity costs of all future solvency capital requirements until the expiry of the portfolio of liabilities that are valued. The cost-of-capital rate is determined in the Commission Delegated Regulation (EU), while the time structure of the risk-free interest rate term structure is published on EIOPA's website on a monthly basis. The Company calculates the risk-free interest rate term structure for the Serbian dinar in line with the prescribed calculation procedures as EIOPA does not publish it.

The risk margin is calculated separately for non-life, health and life insurance and is allocated to insurance segments on the basis of a suitable proportional allocation. For this purpose, market risks, except those which cannot be avoided, are not included in the value of the future solvency capital requirement.

At the Group level, the risk margin is calculated as the sum of the risk margins of individual insurance subsidiaries within the Group les intra-Group transactions.

The sensitivity of the provisions in the Group originates from the sensitivity of the provisions at the insurance subsidiaries within the Group, most of all from the Company.

A matching adjustment, a volatility adjustment, a transitional adjustment to the relevant risk-free interest rate structure and the transitional deduction are not applied at the Group level.

Contract boundaries and homogeneous risk groups

The Group's insurance subsidiaries recognise an insurance liability upon the entry into force of a contract. A recognised insurance liability is derecognised when it is extinguished, discharged, cancelled or expires. Insurance contract boundaries are applied mutatis mutandis in valuation.

Part of the non-life and health insurance portfolio is composed of non-life insurance liabilities; however, they are allocated for solvency purposes among life insurance liabilities because life insurance actuarial techniques are used for their valuation. This part of technical provisions is represented by non-life insurance claims, which are paid out as annuities. Other liabilities from the non-life insurance portfolio are divided at least subject to lines of business.

The life insurance portfolio consists of life insurance liabilities; however, they are allocated to health insurance for solvency purposes. This group includes additional accident insurance that is concluded on top of basic life insurance. Because technical provisions are calculated using the techniques characteristic of non-life insurance, they are classified as non-life health insurance. Life insurance liabilities are divided into at least the following business lines: insurance with profit participation, index-linked or unit-linked insurance, income protection insurance and other life insurance. The entire portfolio of life insurance policies is divided into homogeneous risk groups in accordance with the nature of the risks covered by the policies, actuarial judgement and historical developments subject to an empirical analysis.

When calculating the capital adequacy, the Group does not apply any adjustments, which are otherwise allowed under the Commission Delegated Regulation (EU).

D.2.1 Technical provisions for non-life insurance and health insurance

The best estimate of non-life and health insurance provisions amounts to EUR 491 million.

The best estimates of the technical provisions for solvency purposes are calculated independently for all insurance subsidiaries within the Group. For consolidation purposes, intra-Group transactions are not taken into account. The amounts recoverable from reinsurance contracts between the internal reinsurance undertaking and the Group members and the estimated liabilities arising from the risks underwritten by the subsidiaries on behalf of the parent company are considered to be material transactions.

The Group has established a data quality monitoring and quality assurance system for the data which are the basis for the calculation of technical provisions. The data used meet the appropriateness, completeness and accuracy criteria.

Each Group member segments its non-life and health insurance portfolio for the purpose of calculating technical provisions at least into prescribed lines of business as set out in the Commission Delegated Regulation (EU). Individual companies further break down their business lines into further homogenous groups provided this is allowed by the statistical characteristics of the portfolio. The segmentation itself is linked to the process of calculation of technical provisions for financial reporting purposes, also taking into account the homogeneity of the risk profiles and the availability of the data required to calculate the provisions and analyse the samples of cash flows and volatility of insurance groups.

The best estimate of provisions is calculated separately for the claims incurred up to the date of calculation (best estimate of claims provisions) and for the claims incurred after the date of calculation (best estimate of premium provisions).

Table 43: Non-life and health technical provisions for solvency purposes as at 31 December 2017 and 31 December 2016

31 December 2017

Non-life and health insurance technical provisions	Best estimate	Risk margin	Technical provisions
Non-life insurance	422,387	27,343	**449,730**
Health insurance	37,654	3,625	**41,279**
Total	**460,041**	**30,968**	**491,009**

31 December 2016

Non-life and health insurance technical provisions	Best estimate	Risk margin	Technical provisions
Non-life insurance	401,221	27,550	**428,771**
Health insurance	32,488	2,945	**35,433**
Total	**433,709**	**30,495**	**464,204**

The main reason for the growth of the Group's technical provisions is the growth of the portfolios of insurance companies that make up the Group. The growth additionally spurred by storms towards year end and extensive fire insurance claims at the parent company.

D.2.1.1 Best estimate of premium provision

The basis for the best estimate of premium provision is the cash flows from premiums, claims, subrogations, costs, bonuses and discounts, terminations and commissions.

The basic assumption of the calculation is matching the pattern of development of future cash flows from the premium provision with the pattern that is calculated and used in the claim provisioning. Unearned premium estimated as at the date of the calculation is used as the measure of exposure. Material assumptions also include the future inflation rate and the discounting curve. The assumption of the future inflation rate is based on the estimates published by the IMF for the countries, in which an individual Group member operates.

D.2.1.2 Best estimate of claims provision

The best estimate of claims provision is calculated at the end of the period, i.e. for all claims incurred up to the last day of that period but not yet fully settled up to that date for:

- incurred and reported claims; and
- incurred but not reported claims, incurred but not sufficiently reported claims and reopened claims.

The source for the best estimate of incurred claims is the list of provisioned claims that is the result of monthly processing and is monitored at the level of an individual claim list. Claim adjustment departments are responsible for compiling the said lists. Data on claims that affect the estimates are entered concurrently. The claims paid in the form of annuities are excluded from the lost because they are included in the best estimate of the annuity provision. Provisions for unreported claims are calculated at the level of insurance segments, for which established actuarial techniques are used.

The calculation must take into account the past inflation, while future cash flows from incurred claims take into account the estimated future inflation rate.

D.2.1.3 Risk margin for non-life insurance and health insurance

As at 31 December 2017, the Group's risk margin for liabilities under non-life and health insurance contracts came in at EUR 31 million. At the Group level, it is calculated as the sum of the risk margins of the same operating segments of individual Group members. Group members calculate the risk margin in accordance with Article 37 of the Commission Delegated Regulation whereby the forecast of the future solvency capital requirement mostly applies the approach that corresponds to method 1 in the hierarchy set out in Guideline 62 of the EIOPA Guidelines on the valuation of technical provisions.

D.2.1.4 Material differences between the bases, methods and main assumptions used for valuation for solvency purposes and the bases, methods and key assumptions used for valuation in financial statements

The main difference between both liability valuation methods lies in the fact that for financial reporting purposes the precautionary estimate of liabilities is used, whilst for solvency purposes the best estimate is used. Both provision calculations use slightly different portfolio segmentation.

Table 44: Difference between technical provisions for non-life and health insurance for solvency purposes and for financial reporting purposes

31 December 2017	In EUR thousands	
	Value for solvency purposes	Value for financial reporting purposes*
Non-life and health insurance technical provisions	491,009	909,752

*The value relates to technical provisions presented in the Annual Report of the Triglav Group and Zavarovalnica Triglav, d.d. for 2017, section 3.14 in the financial section of the report.

In addition to the valuation method for premium provision liabilities, the inclusion of non-past due receivables from direct insurance operations also importantly contributes to the difference in the amount of premium provisions. Unlike in relation to the unearned premium, the claims ratios for individual segments are taken into account in the premium provision. In the financial statements, the Company recognises the result of an insurance contract during its term. Because the claims ratio is taken into account, the result of an insurance contract in solvency calculations is recognised immediately upon the conclusion of the contract. The cash flows of future liabilities are discounted using the risk-free interest rate curve. The premium provision also takes into account the cash flows from contract cancellations and bonus repayments that are separately provisioned in financial statements.

The prescribed segmentation is also used for solvency purposes in the calculation of the claims provision in the part relating to incurred but not reported or under-reported claims. The methodology is identical in both calculations. In the calculation for solvency purposes, development factors are not smoothed, and the used claims ratios do not contain any precautionary margin. In the calculation of unreported or under-reported claims for financial reporting purpose, large claims are excluded from the list of incurred and reported claims and are then added separately. Such an approach leads to a higher value of provisions. Expenses and subrogations are calculated identically under both valuation methods. For solvency purposes, claims provisions are also discounted; however, due to negative interest rates, it may occur that the discounting results in higher provisions.

D.2.2 Technical provisions for life insurance

Two types of liabilities are valued within the scope of life insurance technical provisions: life insurance liabilities and liabilities under health insurance that is provided on a similar technical basis as life insurance. The Group calculates the best estimate of liabilities separately for expired perils and calls it a claims provisions while it calls it premium provision for unexpired covered perils.

The table below shows the technical provisions for life insurance for solvency purposes.

Table 45: Technical provisions for life insurance for solvency purposes as at 31 December 2017 and 31 December 2016

31 December 2017

Life insurance technical provisions	Best estimate of liabilities	Risk margin	Technical provisions
Insurance with profit participation	848,608	14,316	862,924
Index-linked and unit-linked insurance	645,192	18,638	663,830
Other life insurance	-6,732	3,873	-2,859
Annuities under non-life or health insurance	66,601	491	67,092
Total	**1,553,669**	**37,318**	**1,590,987**

31 December 2016

Life insurance technical provisions	Best estimate of liabilities	Risk margin	Technical provisions
Insurance with profit participation	872,931	15,331	888,262
Index-linked and unit-linked insurance	643,981	16,962	660,943
Other life insurance	-8,141	3,826	-4,315
Annuities under non-life or health insurance	65,521	546	66,067
Total	**1,574,292**	**36,664**	**1,610,956**

D.2.2.1 Best estimate of life insurance liabilities

For the purpose of projecting cash flows at the level of an individual insurance undertaking, the Group uses an appropriate set of assumptions relevant for the homogenous risk group, to which the respective insurance policy belongs. For unexpired perils, the best estimate of liabilities is calculated using cash flow projections, taking due account of the relevant assumptions for every individual policy. For expired perils, the best estimate of liabilities is recognised in the following manner: in the case of endowments, the best estimate is calculated by policy; in the case of other risks, it is calculated at the level of homogenous risk groups using the BF methodology of actuarial triangles, which is a loss reserving technique used for non-life insurance. The theoretical concept defines the best estimate of liabilities as the market value of liabilities, but in practice it can hardly ever be measured in the market. Therefore, the best estimate of liabilities is calculated as the present value of all income and expenses arising from an insurance policy, weighted by the probability of occurrence. Income includes gross premiums, charged costs and other income (e.g. refunds), while expenses include actual costs, fees and commissions, claims and any other expenses. Return on assets is not included in income.

Expenses related to future actual costs are calculated using a cost model that contains the following cost types related to the performance of insurance contracts: insurance management costs, investment management costs, claim management costs, insurance acquisition costs (which are not included under brokers' fees - brokers' fees represent a specific cash flow type).

With regard to cash flows, due account is taken of the expected future developments in the external environment (mortality, interest rates, inflation, etc.) and of the following types of uncertainties:

- uncertainty regarding the timing and probability of insured events;
- uncertainty regarding the amounts of claims;
- uncertainty regarding the amount of actual costs;
- uncertainty regarding the expected future development of the external environment as far as it is possible to predict it;
- uncertainty regarding policyholder behaviour.

The above uncertainties are included in the projection using basic input assumptions regarding the probability of distribution of relevant insurance events (e.g. probability tables for mortality, policy capitalisation, policy surrenders, etc.). The default probability distributions depend on the relevant risk factors and may change over time (e.g. probability tables for longevity depend on the gender, age and generation to which a person belongs).

The Group performs separate calculations of the best estimate of liabilities for the guaranteed and the discretionary part of liabilities.

The calculation of cash flows takes into account certain future management measures with regard to the distribution of profits to policyholders, depending on the economic situation of the country where the company operates and in accordance with internal rules of the company.

Using a range of economic scenarios that correspond to market conditions and are risk-neutral, the Group calculates the part of the best estimate of liabilities that represents the time value of embedded contractual options and financial guarantees which allows it to estimate the present value of uncertainties that arise from them.

The assumptions regarding policyholder behaviour are considered in a deterministic manner, in the sense that behaviour is not conditional on the economic scenario, but rather depends on other risk factors (e.g. age of the policy, type of insurance product, etc.). The calibration of dependencies between economic conditions and insurer behaviour must be based on a statistically characteristic result that is derived from relevant statistical analyses of empirical data from both sources (past insurer behaviour and economic conditions). Based on the currently available data, such a connection cannot be derived correctly.

The best estimate for non-life insurance claims that are paid as annuities is the sum of the best estimates for the existing and expected claims from this line of business. The best estimates are calculated using life valuation techniques. In doing so, relevant mortality tables that are also used for the valuation of capitalised annuities for the purpose of the making of lists are observed. The provision for planned annuities for insurance cases, for which no claim was yet filed, but can justifiably be expected, is also calculated. These are generally annuities of underage persons who already receive an annuity and will be entitled to an income protection annuity when turning a certain age. The risk-free interest rate curve published by EIOPA is used for discounting cash flows. The calculation takes into account the costs of claim adjustment.

Technical provisions for solvency purposes changed in the following segments in the reporting period:

- insurance with profit participation where provisions declined by EUR 25.3 million as a result of the lowering of the premium provision, which is lowered because of endowments in the period;
- index or unit-linked insurance where provisions increased by EUR 2.9 million as a result of the changes in cash flows in the reporting period, newly underwritten risks in the period and differences between realisation and assumptions;
- other life insurance where provisions increased by EUR 1.5 million as a result of changes to non-economic assumptions in the valuation and the increase in the volume of operations in mortgage insurance with a one-off premium payment;
- annuities under non-life insurance where provisions increased by EUR 1.1 million mainly as a result of changes to non-economic assumptions in the valuation.

D.2.2.2 Risk margin for life insurance

The definition of the risk margin contains difficult to calculate solvency capital requirements for all future periods until the maturity of the existing portfolio of liabilities. Therefore, the Group applies a simplification based on the calculation of the future values of partial solvency capital requirements for individual risk sub-types (e.g. mortality, longevity, costs, etc.) on the basis of values of substitutes which can be calculated in practice.

An appropriate substitute is therefore determined for every risk included in the standard formula, which is expected based on actuarial assessment and empirical evidence to develop with roughly the same dynamic as the capital requirement for the relevant risk. In this manner, the risk margin is calculated for the entire life insurance portfolio within an individual ring-fenced fund or within the remaining part of the portfolio. This risk margin is then broken down by individual line of business in proportion to their virtual isolated risk margins.

D.2.2.3 Material differences between the bases, methods and main assumptions used for valuation for solvency purposes and the bases, methods and key assumptions used for valuation in financial statements

The reasons for differences between the valuations of technical provisions for solvency purposes and for financial reporting purposes are the discrepancies between the bases, methods and main assumptions and segmentation.

The methodology and the bases used for financial reporting purposes determine the value of technical provisions within certain segments of the portfolio as the higher of the following: the realistic value of liabilities (according to the LAT methodology) or a conservative value of liabilities. The conservative calculation of liabilities is based either on a prospective method using the net Zillmer premium (traditional life insurance) or on a retrospective method (unit-linked life insurance and pension insurance).

The first method takes into account the present value of the limited set of expected future cash flows relating to an insurance contract, while the other takes the accumulated value of realised past cash flows (premium payments, claim payouts, imputation of the return, valorisation, etc.).

Table 46: Differences between technical provisions for life insurance for solvency purposes and for financial reporting purposes

31 December 2017 In EUR thousands

Balance sheet	Value for solvency purposes	Value for financial reporting purposes*
Life insurance technical provisions	1,590,987	1,358,228

*The value relates to technical provisions presented in the Annual Report of the Triglav Group and Zavarovalnica Triglav, d.d. for 2017, section 3.14 in the financial section of the report.

The methodology and bases for the valuation of technical provisions for solvency purposes stipulate the method for the calculation of the present value of a realistic estimate of all relevant cash flows, which is also referred to as the "best estimate of liabilities", including the risk margin.

In addition to the differences in the bases and methodologies, the two valuation approaches also differ in terms of the range of assumptions used. As a rule, technical parameters defining the premium are used in the prospective valuation of liabilities (traditional life insurance) for financial reporting purposes, but with certain exceptions. The constant technical interest rate embedded in the individual tariff or the valuation interest rate, provided the latter is lower, is applied for discounting. The Slovenian SIA65 annuity tables are used the valuation of liabilities arising from annuity and pension insurance in the annuity pay-out period.

The assumptions about cost parameters are generally identical to those embedded in the tariff of a product, while an empirical valuation parameter needs to be applied in certain cases. Policyholder behaviour (surrender, capitalisation, cancellation, and annuitization) is not taken into account in the valuation of liabilities for financial reporting purposes. Liabilities are calculated using actuarial mathematical formulas consisting of traditional actuarial factors.

When it comes to the valuation for solvency purposes, all assumptions are of the best estimates type, meaning that the values are neither overestimated nor underestimated, allowing for a realistic valuation. Important to note is the fact that the regulator prescribes the basic risk-free interest rate term structure for each relevant currency, meaning that this rate is uniform for all insurance companies within a given country.

For insurance with profit participation, the positive difference between the valuation of liabilities for solvency and the valuation for financial reporting purposes is mainly the result of the use of the abovementioned term structure, which is generally lower that the interest rates applied for discounting in financial statements. In index-linked or unit-linked insurance, the negative difference occurs as a result of using the best estimate of parameters (which generally result in lower liabilities compared to the parameters used in the calculation for financial reporting purposes) and permitting negative liabilities for profitable insurance for solvency purposes. A similar explanation is also applicable to other types of life insurance.

The material difference between the two valuations results from annuities under non- life insurance, which are presented under life insurance for solvency purposes and amount to EUR 67,2 million. They are presented under non-life insurance for financial reporting purposes.

D.3 Other liabilities

The Company's other liabilities are presented below.

D.3.1 Provisions, other than technical provisions

The calculation of provisions for long-term employee benefits such as jubilee benefits and severance pay upon retirement is performed in accordance with the actuarial mathematics methodology taking into account the relevant International Accounting Standard.

The calculation of provisions refers to two categories of employee entitlements:

- post-employment benefits which represent an employee entitlement upon retirement in the form of a lump sum payment. The amount of the entitlement is determined in advance and risks with regard to the final amount of the payment are borne by the company, which is why this scheme is classified under "DBF - Defined Benefit Plan";
- jubilee benefits which represent other long-term employee benefits during the time of employment.

The total cost of the pre-determined employee entitlement is affected by a number of variables, such as wage growth, inflation, the termination of employment contracts and the mortality of employees. The total cost of the entitlement remains uncertain throughout the period, which is why the valuation of the present value of employment benefits and related costs during the time of employment takes into account the following:

- actuarial valuation methods;
- allocation of benefits during the time of employment;
- the constructed actuarial assumptions.

Provisions for jubilee and retirement benefits are calculated for each individual employee separately based on the methodology described above, the applied parameters and employee data. As at 31 December 2017, these provisions totalled EUR 9.6 million, of which provisions for jubilee benefits accounted for EUR 1.7 million and provisions for retirement benefits accounted for EUR 7.9 million. For solvency purposes, they are presented in the balance sheet under the item "Other provisions".

Provisions for jubilee and retirement benefits for solvency purposes match the provisions calculated for financial reporting purposes.

This class of liabilities also includes provisions for unused annual leave in the amount of EUR 4.4 million, which are valued in the same manner for both solvency and financial reporting purposes. Similar is true of other provisions – mostly provisions for legal disputes – in the amount of EUR 3.8 million.

Table 47: Provisions, other than technical provisions, of the Group as at 31 December 2017

31 December 2017	In EUR thousands		
Liabilities	**Value for solvency purposes**		**Value for financial reporting purposes**
	31 December 2017	**31 December 2016**	**31 December 2017**
Provisions, other than technical provisions	15,736	15,123	17,774

Provisions, other than technical provisions, did not change materially in year 2017.

D.3.2 Deferred tax liabilities

For solvency purposes, deferred tax liabilities are valued as the product of the difference between the liability side of the statutory and market-valued balance sheets and the currently applicable tax rate of 19%. The resulting amount is added to the deferred tax liabilities for financial reporting purposes.

In accordance with International Accounting Standards, deferred tax liabilities are calculated for all taxable temporary differences between the value of assets and liabilities for tax purposes and their carrying amounts. The calculation of deferred tax liabilities is made at the tax rate, which is expected to be applied when tax liabilities are settled.

Table 48: Deferred tax liabilities of the Group as at 31 December 2017

31 December 2017	In EUR thousands		
Balance sheet	**Value for solvency purposes**		**Value for financial reporting purposes**
	31 December 2017	**31 December 2016**	**31 December 2017**
Deferred tax liabilities	87,277	76,577	26,397

Deferred tax liabilities increased compared to previous year because of the increase in the difference between the Group's balance sheet liabilities for financial reporting purposes and those for solvency purposes.

D.3.3 Debts owed to credit institutions

Debts owed to credit institutions are liabilities from received bank loans (borrowings). For financial reporting and solvency purposes, these liabilities are measured at amortised cost.

Table 49: Group's debts owed to credit institutions as at 31 December 2017

31 December 2017	In EUR thousands		
Balance sheet	**Value for solvency purposes**		**Value for financial reporting purposes**
	31 December 2017	**31 December 2016**	**31 December 2017**
Debts owed to credit institutions	455	210	455

These liabilities did not change materially in year 2017.

D.3.4 Financial liabilities other than debts owed to credit institutions

Financial liabilities other than debts owed to credit institutions are liabilities arising from the purchase of securities. For financial reporting and solvency purposes, these liabilities are measured at cost.

Table 50: Group's financial liabilities other than debts owed to credit institutions as at 31 December 2017

31 December 2017	In EUR thousands		
Balance sheet	**Value for solvency purposes**		**Value for financial reporting purposes**
	31 December 2017	**31 December 2016**	**31 December 2017**
Financial liabilities	5,111	4,987	5,134

The value of financial liabilities did not change materially in year 2017.

D.3.5 Insurance & intermediaries payables

Insurance & intermediaries payables represent liabilities from direct insurance operations and other current liabilities from insurance operations.

For financial reporting purposes, they are valued at amortised cost using the effective interest rate method. They are valued in the same manner for solvency purposes. The difference between the value for financial reporting purposes and the value for solvency purposes arises from difference in the included subsidiaries that are fully consolidated within the Group. Different classification of balance sheet items is also used for the two valuation methods.

Table 51: Group's Insurance & intermediaries payables as at 31 December 2017

31 December 2017	In EUR thousands		
Balance sheet	**Value for solvency purposes**		**Value for financial reporting purposes**
	31 December 2017	**31 December 2016**	**31 December 2017**
Insurance & intermediaries payables	29,725	23,352	18,875

Insurance & intermediaries payables increased in 2017 because of the growth of the Group's portfolio.

D.3.6 Reinsurance payables

For financial reporting purposes, reinsurance payables are valued at amortised cost using the effective interest rate method.

Valuation for solvency purposes is the same as for financial reporting purposes. The value of payables from reinsurance operations for solvency purposes is equal to the payables under passive reinsurance (non-past due payables from this type of reinsurance are taken into account in the calculation of reinsurance recoverables), while their value for financial reporting purposes contains both past due and non-past due payables.

Table 52: Group's reinsurance payables as at 31 December 2017

31 December 2017	In EUR thousands		
Balance sheet	**Value for solvency purposes**		**Value for financial reporting purposes**
	31 December 2017	**31 December 2016**	**31 December 2017**
Reinsurance payables	3,808	3,450	28,758

The value of these payables did not change materially in year 2017.

D.3.7 Payables (trade not insurance)

The biggest component of these payables is the current liabilities to employees, trade payables and other current liabilities.

For both financial reporting and solvency purposes, they are valued at amortised cost using the effective interest rate method.The difference between the value for financial reporting purposes and the value for solvency purposes arises from difference in the included subsidiaries that are fully consolidated within the Group. Different classification of balance sheet items is also used for the two valuation methods.

Table 53: Group's payables (trade not insurance) as at 31 December 2017

31 December 2017	In EUR thousands		
Balance sheet	**Value for solvency purposes**		**Value for financial reporting purposes**
	31 December 2017	**31 December 2016**	**31 December 2017**
Payables (trade not insurance)	45,817	36,806	1,748

These payables increased in 2017 as a result of the higher trade payables.

D.3.8 Subordinated liabilities

Subordinated liabilities are disclosed in financial statements at amortised cost without accrued interest. For solvency purposes, subordinated liabilities are valued at market value whereby the change in the issuer's creditworthiness is not taken into account.

Table 54: Subordinated liabilities of the Group as at 31 December 2017

31 December 2017	In EUR thousands		
Balance sheet	**Value for solvency purposes**		**Value for financial reporting purposes**
	31 December 2017	**31 December 2016**	**31 December 2017**
Subordinated liabilities	18,343	20,069	15,459

These liabilities decreased in 2017 as a result of redemptions and revaluation.

D.3.9 Any other liabilities, not elsewhere shown

Any other liabilities, not elsewhere shown are all of the Group's other liabilities not included in any of the previous liability items in the balance sheet. Valuation for financial reporting purposes is the same as for solvency purposes. The difference between the value for financial reporting purposes and the value for solvency purposes arises from difference in the included subsidiaries that are fully consolidated within the Group. Different classification of balance sheet items is also used for the two valuation methods.

Table 55: Group's any other liabilities, not elsewhere shown as at 31 December 2017

31 December 2017	In EUR thousands		
Balance sheet	**Value for solvency purposes**		**Value for financial reporting purposes**
	31 December 2017	**31 December 2016**	**31 December 2017**
Any other liabilities, not elsewhere shown	11,420	9,903	71,184

The amount of the Group's other liabilities not elsewhere shown increased immaterially in year 2017.

D.4 Alternative valuation methods

In the reporting period, the Group did not use any alternative valuation methods for solvency purposes other than those disclosed in the previous sections of this Report.

D.5 Any other information

This section outlines additional data on the Group as per the requirements stipulated in Article 296 (4) of Commission Delegated Regulation (EU).

The Group manages investment risk in accordance with the "prudent person" principle, as specified in detail in section C.7 of this Report.

Investment policies used by the subsidiaries to match assets and liabilities are promptly adapted to market requirements. The correlation between the risks arising from various classes of assets and liabilities are monitored on a regular basis using stress tests by credit rating agencies, stress tests initiated by the regulator or stress tests prescribed by EIOPA.

The Group's largest off-balance-sheet exposure is related to the futures item; the Company therefore regularly monitors the development of its exposure to this type of positions. Detailed information on off-balance sheet items not reported by the Group are presented in the Annual Report of the Triglav Group and Zavarovalnica Triglav, d.d. for 2017, i.e. in section 5.6 of the financial portion of the said report.

The Group has a system in place for the regular verification of the effects of its more important risk mitigation techniques and if elevated risk is detected, suitable measures are taken to upgrade or adjust these techniques.

In the course of risk management, the Group also monitors, measures and manages concentration risk arising from exposure to individual or related counterparties, securities issuers, groups of transactions, products or geographical areas.

The method of risk concentration management is included in the risk management system of individual risk types; the Company's business practice indicates that concentration risk is not material thanks to the focus on the diversification of the portfolio and operations.

However, a potential threat of concentration does exist in comprehensive car insurance. The programme has over the course of past years proven to be adequate.

The Group estimates the underwriting risk concentration in life insurance as immaterial since the life insurance risk portfolio is adequately diversified in terms of all relevant criteria. This is largely thanks to the fact that the majority of policies originates from geographically dispersed retail sales. Any potential risk concentration in the portfolio is reduced by transferring a portion of the risks to reinsurers through an appropriate reinsurance programme.

All other information relating to the valuation for solvency purposes was disclosed by the Group in sections D.1 through D.4.

Section E

Capital management

E. Capital management

The Company has defined objectives and principles at the level of the Group for medium-term capital management, bases and guidelines to define the dividend policy, the main elements of the capital management system, responsibilities, including key processes and criteria for identification, measurement and monitoring of capital requirements and the capital adequacy as well as reporting.

The objective of capital management is an efficient use of available capital, which provides for:

- safety and profitability of operations at the Group level;
- a high level of confidence of all stakeholders;
- meeting the regulatory capital adequacy requirements;
- achievement of an appropriate capital adequacy level in the ORSA process;
- meeting the criteria of external rating agencies to maintain at least the A credit rating.

Through its capital management system, the Group also established a system for transparent and optimum economic allocation of capital by functional area based on risk-adjusted profitability criteria for the optimum achievement of strategic goals.

The basic criteria are derived from the regulatory capital adequacy requirements. When defining the objectives for capital management, the Company takes into account the regulatory requirements as well as the facts and circumstances arising from its position, role, the business environment and macroeconomic conditions in the markets where it operates, and the shareholder structure. Taking into account not only the target return on equity, the planned volume of business and planned capital needs on the Slovenian and strategic markets, but also the experiences and guidelines of the insurance sector, the Company has defined dividend policy criteria and capital management guidelines, including a set of activities aimed at ensuring the necessary capital strength.

In the beginning of 2018, the Company adjusted the objectives related to capital management and thus re-defined the dividend policy. The Company pursues an attractive and sustainable dividend policy. The share of consolidated net profit from the previous year that is allocated for dividend distribution is at least 50%, whereby the Company strives to pay shareholders a dividend that is not lower than the one paid in the previous year. As it has been to date, its future distribution will be subordinated to the sustainable assurance of the Group's target capital adequacy over the medium-term. The proposal of the Management Board and Supervisory Board regarding the annual distribution of the Company's distributable profit will take into account three objectives in a balanced manner: prudent management of the Group's capital and assurance of its financial stability, reinvestment of net profits into the implementation of the strategy for the Group's growth and development, and distribution of an attractive dividend to the shareholders.

The capital management strategic objectives and the overhauled dividend policy criteria are shown in the figure below.

Figure 6: Capital management strategic objectives and dividend policy criteria

> 250%	Surplus capital adequacy	Possibility of a more aggressive growth of business volume, assessment of potential changes in the business strategy
200 - 250%	Target capital adequacy	Regular performance of risk management activities
150 - 200%	Sub-optimum level of capital adequacy	Analyzing possible medium and long-term measures to improve capital adequacy and emphasized monitoring of risks
130 - 150%	Warning level of capital adequacy	Implementation of measures to improve capital adequacy
< 130%	Insufficient capital adequacy	

Capital management is centralised at the Group level by ensuring optimum and cost-effective capital allocation and use through capital concentration at the parent company. Within the scope of the capital management process, the Group takes into account the capital needs as well as the options and restrictions for capital transfer between individual insurance segments and from subsidiaries to the parent company. The criterion for capital transfer from subsidiaries is long-term stability and safety of their operations, taking into account the local regulations on capital requirements. Each method of capital withdrawal from subsidiaries not in the form of dividend payment is previously coordinated with the competent local supervisory institution.

The objective of the capital management process is to achieve an optimum return according to the use of economic capital criterion at the Company level and represents continuous implementation of the following activities:

- setting of mutually coordinated and clearly communicated objectives and defining the long-term business strategy of each insurance segment;
- adoption of optimum business and strategic decisions for the purpose of effective capital management;
- monitoring and measurement of economic capital value, profitability and use for each insurance segment and subsidiary as well as analysing of changes in the risk profile;
- evaluation of operating results;
- implementation of measures for optimum economic capital allocation and its use.

In the context of monitoring and measurement of economic capital value, profitability and use for each insurance segment and subsidiary as well as analysing the changes in the company's risk profile, regular implementation of the ORSA process, which is described in greater detail in section B.3.4 hereof, is of the utmost importance.

In accordance with the applicable regulations, own funds are classified into tiers, taking into account capital quality, subordination and availability to cover unexpected events. Classification into tiers depends on whether they are items of basic own funds or ancillary own funds and depending on how many of the following characteristics apply to them:

- the item is available at all times or may be used at any moment without prior notice to cover a loss provided the Company operates in this manner and if it ceases operations;
- if the Company ceases operations, the entire amount of the item is available for the coverage of losses and the repayment of the item to the holder is rejected until all other of the Company's obligations have been fulfilled, including insurance obligations vis-à-vis insurers and other beneficiaries under insurance contracts.

Only eligible own funds are used to meet the solvency capital requirement. These include all Tier 1 own fund items and Tier 2 and Tier 3 own fund items up to the regulatory specified amounts. The value of eligible own funds of the Group to meet the solvency capital requirement must be at least equal to the SCR.

To meet the minimum consolidated capital requirement, only eligible own funds are used, which include the following without restrictions: Tier 1 own fund items and Tier 2 own fund items up to the regulatory specified amounts.

The value of the Group's eligible own funds to meet the minimum consolidated capital requirement must at least equal the minimum consolidated capital requirement.

CAPITAL ADEQUACY OF THE GROUP

As at 31 December 2017, the Group was adequately capitalized and had sufficient capital available to meet both the solvency capital requirement (222%) and the minimum consolidated capital requirement (587%).

The capital adequacy ratio is defined as the ratio between the total eligible own funds and the solvency capital requirement.

Table 56: Capital adequacy of the Group as at 31 December 2017 and 31 December 2016

In EUR thousands

Capital adequacy of the Group	31 December 2017	31 December 2016	31 December 2016*
Total eligible own funds to meet the SCR	878,039	854,694	843,651
Total eligible own funds to meet the MCR	878,039	854,694	843,651
SCR excluding ring-fenced funds	0	0	342,585
SCR with ring-fenced funds	394.778	353,629	0
Minimum consolidated capital requirement	149,459	140,828	140,828
Capital adequacy to SCR	222 %	242 %	246 %
Capital adequacy to MCR	587 %	607 %	599 %

*Values from the SFCR of the Triglav Group for 2016;

The Group's capital adequacy decreased by 20 pp compared to previous year, which is to a large degree the result of the change in the methodology for the calculation of the adjustment for loss-absorbing capacity of deferred taxes, which causes the increase in the capital requirement by EUR 35.8 million. Capital adequacy is also affected by the increase in eligible own funds and other changes to the risk profile that are explained in greater detail in section E.2 of this Report.

Details on the values for the calculation of the Group's capital adequacy are provided in template QRT S.23.01 in Annex 4 to this Report.

Changes in capital adequacy as at 31 December 2016 not included in the 2016 SFCR

In its SFCR for the previous year, the Group presented its capital adequacy in template S.25.01 in a manner that proved as inappropriate based on the coordination with the ISA because the template did not show the solvency capital requirement (hereinafter: SCR) as the sum of the capital requirements for ring-fenced funds and the capital requirements for the remaining part, but rather showed only the capital requirements for the remaining part. The change in template S.25.01 also affects template S.23.01. When calculating the available eligible own funds, the Group deducted the amount required for the coverage of the capital requirements of ring-fenced funds from the reconciliation reserve, which is however no longer required according to the new methodology. The mentioned changes to the calculation of the capital requirement and the available eligible own funds to meet the capital requirements result in the change of the Group's capital adequacy, which decreases from 246% to 242%. The change in the method of filling in the templates has no material effect on the Group's capital adequacy.

The table below shows the differences arising from the changed methodology.

Table 57: Effect of the change to the methodology for the presentation of the Group's capital adequacy as at 31 December 2016

31 December 2016 In EUR thousands

Effect of the changed method of calculation at the Group	In the 2016 report	Following the change	Commentary
Total eligible own funds to meet the SCR	843,651	854,694	Increase because eligible own funds to meet the SCR for ring-fenced funds is not deducted from the total eligible own funds.
SCR for ring-fenced funds	342,585	353,629	SCR is the sum of the SCR for ring-fenced funds and the SCR for the remaining part
Capital adequacy to SCR	246 %	242 %	

Annexes 7 and 8 feature the corrected templates for the Group, i.e. S.23.01 and S.25.01 for 2016. The changes in the method for the filling in of templates are observed in 2017 as well.

E.1 Own funds

As at 31 December 2017, the Group only had basic own funds. These amounted to EUR 878 million and were composed of the share capital (EUR 73.7 million), subordinated liabilities (EUR 17.9 million) and the reconciliation reserve (EUR 786.4 million). Reconciliation reserve consists of the excess of assets over liabilities in the amount of EUR 924.9 million less the value of expected dividends for the 2017 financial year (EUR 56.8 million) and share capital (EUR 73.7 million) and other unavailable funds (EUR 7.9 million). Other unavailable funds represent deductible items: the difference between the market values of Triglav Skladi, d.o.o. and Skupna pokojninska družba, d.d. and the sectoral value of available eligible capital to meet the sectoral capital requirement of the company and minority stakes of Group members.

The Group did not have any ancillary own funds as at 31 December 2017.

The structure of the Group's own funds according to tier as at 31 December 2017 and 31 December 2016 is shown in table 58 and in template S.23.01 of Annex 4 of this Report.

Table 58: Structure of the Group's own funds according to tier as at 31 December 2017 and 31 December 2016

31 December 2017 — **In EUR thousands**

Own funds	**Total**	**Tier 1 (without restrictions)**	**Tier 2***	**Tier 3**
Available own funds to meet the SCR	878,039	860,109	17,930	0
Available own funds to meet the MCR	878,039	860,109	17,930	0
Eligible own funds to meet the SCR	878,039	860,109	17,930	0
Available own funds to meet the MCR	878,039	860,109	17,930	0

31 December 2016 — **In EUR thousands**

Own funds	**Total**	**Tier 1 (without restrictions)**	**Tier 2***	**Tier 3**
Available own funds to meet the SCR	854,694	834,625	20,069	0
Available own funds to meet the MCR	854,694	834,625	20,069	0
Eligible own funds to meet the SCR	854,694	834,625	20,069	0
Available own funds to meet the MCR	854,694	834,625	20,069	0

* Tier 2 own funds are suitable for the coverage of the MCR as long as they do not exceed 20% of the MCR.

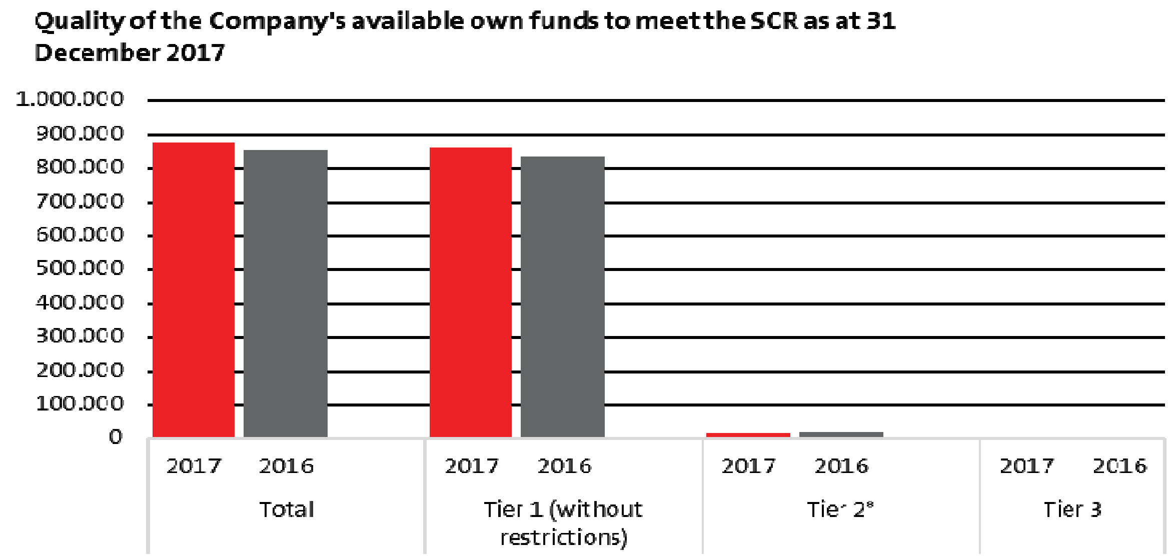
The Group's eligible own funds grew by EUR 23.3 million in the reporting period whereby they increased by EUR 23.7 million on account of the increase in the excess of assets over liabilities and decreased by EUR 2.1 million on account of the decrease in subordinated liabilities.

Eligible own funds do not comprise items that include restrictions affecting the availability and transferability of own funds in the Group.

The amount of the Group's eligible own funds to meet the minimum consolidated capital requirement as at 31 December 2017 amounted to EUR 878 million.

The Company holds the highest quality own funds at the Group level and thus classifies its entire share capital and the reconciliation reserve as Tier 1 assets, while it classifies subordinated bonds as Tier 2 assets.

Chart 5: Comparison of available eligible own funds to meet the SCR as at 31 December 2017 and 31 December 2016

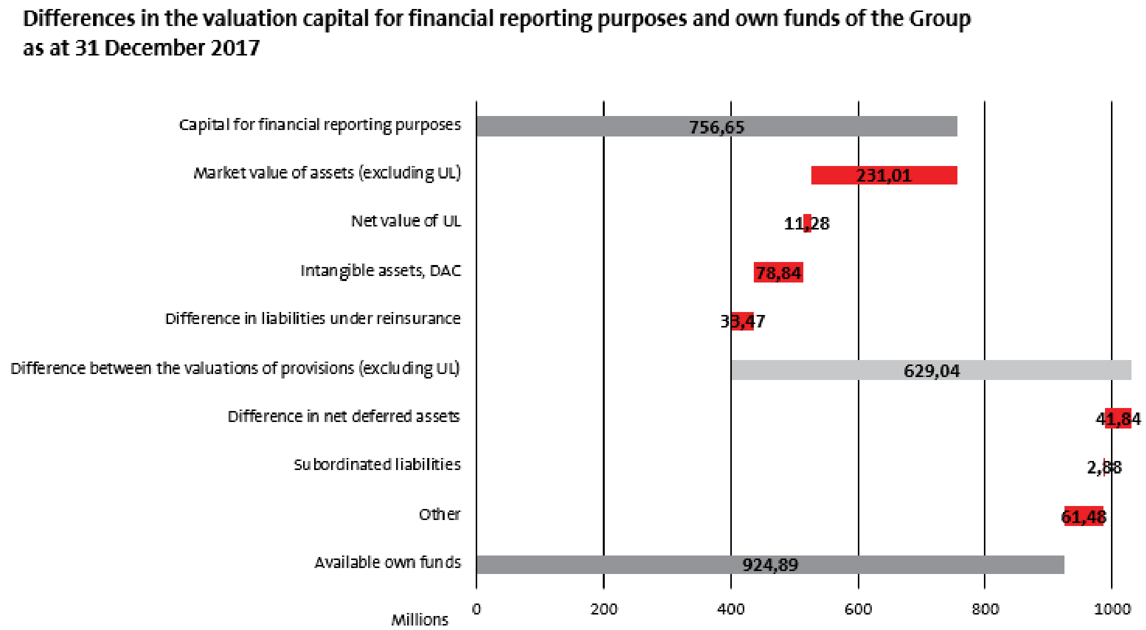


*Tier 2 own funds are eligible to cover the minimum capital requirement until they exceed 20% of the minimum capital requiremen

DIFFERENCES IN THE VALUATION OF CAPITAL FOR FINANCIAL REPORTING PURPOSES AND OWN FUNDS

The differences between capital for financial reporting purposes and own funds calculated for solvency purposes arise from difference in the valuation of assets and liabilities. Own funds are namely calculated as the difference between assets and liabilities whereby both sides of the balance sheet are valued at market value.

Chart 6: Differences in the valuation capital for financial reporting purposes and own funds of the Group as at 31 December 2017



UL –unit-linked asset; DAC –Deferred acqusition costs

Capital for financial reporting purposes as at 31 December 2017 amounted to EUR 756,7 million, while the excess of assets over liabilities for solvency purposes amounted to EUR 924,9 million. The difference is mostly the result of the different valuation of technical provisions (EUR 629 million) and differences in the valuation of funds indicated in section D of this Report.

E.2 Solvency capital requirement and minimum capital requirement

The Company calculates capital adequacy based on the standard formula in accordance with the Insurance Act and Commission Delegated Regulation (EU). In order to calculate the solvency capital requirement, the Company applies the standard formula using the prescribed parameters and not using any simplifications and parameters specific for the Company or the Group.

The legislation does not prescribe the minimum capital requirement for the Group. The floor for the consolidated SCR at the Group level corresponds to the minimum consolidated solvency capital requirement at the Group level and is the sum of the MCR of the Company and the proportionate share of the MCR of all associated (re)insurance companies. The calculation for insurance companies that are not subject to Commission Delegated Regulation (EU) take into account the local MCRs in proportionate amounts.

E.2.1 Solvency capital requirement

The Group's SCR as at 31 December 2017 amounted to EUR 394.8 million, an increase of EUR 41.1 million compared to previous year. The main reason for the increase is the decrease in the loss-absorbing capacity of deferred taxes by EUR 35.8 million because this item decreases the SCR.

The Company has changed the methodology for the calculation of adjustments for the loss-absorbing capacity of deferred taxes because it assesses that the material impact on capital adequacy and the EIOPA analyses published in the current period that demonstrate the mismatch of methods applied by different insurance companies as well as the announced changes to the standard formula in this area will increase the regulatory and operational risk for the Company excessively. The Company has thus more conservatively assessed the amount of the adjustment for deferred taxes at the levels of the Company and of the Group and consequently increased the capital requirement and lowered the capital adequacy ratio. According to the new methodology, the adjustment used for the loss-absorbing capacity of deferred taxes for the Group's insurance undertakings is the one that the Company can justify using net deferred tax liabilities from the balance sheet for solvency purposes estimated prudently based on professional judgement. Adjustments for the loss-absorbing capacity of deferred taxes at the Group level are determined as the weighted average according to the new methodology of certain adjustment for the loss-absorbing capacity of deferred taxes of the Group's insurance undertakings, i.e. subject to the equity stake of an individual company. The calculation also takes into account the average effect of diversification between Group members. The calculation method complies with that of EIOPA.

Table 59: Solvency capital requirement of the Group as at 31 December 2017 and 31 December 2016

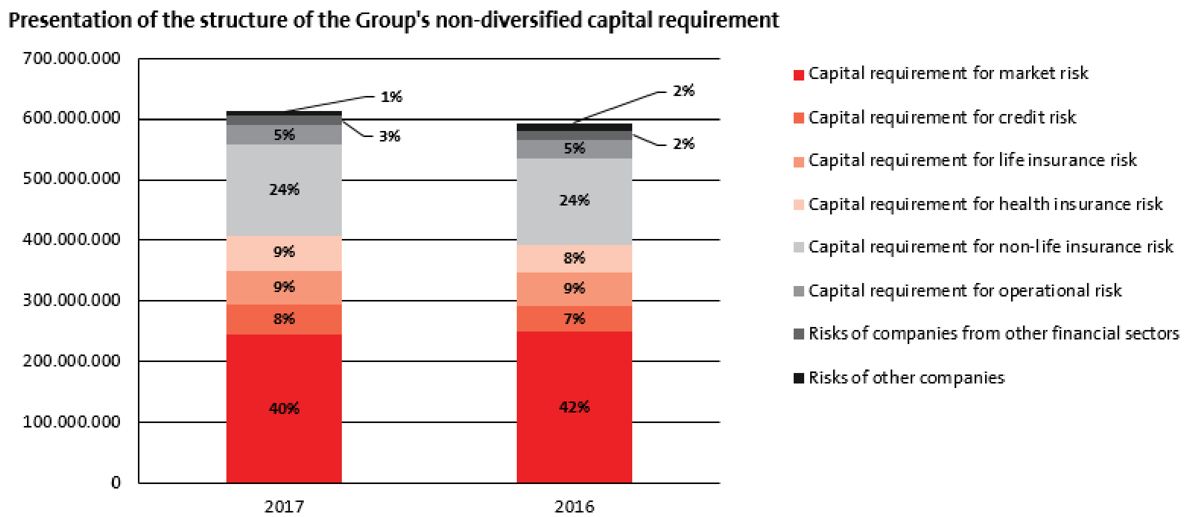
31 December 2017 In EUR thousands

Group's capital requirement	31 December 2017	31 December 2016*
Underwriting risks	263,355	243,025
Market risk	245,142	248,909
Credit risk	49,320	43,151
Diversification	-181,714	-168,605
Basic solvency capital requirement	**376,104**	**366,480**
Operational risk	32,172	31,488
Loss-absorbing capacity of technical provisions	-613	-1,142
Loss-absorbing capacity of deferred taxes	-39,933	-75,771
Adjustment for ring-fenced fund risk diversification	4,782	5,070
Consolidated SCR	**372,512**	**326,125**
Capital requirement for Triglav Skladi	7,847	7,421
Capital requirement for Skupna pokojninska družba	7,987	7,375
Capital requirement for other companies (non-ancillary activity, associates)	6,433	12,708
SCR	**394,778**	**353,629**

*Vales with the changed presentation of ring-fenced funds

The basic SCR decreased by lower market risk and increased somewhat for credit risk in the reporting period. The values of individual categories are shown in greater detail template QRT S.25.01 in Annex 5 to this Report. Chart 7 shows the structure of this item by individual risks whereby the presentation also takes into account the capital requirement for operational risk and the capital requirements of companies from financial sectors as well as capital requirements of the remaining companies that are not part of the basic capital requirement.

Chart 7: Presentation of the capital requirement of the Group as at 31 December 2017 and 31 December 2016



*BSCR - basic solvency capital requirement

The BSCR increased by EUR 9.6 million compared to previous year. The main contributer to this increase was the increase in the volume of non-life and health insurance, while life insurance contributed to a lesser extent. The SCR for credit risk increased additionally, while market risks decreased because of the change in the structure of investments. The growth of the underwriting portfolio also resulted in the increase of the capital requirement for operational risk. Details on the changes in the value of capital requirements by individual risks are presented in section C of this Report.

In the reporting period, the Group took into account the ring-fenced funds and calculated the SCR using method 3 – simplification at risk module level defined in the EIOPA Guideline on ring-fenced funds. This means that capital requirements for ring-fenced funds and the remaining part of the Group's portfolio are only summed up, while the effects of diversification between funds are not taken into account. When calculating the SCR, it is also necessary to calculate the adjustment for the aggregation of the theoretical SCR of ring-fenced funds. Details on the calculation are shown in template QRT S.25.01 in Annex 5 to this Report.

E.2.2 Minimum consolidated capital requirement

The minimum consolidated solvency capital requirement at the Group level as at 31 December 2017 amounts to EUR 149.5 million. Eligible own funds to meet the minimum consolidated capital requirement is equal to eligible own funds to meet the solvency capital and amounts to EUR 878 million.

Table 60 shows the calculation of the minimum consolidated solvency capital requirement of the Group as at 31 December 2017.

Table 60: Minimum consolidated capital requirement of the Group as at 31 December 2017

	In EUR thousands	
	2017	**2016**
Minimum consolidated capital requirement of the Group	**149,459**	**140,827**
Zavarovalnica Triglav	95,947	93,891
Pozavarovalnica Triglav RE	13,262	12,545
Triglav zdravstvena zavarovalnica	6,561	5,820
Triglav Osiguranje, Zagreb	9,425	7,635
Triglav Osiguranje, Sarajevo	4,090	4,090
Lovčen Osiguranje, Podgorica	3,000	3,000
Triglav Osiguranje, Beograd	6,390	6,393
Triglav Osiguranje, Banja Luka	2,556	2,556
Triglav Osiguruvanje, Skopje	3,014	2,997
Lovčen životno osiguranje, Podgorica	2,200	1,900
Triglav Osiguruvanje Život, Skopje	3,014	0

The minimum consolidated capital requirement of the Group increased by EUR 8.6 million in the previous reporting period.

E.2.3 Diversification effects in the Group

Material diversification effects in the Group arise from the relative size of the risks and the correlation between them. To calculate the diversification effects, correlation factors prescribed with the standard formula are used. Given that the insurance portfolio of the Group is larger and well diversified between non-life, health and life insurance, the diversification effects are greater than at the level of an individual company. Diversification is not taken into account for companies that are not fully consolidated.

E.3 Use of the duration-based equity risk sub-module in the calculation of the solvency capital requirement

The Group does not use internal models to calculate and monitor capital adequacy for solvency purposes.

E.4 Difference between the standard formula and any other internal model used

The Group does not use internal models to calculate and monitor capital adequacy for solvency purposes.

E.5 Non-compliance with the minimum capital requirement and the solvency capital requirement

In the reporting period, the Group did not find any non-compliance with the minimum capital requirement and the solvency capital requirement.

E.6 Other information

All information relating to the management of capital was disclosed by the Group in sections E.1 through E.5.

Annexes

Annexes:

Quantitative Reporting Templates (QRT) of the Group as at 31 December 2017:

1. S.02.01.02 - Balance sheet for solvency purposes
2. S.05.01.02 - Premiums, claims and expenses by line of business
3. S.05.02.02 - Premiums, claims and expenses by country
4. S.23.01.22 - Own funds
5. S.25.01.22 - Solvency capital requirement for undertakings using the standard formula
6. S.32.01.22 - Undertakings in the scope of the group
7. S.23.01.01 - Own funds (31 December 2016)
8. S.25.01.21 - Solvency capital requirement for undertakings using the standard formula (31 December 2016)

Annex 1: S.02.01.02 - Balance sheet for solvency purposes

Assets	Assets
Intangible assets	
Deferred tax assets	32,813
Pension benefit surplus	
Property, plant and equipment held for own use	102,774
Investments (other than assets held for index-linked and unit-linked contracts)	**2,228,003**
Real estate (except real estate held for own use)	99,656
Holdings in related undertakings, including participations	52,821
Equities	**76,361**
Listed equities	52,207
Unlisted equities	24,154
Bonds	1,897,887
Government bonds	953,281
Corporate bonds	934,718
Structured notes	9,888
Collateralised securities	
Collective investment undertakings	56,241
Derivatives	1,871
Deposits other than cash and cash equivalents	38,841
Other investments	4,325
Assets held for index-linked and unit-linked contracts	648,768
Loans and mortgages	**30,405**
Loans on policies	2,824
Loans and mortgages to individuals	46
Other loans and mortgages	27,535
Reinsurance recoverables from:	**50,349**
Non-life and health insurance similar to non-life	48,199
Non-life insurance excluding health insurance	47,683
Health insurance similar to non-life	**517**
Life and health similar to life, excluding health and index-linked and unit-linked	2,150
Health insurance similar to life	
Life, excluding health and index-linked and unit-linked	2,150
Life index-linked and unit-linked	
Deposits to cedants	5,668
Insurance & intermediaries receivables	32,632
Reinsurance receivables	14,090
Receivables (trade not insurance)	18,623
Own shares (held directly)	
Amounts owed to a company in respect of own fund items or initial capital called but not yet	
Cash and cash equivalents	54,508
Any other assets, not elsewhere shown	5,943
Total assets	**3,224,576**

Liabilities	**Value for solvency 2 purposes**
Technical provisions – non-life	**491,009**
Technical provisions – non-life (excluding health)	**449,730**
Technical provisions calculated as a whole	
Best estimate	422,387
Risk margin	27,343
Technical provisions – health (similar to non-life)	**41,279**
Technical provisions calculated as a whole	
Best estimate	37,654
Risk margin	3,625
Technical provisions – life (excluding index-linked and unit-linked)	**927,157**
Technical provisions – health (similar to life)	**112**
Technical provisions calculated as a whole	
Best estimate	111
Risk margin	1
Technical provisions – life (excluding health and index-linked and unit-linked)	**927,045**
Technical provisions calculated as a whole	
Best estimate	908,365
Risk margin	18,679
Technical provisions – index-linked and unit-linked	**663,830**
Technical provisions calculated as a whole	
Best estimate	645,192
Risk margin	18,638
Contingent liabilities	
Provisions, other than technical provisions	15,736
Pension benefit obligations	
Deposits from reinsurers	
Deferred tax liabilities	87,277
Derivatives	
Debts owed to credit institutions	455
Financial liabilities other than debts owed to credit institutions	5,111
Insurance & intermediaries payables	29,725
Reinsurance payables	3,808
Payables (trade not insurance)	45,817
Subordinated liabilities	**18,343**
Subordinated liabilities not in basic own funds	413
Subordinated liabilities in basic own funds	17,930
Any other liabilities, not elsewhere shown	11,420
Total liabilities	**2,299,687**
Excess of assets over liabilities	**924,889**

Annex 2: S.05.01.02 - Premiums, claims and expenses by line of business

Line of business for: non-life insurance and reinsurance obligations (direct business and accepted proportional reinsurance)

	Medical expense insurance	Income protection insurance	Workers' compensation insurance	Motor vehicle liability insurance	Other motor vehicle insurance	Marine, aviation and transport insurance
Premiums written						
Gross - direct business	132,068	69,805		152,185	126,429	18,193
Gross - proportional reinsurance accepted	460	2,702		7,387	5,728	6,126
Gross - non-proportional reinsurance accepted						
Reinsurer's share	896	2,482		9,125	11,931	9,238
Net	**131,632**	**70,025**		**150,446**	**120,226**	**15,081**
Premiums earned						
Gross - direct business	131,399	70,133		150,869	122,591	18,005
Gross - proportional reinsurance accepted	540	2,681		7,327	5,619	6,016
Gross - non-proportional reinsurance accepted						
Reinsurer's share	758	2,547		9,115	12,010	9,137
Net	**131,182**	**70,268**		**149,081**	**116,200**	**14,884**
Claims incurred						
Gross - direct business	106,339	30,309		68,882	86,477	7,149
Gross - proportional reinsurance accepted	210	1,220		4,236	4,045	2,936
Gross - non-proportional reinsurance accepted						
Reinsurer's share	147	1,222		6,405	6,205	3,915
Net	**106,401**	**30,307**		**66,714**	**84,316**	**6,169**
Changes in other technical provisions						
Gross - direct business	1,588	207		40	-313	221
Gross - proportional reinsurance accepted		0		0	0	92
Gross - non-proportional reinsurance accepted						
Reinsurer's share		-41		-75	-16	-6
Net	**1,588**	**248**		**114**	**-296**	**318**
Expenses incurred	**14,949**	**24,454**		**47,146**	**37,392**	**6,026**
Other expenses						
Total expenses						

Line of business for: non-life insurance and reinsurance obligations (direct business and accepted proportional reinsurance)						
	Fire and other damage	General liability	Credit and suretyship	Legal expense	Assistance	Miscellaneous financial
Premiums written						
Gross - direct	161,413	39,132	28,722	24	14,385	5,432
Gross - proportional	79,428	6,046	4,260	19	768	2,155
Gross - non-						
Reinsurer's share	99,500	17,373	6,917	22	892	5,140
Net	**141,341**	**27,805**	**26,066**	**22**	**14,261**	**2,447**
Premiums earned						
Gross - direct	161,539	40,184	26,574	43	13,578	5,494
Gross - proportional	74,440	5,071	4,227	20	741	2,115
Gross - non-						
Reinsurer's share	99,051	17,491	6,994	21	834	5,078
Net	**136,928**	**27,764**	**23,807**	**42**	**13,485**	**2,531**
Claims incurred						
Gross - direct	88,151	7,316	7,562	0	9,205	842
Gross - proportional	46,226	2,900	1,097	0	592	531
Gross - non-						
Reinsurer's share	35,611	2,791	1,277	0	569	751
Net	**98,765**	**7,424**	**7,382**	**0**	**9,228**	**622**
Changes in other						
Gross - direct	-492	93	87	0	61	-79
Gross - proportional	12	2	38		1	2
Gross - non-						
Reinsurer's share	-12	6	0	0	-1	14
Net	**-468**	**88**	**125**	**0**	**63**	**-91**
Expenses incurred	**60,735**	**11,507**	**6,399**	**31**	**6,562**	**1,883**
Other expenses						
Total expenses						

	Line of business for: non-proportional reinsurance accepted				Total
	Health	Casualty	Marine, aviation and	Property	
Premiums written					
Gross - direct business					747,787
Gross - proportional					115,079
Gross - non-proportional	452	5,845	1,426	18,217	25,940
Reinsurer's share	61	3,757	165	7,626	175,124
Net	**391**	**2,087**	**1,261**	**10,591**	713,682
Premiums earned					
Gross - direct business					740,409
Gross - proportional					108,798
Gross - non-proportional	479	5,798	1,440	18,241	25,958
Reinsurer's share	45	3,756	161	7,470	174,467
Net	**434**	**2,042**	**1,279**	**10,771**	700,698
Claims incurred					
Gross - direct business					412,231
Gross - proportional					63,991
Gross - non-proportional	302	8,147	-13,453	21,358	16,355
Reinsurer's share	59	-2,398	263	3,838	60,656
Net	**243**	**10,544**	**-13,715**	**17,520**	431,921
Changes in other technical					
Gross - direct business					1,412
Gross - proportional					146
Gross - non-proportional					0
Reinsurer's share					-130
Net					1,688
Expenses incurred	**32**	**156**	**91**	**1,186**	218,548
Other expenses					4,666
Total expenses					**223,214**

	Line of business for: life insurance obligations					
	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	Annuities stemming from non-life insurance contracts and relating to insurance obligations other than health
Premiums written						
Gross		66,315	86,393	10,743		
Reinsurer's share		73	35	353		
Net		**66,242**	**86,358**	**10,390**		
Premiums earned						
Gross		66,340	86,393	10,756		
Reinsurer's share		73	35	353		
Net		**66,266**	**86,358**	**10,403**		
Claims incurred						
Gross		74,346	92,884	2,954	72	5,321
Reinsurer's share		5	8	195		
Net		**74,341**	**92,876**	**2,759**	**72**	**5,321**
Changes in other technical						
Gross		20,577	-73	1,891		
Reinsurer's share						
Net		**20,577**	**-73**	**1,891**		
Expenses incurred		**12,881**	**15,833**	**4,297**		**56**
Other expenses						
Total expenses						

	Life reinsurance obligations		Total
	Health reinsurance	Life reinsurance	
Premiums written			
Gross			163,452
Reinsurer's share			461
Net			**162,990**
Premiums earned			
Gross			163,489
Reinsurer's share			461
Net			**163,028**
Claims incurred			
Gross			175,576
Reinsurer's share			207
Net			**175,369**
Changes in other technical provisions			
Gross			22,395
Reinsurer's share			0
Net			**22,395**
Expenses incurred			**33,068**
Other expenses			256
Total expenses			33,324

Annex 3: S.05.02.02 - Premiums, claims and expenses by country

	Home country	Top 5 countries (in terms of gross premiums written) – non-life obligations					Total for top 5 countries and the home country
		Croatia	Serbia	Montenegro	Bosnia and Herzegovina	Macedonia	
Premiums written							
Gross - direct business	575,892	47,099	39,855	30,029	22,293	21,358	736,526
Gross - proportional reinsurance accepted	66,557	2,879	748	969	455	644	72,252
Gross - non-proportional reinsurance accepted	12,699	1,888	1,199	785	37	293	16,902
Reinsurer's share	91,483	8,446	9,286	6,274	5,609	3,652	124,750
Net	**563,664**	**43,420**	**32,517**	**25,509**	**17,176**	**18,643**	**700,930**
Premiums earned							
Gross - direct business	572,991	45,487	37,120	30,090	21,781	21,751	729,220
Gross - proportional reinsurance accepted	60,968	2,947	705	1,037	462	676	66,795
Gross - non-proportional reinsurance accepted	12,631	1,897	1,199	802	37	293	16,861
Reinsurer's share	90,806	8,891	8,042	6,217	5,778	4,029	123,763
Net	**555,784**	**41,441**	**30,982**	**25,712**	**16,503**	**18,692**	**689,114**
Claims incurred							
Gross - direct business	333,138	33,222	13,654	14,069	8,735	9,381	412,199
Gross - proportional reinsurance accepted	29,959	1,492	146	297	356	128	32,377
Gross - non-proportional reinsurance accepted	9,183	4,610	48	914	3	-2	14,755
Reinsurer's share	33,287	11,920	1,613	1,778	2,357	210	51,165
Net	**338,993**	**27,404**	**12,235**	**13,501**	**6,737**	**9,296**	**408,167**
Changes in other technical provisions	-	-	-	-	-	-	-
Gross - direct business	641	-36	674	-27	118	65	1,434
Gross - proportional reinsurance accepted	105		-41				63
Gross - non-proportional reinsurance accepted							0
Reinsurer's share				-182		52	-130
Net	**745**	**-36**	**632**	**156**	**118**	**13**	**1,628**
Expenses incurred	131,439	18,773	15,169	12,321	9,207	6,572	193,481
Other expenses							4,666
Total expenses							**198,147**

	Home country	Top 5 countries (in terms of gross premiums written) – life obligations					Total for top 5 countries and the home country
		Croatia	Bosnia and	Serbia	Montenegro	Macedonia	
Premiums written							
Gross	146,453	6,968	4,917	3,877	1,236		163,452
Reinsurer's share	366	5	47	5	39		461
Net	**146,087**	**6,963**	**4,871**	**3,872**	**1,198**		**162,990**
Premiums earned							
Gross	146,469	6,968	4,917	3,877	1,258		163,489
Reinsurer's share	366	5	47	5	39		461
Net	**146,103**	**6,963**	**4,871**	**3,872**	**1,219**		**163,028**
Claims incurred							
Gross	164,636	6,383	2,006	1,518	1,031	3	175,576
Reinsurer's share	207		0				207
Net	**164,429**	**6,383**	**2,006**	**1,518**	**1,031**	**3**	**175,369**
Changes in other technical							
Gross	21,439	975			-19		22,395
Reinsurer's share							0
Net	**21,439**	**975**			**-19**		**22,395**
Expenses incurred	27,614	1,625	1,872	1,335	622		33,068
Other expenses							256
Total expenses							**33,324**

Annex 4: S.23.01.22 - Own funds

	Total	Tier 1 – unrestricted	Tier 1 – restricted	Tier 2	Tier 3
Basic own funds before deduction for participations in other financial sector as foreseen in Article 68 of Delegated Regulation (EU) 2015/35					
Ordinary share capital (gross of own shares)	73,701	73,701			
Unavailable called up unpaid ordinary share capital at the Group level					
Share premium account related to ordinary share capital					
Initial funds, members' contributions or the equivalent basic own fund item for mutual and mutual-type undertakings					
Subordinated mutual members accounts					
Unavailable subordinated mutual members accounts at the Group level					
Surplus funds					
Unavailable surplus funds at the Group level					
Preference shares					
Unavailable preference shares at the Group level					
Share premium account related to preference shares					
Unavailable share premium account related to preference shares at the Group level					
Reconciliation reserve	786,407	786,407			
Subordinated liabilities	17,930			17,930	
Unavailable subordinated liabilities at the Group level					
Amount equal to the value of net deferred tax assets					
Amount equal to the value of net deferred tax assets not available at Group level					
Other own funds approved by the supervisory authority as basic own funds not specified above					
Unavailable own funds associated with other own fund items approved by the supervisory authority					
Minority shareholdings at the Group level (unless reported under another own fund item)					
Unavailable minority shareholdings at the Group level					
Own funds from financial statements that should not be presented under the reconciliation reserve and do not meet the criteria to be classified as Solvency II own funds					
Own funds from financial statements that should not be presented under the reconciliation reserve and do not meet the criteria to be classified as Solvency II own funds					

	Total	Tier 1 – unrestricted	Tier 1 – restricted	Tier 2	Tier 3
Deductions					
Deductions for participations in other financial sector entities, including unregulated entities that carry on financial activities					
of which deducted in accordance with Article 228 of Directive 2009/138/EC					
Deductions for participations when no information is available (Article 229)					
Deductions for participations included using the deduction and aggregation methods when a combination of methods is used					
Unavailable own fund items, total					
Total deductions					
Total basic own funds after deductions	**878,039**	**860,109**		**17,930**	

	Total	Tier 1 – unrestricted	Tier 1 – restricted	Tier 2	Tier 3
Ancillary own funds					
Unpaid and uncalled ordinary share capital callable on demand					
Unpaid and uncalled initial funds, members' contributions or the equivalent basic own fund item for mutual					
Unpaid and uncalled preference shares callable on demand					
Legally binding commitment to subscribe and pay for subordinated liabilities on demand					
Letters of credit and guarantees in accordance with Article 96(2) of Directive 2009/138/EC					
Letters of credit and guarantees other than under Article 96(2) of Directive 2009/138/EC					
Supplementary members calls under the first subparagraph of Article 96(3) of Directive 2009/138/EC					
Supplementary members calls other than under subparagraph of Article 96(3) of Directive 2009/138/EC					
Unavailable ancillary own funds at the Group level					
Other ancillary own funds					
Total ancillary own funds					
Own funds in other financial sectors					
Credit institutions, investment undertakings, financial institutions, alternative investment fund managers,					
Institutions for occupational retirement provision					
Unregulated entities carrying on financial activities					
Total own funds in other financial sectors					
Own funds using the deduction and aggregation (D&A) methods on their own or in combination with method 1					
Own funds aggregated using the D&A method and a combination of methods					
Own funds aggregated using the D&A method and a combination of methods					

	Total	Tier 1 – unrestricted	Tier 1 – restricted	Tier 2	Tier 3
Total available own funds to meet the minimum consolidated group SCR	**878,039**	**860,109**		**17,930**	
Total available own funds to meet the minimum consolidated group SCR	**878,039**	**860,109**		**17,930**	
Total eligible own funds to meet the consolidated group SCR (excluding own funds from other financial sector and from the undertakings included via D&A)	**878,039**	**860,109**		**17,930**	
Total eligible own funds to meet the minimum consolidated group SCR	**878,039**	**860,109**		**17,930**	
Minimum consolidated group SCR	**149,459**				
Ratio of eligible own funds to the minimum consolidated Group SCR	**587 %**				
Total eligible own funds to meet the group SCR (including own funds from other financial sector and the undertakings included via D&A)	**878,039**	**860,109**		**17,930**	
Group SCR	**394,778**				
Ratio of eligible own funds to the group SCR including other financial sector and the undertakings included via D&A	**222 %**				

Reconciliation reserve	
Excess of assets over liabilities	**924,889**
Own shares (held directly and indirectly)	
Foreseeable dividends, distributions and charges	56,838
Other basic own fund items	**73,701**
Adjustment for restricted own fund items in respect of	
Other unavailable own funds	7,943
Reconciliation reserve	**786,407**
Expected profits	
Expected profits included in future premiums (EPIFP) – Life business	36,746
Expected profits included in future premiums (EPIFP) – Non-life business	42,053
Total expected profits included in future premiums (EPIFP	**78,800**

Annex 5: S.25.01.22 - Solvency capital requirement for undertakings using the standard formula

	Gross SCR	USP	Simplifications
Market risk	245,142		
Counterparty default risk	49,320		
Life underwriting risk	56,298		
Health underwriting risk	57,734		
Non-life underwriting risk	149,324		
Diversification	-181,714		
Intangible asset risk			
Basic solvency capital requirement	**376,104**		

Calculation of the SCR	
Operational risk	32,172
Loss-absorbing capacity of technical provisions	-613
Loss-absorbing capacity of deferred taxes	-39,933
Capital requirement for business operated in accordance with Art. 4 of Directive 2003/41/EC	
SCR excluding capital add-on	**372,512**
Capital add-ons already set	
SCR	**394,778**
Other information on SCR	
Capital requirement for duration-based equity risk sub-module	
Total amount of Notional Solvency Capital Requirements for remaining part	379,150
Total amount of Notional Solvency Capital Requirements for ring-fenced funds	15,628
Total amount of Notional Solvency Capital Requirements for matching adjustment portfolios	
Diversification effects due to RFF nSCR aggregation for the purposes of Art. 304	
Minimum consolidated group solvency capital requirement	149,459
Information on other entities	
Capital requirements for other financial sectors (non-insurance capital requirements	15,833
Capital requirements for other financial sectors (non-insurance capital requirements - credit institutions, investment firms and financial institutions, alternative investment funds managers, UCITS management companies	7,847
Capital requirements for other financial sectors (non-insurance capital requirements) - institutions for occupational retirement provisions	7,987
Capital requirements for other financial sectors (non-insurance capital requirements) - capital requirements for unregulated entities carrying on financial activities	
Capital requirements for non-controlled participations	
Capital requirements for residual undertakings	6,433
Total SCR	
SCR for undertakings includes via D&A	
SCR	**394,778**

Annex 6: S.32.02.22 - Undertakings in the scope of the group

Country	ID code of the undertaking	Type of ID code of the undertaking	Legal name of the undertaking	Type of undertaking	Legal form	Category (mutual/non-mutual)	Supervisory authority	% of capital share	% voting rights	Level of influence	Yes/No	Date of decision on whether Article 214 is to be applied	Method used and under method 1, treatment of the undertaking
SI	549300KGI78 MKHO38N42	LEI	Zavarovalnica Triglav, d.d.	Composite undertaking	Public limited company	Non-mutual	Insurance Supervision Agency				Included in the scope	2016-01-01	Full consolidation
SI	549300XGYW QT0XWO4R05	LEI	Pozavarovalnica Triglav RE, d.d., Ljubljana	Reinsurance undertaking	Public limited company	Non-mutual	Insurance Supervision Agency	100.00%	100.00%	Dominant	Included in the scope	2016-01-01	Full consolidation
SI	4851000094P JJQ1E0T23	LEI	Triglav, Zdravstvena zavarovalnica, d.d., Koper	Non life insurance undertaking	Public limited company	Non-mutual	Insurance Supervision Agency	100.00%	100.00%	Dominant	Included in the scope	2016-01-01	Full consolidation
SI	48510000PU F0PHJMWE31	LEI	Skupna pokojninska družba, d.d., Ljubljana	Institution for occupational retirement provision	Public limited company	Non-mutual	Insurance Supervision Agency	71,87%	71,87%	Dominant	Included in the scope	2016-01-01	Sectoral rules
HR	74780000H0 HHL1OVM657	LEI	Triglav Osiguranje, d.d., Zagreb	Composite undertaking	Public limited company	Non-mutual	Croatian Financial Services Supervisory Agency	100.00%	100.00%	Dominant	Included in the scope	2016-01-01	Full consolidation
BA	485100004 VIBWAYZM123	LEI	Triglav BH Osiguranje, d.d., Sarajevo	Composite undertaking	Public limited company	Non-mutual	Agencija za nadzor osiguranja (Insurance Supervision Agency)	97.78%	97.78%	Dominant	Included in the scope	2016-01-01	Full consolidation
BA	485100007Q 6XSLF2XO57	LEI	Triglav Osiguranje, a.d., Banja Luka	Non life insurance undertaking	Public limited company	Non-mutual	Agencija za nadzor osiguranja (Insurance Supervision Agency)	100.00%	100.00%	Dominant	Included in the scope	2016-01-01	Full consolidation

Country	ID code of the undertaking	Type of ID code of the undertaking	Legal name of the undertaking	Type of undertaking	Legal form	Category (mutual/non-mutual)	Supervisory authority	% of capital share	% voting rights	Level of influence	Yes/No	Date of decision on whether Article 214 is to be applied	Method used and under method 1, treatment of the undertaking
RS	48510000D1 F47ICK5Q68	LEI	Triglav Osiguranje, a.d.o, Beograd	Composite undertaking	Public limited company	Non-mutual	Narodna Banka Srbije	99.88%	99.88%	Dominant	Included in the scope	2016-01-01	Full consolidation
ME	OP-06	Specific code	Lovčen Osiguranje, a.d., Podgorica	Non life insurance undertaking	Public limited company	Non-mutual	Agencija za nadzor osiguranja (Insurance Supervision Agency)	96.59%	96.59%	Dominant	Included in the scope	2016-01-01	Full consolidation
ME	OP-39	Specific code	Lovčen životna osiguranja, Podgorica	Life insurance undertaking	Public limited company	Non-mutual	Agencija za nadzor osiguranja (Insurance Supervision Agency)	96.59%	96.59%	Dominant	Included in the scope	2016-01-01	Full consolidation
MK	4851000WZS9RGTJVR81	LEI	Triglav Osiguruvanje, a.d., Skopje	Non life insurance undertaking	Public limited company	Non-mutual	Agencija za nadzor osiguranja (Insurance Supervision Agency)	79.94%	79.94%	Dominant	Included in the scope	2016-01-01	Full consolidation
MK	OP-56	Specific code	Triglav Osiguruvanje Život, a.d, Skopje	Life insurance undertaking	Public limited company	Non-mutual	Agencija za nadzor osiguranja (Insurance Supervision Agency)	95.99%	95.99%	Dominant	Included in the scope	2017-09-30	Full consolidation
BA	Društvo za upravljanje Evropskim dobrovoljnim penzijskim fondom, a.d., Banja Luka	Specific code	Društvo za upravljanje Evropskim dobrovoljnim penzijskim fondom, a.d., Banja Luka	Institution for occupational retirement provision	Public limited company	Non-mutual	Agencija za nadzor osiguranja (Insurance Supervision Agency)			Significant	Included in the scope	2017-09-30	Sectoral rules

Country	ID code of the undertaking	Type of ID code of the undertaking	Legal name of the undertaking	Type of undertaking	Legal form	Category (mutual/non-mutual)	Supervisory authority	% of capital share	% voting rights	Level of influence	Yes/No	Date of decision on whether Article 214 is to be applied	Method used and under method 1, treatment of the undertaking
SI	48510000NK Z3E6LSZM73	LEI	Triglav Skladi, d.o.o.	Credit institution, investment firm and financial institution	Public limited company	Non-mutual		67.50%	100.00%	Dominant	Included in the scope	2016-01-01	Sectoral rules
SI	OP-19 - Triglav, Upravljanje nepremičnin	Specific code	Triglav upravljanje nepremičnin, d.d., Ljubljana	Ancillary services undertaking as defined in Article 1 (53) of Delegated Regulation (EU) 2015/35	Public limited company	Non-mutual		100.00%	100.00%	Dominant	Included in the scope	2016-01-01	Full consolidation
SI	OP-13 - Triglav Svetovanje	Specific code	Triglav Svetovanje, d.o.o., Ljubljana	Ancillary services undertaking as defined in Article 1 (53) of Delegated Regulation (EU) 2015/35	Private limited-liability company	Non-mutual	Insurance Supervision Agency	100.00 %	100.00%	Dominant	Included in the scope	2016-01-01	Full consolidation
SI	OP-12 – Triglav Avtoservis	Specific code	Triglav Avtoservis, d.o.o., Ljubljana	Ancillary services undertaking as defined in Article 1 (53) of Delegated Regulation (EU) 2015/35	Private limited-liability company	Non-mutual		100.00 %	100.00%	Dominant	Included in the scope	2016-01-01	Full consolidation
SI	AKM nepremičnine, d.o.o., Ljubljana	Specific code	AKM nepremičnine, d.o.o., Ljubljana	Other	Private limited-liability company	Non-mutual		100.00 %	100.00%	Dominant	Included in the scope	2016-01-01	Full consolidation

Country	ID code of the undertaking	Type of ID code of the undertaking	Legal name of the undertaking	Type of undertaking	Legal form	Category (mutual/non-mutual)	Supervisory authority	% of capital share	% voting rights	Level of influence	Yes/No	Date of decision on whether Article 214 is to be applied	Method used and under method 1, treatment of the undertaking
SI	Golf Arboretum, d.o.o., Domžale	Specific code	Golf Arboretum, d.o.o., Domžale	Other	Private limited-liability company	Non-mutual		80.10%	80.10%	Dominant	Included in the scope	2016-01-01	Adjusted equity method
SI	Hotel grad Podvin, d.d., Radovljica	Specific code	Hotel grad Podvin, d.o.o., Radovljica	Other	Private limited-liability company	Non-mutual		100.00%	100.00 %	Dominant	Included in the scope	2016-01-01	Adjusted equity method
SI	Vse bo v redu, Zavod za družbeno odgovornost	Specific code	Vse bo v redu, Zavod za družbeno odgovornost	Other	Social responsibility institute	Non-mutual		100.00%	100.00 %	Dominant	Included in the scope	2016-01-01	Adjusted equity method
SI	485100000Z 4BS9C24Q46	LEI	Triglav INT, d.d., Ljubljana	Insurance holding company as defined in Article 212(1) (f) of Directive 2009/138/EC	Public limited company	Non-mutual	Insurance Supervision Agency	100.00%	100.00 %	Dominant	Included in the scope	2016-01-01	Full consolidation
ME	OP-28 – Lovčen Auto	Specific code	Lovćen Auto, d.o.o., Nikšić	Ancillary services undertaking as defined in Article 1 (53) of Delegated Regulation (EU) 2015/35	Private limited-liability company	Non-mutual		96.59%	96.59%	Dominant	Included in the scope	2016-01-01	Full consolidation

Country	ID code of the undertaking	Type of ID code of the undertaking	Legal name of the undertaking	Type of undertaking	Legal form	Category (mutual/non-mutual) non-mutual)	Supervisory authority	% of capital share	% voting rights	Level of influence	Yes/No	Date of decision on whether Article 214 is to be applied	Method used and under method 1, treatment of the undertaking
BA	OP-23 – Unis	Specific code	Unis automobili i dijelovi, d.o.o., Sarajevo	Ancillary services undertaking as defined in Article 1 (53) of Delegated Regulation (EU) 2015/35	Private limited-liability company	Non-mutual		97.78%	98.87%	Dominant	Included in the scope	2016-01-01	Full consolidation
BA	OP-24 - Autocentar BH	Specific code	Autocentar BH, d.o.o., Sarajevo	Other	Private limited-liability company	Non-mutual		97.78%	98.87%	Dominant	Included in the scope	2016-01-01	Full consolidation
BA	OP-40 - Triglav Auto, Banjaluka	Specific code	Triglav Auto, d.o.o., Banja Luka	Ancillary services undertaking as defined in Article 1 (53) of Delegated Regulation (EU) 2015/35	Private limited-liability company	Non-mutual		100.00%	100.00%	Dominant	Included in the scope	2016-01-01	Full consolidation
HR	OP-52 - TRI-LIFE	Specific code	TRI-Life, d.o.o. Zagreb	Ancillary services undertaking as defined in Article 1 (53) of Delegated Regulation (EU) 2015/35	Private limited-liability company	Non-mutual	Croatian Financial Services Supervisory Agency	100.00%	100.00%	Dominant	Included in the scope	2016-01-01	Full consolidation

Country	ID code of the undertaking	Type of ID code of the undertaking	Legal name of the undertaking	Type of undertaking	Legal form	Category (mutual/ non-mutual)	Supervisory authority	% of capital share	% voting rights	Level of influence	Yes/No	Date of decision on whether Article 214 is to be applied	Method used and under method 1, treatment of the undertaking
BA	OP-22 - TRI-PRO BH	Specific code	Triglav Savjetovanje, d.o.o., Sarajevo	Ancillary services undertaking as defined in Article 1 (53) of Delegated Regulation (EU) 2015/35	Private limited-liability company	Non-mutual	Agencija za nadzor osiguranja (Insurance Supervision Agency)	98.91%	98.91%	Dominant	Included in the scope	2016-01-01	Full consolidation
RS	OP-53 – Triglav Savetovanje, Beograd	Specific code	Triglav Savetovanje, d.o.o., Beograd	Ancillary services undertaking as defined in Article 1 (53) of Delegated Regulation (EU) 2015/35	Private limited-liability company	Non-mutual	Narodna Banka Srbije	99,94%	99,94%	Dominant	Da	2016-01-01	Full consolidation
BA	PROF-IN, d.o.o., Sarajevo	Specific code	PROF-IN, d.o.o., Sarajevo	Credit institution, investment firm and financial institution	Private limited-liability company	Non-mutual		62,54%	62,54%	Dominant	Da	2016-01-01	Sectoral rules
BA	Sarajevostan, d.d., Sarajevo	Specific code	Sarajevostan, d.d., Sarajevo	Other	Public limited company	Non-mutual		90.95%	91.97%	Dominant	Included in the scope	2016-01-01	Adjusted equity method
HR	OP-54 - TUN, Zagreb	Specific code	Triglav upravljanje nekretninama Zagreb, d.o.o.	Ancillary services undertaking as defined in Article 1 (53) of Delegated Regulation (EU) 2015/35	Private limited-liability company	Non-mutual		100.00 %	100.00%	Dominant	Included in the scope	2016-01-01	Full consolidation

Country	ID code of the undertaking	Type of ID code of the undertaking	Legal name of the undertaking	Type of undertaking	Legal form	Category (mutual/ non-mutual)	Supervisory authority	% of capital share	% voting rights	Level of influence	Yes/No	Date of decision on whether Article 214 is to be applied	Method used and under method 1, treatment of the undertaking
ME	OP-55 - TUN, Podgorica	Specific code	Triglav upravljanje nekretninama Podgorica, d.o.o.	Ancillary services undertaking as defined in Article 1 (53) of Delegated Regulation (EU) 2015/35	Private limited-liability company	Non-mutual		100.00%	100.00%	Dominant	Included in the scope	2016-01-01	Full consolidation
BA	ZIF Prof Plus, d.d., Sarajevo	Specific code	ZIF Prof Plus, d.d., Sarajevo	Other	Public limited company	Non-mutual				Significant	Included in the scope	2016-01-01	Adjusted equity method
SI	747800P0D13G4YJHYI09	LEI	Nama, trgovsko podjetje, d.d. Ljubljana	Other	Public limited company	Non-mutual				Significant	Included in the scope	2016-01-01	Adjusted equity method
SI	Triglavko, d.o.o, Ljubljana	Specific code	Triglavko, d.o.o, Ljubljana	Ancillary services undertaking as defined in Article 1 (53) of Delegated Regulation (EU) 2015/35	Private limited-liability company	Non-mutual				Significant	Included in the scope	2016-01-01	Adjusted equity method
SI	4851006WX9ON1MWW9471	LEI	Trigal, upravljanje naložb in svetovalne storitve, d.o.o.	Alternative investment funds managers as defined in Article 1 (55) of Delegated Regulation (EU) 2015/35	Private limited-liability company	Non-mutual				Significant	Included in the scope	2018-01-10	Adjusted equity method

Annex 7: S.23.01.01 - Own funds (31 December 2016)

	Total	Tier 1 – unrestricted	Tier 1 – restricted	Tier 2	Tier 3
Basic own funds before deduction for participations in other financial sector as foreseen in					
Ordinary share capital (gross of own shares)	73,701	73,701			
Unavailable called up unpaid ordinary share capital at the Group level					
Share premium account related to ordinary share capital					
Initial funds, members' contributions or the equivalent basic own fund item for mutual					
Subordinated mutual members accounts					
Unavailable subordinated mutual members accounts at the Group level					
Surplus funds					
Unavailable surplus funds at the Group level					
Preference shares					
Unavailable preference shares at the Group level					
Share premium account related to preference shares					
Unavailable share premium account related to preference shares at the Group level					
Reconciliation reserve	760,924	760,924			
Subordinated liabilities	20,069			20,069	
Unavailable subordinated liabilities at the Group level					
Amount equal to the value of net deferred tax assets					
Amount equal to the value of net deferred tax assets not available at Group level					
Other own funds approved by the supervisory authority as basic own funds not specified					
Unavailable own funds associated with other own fund items approved by the					
Minority shareholdings at the Group level (unless reported under another own fund item)					
Unavailable minority shareholdings at the Group level					
Own funds from financial statements that should not be presented under the					
Own funds from financial statements that should not be presented under the					

Deductions	Total	Tier 1 – unrestricted	Tier 1 – restricted	Tier 2	Tier 3
Deductions for participations in other financial sector entities, including unregulated entities that carry on financial activities					
of which deducted in accordance with Article 228 of Directive 2009/138/EC					
Deductions for participations when no information is available (Article 229)					
Deductions for participations included using the deduction and aggregation methods when a combination of methods is used					
Unavailable own fund items, total					
Total deductions					
Total basic own funds after deductions	**854,694**	**834,625**		**20,069**	

	Total	Tier 1 – unrestricted	Tier 1 – restricted	Tier 2	Tier 3
Ancillary own funds					
Unpaid and uncalled ordinary share capital callable on demand					
Unpaid and uncalled initial funds, members' contributions or the equivalent basic own fund item for mutual and mutual-type undertakings, callable on demand					
Unpaid and uncalled preference shares callable on demand					
Legally binding commitment to subscribe and pay for subordinated liabilities on demand					
Letters of credit and guarantees in accordance with Article 96(2) of Directive 2009/138/EC					
Letters of credit and guarantees other than under Article 96(2) of Directive 2009/138/EC					
Supplementary members calls under the first subparagraph of Article 96(3) of Directive 2009/138/EC					
Supplementary members calls under the first subparagraph of Article 96(3) of Directive 2009/138/EC					
Unavailable ancillary own funds at the Group level					
Other ancillary own funds					
Total ancillary own funds					
Own funds in other financial sectors					
Credit institutions, investment firms and financial institutions, alternative investment funds managers, UCITS management companies					
Institutions for occupational retirement provision					
Unregulated entities carrying on financial activities					
Total own funds in other financial sectors					
Own funds using the deduction and aggregation (D&A) methods on their own or in combination with method 1					
Own funds aggregated using the D&A method and a combination of methods					
Own funds aggregated using the D&A method and a combination of methods					

	Total	Tier 1 – unrestricted	Tier 1 – restricted	Tier 2	Tier 3
Total available own funds to meet the minimum consolidated group SCR	**854,694**	**834,625**		**20,069**	
Total available own funds to meet the minimum consolidated group SCR	**854,694**	**834,625**		**20,069**	
Total eligible own funds to meet the consolidated group SCR (excluding own funds from other financial sector and the undertakings included via D&A)	**854,694**	**834,625**		**20,069**	
Total eligible own funds to meet the minimum consolidated group SCR	**854,694**	**834,625**		**20,069**	
Minimum consolidated group SCR	**140,828**				
Ratio of eligible own funds to the minimum consolidated group SCR	**607 %**				
Total eligible own funds to meet the group SCR (including other financial sector and the undertakings included via D&A)	**854,694**	**834,625**		**20,069**	
Group SCR	**353,629**				
Ratio of eligible own funds to the group SCR including other financial sector and the undertakings included via D&A	**242 %**				

Reconciliation reserve	
Excess of assets over liabilities	**901,186**
Own shares (held directly and indirectly)	
Foreseeable dividends, distributions and charges	56,838
Other basic own fund items	**73,701**
Adjustment for restricted own fund items in respect of matching adjustment portfolios and ring-fenced funds	
Other unavailable own funds	9,723
Reconciliation reserve	**760,924**
Expected profits	
Expected profits included in future premiums (EPIFP) – Life business	29,240
Expected profits included in future premiums (EPIFP) – Non-life business	14,616
Total expected profits included in future premiums (EPIFP	**43,856**

Annex 8: S.25.01.21 - Solvency capital requirement for undertakings using the standard formula (31 December 2016)

	Gross SCR	USP	Simplifications
Market risk	248,909		
Counterparty default risk	43,151		
Life underwriting risk	55,028		
Health underwriting risk	46,032		
Non-life underwriting risk	141,965		
Diversification	-168,605		
Intangible asset risk			
Basic solvency capital requirement	**366,480**		

Calculation of the SCR	
Operational risk	34,826
Loss-absorbing capacity of technical provisions	-1,142
Loss-absorbing capacity of deferred taxes	-75,771
Capital requirement for business operated in accordance with Art. 4 of Directive 2003/41/EC	
SCR excluding capital add-on	**326,125**
Capital add-ons already set	
SCR	**353,629**
Other information on SCR	
Capital requirement for duration-based	
Total amount of Notional Solvency Capital Requirements for remaining part	315,082
Total amount of Notional Solvency Capital Requirements for ring-fenced funds	11,043
Total amount of Notional Solvency Capital Requirements for adjustment matching portfolios	
Diversification effects due to RFF nSCR aggregation for the purposes of Art. 304	
Minimum consolidated group solvency capital requirement	140,828

Information on other entities	
Capital requirements for other financial sectors (non-insurance capital requirements	14,796
Capital requirements for other financial sectors (non-insurance capital requirements - credit institutions, investment firms and financial institutions, alternative investment funds managers, UCITS management companies	7,421
Capital requirements for other financial sectors (non-insurance capital requirements - Institutions for occupational retirement provision	7,375
Capital requirements for other financial sectors (non-insurance capital requirements - capital requirements for unregulated entities carrying on financial activities	
Capital requirements for non-controlled participations	
Capital requirements for residual undertakings	12,708
Total SCR	
SCR for undertakings includes via D&A	
SCR	**353,629**