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

Solvency and Financial Condition Report
Triglav Group
2018

Ljubljana, April 2019

€390.9
million
solvency capital requirement

216 %
solvency ratio

€843.2
million
own funds to cover solvency capital requirement

€2,221.5
million
in investments

Triglav Group

€920.3
million
net premiums earned

€154.3
million
minimum consolidated capital requirement

€80.8
million
net profit

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

MEMBERS OF THE MANAGEMENT BOARD OF ZAVAROVALNICA TRIGLAV:

President: Andrej Slapar

Members of the Management Board:

Uroš Ivanc

Tadej Čoroli

Barbara Smolnikar

Marica Makoter

Ljubljana, April 2019

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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 119 years ago. In addition to the parent company, the Group comprised 30 subsidiaries and 9 associated companies at the end of 2018. 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. The Triglav Group operates in seven markets of six countries in the Adria region, while it also provides reinsurance internationally. Its biggest market is Slovenia where it books 77% of the consolidated premium from **insurance, coinsurance and reinsurance with the share of the premium generated outside Slovenia that is gradually increasing.**

The Triglav Group's activities include the **insurance business and asset management**. The Group performs non-life, life, health and pension insurance activity as well as the reinsurance activity within the scope of the insurance business carried on by its 12 insurance undertakings. Asset management at the Triglav Group includes savings via the insurance services provided by insurance undertakings of the Group as well as investment in mutual funds. The Triglav Group pursues a relatively conservative investment policy that emphasises the safety and liquidity of investments as well as their adequate return. The major share of the Triglav Group's investments is held in the form of debt securities and other fixed-income securities.

The Triglav Group is rated by two recognised ratings agencies, S&P Global Ratings and A.M. Best. In 2018, 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 Triglav Group's activity is supervised by the Slovenian regulator, the Insurance Supervision Agency, while its external auditor for the 2018 financial year was the auditing firm ERNST & YOUNG Revizija, poslovno svetovanje, d.o.o. auditing firm.

The Triglav Group fosters a strategic focus on clients and is geared towards profitable operations and increasing the value of the Group. 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. All of the activities of Triglav 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 Group's operations in 2018 were good as the results exceeded the plans. This was mainly the result of the high insurance premium growth, favourable loss ratio and certain one-off events which mainly occurred in last quarter of 2018. The Group generated a consolidated pre-tax profit of EUR 97.5 million, whereby the plan was between EUR 80 and 90 million.

The ROE increased to 10.8% (9.3% in 2017). The Group achieved premium growth on all insurance markets and in all insurance activity segments. Returns on investments decreased in 2018 as well, which was the result of the **continuation of low interest rates on financial markets**. The Group's combined ratio decreased when compared to the previous year and amounted to 91.8%. The Group's operations in 2018 are presented in more detail in section A of this Report.

The parent company of the Triglav Group is Zavarovalnica Triglav, a **public limited company** with more than 14 thousand shareholders in 37 countries. Its top ten shareholders held a 77% shareholding at the end of the year, while international shareholders held a 38% shareholding. Its shares have been listed on the Ljubljana Stock Exchange since 2008 and are some of the most liquid ones. The company is also one of the largest in Slovenia in terms of market capitalisation (EUR 689 million at the end of 2018). The Company pursues an attractive and sustainable dividend policy. The Company again distributed a dividend of EUR 2.50 gross per share for 2017, which represented 82% of the Group's consolidated net profit for 2017.

In line with its strategic goals, the Triglav Group saw the continuation of the organic grow of the volume of operations in 2018 and continued to implement expansion activities both in the insurance and asset management activity. It also signed an agreement in 2018 on the acquisition of the Croatian pension insurance company Raiffeisen Mirovinsko osiguravajuče društvo and the Slovenian management company ALTA Skladi. It also acquired the missing share up to full ownership of the Slovenian company Skupna pokojninska družba. Takeovers of minority shareholdings in the Group's strategic subsidiaries took place in 2018 and the parent company performed a capital increase at two subsidiaries. Detailed information on the changes in the structure of the Triglav Group is presented in section A.1.4 of this Report.

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.

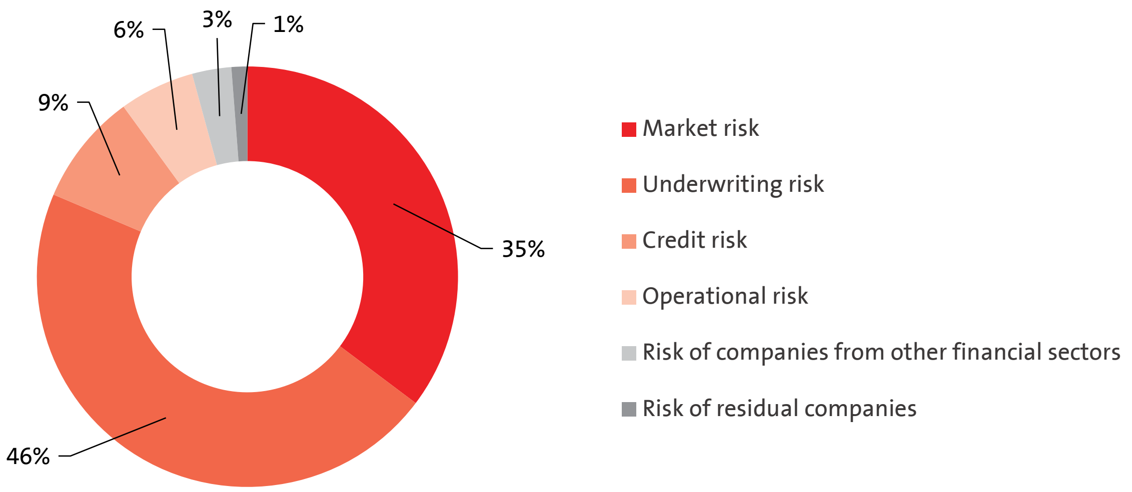
The risk management system at the Group's members is based on the **three lines of defence model**. The first line of defence includes all business functions that identify operational risks. The second line of defence is composed of decision-making bodies and business functions that jointly perform the measurement of individual risks, monitor exposure to such risks and determine the exposure limit system. The **four key functions** play an important role as they actively ensure coordinated work of the Group's subsidiaries with the parent company and for the transposition of knowledge and good practices to the Group's subsidiaries. The third line of defence is represented by the Internal Audit. The Group's risk management system is implemented 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 level as well as subject to the nature, scope and complexity of the risks of an individual 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 level is described in more detail in section B.3.3.

The Triglav Group's parent company performs the **ORSA process** regularly and in doing so 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 four-year period. The parent company uses the results of the ORSA to determine its existing and future capital needs. The ORSA process at the Group is harmonised with the one at the parent company and is performed according to the materiality principle. This means that the overall ORSA result includes the results of the most important subsidiaries. Other companies are included subject to their respective 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 the parent company related to capital management in the strategic period and is closely tied to strategic planning. The parent company carried out the ORSA process at the level of the Triglav Group for the 2018 financial year. The ORSA process is described in more detail in section B.3.4.

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, important concentrations, risk mitigation techniques and sensitivity for each of the risk types.

As at the end of 2018, the Group's SCR, which does not take into account mutual risk effects (i.e. diversification), amounted to EUR 567 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 595 million. Zavarovalnica Triglav has formed two ring-fenced funds, i.e. VSPI[2] and VSPI annuity[3], 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 15.4 million to the overall SCR of the Group. The method is presented in more detail in section E of this Report.

Risk profile of the Triglav Group as at 31 December 2018



The Group is most exposed to **underwriting risk,** the bulk of which is represented by the risk of loss or of an adverse change in the value of underwriting liabilities due to inadequate premiums

[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)

[2] Voluntary supplementary pension insurance

[3] Annuity stemming from Voluntary supplementary pension insurance

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, the Group achieves such quality of the portfolio that provides for stable and safe operations while maximising return.

Another important risk type is **market risk**, which the Group faces when investing collected premiums and own funds. Group members hold a broad range of various financial instruments in the investment portfolios whereby the value of the instruments depends on the fluctuations on financial markets. Market risk includes interest rate risk, equity risk, property risk, credit spread risk, currency risk and market concentration risk. By actively managing market risks, the Group achieves portfolio returns that provide for stable and safe operations.

The Report presents the Group's balance sheet for solvency purposes as at 31 December 2018 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 purposes, whereby the valuation applies the risk-free interest rate curve published by EIOPA[4], i.e. without any adjustments of the curve. At the Group level, the best estimate of underwriting liabilities is calculated as the sum of the best estimates of the underwriting liabilities of individual insurance undertakings of the Group less intra-Group transactions.

In the beginning of 2018, the objectives related to **capital management** were adjusted at the Group level and thus is turn represented the re-definition of the dividend policy. 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 the strategic goals of the Group, regulatory requirements, good practices 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 regulations on capital adequacy. 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.

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's 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 the sector/industry rules and both are

[4] The European Insurance and Occupational Pensions Authority (EIOPA)

consolidated for financial reporting purposes. Other associated companies of the Group that do not perform the principal or an ancillary activity are not consolidated in the solvency calculation, with their solvency capital requirement calculated separately and without the observation of diversification effects.

As at 31 December 2018, the Group was adequately capitalised and had sufficient capital available to meet both the solvency capital requirement (216% with target capital adequacy set at between 200 and 250%) and the minimum consolidated capital requirement (546%).

Solvency ratio the Triglav Group (as at 31 December 2018) =

$$\frac{\textbf{\textit{Eligible own funds}}}{\textbf{\textit{SCR}}} = \frac{\mathbf{843}}{\mathbf{391}} = \mathbf{216\ \%}$$

The Group's capital adequacy decreased by 6 pp compared to the year before, which is the result of the decrease in eligible own funds and changes to the risk profile. The Group's own funds decreased by EUR 34.8 million in the reporting period whereby they decreased by EUR 34.3 million on account of the decrease in the reconciliation reserve and by EUR 0.5 million on account of the decrease in subordinated liabilities. The BSCR decreased by EUR 23.3 million compared to the year before. The main reason for the decrease is the capital requirement for market risk that decreased by EUR 36.4 million compared to the year before as a result of the changed investment structure. As opposed to the decrease in the capital requirement for market risk, the capital requirement for underwriting risk increased as a result of the increase in the volume of operations. The capital requirement for credit risk also increased in the reporting period because of the upgrades of the process for the determination of the reinsurance partners' credit quality which enables all reinsurance partners to be considered uniformly for all insurance undertakings in the Group, including the determination of the partner's controlling company.

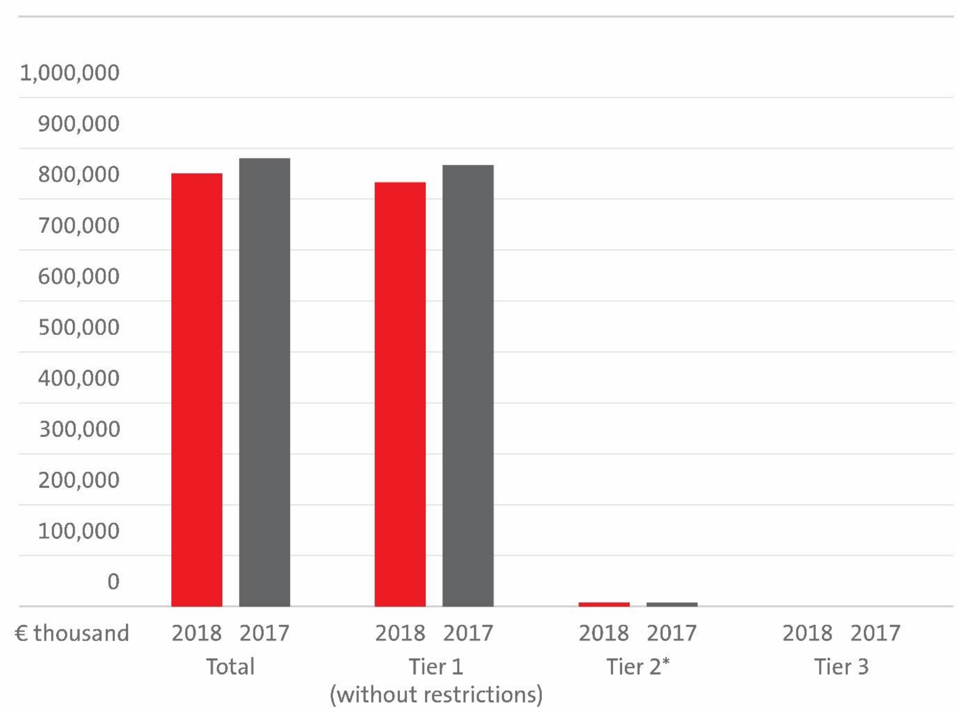
Capital adequacy of the Triglav Group as at 31 December 2018 and 31 December 2017

(€ thousand)

Capital adequacy of the Triglav Group	**31 December 2018**	**31 December 2017**
Total eligible own funds to meet the SCR	843,246	878,039
Total eligible own funds to meet the MCR	843,246	878,039
SCR with ring-fenced funds	390,904	394,778
Minimum consolidated capital requirement	154,322	149,459
Capital adequacy to SCR	216 %	222 %
Capital adequacy to MCR	546 %	587 %

The Group's capital adequacy amount is affected by eligible own funds that the Group holds in order to meet the 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 eligible own funds to meet the SCR as at 31 December 2018:

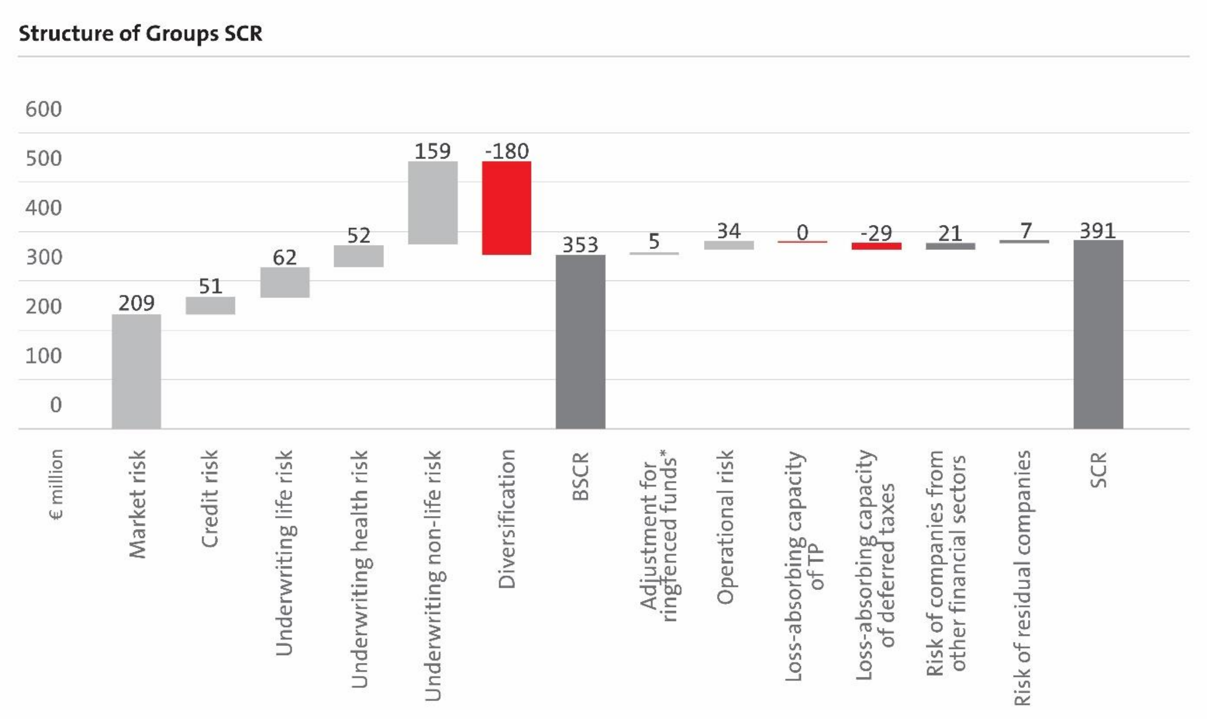


* Tier 2 own funds are suitable for the coverage of the MCR as long as they do not exceed 20% of the MCR.

The quality of own funds is measured subject to the extent of their permanent 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.

Eligible own funds are calculated as the difference between assets and liabilities whereby both sides of the balance sheet are valued at fair value. They are composed of the share capital (EUR 73.7 million), subordinated liabilities (EUR 17.4 million) and the reconciliation reserve (EUR 752.1 million). The calculation of eligible own funds takes into account the value of expected dividends for the 2018 financial year (EUR 56.8 million). The second deductible item is 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 capital to meet the sectoral capital requirement of the companies and the minority stakes of Group members.

The **solvency capital requirement of the Triglav Group** is calculated using the standard formula and without use of simplifications. 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.



*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 capital requirement 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 parent 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 2018, 81% of the Group's SCR related to underwriting and market risks, while practically all of its own funds were classified as Tier 1 in terms of quality. Efficient management of own funds and capital which ensures safety and profitability of operations to the Group members which in turn leads to effective realisation of the Group's planned and strategic goals.

A. Business and performance

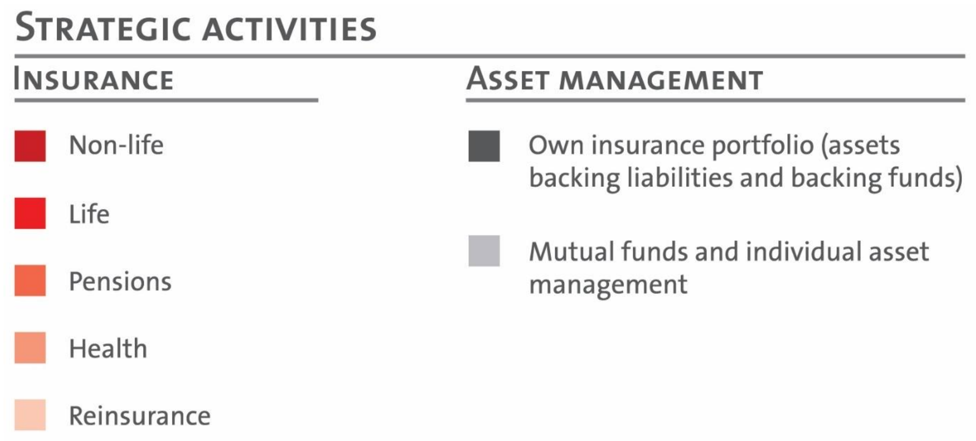
A. Business and performance

A.1 Business

A.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. The Group operates on 7 markets in 6 countries. Zavarovalnica Triglav, d.d. (hereinafter: the Company), headquartered in Ljubljana, Miklošičeva 19, is the parent company of the Group comprising 30 subsidiaries and 9 associated companies at the end of 2018.

Figure 1: Insurance markets of the Group as at 31 December 2018



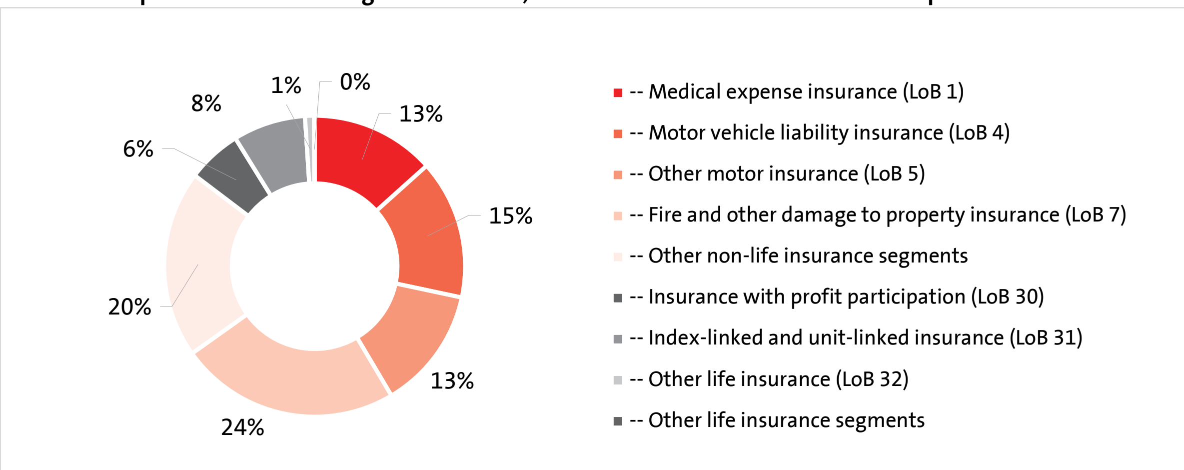
INSURANCE is the most extensive strategic activity of the Group. It includes non-life, life, health and pension insurance as well as reinsurance activity.

The insurance portion of the Group includes:

- **in Slovenia**: Zavarovalnica Triglav, d.d., Triglav, Zdravstvena zavarovalnica, d.d., Pozavarovalnica Triglav Re, d.d., and Skupna pokojninska družba, d.d.,
- **outside Slovenia**: 8 insurance undertakings in Croatia, Serbia, Montenegro, Bosnia and Herzegovina, and North Macedonia.

The Group operated in all segments of non-life insurance in 2018. Of all the insurance segments, the Group earns most of the premium from fire and other damage to property insurance (LoB 7), motor vehicle liability insurance (LoB 4) and medical expense insurance (LoB 1).

Chart 1: Group's non-consolidated gross insurance, co-insurance and reinsurance written premium in 2018



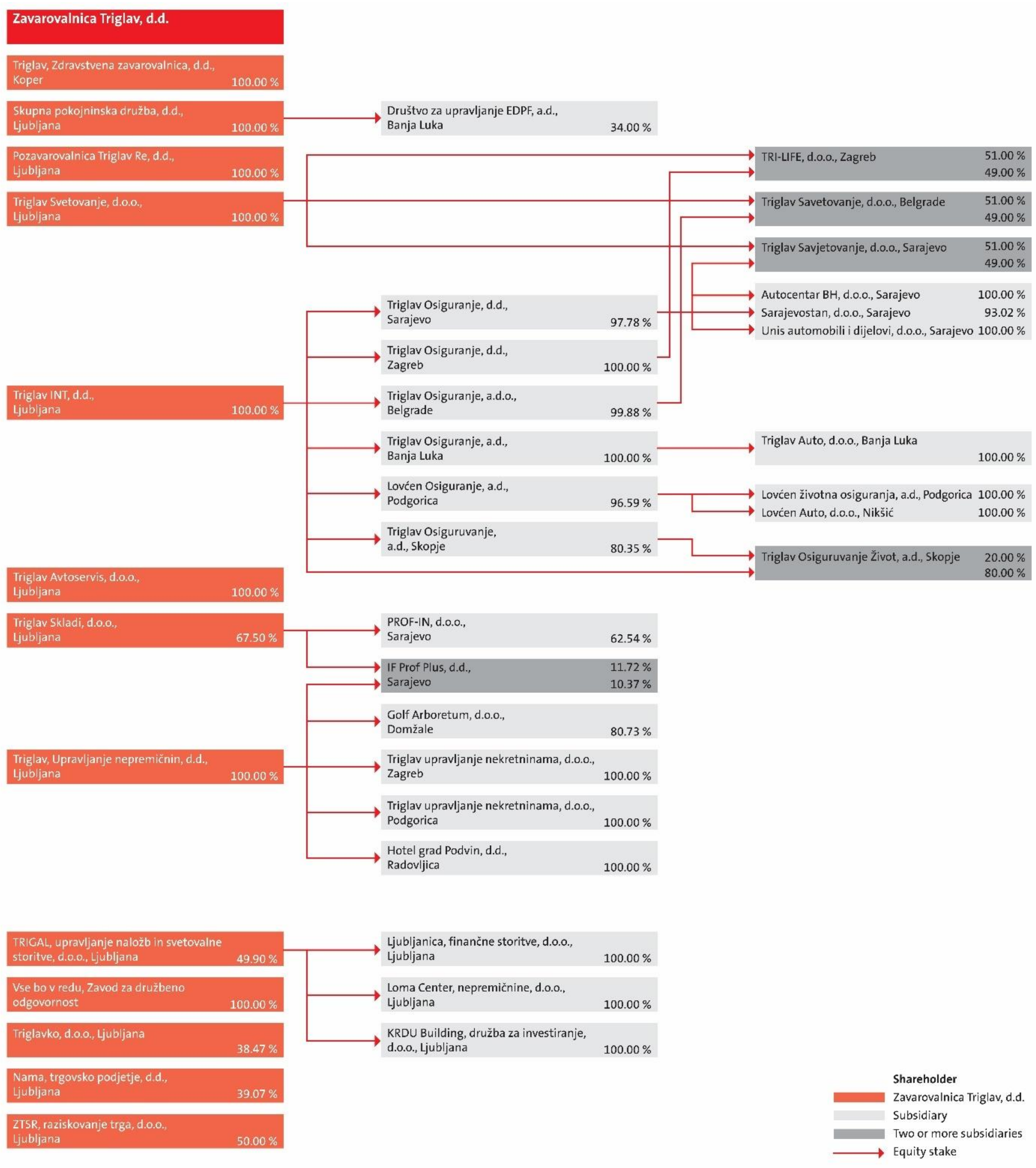
The ASSET MANAGEMENT activity is performed by the life insurers of the Group: Triglav Skladi d.o.o., Triglav, Upravljanje nepremičnin d.d. and Trigal, d.o.o. Asset management is performed for the clients who save via the Group's insurance services and for investors who invest in the Group's mutual funds.

Table 1: 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.
Serbia	▪ Triglav Osiguranje, a.d.o., Belgrade		▪ Triglav Savetovanje, d.o.o.
Montenegro	▪ Lovćen Osiguranje, a.d., Podgorica ▪ Lovćen životna osiguranja, a.d., ▪ Podgorica		▪ Lovćen Auto, 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.
North Macedonia	▪ Triglav Osiguruvanje, a.d., Skopje ▪ Triglav Osiguruvanje Život, a.d., Skopje		

The structure of the Group as at 31 December 2018 is shown in Figure 2.

Figure 2: Schematic of the Group's subsidiaries and associated companies and their respective equity interests as at 31 December 2018



A.1.2 Supervisory body

The Group's supervisory body is:

The Insurance Supervision Agency (hereinafter: ISA),
Trg republike 3,
1000 Ljubljana,
Slovenia

A.1.3 External audit

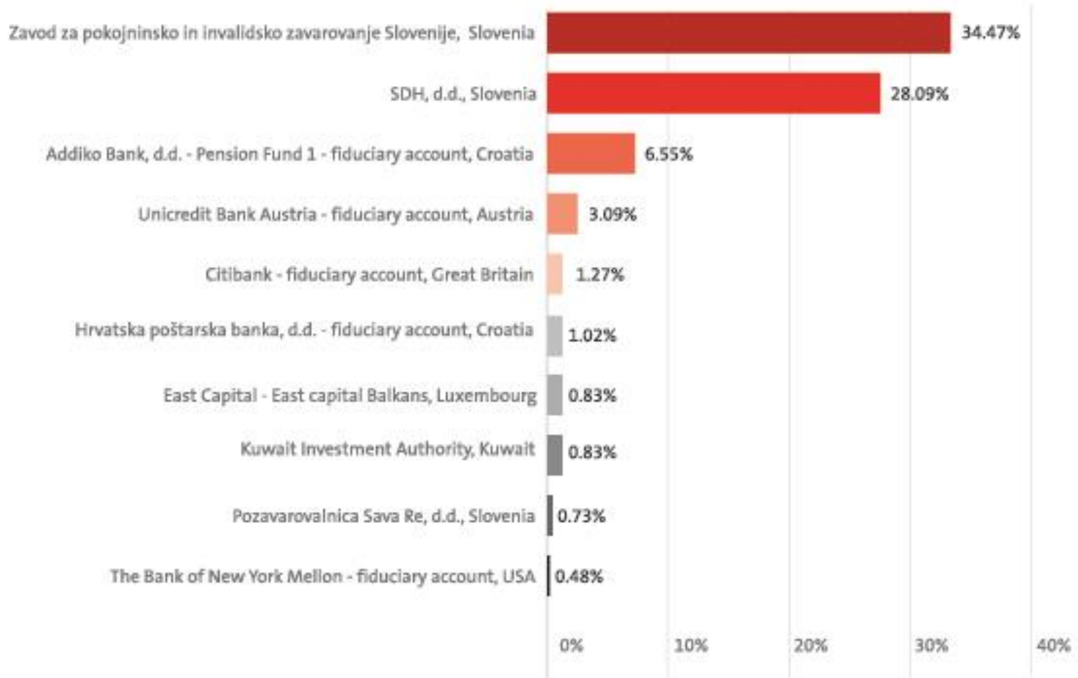
Based on the resolution of the General Meeting of Shareholders of the Company, the following audit firm was appointed as the external auditor of the Company for the 2018 financial year:

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

A.1.4 Ownership structure of Zavarovalnica Triglav

There were no material changes in 2018 to the ownership structure of the Company as the parent company of the Group. The top ten shareholders held a 77.4% shareholding at the end of the year, increase of 0.7 pp compared to the year before. Their composition remained the same, with the only change being the addition of the share of Company's stocks on the fiduciary account of Citibank in Great Britain. The two biggest owners, i.e. funds owned by the Republic of Slovenia, kept their shareholdings unchanged, while some of the other large shareholders adjusted their positions.

Chart 2: Top ten shareholders of the Company as at 31 December 2018



The Company had 14,153 shareholders at the end of 2018, down 1% compared to the year before. The biggest changes can be observed in the number and shareholdings of international shareholders whereby 2018 saw their continued multi-year growth. The Company had 649 international shareholders at the end of 2018, up 48% compared to the year before. Their shareholding stood at 18.2% of all shares or 37.8% of the shares in circulation (owned by shareholders with a stake of less than 5%). This trend is the result of the Group's stronger presence in international investor circles and the Company's active policy in the area of investor relations.

CHANGES IN THE GROUP'S STRUCTURE

The following changes to the ownership interests of Group companies occurred in 2018:

- Zavarovalnica Triglav concluded an agreement in September 2018 with Nova Ljubljanska banka, d.d. on the acquisition of a 28.13% stake in Skupna pokojninska družba, thereby becoming its 100% owner. The purchase price equalled EUR 4.6 million. Through consolidation and integrated management of this segment, the Triglav Group continues to implement its growth strategy in the pension insurance segment.
- Triglav Skladi signed an agreement in September 2018 with ALTA Skupina on the acquisition of a 100% stake in ALTA Skladi, družba za upravljanje. The agreement was concluded under suspensive conditions, among which is the condition to obtain the approval of the regulators. The purchase price excluding adjustment for net debt is EUR 21.7 million, a part of which is contingent on future payments made into thefunds of the acquiree.
- Triglav INT, d. d., acquired a 0.42% equity interest in Triglav Osiguruvanje, a.d., Skopje from non-controlling owners, thereby becoming its 80.35% owner. The purchase price equalled MKD 3,7 million or EUR 60 thousand.
- Triglav INT, d.d., signed an agreement with Raiffeisen Bank Austria, d.d., Zagreb to purchase a 74.99% share in the Croatian pension insurance company Raiffeisen mirovinsko osiguravajuće društvo. The agreement was signed under suspensive conditions due to the required approval of the regulators.
- Due to the exclusion of a shareholder, the share capital of Golf Arboretum, d.o.o., decreased by EUR 5 thousand. As a result, other shareholdings proportionally increased. Triglav, Upravljanje nepremičnin, d.d., thereby became an 80.73% owner of the said company.
- Zavarovalnica Triglav provided additional capital to its subsidiary Triglav INT, d.d., i.e. with an in-cash contribution of EUR 4 million and a debt to equity swap transaction of EUR 5.2 million.
- The legal form of Lovćen Auto, a.d. was changed from a public limited company (a.d.) to a limited liability company (d.o.o.).
- AKM nepremičnine, d.o.o., was stricken off from the Companies register in August 2018 due to its merger to Triglav, Upravljanje nepremičnin, d.d.
- Lovćen Osiguranje a.d., Podgorica, increased its equity stake in its subsidiary Lovćen životna osiguranja a.d. in the amount of EUR 0.3 million, thus remaining a 100% owner of the said company.
- Through the in-cash contributions of EUR 6.8 million the Company increased the share capital of its associate Trigal, d.o.o., and thus maintained its 49.9% equity stake in the said company. Trigal is a 100% owner of equity stakes of companies Ljubljanica, d.o.o., Loma center, d.o.o. and KRDU Building, d.o.o.
- Lovćen Osiguranje, a.d., Podgorica, increased its equity stake in its subsidiary Lovćen Auto, a.d., thus remaining a 100% owner of the said company. The capital increase amounted to EUR 1.2 million.
- Triglav Osiguranje, a.d., Beograd and Triglav Svetovanje, d.o.o., Domžale increased the capital of their subsidiary Triglav Savetovanje, d.o.o., Belgrade in accordance with their

proportional stakes, thus maintaining their stakes of 49% and 51% respectively. The capital was increased by the in-cash contributions of RSD 10 million or EUR 85 thousand.

- On 25 September 2018, the project company ZTSR, raziskovanje trga, d.o.o., was established for research purposes. Its share capital is EUR 250,000. With a payment of EUR 125,000, Zavarovalnica Triglav became a 50% owner of ZTSR.
- Sarajevostan changed its legal form from a public limited company (d.d.) to a limited liability company (d.o.o.). In the context of changing its legal form, the company's share capital was reduced by BAM 3.7 million or EUR 1.9 million. All shareholders were repaid proportionally to their share. Following the share capital decrease, Triglav Osiguranje d.d., Sarajevo remained the 93.02% owner of the said company

The changes in the Group's structure are presented in greater detail in The Triglav Group and Zavarovalnica Triglav d.d. Annual Report 2018, chapter 2.6.4 of the business report section.

A.1.5 Major business events and achievements in 2018

- Good business results: The Group's operations were profitable once again, surpassing the budgeted business results. It generated premium growth on all insurance markets and in all insurance segments.
- High "A" credit rating: The credit rating agencies S&P Global Ratings and A.M. Best confirmed the Group's "A" rating with a stable medium-term outlook.
- Dividend payment: In 2018, the Company paid out dividends for 2017 in the total amount of EUR 56.8 million. Dividend payments accounted for 82% of the Group's 2017 net profits.
- A revised strategy: The Group is retaining the essential elements of its existing strategy in the 2019–2022 period and has renewed its values, which are compatible with a client-centric approach.
- Revised capital management policy at the Company and the Group and dividend policy: The Group implements an attractive and sustainable dividend policy, whereby its implementation remains subordinated to the medium-term sustainable attainment of the target capital adequacy of the Group.
- Pension insurance market in Croatia: The subsidiary Triglav INT has signed an agreement on the acquisition of the Croatian pensions insurance company Raiffeisen Mirovinsko osiguravajuće društvo. This acquisition is in line with the growth and development strategy of the Group.
- Strengthening of the asset management activity: Triglav Skladi and ALTA Skupina signed an agreement to acquire ALTA Skladi. The Group is thus continuing to strengthen its asset management activity.
- Reappointment of the members of the Company's Management Board: The Supervisory Board appointed Andrej Slapar to the position of President of the Management Board for a new five-year term of office. The Supervisory Board approved the proposal tabled by the President of the Management Board and reappointed Uroš Ivanc and Tadej Čoroli as Management Board members for a five-year term of office.

A.1.6 Treatment of subsidiaries in consolidation for solvency purposes

As the parent company of the Group, the Company calculates capital adequacy at the Group level. The Company and all of its subsidiaries are included in the Group's solvency calculation. 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. (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 2: List of the Group's associated companies and the method of consolidation for solvency and financial reporting purposes*

31 Dec. 2018

Group company	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., Ljubljana	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
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 own parent company	Financial investment - FV
Sarajevostan, d.o.o., 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 own parent company	Financial investment - EM
ZTSR, raziskovanje trga, d.o.o., Ljubljana	Financial investment - FV	Financial investment - EM
KRDU Building, družba za investiranje, d.o.o., Ljubljana	Financial investment - FV	Financial investment - EM
LOMA CENTER, nepremičnine, d.o.o., Ljubljana	Financial investment - FV	Financial investment - EM
Ljubljanica, finančne storitve, d.o.o., Ljubljana	Financial investment - FV	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 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, voluntary supplementary pension insurance and reinsurance.

The Group's net profit in 2018 amounted to EUR 80.8 million, up 16% compared to the year before. A comparison with 2017 shows that the increase is mainly the result of the higher growth in net premium income than in the net claims incurred.

The net return on equity, which is the ratio between net income returned and the average shareholder's equity, stood at 10.8% in 2018, increase of 1.5 pp compared to the year before. The increase is mainly the result of higher net profit.

Table 3: Group's operating performance in 2018 and 2017

		(€ thousand)
	2018	2017
Net profit or loss	**80,826**	**69,708**
- Non-life insurance	62,862	52,560
- Health insurance	3,108	3,182
- Life insurance	12,486	15,190
- Other	2,370	-1,223
Profit or loss before tax	**97,456**	**84,445**
Non-life insurance combined ratio*	**91.8%**	**93.1%**
ROE	**10.8%**	**9.3%**

* Due to changes in the schematic of the P&L Statement, the calculation of the combined ratio for 2018 and 2017 was adjusted for comparison purposes.

The insurance undertakings that are included in the consolidation for solvency purposes and Pozavarovalnica Triglav Re, d.d., (hereinafter: Triglav Re) jointly booked EUR 1,126.7 million worth of non-consolidated gross insurance, co-insurance and reinsurance premium in 2018. Premium booked in the non-life insurance segments amounted to EUR 961.3 million, while the premium booked in the life insurance segment amounted to EUR 165.4 million. The biggest share of the non-life insurance premium is derived from fire and other damage to property insurance segment. These were followed by motor vehicle liability insurance and medical expense insurance. The gross premium increased by EUR 74.5 million compared to 2017, whereby the premium for non-life insurance products increased by EUR 72.5 million, and the premium for life insurance products increased by EUR 2 million.

According to the segmentation for solvency purposes, gross claims incurred in 2018 amounted to EUR 686 million, whereby EUR 538 million came from non-life insurance and EUR 148 million came from life insurance. Most of the gross claims incurred among non-life insurance arose from claims in fire and other damage to property insurance and medical expense insurance segments. The value of this category at the Group level decreased by EUR 17.9 million when compared to 2017. Gross claims incurred from non-life insurance products increased by EUR 45.4 million, whereby gross claims incurred from life insurance decreased by EUR 27.6 million, with the most noticeable decrease recorded in the segment of index-linked and unit-linked insurance where gross claims decreased by EUR 21.4 million compared to the year before.

The Group's expenses in 2018 amounted to EUR 273.6 million. Of the abovementioned amount EUR 239.3 million came from non-life insurance and EUR 34.3 million came from life insurance. Subject to the segmentation for solvency purposes, the highest expenses were incurred in the fire and other damage to property insurance segment. The Group's expenses increased by EUR 4.9 million compared to 2017. Other expenses incurred in 2018 amounted to EUR 9.4 million, whereby EUR 9.1 million came from non-life insurance and EUR 0.3 million came from life insurance.

Table below presents the non-consolidated gross insurance, co-insurance and reinsurance premium written, gross claims incurred and the expenses under the major insurance segments used for solvency purposes. The amounts for other insurance segments are presented in template QRT S.05.01 of Annex to this Report.

Table 4: Premium, claims and expenses of the Group by major insurance segments for solvency purposes in 2018 and 2017

		(€ thousand)
	2018	2017
Premium written	**1,126,738**	**1,052,258**
- Non-life insurance	**961,317**	**888,806**
-- Medical expense insurance (LoB 1)	150,619	132,528
-- Motor vehicle liability insurance (LoB 4)	168,710	159,571
-- Other motor insurance (LoB 5)	147,976	132,158
-- Fire and other damage to property insurance (LoB 7)	266,857	240,841
-- Other non-life insurance segments	227,155	223,708
- Life insurance	**165,421**	**163,452**
-- Insurance with profit participation (LoB 30)	65,923	66,315
-- Index-linked and unit-linked insurance (LoB 31)	87,899	86,393
-- Other life insurance (LoB 32)	11.,032	10,743
-- Other life insurance segments	566	0
Claims incurred	**686,043**	**668,153**
- Non-life insurance	**538,022**	**492,577**
-- Medical expense insurance (LoB 1)	120,271	106,549
-- Motor vehicle liability insurance (LoB 4)	85,561	73,119
-- Other motor insurance (LoB 5)	98,434	90,521
-- Fire and other damage to property insurance (LoB 7)	125,394	134,376
-- Other non-life insurance segments	108,363	88,012
- Life insurance	**148,020**	**175,576**
-- Insurance with profit participation (LoB 30)	72,985	74,346
-- Index-linked and unit-linked insurance (LoB 31)	71,441	92,884
-- Other life insurance (LoB 32)	4,615	2,954
-- Other life insurance segments	-1,021	5,393
Expenses incurred	**273,622**	**268,747**
- Non-life insurance	**239,342**	**235,641**
-- Income protection insurance (LoB 2)	24,492	24,779
-- Motor vehicle liability insurance (LoB 4)	52,091	48,591
-- Other motor insurance (LoB 5)	38,222	39,025
-- Fire and other damage to property insurance (LoB 7)	72,858	70,916
-- Other non-life insurance segments	51,679	52,331
- Life insurance	**34,280**	**33,106**
-- Insurance with profit participation (LoB 30)	13,140	12,918
-- Index-linked and unit-linked insurance (LoB 31)	16,732	15,833
-- Other life insurance (LoB 32)	4,396	4,299
-- Other life insurance segments	12	56
Other expenses	**9,419**	**4,922**

The Group operates on 7 markets in 6 countries in the Adria region. The Group is expanding its operations outside the abovementioned markets by strengthening cross-border provision of insurance services in other EU Member States and additionally by offering international reinsurance services.

The Group books the majority of the gross premium in Slovenia, i.e. as much as 75% of its total unconsolidated premium. The share of the premium by country did not change much compared to 2017.

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 compared to 2017.

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

Table 5: Geographic distribution of the premium and claims of the Group in 2018 and 2017

		(€ thousand)
	2018	2017
Premium written	**1,126,738**	**1,052,258**
-- Slovenia	848,046	801,600
-- Croatia	68,444	58,835
-- Serbia	50,805	45,679
-- Montenegro	34,306	33,020
-- Bosnia and Herzegovina	28,621	27,702
-- North Macedonia	24,602	22,295
-- Other countries	71,914	63,127
Claims incurred	**686,043**	**668,153**
-- Slovenia	535,121	536,916
-- Croatia	48,013	45,706
-- Serbia	19,449	15,366
-- Montenegro	25,241	16,310
-- Bosnia and Herzegovina	11,404	11,101
-- North Macedonia	10,467	9,509
-- Other countries	36,348	33,245

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

A.3 Investment performance

The main factors affecting investment performance are the structure of the Group's investments and the developments on capital markets. Safety, quality, liquidity and return on investments represent the focus and guidelines of the Group's relatively conservative investment policy. The major share of the Group's investments is represented by debt and other securities with a fixed income. This chapter presents the Group's investment performance broken down by the main sources of individual investment classes. A comparison with the investment result published by the Group last year is also provided. The investment performance shown was also published by the Group in the The Triglav Group and Zavarovalnica Triglav d.d. Annual Report 2018, chapter 3.6 of the accounting report section of the report.

The investment performance (excluding the index-linked and unit-linked life insurance contracts), which represents the difference between income and expenses, decreased by 27% to EUR 57.6 million. The reason for the lower investment performance is higher expenses resulting from the change in the fair value of investments and lower sales profits. The comparatively poorer result of these two categories is mitigated by the better result of category other financial income that was strongly negatively affected last year by the negative exchange rate differences on investments that are reflected (in accounting terms) directly in returns. The trend of the Group's falling interest income is continuing as a result of persistent low interest rate environment. Returns on financial assets also affect the amount of insurance-technical provisions and the Group profit or loss.

Table 6: Income and expenses from the Group's investment activities in 2018 and 2017

(€ thousand)

Income and expenses from investment activities		
	31 Dec. 2018	**31 Dec. 2017**
Interest	**60,548**	**62,360**
- Income	61,932	63,991
- Expenses	1,384	1,631
Dividends	**4,044**	**5,346**
- Income	4,044	5,346
- Expenses	0	0
Changes in fair value*	**-13,493**	**2,198**
- Income	2,062	8,397
- Expenses	15,554	6,199
Income and expenses on sales	**10,649**	**17,562**
- Income	23,778	29,790
- Expenses	13,129	12,229
Permanent impairments	**-1,497**	**-335**
- Income	0	0
- Expenses	1,497	335
Other financial income	**-2,649**	**-9,041**
- Income	4,002	3,866
- Expenses	6,651	12,907
Total	**57,601**	**78,089**

* Includes profit/loss on equity investments in associates and jointly controlled companies, account made using the equity method

No Group company is currently investing in securitisation instruments.

A.4 Performance of other activities

A.4.1 Other income and expenses

Other income comprising other insurance income and other (non-insurance) income of the Group amounted to EUR 66 million in 2018, up roughly EUR 2.7 million compared to the year before. The main reason for the increase is the higher gains on the disposal of investment property which increased from EUR 0.3 million to 1.5 million compared to the year before.

In 2018, the Group's other expenses amounted to EUR 78.4 million, the majority of which came from the operating expenses of non-insurance undertakings and commission expenses. The main reason for the increase in other insurance expenses is the higher impairment losses and write-offs of receivables which increased by EUR 4.5. million compared to the year before.

Detailed information on the Group's other income and expenses are presented in the accounting report section of The Triglav Group and Zavarovalnica Triglav d.d. Annual Report 2018, i.e. sections 4.6, 4.7, 4.13 and 4.14.

Table 7: Other income and expenses of the Group for financial reporting purposes in 2018 and 2017

		(€ thousand)
	2018	2017
Other income	**65,988**	**63,270**
- Other insurance income*	29,838	29,237
- Other income	36,150	34,033
Other expenses*	**78,363**	**70,319**
- Other insurance expenses	33,744	28,058
- Other expenses	44,619	42,261

*Financial statement schematics changed in 2018; the change is observed for 2017 as well.

A.4.2 Lease agreements

In the reporting period, Group members had several rental agreements concluded both as lessor and as lessee.

Among the contractual relationships where the Group members act as the lessor, only investment property is considered material. Of the total value of investment properties of EUR 89,8 million, the annual rental income came in at EUR 5.4 million. The parent company generated 60% of the abovementioned income, while Triglav, Upravljanje nepremičnin, d.d. generated 35%.

Group members act as the lessee when renting business premises and parking spaces, leasing software and data lines, leasing multi-function devices and renting cars. The Group's total annual rental cost in 2018 amounted to EUR 6.5 million. All rental agreements are operating lease agreements, meaning that all cost effects are shown as rental costs and have no impact on the value of the underlying asset. In 2019, all long-term leases will be recognised in the balance sheet as right-of-use assets depreciated proportionally to the lease period, i.e. in accordance with the amendments to the International Financial Reporting Standards (IFRS 16).

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 the one hand and the Company and subsidiaries on the other.

In reinsurance operations in 2018, the most material transactions were:

- total reinsurance transactions[5] between Triglav Re and the Company amounted to EUR 97.9 million;
- transactions between Triglav Re and Triglav Osiguranje d.d., Zagreb - EUR 19.2 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 pursued 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 Any other information

EVENTS IN 2019

- Change in the Company's Management Board: The Supervisory Board approved the proposal tabled by the President of the Management Board and appointed David Benedek as a Management Board member for a five-year term of office on 28 March 2019. For the appointment to be valid, he must first gain a licence from ISA. His function is currently an authorized assignee to the Management Board. As a Management Board member, he will be responsible for the management and development of subsidiaries in accordance with the strategic objectives of the Group.

- Dividend proposal for 2018: Management Board and the Supervisory Board will propose to the General Meeting of Shareholders the draft resolution on the dividend payment in the amount of EUR 2,50 gross per share, which accounts for 70.3% of consolidated net profit for 2018. According to the financial calendar, the General Meeting of Shareholders will take place on 28 May 2019.

- Establishment of a new company: On 27 March 2019, the Company established a company for managing compulsory and voluntary pension funds, Triglav penzisko društvo AD Skopje, with which it entered the Macedonian pensions insurance market.

OTHER RELEVANT INFORMATION

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

[5] Total reinsurance transactions include the reinsurance premium, reinsurance share for reinsurance claims settled and reinsurance fees and commissions.

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

B.1.1 Corporate governance

The system of governance at the Group level takes the form of corporate governance involving the active exercise of management rights stipulated by the legislation applying for each individual subsidiary. As part of corporate governance, business management at the Group level is performed and is based on the assurance of effective monitoring or supervision of the subsidiaries' operations. Such management enables harmonisation of operations and the harvesting of synergies, mainly through activities that promote cooperation in professional fields, mutual provision of information and the transfer of knowledge at the Group level.

The Group's parent company actively manages directly controlled subsidiaries. The management is based on the concurrent monitoring of their operations and active realisation of the set strategy. This includes encouragement of the identification of business opportunities and challenges in the narrower and broader environment for the optimum development of an individual company and the entire Group.

Directly controlled subsidiaries assume responsibility for the transposition of the management system into their organisation as well as for the active management of their respective subsidiaries. The expected objectives of the transfer of the management system and management activities are defined in more detail in the minimum standards.

The essential guidelines and objectives of the Group's strategy are to be conscientiously observed when managing and governing subsidiaries.

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.

PARENT COMPANY'S MANAGEMENT BOARD

The main powers and tasks of the Management Board of the Group's parent company are as follows: coordinated 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, and reporting to the Supervisory Board on the performance of both the Company and the Group.

On 14 November 2018, the Supervisory Board re-appointed Andrej Slapar as President of the Management Board for a five-year term of office which shall start on 12 November 2019. Supervisory Board also re-appointed Uroš Ivanc as Management Board member for a five-year term of office which shall start on 15 July 2019 and Tadej Čoroli for a five-year term of office which shall start on 30 July 2019.

As at 31 December 2018, the Management Board composition was as follows:

Table 8: Composition of the Management Board and the competences of the members of the Management Board of the Company as at 31 December 2018

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 (Commercial Association of Slovenian Insurance Companies), - Reinsurance and Asset Management Division
Uroš Ivanc	Member of the Management Board	- Strategic Purchasing Department - Risk Management Department - Strategic Planning and Controlling Department - Accounting Division - Finance Division (except the Investment Department)
Tadej Čoroli	Member of the Management Board	- Innovation and Digitalisation of Operations Service - Client Contact Unit - Marketing Department - Insurance Sales Division - Non-Life Insurance - Non-Life Insurance Claims Division
Barbara Smolnikar	Member of the Management Board	- Life Insurance Division - Life Insurance Development and Actuarial Department - Health and Pension Insurance Division - Money Laundering Prevention Division
Marica Makoter	Member of the Management Board - Workers' Director	- Represents the interests of workers as stipulated in the Worker Participation in Management Act - Organisation Development and Business Process Management Department - Fraud Prevention, Detection and Investigation - Project Portfolio and Change Management Department - IT - Back Office Division - HRM Division, except senior management staffing

PARENT COMPANY'S 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. 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. They may exercise their voting right provided they announce their participation no later than by the end of the fourth day prior to the date of the General Meeting of Shareholders. The rights and obligations afforded to the shareholders by the shares as well as the explanations on the limitations on share transfers and the attainment of the qualified share are presented in greater detail in the business portion of in The Triglav Group and Zavarovalnica Triglav d.d. Annual Report 2018, section 6.2.

PARENT COMPANY'S SUPERVISORY BOARD

The Supervisory Board of the Group's parent company has 9 (nine) members, 6 (six) of whom are shareholder representatives and 3 (three) 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. In addition to the competences afforded to it under the Companies Act and the Insurance Act, the Supervisory Board grants its consent to the decisions of the Management Board where the stake of the parent company or the value exceeds the limit set in the Rules of Procedure of the Supervisory Board, i.e. in the establishment of companies with share capital in Slovenia and abroad and in the acquisition or sale of the parent company's equity interests in foreign or domestic companies. The Supervisory Board also grants its consent to the appointment and dismissal of the Internal Audit Department Director as well as granting or withdrawal of authorisation to key function holders of the Company.

As at 31 December 2018, the Supervisory Board composition was as follows:

Table 9: Members of Supervisory Board as at 31 December 2018

Member of the Supervisory Board	Function	Competences
Igor Stebernak	Chairman, shareholders' representative	Appointments and Remuneration Committee
Andrej Andoljšek	Vice Chairman, shareholders' representative	Strategic Committee
Milan Tomaževič	Member, shareholders' representative	Strategic Committee
Žiga Škerjanec	Member, shareholders' representative	Appointments and Remuneration Committee, Strategic Committee
Nataša Damjanovič	Member, shareholders' representative	Audit Committee, Appointments and Remuneration Committee
Mario Gobbo	Member, shareholders' representative	Audit Committee
Peter Celar	Member, workers' representative	Strategic Committee
Boštjan Molan	Member, workers' representative	Appointments and Remuneration Committee
Ivan Sotošek	Member, workers' representative	Audit 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 parent company in 2018: Audit Committee, Appointments and Remuneration Committee and Strategic Committee.

The Audit Committee operated in the following composition in 2018: Dr. Mario Gobbo, Chairman, and members Nataša Damjanovič, Ivan Sotošek and Simon Kolenc, independent external expert.

The Appointments and Remuneration Committee operated in the following composition in 2018: Igor Stebernak, Chairman, and members Nataša Damjanovič, Žiga Škerjanec and Boštjan Molan.

The Strategic Committee operated in the following composition in 2018: Milan Tomaževič, Chairman, and members Andrej Andoljšek, Žiga Škerjanec and Peter Celar.

Table 10: Composition of Supervisory Board committees as at 31 December 2018

Supervisory Board committees	Competences
AUDIT COMMITTEE **Composition:** - 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 system; - monitoring the mandatory audit of annual and consolidated financial statements and reporting on the audit findings to the Supervisory Board; - responsibility for the auditor selection procedure and proposing the appointment of a candidate to the Supervisory Board for the function of auditor of the Company's Annual Report as well as 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 as well as the drafting of a 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 **Composition:** - 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; - provision of support and drafting of proposals in areas that concern the Supervisory Board.
STRATEGIC COMMITTEE **Composition:** - 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 Group strategy and monitoring the implementation thereof; - drafting and discussing proposals and opinions for the Supervisory Board with respect to the Group's strategic development.

B.1.2 Remuneration policy at the Group

Group companies implement the remuneration policy so as to ensure the realisation of a solid and reliable system of governance as well as the integrity and transparency of the operations.

MANAGEMENT BOARD OF THE GROUP'S 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 the premium for voluntary pension insurance. No special pension 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 eventual 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 Company and of all subsidiaries;
- members of the Management Board of the Company and of all subsidiaries;
- members of the Supervisory Board of the Company and of all subsidiaries.

The only materially significant transaction with related parties in 2018 was the distribution of dividends of the parent company for 2016 in the total amount of EUR 56.8 million. 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 proper requirements

The 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 of the members of management boards and supervisory boards as well as the key function holders is performed at the Group in accordance with the local legislation applicable for the respective subsidiary and based on the adopted subsidiary management guidelines that apply at the Group level for insurance and non-financial subsidiaries of the Group. In 2018, the fit and proper assessment of the members of management boards and supervisory boards, management boards and supervisory boards as collective bodies as well as the key function holders was performed in all Slovenian and foreign insurance companies of the Group, i.e. in compliance with the rules, criteria and procedures for the fit and proper assessment laid down in internal acts.

The process for the fit and proper assessment of management bodies 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 the members of management boards and supervisory boards as well as the management boards and supervisory boards as collective bodies separately.

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

The fit and proper assessment of the key function holders at the Group level 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, we verify the fitness (professional qualifications, specialised knowledge, experience and competences) and suitability criteria (clean criminal record, professional reputation, goodwill and personal integrity). Key function holders must – in addition to the above fitness conditions that are general in nature and apply to everyone – also meet the following conditions:

THE HOLDER OF THE ACTUARIAL FUNCTION AT THE GROUP LEVEL must possess the 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 membership as 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 FUNCTION AT THE GROUP LEVEL must possess the knowledge of 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 AT THE GROUP LEVEL must possess no less than five years of work experience;

THE HOLDER OF THE INTERNAL AUDIT FUNCTION AT THE GROUP LEVEL 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 the own risk and solvency assessment

B.3.1 Description of the risk management system

The risk management system provides timely identification of all material risks and a standardised set of procedures for understanding the consequences of eventual realisation of actual and potential risks. The Company has set up a risk management system at the level of the entire Group as a set of harmonised rules, competences, responsibilities and activities so as to ensure that risks at all levels are assumed in accordance with the set strategic goals and so that the key risks are appropriately identified, assessed, monitored and managed. The risk management system covers all areas, focusing on those having a material impact on the Group's operations and set business objectives. Sound functioning of the system enables continuous upgrading and adjustment of business processes and risk assumption of Group companies.

In order to ensure the sound functioning of the risk management system, it is also important to build a suitable culture, 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 Group are the Strategy of the Triglav Group and the Business Plan of Zavarovalnica Triglav. The key operating risks and the risk appetite are therefore defined by the set objectives and tolerances regarding assumed risks. The risk management system at the Group level is built in accordance with the principles of the Company and is based on the three lines of defence model. The functioning of the Company's system is transposed to the Group via minimum standards and business functions, taking into account the size, complexity and business profile of an individual company.

Figure 3: 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 audits 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 parent 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 Solvency Assessment process at the Group level. 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 entire 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 Group.

The Company's Management Board formulates business objectives and the risk appetite, and also adopts 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 the capital adequacy. It confirms the more important reports, including the Regular Supervisory Report (RSR) and Solvency and Financial Condition Report (SFCR). All of the abovementioned acts serve as the basis for minimum standards that apply to risk management at the Group level.

The Company's Management Board participates independently and actively in risk management processes within the scope of committees and steers the Own Risk and Solvency Assessment process as well as ensures its compliance and coordination with the capital planning and management process at the Group level. The Company and subsidiaries observe the guidelines of the Management Board and the minimum standards when assuming business tasks and responsibilities and identifying risks in their field of operations whereby they manage the said 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.4.1, B.5 and B.6.

The risk management system is set up at the Group members in accordance with the principles of the controlling company that are defined in the minimum standards as well as subject to the size, complexity and the business profile of an individual company. Risk management at the Group level is performed primarily at the level of the individual companies and secondarily at the Group level. The leaderships of subsidiaries and their appointed responsible persons are responsible for the setup and functioning of the risk management system at the level of individual companies. The drafting and transposition of minimum standards for the area of risk management is the responsibility of the Risk Management Department. The Strategic Planning and Controlling Department and the Legal Office are responsible for the implementation of the system of governance at the Group's subsidiaries as they define the minimum standards system, thus establishing and maintaining an effective and transparent system of governance of the Triglav Group. Effective communication and quality data and information exchange are especially important in this regard (temporal availability, methodological compliance, verifiability in accounting terms, and comprehensibility).

The Company has defined the following in its internal documents: the risk management system comprising the responsibilities of business functions and the rules regarding risk measurement and reporting. At the highest level, Risk Management Strategy and the Risk Appetite are defined as umbrella documents that outline the key indicators for each materially significant risk and their target and extreme values. The internal rules on the management of an individual risk category are subordinated 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 level of risks, including the defined limitations on risk assumption. They also define the competences and responsibilities, and the reporting system.

The risk management system at the Group level is composed of the following activities at all divisions and with respect to all risk categories:
- identification of the risks;
- assessment of detected risks and the definition of their materiality;
- clear definition of the objectives and limitations regarding the risks assumed and the establishment of a system of measures in the event of major deviations;
- monitoring and management of assumed 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.

Business 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 in all Group subsidiaries where all risk management system activities are primarily performed in a manner that is consistent with the minimum standards of the Company for this field. Subsidiaries are tasked with ensuring the functioning of the risk management system in line with the characteristics of an individual company. This includes the setup and regular adaptation of the internal risk management rules as well as risk identification, measurement, monitoring and reporting. The risk profile is additionally reported regularly in the event of any material change in exposure to any material risk type that could affect the capital or liquidity position 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 regular meetings of the Group's risk management functions. The reports include risk indicators for all risk and operations segments that are important for the comprehensive risk assessment and the overview of the important risks at the company. At the second level, the risk management system is implemented at the level of the Company where regular reporting to the risk management function and the functioning of risk management system committees serve to perform a comprehensive review of the assumed risks, 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 that ensures a suitable risk level. Various measures have been put in place for cases when limits are exceeded whereby such measures ensure a suitable scope of risks.

The 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 subject to the special features of individual companies, which in turn allows the harmonisation of the risk management system at the Group level.

B.3.2 Risk management function

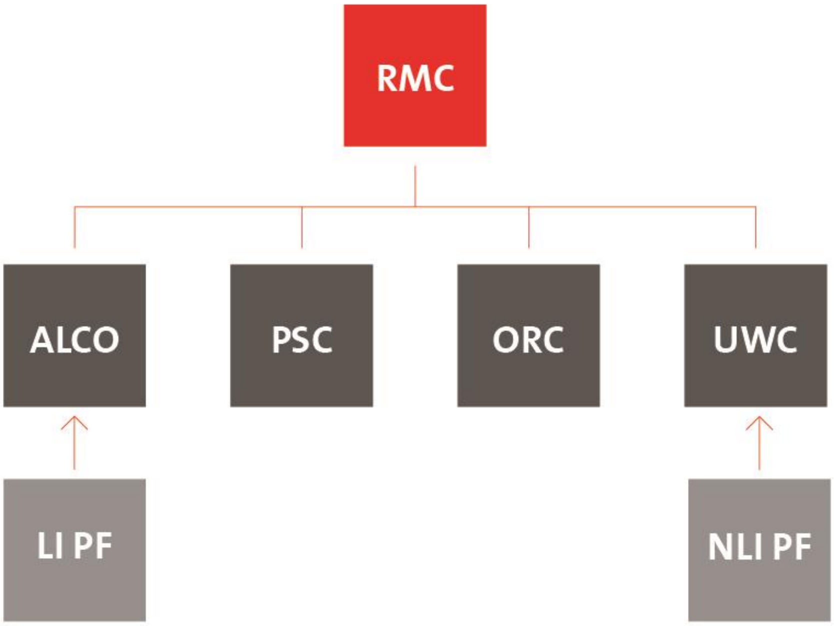
The risk management function operates at the parent company within the framework of the headquarters department that is directly subordinated to the Management Board. It is not only autonomous and independent from the other business functions, but also one of the key functions in the system of governance of the parent 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 Company's operations in terms of risk oversight, and in this context educates and assesses the potential impacts of changes on the risk profile.. The risk management function monitors the work of risk management system committees, coordinates the calculation of capital adequacy and the Own Risk and Solvency Assessment process, and prepares all of the necessary reports.

The risk management function at the level of the Company provides for the development and effectiveness of the risk management system at the Group level. To this end, it prepares risk management guidelines and minimum standards for all subsidiaries within the Group, monitors their implementation, advises on implementation and provides for uniform business practices, which it also does by organising joint consultations. It has in place a system of regular and extraordinary reporting on risk management from subsidiaries to the Company. It regularly briefs the Management Board, the competent risk management system committees, Supervisory Board and the Audit Committee of the Company on the risk profile of the Group. The parent company's risk management function holder is placed in the organisational structure in a way, which allows them to monitor of and impartially report on the implementation of the implementation of the risk management system at the Group level. The risk management function holder performs tasks as part of the second line of defence.

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 parent company's 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 4: Organisational chart of the committees within the Company's and the Group's risk management system as at 31 December 2018



THE RISK MANAGEMENT COMMITTEE (RMC) is the committee of the Management Board which is tasked with verifying the effectiveness of the functions that manage risk and ensuring that the parent company and the Group have an appropriate infrastructure in place as well as adequate resources and systems that allow for a satisfactory level of operational risk management. Apart from that, the committee assists in risk identification and management as well as in fostering the risk culture at individual divisions at the parent company and at the Group level. The fundamental objectives of the committee are to assist the Management Board in assessing exposure to business risks, identifying material risks and weaknesses in the internal control environment at the Group level, controlling risk exposure, confirming methodologies for risk measurement and the setting of limits for individual risk categories as well as verifying whether risk exposure complies with the risk appetite.

THE ASSETS AND LIABILITIES COMMITTEE (ALCO) is the committee that is responsible for the identification, management, monitoring and reporting of liquidity and market risks as well as life underwriting risk. The committee also monitors investment portfolio credit risk. An important task of the committee is the creation of the 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 at the Company and the Group.

THE UNDERWRITING COMMITTEE (UWC) is an integral part of the Company's and the Group's risk management system, the basic objective of which is to monitor and optimise the level and concentration of assumed underwriting risks under non-life insurance products and to propose limits or an optimum ceding/transfer of assumed underwriting risks to reinsurance, taking into account both the Company's and the Group's risk appetite and the risks arising from counterparty exposure. The committee identifies, manages, monitors and reports non-life underwriting risks and develops the non-life underwriting risk management system.

THE OPERATIONAL RISK COMMITTEE (ORC) works to set up a suitable integrated operational risk management system that is tailored to the Company's and the Group's requirements, including the optimum allocation of the appetite for operational risks subject to the guidelines stipulated in the risk appetite. It also works to control the functioning of the Company's and the Group's operational risk management system, including the review and confirmation of measures for its improvement. It also monitors the recommendations of the Internal Audit Department relating to the structure of the operational risk management system. Its operations are carried out with respect to all seven groups of 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).

NON-LIFE AND LIFE INSURANCE PRODUCT FORUMS (NLI PF AND LI PF) are tasked with pursuing the principal objective of assurance of continuous development and modification of insurance products for the Slovenian and other markets in which the Group companies market their products. When developing and changing insurance products, it is necessary to ensure compliance with the Company's and the Group's strategy as well as to make adaptations to meet the needs of the market while at the same time observing the legal frameworks, standards and good practice of the insurance and finance professions, insurance product management and supervision policy as well as the guidelines from the risk yppetite regarding the assurance of a suitable underwriting risk profile.

THE PROJECT STEERING COMMITTEE (PSC) is a decision-making body that enables comprehensive project portfolio management, provides the basis for transparent and traceable project implementation and project risk identification and management. The aim of PSC is to ensure comprehensive project portfolio 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 at the Company and the Group.

B.3.4 Own risk and solvency assessment process

The principal aim of the Own Risk and Solvency Assessment (hereinafter: ORSA) process is for the Company as the Group's parent company 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, 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 risk assessment results 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 risk 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, and the suitability of premium rates. This creates the foundations for other strategic decisions.

The Group's ORSA is harmonised with that of the Company, whereby the materiality principle is applied in the ORSA process at the Group level. This means that the ORSA overall results must include the result of the ORSA of the most important subsidiaries. Other subsidiaries are included subject to their respective risk profile, the proportionality principle and the materiality criterion at the Group level.

The adequacy of own assets is taken into account in the Group level ORSA subject to the assessment of availability, transferability and replaceability of own assets and eventual needs for additional capital. In doing so, we take into account the information on the planned transfers of own assets within the Group that can importantly affect any entity in the Group as well as their consequences, the effect of the harmonisation of strategies of Group companies with the Group's strategy, and all material 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, and the definitions and assessments of stress scenarios with an impact on capital adequacy. The ORSA process is reconciled with the planning of the Company's and the Group's operations as the calculation of planned capital adequacy is prepared in a coordinated manner and based on a financial plan. When the process has been completed, everything is documented and the final report is compiled with the results reported to all stakeholders. This ensures the transfer and incorporation into the Group's operations. The ORSA process represents the basis for the Management Board's decisions on 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 Group level 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.

In the previous year, the Company performed the ORSA process for the 2018 financial year. When implementing the ORSA process, the Company took into account all the material risks, to which the Group was exposed by the calculation date, as well as any potential risks that could have an impact on its operations over the next four-year period. The Group's capital adequacy plan assessed within the scope of the ORSA process was confirmed by the Company's Supervisory Board as part of the strategic plan for the 2019-2022 period. The ORSA process, including the assessment of the assumed risks, thus represents the basis for the Management Board's decisions on capital management in the strategic period.

The ORSA for 2018 assessed the impact of extraordinary circumstances. The Company has carried out tests of scenarios to assess the sensitivity of capital adequacy to risks and the future solvency requirements. They were prepared so as to reflect the current and potential risks in the environment to the greatest extent possible. The scenarios are a suitable basis for the assessment of the impact on the Group's operations and to help identify the risks and prepare appropriate measures.

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

B.4 Internal control system

The internal control system is ensured through prudent management and the setup of business processes through the observation of all obligations and resulting risks, through the assurance of a risk management system, internal and external reporting, assurance of compliance with the regulations, the regulator's requirements and other undertaken commitments as well as the adopted Code of Conduct of the Group. It comprises a clear organisational structure with a clear division of powers and responsibilities, up-to-date policies and procedures, and monitoring, improvement and documentation of business processes. The internal control environment is reasonably transposed from the parent company to the Group's subsidiaries.

B.4.1 Compliance function

The compliance function at the Company is organised within the framework of the 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, and 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 at the Group level 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.

The Company's compliance function provides for the development of the system for the assurance of compliance at the Group's subsidiaries. To this end, it prepares compliance guidelines and minimum standards for all subsidiaries within the Group, monitors their implementation, advises on implementation and provides for uniform business practices, which it also does by organising joint consultations. It has in place a system of regular and extraordinary reporting on compliance of operations or compliance risk at subsidiaries to the Company as well as concluded protocols on the delimitation of competences and authorisations for the assurance of operational compliance between the Company and subsidiaries. It regularly briefs the Management Board, the competent risk management committee, and annually also the Supervisory Board and the Audit Committee of the Company on the Group's compliance status. The Company's compliance function holder is placed in the organisational structure 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 level.

B.5 Internal audit function

The internal audit function executes risk assessment-based control over the operations of individual subsidiaries and the Group by systematically and methodically reviewing and assessing the adequacy and effectiveness of the governance of the subsidiaries and the Group, risk management and controls procedures 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-level 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 at the Company (including the members of the Company's management and supervisory bodies). The internal audit function of an individual company performs its tasks in compliance with the legal regulations and the professional and ethical rules of internal auditing that apply to each company. The organisational placement, role, powers and responsibilities as well as other rules on the functioning of the internal audit function, including its reporting obligations, are defined in detail in the internal acts of individual companies.

Internal auditors do not 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. In their work, internal auditors must be impartial and must avoid any conflict of interest. Internal auditors are required to inform the internal audit function holder who in turn informs the Company's 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 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 at the Group level which is why it prepares minimum standards and detailed methodological guidelines for the operation of the internal audit function at the Group level, 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 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 level as well as the key findings of performed internal audits.

B.6 Actuarial function

The actuarial function for a particular insurance company 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. They are in charge of ensuring suitable data in accordance with the prescribed methodology and deadlines.

The actuarial function for the Group is organised at the Group level and is separate for non-life and life insurance. The actuarial function at the Group level 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.

Another key task of this function at the Group level is the monitoring of the suitability of the amount of insurance-technical provisions at the Group level, the monitoring of the general underwriting risk assumption policy, monitoring of the adequacy of the insurance premium amount for individual products by assessing whether the premium for individual products is sufficient to cover all the liabilities arising from these insurance contracts as well as the verification of the suitability of reinsurance at the Group level. The key tasks include the setting of minimum standards for the drafting of rules, policies and processes relating to actuarial activities and transposing them to subsidiaries; care for the transfer of the relevant know-how and good practices and, as appropriate, provision of professional assistance in the implementation of the agreed minimum standards as well as the provisions of assistance in the development and upgrading of products. The actuarial function at the Group level participates in the implementation of the risk management system and especially the development, use and monitoring of the suitability of models for the calculation of capital requirements and the implementation of the ORSA process at the Group level.

The Company's Management Board and Supervisory Board authorise actuarial function holders at the Company level separately for non-life and life insurance products whereby the two may simultaneously be the holders of the actuarial function at the Group level. The actuarial function holder is responsible for the performance of the actuarial function tasks at the Group level and is the custodian of the minimum standards required for the performance of the actuarial function at the Group level. They are positioned in the organisational structure in a way that allows them to supervise and objectively and independently report on the implementation of actuarial tasks. 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 insurance-technical provisions, the underwriting risk assumption 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 level 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 bound to perform 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. Outsourcing 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 of Group companies.

Outsourced services are regularly monitored by the respective responsible persons who are responsible for the functioning of the outsourced portion of the business 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 obliged 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 agreements by way of which the company transfers the performance of a particular business process or service, which is considered a key function or important operational 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 outsourced 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 jeopardise the operations of any individual company or the Group as a whole. Group companies thus outsource several materially important operations to one another, i.e. operations that relate mainly to the management of own assets or assets covering technical provisions of the individual Group companies, performance of the major portion of the process for the sale of insurance and maintenance of IT systems for the support of key processes in an individual company. Two Group companies also outsource the performance of key functions, i.e. the internal audit function or the actuarial 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 of the Group, which is proportionate to both the nature and scope of the Group's operations and the complexity of the risks arising in the course of its operations. The above is confirmed by the results of regular internal audits of this system, which are performed annually by the competent departments of the Company.

OTHER RELEVANT INFORMATION

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

C. Risk profile

C.1 Underwriting risk

C.2 Market risk

C.3 Credit risk

C.4 Liquidity risk

C.5 Operational risk

C.6 Other material risks

C.7 Any other information

C. Risk profile

As part of their operations, the insurance undertakings of the Group are exposed to underwriting, market, credit, liquidity, operational and other risks. The parent company cooperates with subsidiaries in the monitoring and management of risk at the Group level, which it does in accordance with the process described in section B of this Report. Risk is managed at the Group level using established internal methodologies and indicators according to regulatory capital adequacy criteria and through capital adequacy according to the S&P risk assessment model.

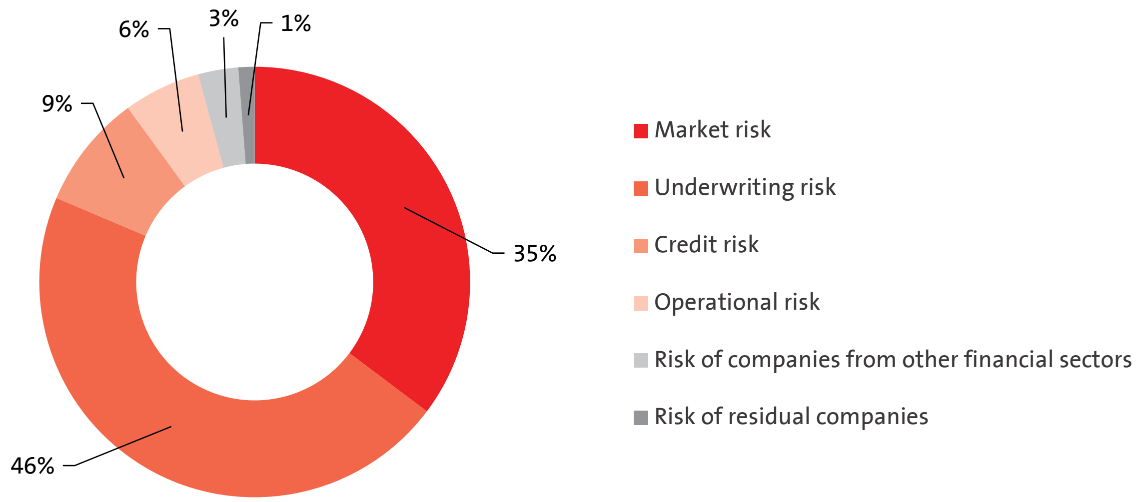
In order to ensure adequate familiarity with the risk profile, the Group has processes in place for each risk type as well as defined exposures and risk rates that help it assess the level of risk. Appropriate exposure limits that prevent excessive risk underwriting and ensure adequate portfolio diversification 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 adjusting limits at the Group level subject to the circumstances. In the event of excessive exposure, these can affect the permitted risk underwriting at the Group's subsidiaries. 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 Group measures risk using the standard formula defined in Commission Delegated Regulation[6], which measures risk as the value-at-risk of the Company's own basic funds with the confidence level of 99.5% over a period of one year.

As at the end of 2018, the overall risk estimate of the Group, which does not take into account mutual risk effects (i.e. diversification), amounted to EUR 567 million for underwriting, market, credit and operational risks. The diversification of risks between the modules lowers the overall value of the mentioned risks by EUR 176 million. Taking into account the Solvency Capital Requirement of subsidiaries in other financial sectors and other non-financial companies, the Group's overall risk assessment of the Group's portfolio is EUR 595 million.

[6] 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 of the Group as at 31 December 2018



The Group has formed two ring-fenced funds, i.e. VSPI[7] and VSPI annuity[8], 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 15.4 million to the solvency capital requirement of the Group. The method is presented in more detail in section E.1 of this Report.

C.1 Underwriting risk

Underwriting risk is the risk of loss or of an adverse change in the value of underwriting liabilities due to inadequate pricing (premiums) and provisioning assumptions taken into account in the calculation of technical provisions. The insurance companies of the Group assume underwriting risks when concluding insurance transactions, which represent their 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 Group members suitably identify and manage. In order to achieve the main objective, the Group has put in place procedures for monitoring and the taking of measures that ensure an appropriate level of underwriting risk exposure at the Group level.

As at 31 December 2018, underwriting risk accounted for 46% of the Group portfolio overall risk estimate (excluding diversification) which in turn represents EUR 180 million.

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

[7] Voluntary supplementary pension insurance
[8] Annuity stemming from Voluntary supplementary pension insurance

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

C.1.1 Non-life insurance

Under non-life insurance, Group members underwrite premium and reserve risks, lapse risks and catastrophe 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 products 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 incurred will deviate from the expected payments. Technical provisions for solvency purposes represent the best estimate of expected losses from existing non-life insurance contracts whereby the time value of money is observed. In the event that the future realisation 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 realisation is lower than expected, the Group as a whole will generate profit. The largest reserve risk at the Group level comes from the parent company.

LAPSE RISK is the risk of the lapse rate under concluded non-life insurance contracts being higher than the expected lapse rate.

CATASTROPHE RISK under non-life insurance arises due to the concentration of an insurance transaction in individual geographical areas, sectors or economic activities, or insured perils. This risk 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.

As at 31 December 2018, the Group's risk estimate under non-life insurance represents 36% of the Group's overall risk estimate, excluding diversification.

Table 11: Group's risk estimate for underwriting risks under non-life insurance for 2018 and 2017

		(€ thousand)
	2018	**2017**
Premium and reserve risks	141,480	130,153
Lapse risk	28,563	25,833
Catastrophe risk	40,386	43,286
Diversification	-51,305	-49,947
Non-life underwriting risk	**159,123**	**149,324**

Table 12: Group's risk estimate for underwriting risks under health insurance for 2018 and 2017

		(€ thousand)
	2018	**2017**
Health insurance risk valued as life risk	11	0
Premium and reserve risks	50,649	46,738
Lapse risk	5,911	7,038
Catastrophe risk	4,270	23,373
Diversification	-8,611	-19,415
Health underwriting risk	**52,230**	**57,734**

The estimate for underwriting risk under non-life insurance increased in 2018 mainly as the result of growth in the estimate for premium and reserve volume risks which came about as a result of the portfolio growth. Portfolio growth also causes the growth in the lapse risk. The catastrophe risk item decreased as a result of the change in the health insurance risk profile.

RISK EXPOSURE

Underwriting risk under non-life insurance at the Group level can result from the premium being set too low considering the underwritten risks, too high claims considering the provisions set aside, the number of withdrawals from concluded agreements being higher than expected and from larger (catastrophe) events. Catastrophic events according to the standard formula are divided at the group level into natural disasters and disasters caused by human actions whereby the capital requirements for both types of catastrophes most often originate 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 Group is materially exposed to premium risk in the fire and other damage to property insurance as well as medical expense insurance segments. The latter includes mainly supplementary health insurance. The exposure of the volume measure for premium risk ranges in accordance with the net earned premium that increased at the Group by EUR 55.3 million compared to the year before. Details on the net earned premium of the Group as at 31 December 2018 are shown in template QRT S.05.01 in Annex to this Report.

Table 13: Group-level exposure measured as net earned premium for underwriting risks under non-life insurance for 2018 and 2017

		(€ thousand)
	2018	2017
Net earned premium	**755,990**	**700,698**
- Motor vehicle liability insurance (LoB 4)	155,491	149,081
- Fire and other damage to property insurance (LoB 7)	154,717	136,928
- Medical expense insurance (LoB 1)	148,036	131,182
- Other motor insurance (LoB 5)	128,718	116,200
- Other non-life insurance segments	169,028	167,307

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. At the Group level, exposure is determined as the sum of the volume measure for reserve risk of all insurance undertakings of the Group; it increased at the by EUR 10.9 million compared to the year before.

Table 14: Exposure of the Group's volume measure for reserve risk for underwriting risks under non-life insurance for 2018 and 2017

		(€ thousand)
	2018	2017
Volume measure for reserve risk	**301,286**	**290,376**
- Motor vehicle liability insurance (LoB 4)	117,063	101,489
- General liability insurance (LoB 8)	42,524	42,022
- Fire and other damage to property insurance (LoB 7)	43,852	55,000
- Income protection insurance (LoB 2)	35,636	35,096
- Other insurance segments	62,211	56,770

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 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 settle 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. The biggest concentration at the Group is represented by the risk of an earthquake in Ljubljana.

The Group underwrites the most non-life underwriting risks in Slovenia and is therefore most exposed to the economic situation in Slovenia.

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, risks are underwritten based on consideration on a case by case basis, whereby individual Group members transfer a part of the risk to reinsurance partners outside the Group by purchasing facultative reinsurance protection. In doing so, they take into account both the maximum own shares and the PML as indicated in the risk appetite. The risk of the remainder of the portfolio is transferred to reinsurance and retrocession by purchasing various forms of proportional and non-proportional reinsurance. Risk mitigation at the Group level is managed 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 under non-life insurance were to decrease by 10%, the solvency ratio would rise by 2 pp. In the event of the decrease in the volume measure for reserve risk by the same amount, the solvency ratio would remain unchanged.

If the volume measure for premium risk (or reserve risk) were to decrease by 10% in the health sub-module, the solvency ratio 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 affected by this risk in terms of a change in the liabilities arising from such policies.

The Group measures risk 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 life insurance portfolio. Risks of these portfolios are valued without any diversification effects between the remainder of the portfolio and the two mentioned portfolios.

As at 31 December 2018, the Group's risk estimate under life insurance represents 10% of the Group's overall risk estimate, excluding diversification.

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

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

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 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 respect of all policies.

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, which feature contractual provisions allowing the policyholder to change the policy, are exposed to this risk. The said changes include: surrender of the policy, changing of the coverage or premium amounts, deciding what proportion of saved assets they will use to purchase the annuity, etc.

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

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 cause an increase in mortality.

Table 15: Group's risk estimate for underwriting risks under life insurance for 2018 and 2017

		(€ thousand)
	2018	**2017**
Mortality risk	6,981	6,253
Longevity risk	11,792	10,575
Disability and morbidity risk	356	295
Lapse risk	24,757	21,194
Expense risk	23,442	22,961
Revision risk	2,098	1,248
Catastrophe risk	4,367	3,991
Diversification	-12,107	-10,219
Life underwriting risk	**61,686**	**56,298**

The risk estimate for 2018 increased compared to the year before by lapse and mortality risk, both of which increased as a result of the increase in the share of insurance products covering the death of the policyholder. The increase in the expense risk estimate is the result of the increase in the actual operating expenses. The increase in longevity risk is the result of the increase of the pension and annuity portfolio.

As at 31 December 2018, the risk estimate for risks under life insurance contracts of both ring-fenced funds came in at EUR 12 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 16: Group's exposure to underwriting risks under life insurance for 2018 and 2017

		(€ thousand)
	2018	**2017**
Mortality risk	1,430,713	1,438,359
Longevity risk	1,526,636	1,504,434
Disability and morbidity risk	16,737	18,841
Lapse risk	1,333,900	1,351,771
Expense risk	1,536,018	1,515,058
Revision risk	95,922	66,279
Catastrophe risk	1,335,382	1,354,177
Exposure to life underwriting risk	**7,275,307**	**7,248,919**

The Group's exposure to life insurance underwriting risks did not change materially in 2018.

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.

LONGEVITY RISK of the Group is represented by the exposure of annuity and pension insurance policies. The amount of the basic annuity for these policies is set in advance and is fixed, i.e. based on the paid in funds and assumptions which mainly relate to the duration remainder of the beneficiaries' life. 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

The Group is exposed to the **DISABILITY AND MORBIDITY RISK** under policies that cover critical and serious diseases and disability. The problem of the exposure of such policies to the risk in question is similar to the abovementioned exposure of policies that cover the peril of death, i.e. mortality risk.

All policies, which feature contractual provisions allowing the policyholder to change the policy, are exposed to **LAPSE RISK**. The said changes include: surrender the policy, change the coverage or premium amounts, decide what proportion of saved assets they will use to purchase the annuity, etc. It is in the Company's interest for the concluded policies to remain in the portfolio under the agreed conditions until the expiry or the eventual realisation of the risk covered by the respective policy, while early terminations (lapses) generally (save for exceptional cases) represent a detrimental operational event for the Group.

The Group is exposed to **EXPENSE RISK** in all life insurance policies and in case of non-life insurance claims, which are paid out as annuities. This risk represents the risk of an eventual increase in all types of actual expenses irrespective of the type of policy, which has a negative effect on the return of the Group's life insurance portfolio.

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. The Group is exposed to this risk only in case of non-life insurance claims, which are paid out as annuities.

All policies that cover the mortality risk are exposed to **CATASTROPHE RISK UNDER LIFE INSURANCE**. This risk is very similar to the abovementioned mortality risk, with the difference being that this risk involves a one year increase in mortality and not a permanent system increase in mortality as described above.

CONCENTRATION RISK

The fact that the Group's sales network is so 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 the 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 out 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 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 performs sensitivity tests regularly in order to ensure risks are managed suitably.

Chart 4: Group's life insurance portfolio sensitivity test as at 31 December 2018

All shocks were defined based on the effects on own funds and taking into account a 200 year event defined in observance of 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. The Group identifies the following types of market risk:

The risk of a change in the interest rate or **interest rate risk** refers to the sensitivity of the value of assets, liabilities and financial instruments to changes in the term structure of interest rates or the volatility of interest rates.

The risk of changes in the price of equities or **equity risk** refers to the sensitivity of the value of assets, liabilities and financial instruments to changes in the values or volatility of the market prices of equities.

Property risk refers to the sensitivity of the value of assets, liabilities and financial instruments to changes in the values or volatility of 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, liabilities and financial instruments to changes in the value or volatility of credit spreads on the risk-free interest rate.

Currency risk refers to the sensitivity of the value of assets, liabilities and financial instruments to changes in the values or volatility of exchange rates.

Market concentration risk reflects the additional risk arising from insufficient asset portfolio diversification or extensive exposure to the risk of default on the part of a single security issuer or group of related issuers.

Table 17: Group's risk estimate for market risks for 2018 and 2017

		(€ thousand)
	2018	**2017**
Interest rate risk	30,864	27,580
Equity risk	27,424	48,859
Property risk	52,167	51,839
Spread risk	120,108	138,118
Currency risk	22,476	32,076
Market concentration risk	17,231	20,433
Diversification	-61,493	-73,763
Market risk	**208,775**	**245,142**

As at 31 December 2018, market risk represents 35% of the Group's overall risk estimate, excluding diversification.

The risk estimate is calculated at the Group level whereby the risk estimate for the two ring-fenced funds is added without diversification to the risk estimate for the remainder of the portfolio. As at 31 December 2018, the risk estimate for market risks of both ring-fenced funds came in at EUR 4.4 million.

Market risk decreased by EUR 36.4 million compared to the previous reporting period. Changes in the investment portfolio composition resulted in changed contributions of individual market risk types to the overall amount risk estimate: lower equity risk and 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, price risk and equity risk. Table below 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 18: Group's market risk exposure as at 31 December 2018 and 31 December 2017

(€ thousand)

Group's exposure to market risk	2018	2017
Property, plant and equipment held for own use	107,059	102,774
Real estate (except real estate held for own use)	95,596	99,656
Holdings in related undertakings, including participations	77,906	52,821
Equities	59,588	76,361
Bonds	1,913,237	1,897,887
- Government bonds	994,823	953,281
- Corporate bonds	914,070	934,718
- Structured notes	4,344	9,888
Collective investment undertakings	23,756	56,241
Derivatives	1,393	1,871
Deposits other than cash and cash equivalents	45,955	38,841
Other investments	4,096	4,325
Assets held for index-linked and unit-linked contracts	594,720	648,768
Loans and mortgages	37,180	30,405

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. Interest rate risk is balanced at the Group level through the management of assets vis-à-vis liabilities at the level of an individual company or portfolio. The parent company of the Group takes advantage of the fact that the life and non-life insurance segments represent natural mutual safeguards for one another as they have distinctly different tenors of liabilities. The tenor of financial assets decreased compared to the year before, i.e. by a total of one third of a year.

The shorter duration of the investment portfolio is most visible at the Group's parent company, whereby it is most extensive in the corporate bond segment. The opening of the interest rate gap results in a slight compared to the year before increase in the Group's interest rate risk estimate.

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 parent company holds equity investments at the Group level 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 parent company has carried out the comprehensive approach at the Group level, i.e. approach for the review of 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. The total value of the Group's immovable property was nearly unchanged compared to previous year. The Group is also exposed to property risk through the investments of the alternative investment fund. The risk estimate for the coverage of property risk is at similar levels compared to the previous year.

THE SPREAD RISK represents an important source of returns generated by the Group through bond portfolio management. The portfolio depends entirely on the assets because the majority of liabilities are valued according to the risk-free interest rate curve. All assets, the value of which depends on the change in the interest rate or more precisely of the part of the interest rate representing the credit spread, are exposed to spread risk. These are mainly bonds, loans and deposits. The Group increased its exposure to bond investments by EUR 15.4 million compared to the year before, whereby exposure to government bonds increased by EUR 41.5 million and exposure to corporate bonds decreased by EUR 20.6 million. Exposure to loans and term deposits also increased. On the other hand, the Group's exposure to interest rate risk decreased a result of investments into undertakings for collective investment in bonds, i.e. for a total of more than EUR 27 million. The Group's bond portfolio rating structure remained nearly unchanged compared to the year before. In the segment of corporate bonds that contribute the most to the spread risk estimate, duration decreased by 0.35 years. The decrease in the exposure to assets that are exposed to spread risk alongside the decrease in the duration of these assets results in decrease in the risk estimate for spread risk compared to the year before. The Group considers the bonds, which are issued by the governments from the EEA and not denominated in the currency of the issuing country, to be ordinary corporate bonds for risk assessment calculation purposes.

The Group's **CURRENCY RISK** arises from the mismatched asset and liability currency positions. The Group's liabilities are denominated in the currencies of the countries, in which the Group operates, i.e. mostly in euros. The Group's parent company pursues the policy of currency matching and invests the majority of its assets in accordance with the currency structure of liabilities. The risk estimate for currency risk arises mainly from the USD, HRK, BAM, 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 currency position is controlled, meaning that the risk estimate for currency risk is stable or slightly lower compared to the previous year as a result of the decrease in exposure to collective investment undertakings. The parent company hedges a portion of the foreign currency-denominated exposure using currency derivatives at the Group level.

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 latter again being uniformly divided into financial sector bonds and non-financial sector bonds.

The parent company continuously monitors (at the Group level) 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 values for concentration risk subject to the credit rating. The biggest exposure to a single issuer is represented by the exposure to the Republic of Slovenia. 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 members 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 issuing country, to be ordinary corporate bonds for risk assessment calculation 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, measure, manage and monitor market risks on an ongoing basis. The system that is in place also allows the parent company to perform quality analyses and reporting on market risks as well as to draft proposals and implement 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 established good practices are suitably 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 management and trading 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 contribute to market risk mitigation or enable additional flexibility in assets management and in the achievement of effects that would be relatively 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 the use of capital. The use of derivatives must focus on the comprehensive aspect of hedging individual portfolios whereby the derivatives used to hedge against interest rate and currency risk are currently in the forefront.

SENSITIVITY

As part of the ORSA process in 2018, 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 2018 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.

Chart 5: Group's investment portfolio sensitivity test as at 31 December 2018

All shocks were defined based on the effects on own funds and taking into account a 200 year event defined in observance of the standard formula.

C.3 Credit risk

Credit risk is defined as the risk of loss or adverse change in the Group's financial standing resulting from the debtor's inability to meet their financial or contractual obligations in part or in full as a result of fluctuation in their credit standing. The fluctuations in the debtors' credit standing cause changes to the Group's or affect the risk assessment (estimate). The Group is exposed to credit risk in the form of counter-party default risk and concentration risk.

As at 31 December 2018, market risk represents 9% of the Group's overall risk estimate, excluding diversification.

The risk estimate is calculated at the Group level whereby the risk estimate for the two ring-fenced funds is added without diversification to the risk estimate for the remainder of the portfolio. As at 31 December 2018, the risk estimate for credit risks of both ring-fenced funds came in at EUR 2.5 million.

Exposures to type 1 credit risk arise from exposures to counterparty that normally has a credit rating. Exposures to type 2 credit risk arise from exposures to counterparty that normally does not have a credit rating.

Table 19: Group 's risk estimate for credit risks in 2018 and 2017

(€ thousand)

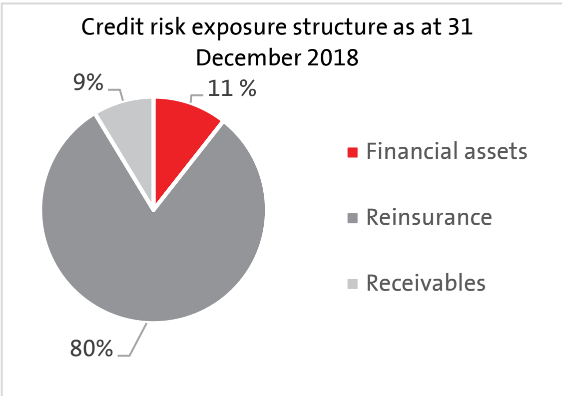
	2018	2017
Type 1	40,499	37,466
Type 2	10,198	8,305
Diversification	449	3,549
Credit risk	**50,946**	**49,320**

The risk estimated grew by EUR 1.6 million in 2018. The main reasons for the increase of this item are portfolio growth and the upgrading of the uniform counterparty database which enables improved monitoring and valuation of the counterparties' credit standing.

RISK EXPOSURE

The Group's exposure to type 1 credit risk mainly represents the exposure to reinsurance companies and banks. The Group's exposures to type 2 credit risk represent past due receivables from direct insurance operations and other past-due receivables.

The Group increased its exposure to reinsurers and investments compared to the year before. The exposure to past due insurance receivables remains at the same levels.



CONCENTRATION RISK

At the Group level, the parent company manages exposure concentration risk by individual segments of the operations, counterparty and its credit rating or country. Concentration risk arising from credit risk is suitably balanced at the Group level through the adequate diversification of reinsurance partners subject to the exposure, the partner's parent company and the credit rating.

RISK MITIGATION TECHNIQUES

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

Credit risk management at the Group level takes place according to the process that is based on a well-defined risk appetite and limits, risk measurement methodology and effective information sharing by all participants, especially underwriters. This enables optimum decision-making and, indirectly, also suitable credit risk management.

Credit risk from the 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. A process has been set up at the level of each subsidiary for the monitoring and reporting of exposures to the parent company based on which 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.

The Group has a system of limits to banks in place in order to monitor credit risk. Limits are based on the credit ratings of recognised rating agencies and a professional analysis of a bank. Limits at the Group level are set at the level of banking groups. Using limits, the Group mitigates the risk of concentration arising from exposure to banks.

When underwriting credit risks resulting from reinsurance at the Group level, credit risk is actively managed through a diligent assessment of the adequacy of business partners for reinsurance and by regularly monitoring their adequacy (credit rating, maximum permissible exposures, diversification). When measuring credit risk, it is important to have a suitable definition of counterparty creditworthiness where the Group relies on a robustly established process that is based on credit ratings from recognised rating agencies. In order to ensure the suitability of reinsurance partners' credit ratings, the Group has a system in place which precisely defines rules for the naming of partners and determining their basic information and a precisely defined procedure for the determination of the partners' second best credit rating. Thus, all Group members are aligned when it comes to the naming and rating of reinsurance partners which enables thorough consolidation of exposures at the Group level.

SENSITIVITY

The Company regularly analyses credit risk sensitivity at the Group. Credit risk sensitivity from reinsurance is measured by the Group through the change of the rating of the main reinsurer whereby all other risk assessment calculation parameters remain the same. It measures the credit risk sensitivity arising from the operations with the bank, at which the Group has the biggest exposure, in a similar manner.

Chart 6: Group 's credit risk sensitivity test as at 31 December 2018

C.4 Liquidity risk

Liquidity risk is the risk of loss resulting from the inability of a Group member to meet all of its past-due liabilities and obligations or from the fact that such a company is forced to acquire the necessary funding at a cost 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 materialises in the form of the inability to liquidate or sell financial assets at prices that are significantly lower than the current market prices.

The Group's subsidiaries manage investments and liabilities with the aim of these companies being able to settle all mature liabilities at any moment. They also ensure an appropriate structure of assets subject to their nature, tenor and liquidity. In order to ensure an adequate liquidity position, Group members plan actual and potential net cash outflows, hold an adequate amount and structure of liquid investments and regularly monitor the structure of liabilities.

When managing liquidity, Group members observe the local regulations and the minimum standards relating to risk management applying at the Group and which establish a harmonised liquidity risk management system. The parent company ensures the required liquidity to subsidiaries as appropriate.

RISK EXPOSURE

The insurance companies of the Group are exposed to liquidity risk in case of catastrophic loss events and the increased rate of early insurance policy terminations (lapses) as well as in case of instability on financial markets. The liquidity risk of the other Group members is affected mainly by financial market instability and other events that are specific to Group members.

Liquidity management at the level of an individual Group member enables a comprehensive review of liquidity risk which takes into account liquidity sources (specifically cash flows from investments and insurance premiums) and liquidity needs (specifically indemnity payments) and allows the analysis of potential effects of extraordinary circumstances both on the assets side and the liabilities side.

CONCENTRATION RISK

Concentration risk for liquidity risk arises from potential directly or indirectly related events that cause a deterioration in liquidity. Liquidity risk concentration at the Group is most pronounced in case of elevated liquidity risk at the parent company which however has processes in place that enable timely detection of an uptick in such risk.

RISK MITIGATION TECHNIQUES

In order to mitigate liquidity risk at Group members, the effect of financial instruments on the liquidity position is assessed prior to and after the acquisition of financial instruments. Prior to the acquisition of financial instruments, each Group member considers the limits on investments that are agreed subject to the nature of investments. The second part of liquidity risk mitigation entails – especially at large insurance undertakings and other financial undertakings of the Group – the ongoing monitoring of liquidity indicators that measure the liquidity position of an individual Group member. This ensures that all limits are suitable and that measures are put in place that prevent the onset of a liquidity crisis.

The Group's parent company concludes reinsurance contracts with the "pay-as-paid" clause (clause providing for the payment of claims only after receiving payment under the reinsurance contract) for large insurance transactions.

SENSITIVITY

Because liquidity risk is assessed as low, no additional sensitivity tests were performed at the Group level.

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 106.3 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 2018 is shown in the table below.

Table 20: Amount of expected profit included in future premiums as at 31 December 2018

Expected profit included in future premiums		(€ thousand)
	2018	2017
Life insurance	56,281	36,746
Non-life insurance	50,020	42,053
Total	**106,301**	**78,800**

The amount of expected profit included in future premiums grew by EUR 27.5 million compared to the year before. The main reason for the growth in the expected profit included in future premiums under non-life insurance is the growth and the returns of the Group's portfolio. The reason for the change in life insurance is the increased volume of operations at the parent company and the lowering of the risk-free interest rate curve.

C.5 Operational risk

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

As at 31 December 2018, operational risk represents 6% of the Group's overall risk estimate, excluding diversification.

The risk estimate is calculated at the Group level whereby the risk estimate for the two ring-fenced funds is added without diversification to the risk estimate for the remainder of the portfolio. As at 31 December 2018, the risk estimate for operational risks of both ring-fenced funds came in at EUR 0.6 million.

RISK EXPOSURE

The biggest exposure at the Group level is currently represented by regulatory, external fraud and 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 in recent times as well as the prescribed new, very high fines are bringing regulatory risk to the forefront. Group companies are preparing intensively for the compliance with the legislation and are devoting adequate resources to these efforts. They are also adapting and putting in place the necessary processes and internal controls. Because the Group is most exposed to insurance fraud, a fraud prevention, detection and investigation policy has been put in place in all areas of operations. We are seeing an increase in exposure to cyber risk, i.e. due to computerisation, digitalisation and the rise of sophisticated cyber attacks, which is why Group companies are upgrading risk management in accordance with an action plan.

CONCENTRATION RISK

The Group is aware that computerisation and digitalisation are increasing the influence of IT on operations from the point of view of operational risk concentration and importance. The operations at the Group level are 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, a business continuity management system has been put in place. It comprises business continuity plans for critical business processes and an IT recovery plan, whereby many activities at this time are geared towards the preparation of additional recovery plans for the Group's insurance undertakings.

RISK MITIGATION TECHNIQUES

Group members have an internal controls system in place that allows them to ensure the mitigation of exposure to operational risk. Using minimum standards, the Group introduces an effective system for operational risk management such as the one that has been set up at the parent company. The Group 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. In the event of important or repetitive operational loss events and if the operational risk appetite and tolerances are exceeded, the Group begins preparing risk mitigation measures or additional internal controls aimed at risk mitigation. If the risk is mitigated to an appropriate level, i.e. it does not repeat or the frequency of reoccurrences of minor loss events of this type is reduced, the parent company assesses the measures as successful. Additional measures or upgraded internal controls have an effect on the decrease in exposure to potential operational risks that are assessed regularly. In these ways, the group can verify the success of the implementation of risk mitigation measures. The same operational risk mitigation measures are also being introduced at subsidiaries.

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). The parent company therefore generally assesses potential effects of operational risks and determines the ways of managing them on an annual basis, i.e. as part of the workshops dealing with the assessment of potential operational risks. The parent company also monitors the realised operational loss events and operational risk indicators and additionally tests the sensitivity to realised operational risks by performing stress tests (e.g. transfer of IT operations from the primary server location to a backup location). Based on a longer data time series of these data and the centralised data gathering of all subsidiaries, it will be possible in the coming years to quantify whether the standardised formula at the Group level suitably reflects its actual exposure to operational risk.

C.6 Other material risks

NON-FINANCIAL RISKS

In terms of the Group's operations, material non-financial risks include strategic risk, capital risk, reputational risk and Group risks. Non-financial risks are very closely connected to other risks at the Group, especially operational risks, and they usually result from several factors within and outside the Group.

The non-financial risk management system is set up at the Group members in accordance with the arrangement of the parent company in line with the principles that were prescribed in the document entitled Risk Management Minimum Standards as well as subject to the size, complexity and the business profile of an individual company.

Strategic risk is the risk of loss due to inappropriate business decisions by the management body, inconsistent implementation of strategic decisions and insufficient responsiveness to key changes in the business environment.

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

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.

The parent company manages capital risk from the point of view of the effect of external events on the capital adequacy of the parent company and the Group. External events that can importantly affect the Group's capital adequacy include legislative amendments and changes to financial reporting standards. Unfavourable conditions on capital markets that could negatively affect the acquisition of additional capital, which the parent company monitors regularly as part of the capital management process can also have a significant impact

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.

There are numerous causes for reputational risk, i.e.: inability to ensure a suitable standard of quality of services and products; unethical business practices; failure to achieve the set financial targets; deterioration in relations with internal stakeholders or employees; causing environmental pollution; act by a competitor that can negatively affect the image of the entire insurance sector.

The basic element of the Group's reputational risk management system is a good corporate governance system that is monitored and supported at the Group by various activities or surveys that assesses the view of the Group held by the external public.

Reporting on reputational risk is performed mainly through analyses of the publications of external media, analyses of the strength of the Triglav brand, customer satisfaction analyses and other quarterly analyses.

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 jeopardise the achievement of strategic goals due to an ineffective system of governance at the Group level and insufficient knowledge of the business environment where the Group's associated companies operate. The parent company's risk profile is also affected by transactions between associated companies and the increased complexity of concentration risk management. All of the abovementioned risks may materialise in the form of larger or smaller deviations from the business or financial plan as a result of losses or lost business opportunities.

SUSTAINABILITY RISKS

Sustainability risks have been gaining in importance recently. They include environmental, social and governance factors (ESG – environmental, social, governance). These risks are considered to represent key global challenges. From the point of view of insurance companies, the central role within sustainability risks is attributed to climate change. Climate change in combination with sustainability risks (ageing of the population, bacteria becoming resistant to antibiotics, pandemics, etc.) will affect the operations of insurance companies both through liabilities and assets.

The Company will devote even more attention to this risk both in the area of investment decisions and in the area of the insurance activity (assumption of underwriting risk).

C.7 Any 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 of their 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 that ensures 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 respective assets in accordance with the set group objectives whereby the approach of centralised asset management at the Group level is observed at all times.

Current liquidity is ensured by individual Group members 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.

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.

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.

OTHER RELEVANT INFORMATION

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

D. Valuation for solvency purposes

D. Valuation for solvency purposes

Assets and liabilities at the Group level are valued for solvency purposes at fair value.

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 below shows the balance sheet of the Group for solvency and financial reporting purposes. Details on the Group's balance sheet are shown in template QRT S.02.01 in Annex to this Report.

Table 21: Balance sheet of the Group as at 31 December 2018

31 December 2018			**(€ thousand)**
Balance sheet		**Value for solvency purposes**	**Value for financial reporting purposes**
Assets		**3,183,483**	**3,645,277**
Intangible assets	D.1.1	0	84,060
Deferred tax assets	D.1.2	36,332	12,894
Property, plant and equipment held for own use	D.1.3	107,059	113,296
Investments	D.1.4	2,221,527	2,450,128
Assets held for index-linked and unit-linked contracts	D.1.5	594,720	594,379
Loans and mortgages	D.1.6	37,180	35,740
Reinsurance recoverables	D.1.7	56,180	85,920
Deposits to cedants	D.1.8	6,281	6,281
Insurance & intermediaries receivables	D.1.9	37,802	96,601
Reinsurance receivables	D.1.10	17,911	51,300
Receivables (trade not insurance)	D.1.11	17,943	30,754
Cash and cash equivalents	D.1.12	43,396	76,447
Any other assets, not elsewhere shown	D.1.13	7,151	7,477
Liabilities		**2,288,449**	**2,898,415**
Technical provisions	D.2	2,075,438	2,674,942
Other technical provisions		0	38,159
Provisions, other than technical provisions	D.3.1	15,867	16,724
Deferred tax liabilities	D.3.2	75,775	17,204
Debts owed to credit institutions	D.3.3	420	420
Financial liabilities other than debts owed to credit institutions	D.3.4	4,999	5,201
Insurance & intermediaries payables	D.3.5	31,808	19,718
Reinsurance payables	D.3.6	3,818	30,466
Payables (trade not insurance)	D.3.7	50,411	4,608
Subordinated liabilities	D.3.8	17,840	15,463
Any other liabilities, not elsewhere shown	D.3.9	12,072	75,510
Excess of assets over liabilities		**895,034**	**746,863**

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 at the Group level for 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 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 are used as much as possible 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 22: Balance sheet of the Group as at 31 December 2018

31 December 2018			**(€ thousand)**
Balance sheet	**Value for solvency purposes**		**Value for financial reporting purposes**
	31 December 2018	**31 December 2017**	**31 December 2018**
Intangible assets	0	0	84,060

D.1.2 Deferred tax assets

Deferred tax assets are valued in two stages for solvency purposes. In the first stage, they are valued at the level of an individual Group member as the product of the difference between the assets in the statutory and market value balance sheets of an individual company, without taking into account the financial assets (investments) in related undertakings, and the local tax rate currently applicable in the country where the company operates. In the second stage, deferred tax assets of the companies are summed up thus arriving at the value for the entire Group.

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 23: Deferred tax assets of the Group as at 31 December 2018

31 December 2018			(€ thousand)
Balance sheet	**Value for solvency purposes**		**Value for financial reporting purposes**
	31 December 2018	**31 December 2017**	**31 December 2018**
Deferred tax assets	36,332	32,813	12,894

The value of deferred tax assets increased compared to the year before because of the increase in the difference between the balance sheet assets for financial reporting purposes and those for solvency purposes, which is the basis for the calculation of deferred tax assets. The difference is mostly the result of the change at the level of the Company.

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 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.o.o. and Golf Arboretum, d.o.o. The difference between the items is additionally the result of the different valuation method.

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 also represent the fair value.

Table 24: Group's property, plant and equipment held for own use as at 31 December 2018

31 December 2018			(€ thousand)
Balance sheet	**Value for solvency purposes**		**Value for financial reporting purposes**
	31 December 2018	**31 December 2017**	**31 December 2018**
Property, plant and equipment held for own use	107,059	102,774	113,296

The value of the item increased slightly compared to the year before. Additional investments into the property, plant and equipment of the Company contributed the most to the said increase.

D.1.4 Investments

Investments represent the major portion of balance sheet assets. Pursuant to the provisions of 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 in case the market activity is assessed as low include the following among others: low number of transactions in the period, extensive differences between bid and asking prices, high-level 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 25: Investments of the Group as at 31 December 2018

31 December 2018		(€ thousand)
Balance sheet	**Value for solvency purposes**	**Value for financial reporting purposes**
Investments	**2,221,527**	**2,450,128**
Real estate (except real estate held for own use)	95,596	89,840
Holdings in related undertakings, including participations	77,906	16,881
Equities	59,588	65,681
Bonds	1,913,237	2,107,365
Collective investment undertakings	23,756	104,066
Derivatives	1,393	1,393
Deposits other than cash and cash equivalents	45,955	60,756
Other investments	4,096	4,145

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.

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 Sarajevostan, d.o.o. The difference between the items is additionally the result of the different valuation method.

Table 26: Real estate (except real estate held for own use) of the Group as at 31 December 2018

31 December 2018			(€ thousand)
Investments	**Value for solvency purposes**		**Value for financial reporting purposes**
	31 December 2018	**31 December 2017**	**31 December 2018**
Real estate (except real estate held for own use)	95,596	99,656	89,840

The value of real estate (except real estate held for own use) decreased by EUR 4.1 million in 2018. The drop in the value of real estate is most pronounced at the Group's parent company: sale of properties in Ljubljana (Zelena jama, Davčna ulica and Slovenska ulica) and the sale of Vila Marina in Portorož.

The valuation of the major portion of the real estate portfolio by a certified real estate valuer was last made on 31 December 2017.

D.1.4.2 Holdings in related undertakings, including participations

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 the balance sheet for solvency purposes. The holdings in strategic financial companies, non-strategic subsidiaries and affiliates are valued according to the following valuation method hierarchy:

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

<u>b. the adjusted equity method:</u> 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);

<u>c. adjusted prices for similar assets in active markets or alternative valuation methods:</u> if neither valuation method in accordance with paragraphs a) or b) is possible and the undertaking is not a subsidiary undertaking, holdings in related undertakings are valued using an 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 the related 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 the 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 below provides the values of the Group's equity holdings in related undertakings according to the valuation methods for solvency purposes.

Table 27: Values of the Group's equity holdings in related undertakings according to valuation methods as at 31 December 2018

31 December 2018			(€ thousand)
Valuation method	**Value for solvency purposes**		**Value for financial reporting purposes**
	31 December 2018	**31 December 2017**	**31 December 2018**
DVM	969	630	2,064
AEMS1	67,526	42,883	7,996
AVM	9,411	9,308	6,822
Total	77,906	52,821	16,881

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 28: Group's holdings in related undertakings, including participations, as at 31 December 2018

31 December 2018			In EUR thousands
Investments	**Value for solvency purposes**		**Value for financial reporting purposes**
	31 December 2018	**31 December 2017**	**31 December 2018**
Holdings in related undertakings, including participations	77,906	52,821	16,881

The value of holdings in related undertakings increased in 2018. The biggest contribution to the increase is represented by the capital increase in Trigal, d.o.o., good performance of subsidiaries and the increase of the equity holding in Skupna pokojninska družba, d.d., whereas Sarajevostan, d.o.o returned a portion of the capital to the owners.

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 quoted 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, whereas the appropriate valuation methods subject to the features of the asset being valued 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 investment and the total value of assets valued in such a manner, the cost value is important for determining the value of the asset. Valuation for financial reporting purposes generally does not deviate from the valuation for solvency purposes.

Table 29: Equities of the Group as at 31 December 2018

31 December 2018			**(€ thousand)**
Investments	**Value for solvency purposes**		**Value for financial reporting purposes**
	31 December 2018	**31 December 2017**	**31 December 2018**
Equities	**59,588**	**76,361**	**65,681**
Listed equities	48,796	52,207	54,338
Unlisted equities	10,792	24,154	11,343

The value of equities decreased in 2018 mainly in the segment of unlisted securities. The decrease is mainly the result of the completion of the sale of investments in Salnal, d.o.o. for a total of EUR 14.5 million. The remaining changes are mostly the result of the revaluation of the portfolio that followed the stock market correction over the last three months of the year.

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, and loans and receivables). Investments classified as "available for sale" or "at fair value through profit or loss" are valued at fair value. Investments classified as held-to-maturity 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 assessment that economic circumstances have not changed materially since the last transaction is true;

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, the Group relies 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 30: Bond of the Group as at 31 December 2018

31 December 2018			**(€ thousand)**
Investments	**Value for solvency purposes**		**Value for financial reporting purposes**
	31 December 2018	**31 December 2017**	**31 December 2018**
Bonds	**1,913,237**	**1,897,887**	**2,107,365**
Government bonds	994,823	953,281	1,086,347
Corporate bonds	914,070	934,718	1,016,674
Structured notes	4,344	9,888	4,344
Collateralised securities	0	0	0

The value of bonds increased in 2018 as a result of inflows from other forms of investments (mainly collective investment undertakings) and positive revaluation. The increase in the government bonds segment is mainly the result of the decrease in the corporate bonds segment. The segment of structured notes decreased in 2018 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 38 million up to the value for solvency purposes. Owing to the low interest rates and 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 31: Collective investment undertakings of the Group as at 31 December 2018

31 December 2018			(€ thousand)
Investments	**Value for solvency purposes**		**Value for financial reporting purposes**
	31 December 2018	**31 December 2017**	**31 December 2018**
Collective investment undertakings	23,756	56,241	104,066

The value of the item decreased in 2018 mainly as a result of outflows into other investment classes (mainly bonds). The biggest drop was recorded by funds with a bond component and funds with an equity component – with a total decrease of EUR 41.5 million. The major portion of the decrease comes from the Group's parent company. Exposure to alternative investment funds increased by more than EUR 10 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 portfolio of Triglav Skladi, d.o.o., which comprises predominantly collective investment undertakings, and the portfolio 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 32: Derivatives of the Group as at 31 December 2018

31 December 2018			(€ thousand)
Investments	**Value for solvency purposes**		**Value for financial reporting purposes**
	31 December 2018	**31 December 2017**	**31 December 2018**
Derivatives	1,393	1,871	1,393

The value of the item decreased in 2018 owing to the negative revaluation as a result of downward correction on the 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 33: Group's deposits other than cash and cash equivalents as at 31 December 2018

31 December 2018			(€ thousand)
Investments	Value for solvency purposes		Value for financial reporting purposes
	31 December 2018	31 December 2017	31 December 2018
Deposits other than cash and cash equivalents	45,955	38,841	60,756

The value of the item increased in 2018 mainly as a result of long-term deposits at the parent company. The amount of short-term deposits with maturity of less than one year decreased compared to the year before.

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, which is the result of the different method of valuation of investments classified as "held to maturity", represents a small portion of the difference between the items.

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 34: Other investments of the Group as at 31 December 2018

31 December 2018			(€ thousand)
Investments	Value for solvency purposes		Value for financial reporting purposes
	31 December 2018	31 December 2017	31 December 2018
Other investments	4,096	4,325	4,145

The value of the item remained practically unchanged in 2018.

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 35: Group 's assets held for index-linked and unit-linked contracts as at 31 December 2018

31 December 2018			(€ thousand)
Balance sheet	**Value for solvency purposes**		**Value for financial reporting purposes**
	31 December 2018	**31 December 2017**	**31 December 2018**
Assets held for index-linked and unit-linked contracts	594,720	648,768	594,379

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 respectively 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 respective liability. The decrease in the value of investments as a result of a drop in global stock markets exceeds EUR 30 million with the remaining drop represented by outflows.

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 mainly based 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 36: Loans and mortgages of the Group as at 31 December 2018

31 December 2018			(€ thousand)
Balance sheet	**Value for solvency purposes**		**Value for financial reporting purposes**
	31 December 2018	**31 December 2017**	**31 December 2018**
Loans and mortgages	**37,180**	**30,405**	**35,740**
Loans on policies	3,343	2,824	3,340
Loans and mortgages to individuals	89	46	91
Other loans and mortgages	33,748	27,535	32,309

In 2018, the assets under the loans and mortgages item increased by EUR 6.8 million. The main reason for this increase was the loan to an infrastructure project in an EU country. The loan to Gorenje, d.d. was paid down early upon the change of ownership.

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

Each Group member determines the value of reinsurance recoverables using its own methodology. Each namely also takes into account the non-past due reinsurance contract receivables for financial reporting purposes.

Subject to the insurance and reinsurance contract boundaries, reinsurance recoverables relating to the said contracts are determined for solvency purposes. Reinsurance recoverables for non-life insurance liabilities are calculated separately for premium and claims liability provisions. Recoverable amounts from reinsurance contracts for claims under non-life insurance that are paid in the form of annuities are disclosed at the Group level under the life insurance item.

Table 37: Reinsurance recoverables of the Group as at 31 December 2018

31 December 2018			(€ thousand)
Assets	**Value for solvency purposes**		**Value for financial reporting purposes**
	31 December 2018	**31 December 2017**	**31 December 2018**
Reinsurance recoverables	**56,180**	**50,349**	**85,920**
Non-life insurance	51,617	48,199	85,920
Life insurance	4,563	2,150	0

Recoverable amounts from reinsurance increased compared to the year before as a result of the growth of the best estimate of non-life insurance claims, which are paid in the form of annuities, and the decrease in mutual transactions.

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 38: Group's deposits to cedants as at 31 December 2018

31 December 2018			(€ thousand)
Balance sheet	**Value for solvency purposes**		**Value for financial reporting purposes**
	31 December 2018	**31 December 2017**	**31 December 2018**
Deposits to cedants	6,281	5,668	6,281

The value of deposits to cedants did not change materially in the reporting period.

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 39: Group's insurance & intermediaries receivables as at 31 December 2018

31 December 2018			(€ thousand)
Balance sheet	**Value for solvency purposes**		**Value for financial reporting purposes**
	31 December 2018	**31 December 2017**	**31 December 2018**
Insurance & intermediaries receivables	37,802	32,632	96,601

Insurance and intermediaries receivables increased in 2018 due to the 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 40: Reinsurance receivables of the Group as at 31 December 2018

31 December 2018			(€ thousand)
Balance sheet	**Value for solvency purposes**		**Value for financial reporting purposes**
	31 December 2018	**31 December 2017**	**31 December 2018**
Reinsurance receivables	17,911	14,090	51,300

Reinsurance receivables increased in 2018 by EUR 3.8 million mainly as a result of the growth of the reinsurance operations of a reinsurance company in the Group.

D.1.11 Receivables (trade not insurance)

Receivables (trade not insurance) comprise receivables from financing activities with the remaining part represented by receivables from operating activities (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. A different classification of balance sheet items is also used for the two valuation methods.

Table 41: Group's receivables (trade not insurance) as at 31 December 2018

31 December 2018			(€ thousand)
Balance sheet	Value for solvency purposes		Value for financial reporting purposes
	31 December 2018	31 December 2017	31 December 2018
Receivables (trade not insurance)	17,943	18,623	30,754

Receivables (trade not insurance) decreased compared to the year before mainly due to the decrease in subrogation receivables and receivables from financing activities.

D.1.12 Cash and cash equivalents

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

Table 42: Cash and cash equivalents of the Group as at 31 December 2018

31 December 2018			(€ thousand)
Assets	Value for solvency purposes		Value for financial reporting purposes
	31 December 2018	31 December 2017	31 December 2018
Cash and cash equivalents	43,396	54,508	76,447

In 2018, the values under this item decreased by EUR 11.1 million. The decrease is most extensive at the Group's parent company, i.e. EUR 13.6 million, which is mainly the result of outflows into other more profitable investment classes.

D.1.13 Any other assets, not elsewhere shown

The item includes short-term deferred costs and accrued revenue, 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. A different classification of balance sheet items is also used for the two valuation methods.

Table 43: Group's any other assets, not elsewhere shown as at 31 December 2018

31 December 2018			(€ thousand)
Assets	Value for solvency purposes		Value for financial reporting purposes
	31 December 2018	31 December 2017	31 December 2018
Any other assets, not elsewhere shown	7,151	5,943	7,477

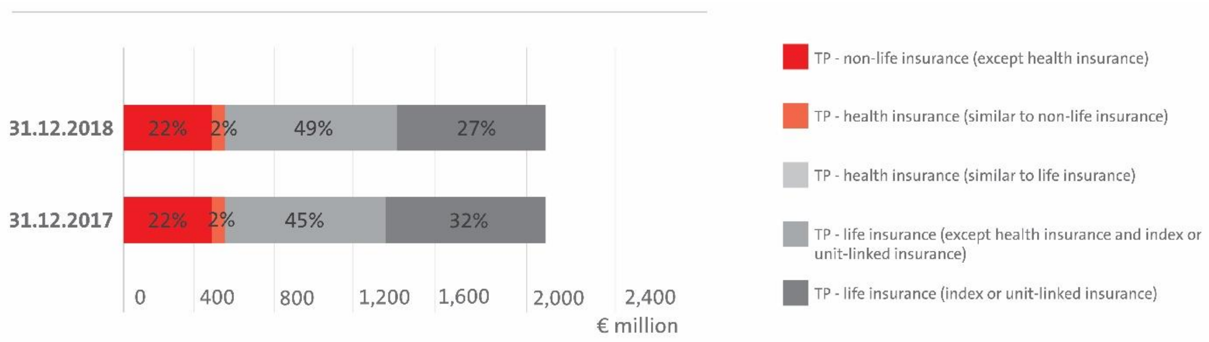
The value of any other assets of the Group, not elsewhere shown increased compared to the year before mainly as a result of the increase in deferred costs and accrued revenues.

D.2 Technical provisions

At the level of an individual insurance undertaking, 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 members calculate technical provisions separately for non-life and health as well as life insurance and allocate them according to the selected calculation method.

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 undertakings within the Group less intra-Group transactions.

Chart 7: Group's technical provisions as at 31 December 2018



CONTRACT BOUNDARIES AND HOMOGENEOUS RISK GROUPS

The Group's insurance undertakings 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 the 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.

D.2.1 Technical provisions for non-life insurance

Non-life insurance technical provisions amount to EUR 493.4 million.

The data which are the basis for the calculation of technical provisions for non-life insurance comply with the criteria regarding suitability, completeness and adequacy because the Group has set up a data quality monitoring and quality assurance system.

Each Group member segments its non-life insurance portfolio for the purpose of calculating technical provisions at least into prescribed lines of business as set out in Commission Delegated Regulation (EU). Some companies further break down their business lines into further homogenous groups subject to the statistical characteristics of the portfolio. The segmentation itself is linked to the process of the 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 the analyses of the samples of cash flows and the volatility of insurance groups.

Table 44: Group's technical provisions for non-life insurance for solvency purposes as at 31 December 2018 and 31 December 2017

31 December 2018			**(€ thousand)**
Non-life insurance technical provisions	**Best estimate**	**Risk margin**	**Technical provisions**
-- Non-life insurance	420,322	28,704	449,026
-- Health insurance	40,661	3,673	44,334
Total	**460,983**	**32,377**	**493,360**

31 December 2017			**(€ thousand)**
Non-life 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**

The main reason for the decrease in the Group's technical provisions is the faster payment of reported claims.

D.2.1.1 Best estimate of premium provision

The basis for the best estimate of the premium provision is future cash flows from premiums, claims, subrogations, costs, bonuses and discounts, terminations and commissions. The basic assumption is that the pattern of development of future cash flows from the premium provision matches with the pattern that is calculated and used in claim provisioning. Unearned premium estimated as at the calculation date 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 the claims provision is calculated as at the end of the period. In doing so, claims are classified into two groups. The first includes incurred reported claims, i.e. all claims that occurred up to the last day of the reporting period. The second includes incurred unreported claims, i.e. incurred but not sufficiently reported claims and reopened claims, namely claims that have not been finally resolved by the last day of the reporting period.

The source of the best estimate of incurred reported claims is the list of provisioned claims which is the result of monthly processing and is monitored at the level of an individual claim file. Individual claim adjustment departments are responsible for compiling the list of estimates for individual claims, whereby data that affect the estimates are entered concurrently. The lists exclude annuity applications that are included in the best estimate of the annuity provision. Provisions for incurred 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

As at 31 December 2018, the Group's risk margin amounted to EUR 32.4 million.

At the Group level, it is calculated as the sum of the risk margins of the same insurance segments of the operations of individual Group members. Projections of future capital requirements for individual risks by module and sub-module are made for the calculation of the risk margin. The approach used is the one under the first method according to the hierarchy of the EIOPA Guidelines on the valuation of provisions (guideline 62).

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

As at 31 December 2018, non-life insurance technical provisions for financial reporting purposes amounted to EUR 922.7 million, while they stood at EUR 493.4 million for solvency purposes. The basic difference between both valuation methods lies in the fact that the precautionary estimate of liabilities is used for financial reporting purposes, whilst the best estimate is used for solvency purposes. Provision calculation applies slightly different portfolio segmentation.

Table 45: Difference between technical provisions for non-life insurance for solvency purposes and for financial reporting purposes

31 December 2018		(€ thousand)
	Value for solvency purposes	Value for financial reporting purposes*
Non-life insurance technical provisions	493,360	922,695

*The value relates to technical provisions presented in The Triglav Group and Zavarovalnica Triglav d.d. Annual Report 2018, section 3.14 in the financial section of the report.

In addition to the valuation method for technical provisions, the inclusion of non-past due receivables from direct insurance operations also importantly contributes to the difference in the amount of premium provisions.

The Company recognises the insurance contract result during the term of the contract in the financial statements, whereby the result of an insurance contract in solvency calculations is recognised immediately upon the conclusion of the contract. As opposed to the unearned premium, the premium provision also takes into account the claims ratio for individual segments as well as the cash flows from contract cancellations and bonus repayments that are separately provisioned in financial statements. The cash flows of future liabilities are discounted using the risk-free interest rate curve.

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 purposes, large claims are excluded from the list of incurred and reported claims and are then added separately which leads to a higher value of provisions. Expenses and subrogations are calculated identically under both valuation methods. Similarly as with the premium provision, cash flows from claims provisions are discounted for solvency purposes; 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 at the Group level: life insurance liabilities and liabilities under health insurance that is provided on a similar technical basis as life insurance. The best estimate of liabilities is calculated at the Group level separately for expired and non-expired perils.

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

Table 46: Technical provisions for life insurance for solvency purposes as at 31 December 2018 and 31 December 2017

31 December 2018			**(€ thousand)**
Life insurance technical provisions	**Best estimate of liabilities**	**Risk margin**	**Technical provisions**
Insurance with profit participation	935,672	15,133	950,805
Index-linked and unit-linked insurance	543,433	18,883	562,316
Other life insurance	-9,216	4,580	-4,636
Annuities under non-life or health insurance	73,082	511	73,593
Total	**1,542,971**	**39,107**	**1,582,078**

31 December 2017			(€ thousand)
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**

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. The risk-free interest rate curve published by EIOPA is used for discounting cash flows.

Expenses related to future actual costs are calculated using a cost model that contains the following cost types required 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 dependent 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 policyholder behaviour must be based on a statistically characteristic result that is derived from relevant statistical analyses of empirical data from both sources (past policyholder 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 calculation takes into account the costs of claim adjustment.

The best estimate of liabilities changed in the following segments in the reporting period:

<u>insurance with profit participation</u> where they increased by EUR 87.1 million as a result of the re-posting of the liabilities of TZD[9] funds in the amount of EUR 73.9 million from the index-linked or unit-linked insurance segment and the change in the risk-free interest rate curve;
<u>index or unit-linked insurance</u> where liabilities increased by EUR 101.8 million as a result of the re-posting of the liabilities of TZD funds in the amount of EUR 73.9 million to the segment of insurance with profit participation and the lowering of the term value of options and guarantees and the lowering of provisions for expired perils, changes in cash flows in the reporting period, newly underwritten risks in the period and differences between realisation and assumptions;
<u>other life insurance</u> where liabilities increased by EUR 1.8 million mainly as a result of the difference between realisation and assumptions regarding biometric risks and the lapse risk;
<u>annuities under non-life insurance</u> where liabilities increased by EUR 6.4 million mainly as a result of changes to non-economic assumptions in the valuation.

[9] Triglav zajamčeni donos

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 calculates them by applying 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 an 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.

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

31 December 2018		(€ thousand)
	Value for solvency purposes	**Value for financial reporting purposes***
Life insurance technical provisions	1,582,078	1,790,407

*The value relates to technical provisions presented in The Triglav Group and Zavarovalnica Triglav d.d. Annual Report 2018, 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 set 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 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 annuitisation) 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 73.6 million. They are presented under non-life insurance for financial reporting purposes.

D.3 Other liabilities

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"[10].

[10] Defined Benefit Plan

jubilee benefits which represent other long-term employee entitlements 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 contract 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;
- defined actuarial assumptions.

Provisions for jubilee benefits and severance pay upon retirement are calculated for each individual employee separately based on the methodology described above, the applied parameters and employee data.

These provisions totalled EUR 10.5 million as at 31 December 2018. Of the abovementioned amount, EUR 1.9 million was represented by provisions for jubilee benefits and EUR 8.6 million represented provisions for pensions and post-employment benefits. For solvency purposes, they are presented in the balance sheet under the item "Provisions, other than technical provisions".

Provisions for jubilee benefits and pensions and severance pay upon retirement (post-employment benefits) for solvency reporting 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 4.3 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 1.9 million.

Table 48: Provisions, other than technical provisions, of the Group as at 31 December 2018

31 December 2018			(€ thousand)
Liabilities	**Value for solvency purposes**		**Value for financial reporting purposes**
	31 December 2018	**31 December 2017**	**31 December 2018**
Provisions, other than technical provisions	15,867	15,736	16,724

Provisions, other than technical provisions, did not change materially compared to the year before.

D.3.2 Deferred tax liabilities

Deferred tax liabilities are valued in two stages for solvency purposes. In the first stage, they are valued at the level of an individual Group member as the product of the difference between the liabilities in the statutory and market value balance sheets of an individual company and the local tax rate currently applicable in the country where the company operates. The resulting amount is added to the deferred tax liabilities for financial reporting purposes. We thus get the value of deferred tax liabilities at the level of an individual company. In the second stage, deferred tax liabilities of individual companies are summed up thus arriving at the value for the entire Group.

For financial reporting purposes, deferred tax liabilities are accounted for all taxable temporary differences between the value of assets and liabilities for tax purposes and their carrying amount. The calculation of deferred tax liabilities is made at the tax rate, which is expected to be applied when the respective liability is settled.

Table 49: Deferred tax liabilities of the Group as at 31 December 2018

31 December 2018			(€ thousand)
Balance sheet	**Value for solvency purposes**		**Value for financial reporting purposes**
	31 December 2018	**31 December 2017**	**31 December 2018**
Deferred tax liabilities	75,775	87,277	17,204

Deferred tax liabilities decreased compared to the year before because of the decrease in the difference between the Group's balance sheet liabilities for financial reporting purposes and those for solvency purposes. The major portion of the decrease comes from the Company.

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 cost.

Table 50: Group's debts owed to credit institutions as at 31 December 2018

31 December 2018			(€ thousand)
Balance sheet	**Value for solvency purposes**		**Value for financial reporting purposes**
	31 December 2018	**31 December 2017**	**31 December 2018**
Debts owed to credit institutions	420	455	420

The value of these liabilities did not change materially compared to the year before.

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.

For financial reporting purposes, derivatives are added to these values.

Table 51: Group's financial liabilities other than debts owed to credit institutions as at 31 December 2018

31 December 2018			(€ thousand)
Balance sheet	**Value for solvency purposes**		**Value for financial reporting purposes**
	31 December 2018	**31 December 2017**	**31 December 2018**
Financial liabilities	4,999	5,111	5,201

The value of financial liabilities other than debts owed to credit institutions did not change materially compared to the year before.

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 52: Group's insurance & intermediaries payables as at 31 December 2018

31 December 2018			(€ thousand)
Balance sheet	**Value for solvency purposes**		**Value for financial reporting purposes**
	31 December 2018	**31 December 2017**	**31 December 2018**
Insurance & intermediaries payables	31,808	29,725	19,718

Insurance & intermediaries payables increased in 2018 because of the separate disclosure for active and passive reinsurance operations.

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 past due 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 53: Reinsurance payables of the Group as at 31 December 2018

31 December 2018			(€ thousand)
Balance sheet	**Value for solvency purposes**		**Value for financial reporting purposes**
	31 December 2018	**31 December 2017**	**31 December 2018**
Reinsurance payables	3,818	3,808	30,466

These liabilities did not change materially in year 2018.

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 54: Group's payables (trade not insurance) as at 31 December 2018

31 December 2018			(€ thousand)
Balance sheet	**Value for solvency purposes**		**Value for financial reporting purposes**
	31 December 2018	**31 December 2017**	**31 December 2018**
Payables (trade not insurance)	50,411	45,817	4,608

These liabilities increased in 2018 due to the higher assessed tax liabilities.

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 55: Subordinated liabilities of the Group as at 31 December 2018

31 December 2018			(€ thousand)
Balance sheet	**Value for solvency purposes**		**Value for financial reporting purposes**
	31 December 2018	**31 December 2017**	**31 December 2018**
Subordinated liabilities	17,840	18,343	15,463

Subordinated liabilities decreased in 2018 due to 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 56: Group's any other liabilities, not elsewhere shown as at 31 December 2018

31 December 2018			(€ thousand)
Balance sheet	**Value for solvency purposes**		**Value for financial reporting purposes**
	31 December 2018	**31 December 2017**	**31 December 2018**
Any other liabilities, not elsewhere shown	12,072	11,420	75,510

The amount of the Group's other liabilities not elsewhere shown increased immaterially compared to the year before.

D.4 Alternative methods for valuation

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's parent company concurrently adjusts investment policies used by the subsidiaries to match assets and liabilities, i.e. subject 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. Detailed information on off-balance sheet items not reported by the Group are presented in The Triglav Group and Zavarovalnica Triglav d.d. Annual Report 2018, i.e. in section 5.6 of the financial section of the said report.

OTHER RELEVANT INFORMATION

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

E. Capital management

E. Capital management

The Company has defined objectives and principles at the Group level 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 or needs and the capital adequacy as well as reporting.

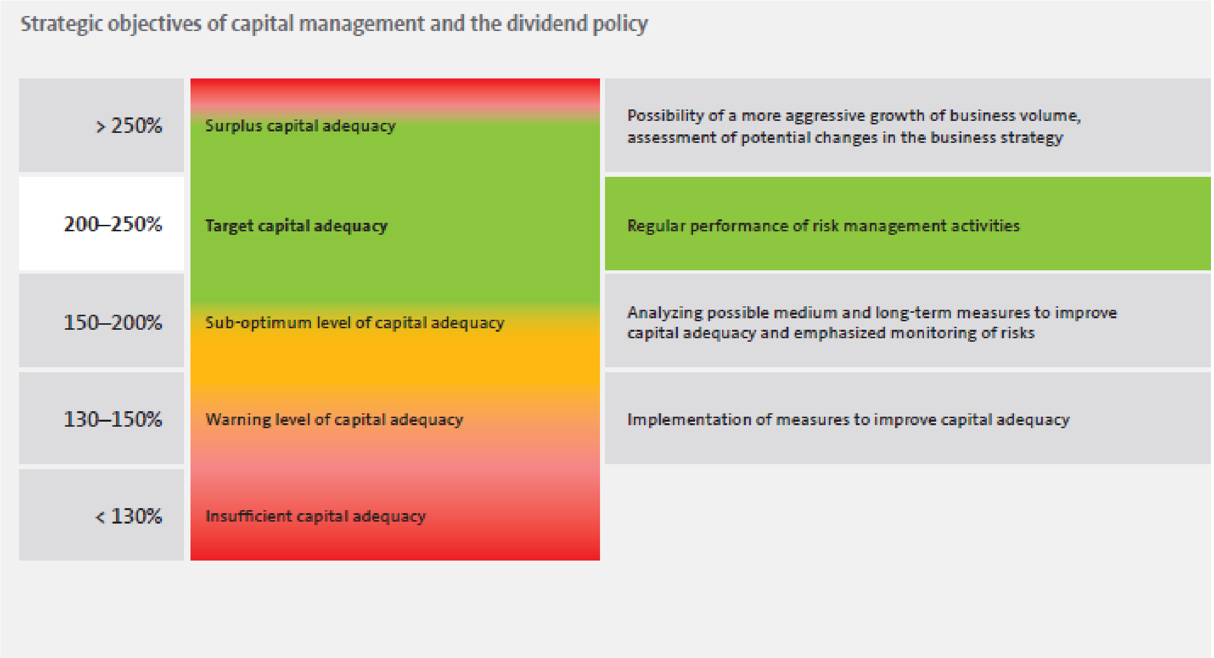
Through its capital management system, the Company also established a system for transparent and optimum economic allocation of capital by functional area based on risk-adjusted profitability criteria for the optimum achievement of strategic goals.

The basic criteria are derived from the regulatory capital adequacy requirements. When defining the objectives for capital management, the parent company takes into account the regulatory requirements as well as the facts and circumstances arising from the Group's position, role, ownership (shareholder) structure, the business environment and macroeconomic conditions in the markets where it operates. 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 adequacy.

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. The implementation of the dividend policy is subordinated to the medium-term sustainable assurance of the Triglav Group's capital adequacy in the target range between 200 and 250%. The Management Board and Supervisory Board submit a proposal each year to the General Meeting regarding the distribution of the Company's distributable profit based on the balanced consideration of three objectives: 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 5: Capital management strategic objectives and dividend policy criteria



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, capital needs are taken into account 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 to the parent company is long-term stability and safety of the subsidiaries' 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 and subsidiary;
- adoption of optimum strategic and business 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 changes in the risk profile;
- evaluation of operating results;
- implementation of measures for optimum economic capital allocation and monitoring of 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.

At the Group level, the Company maintains a surplus of available capital in excess of the capital requirements for the performance of the core activity and the coverage of potential losses. The surplus provides protection against losses resulting from unforeseen unfavourable events and the volatility of capital requirements. In addition to the current capital adequacy, the future adequacy of the amount of capital and capital adequacy are planned and assessed. In this way, the Group keeps in step with the effects of the environment on capital adequacy and ensures optimum capital allocation.

CAPITAL ADEQUACY OF THE GROUP

As at 31 December 2018, the Group was adequately capitalised and had sufficient capital available to meet both the solvency capital requirement (216%) and the minimum consolidated capital requirement (546%).

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

Table 57: Capital adequacy of the Group as at 31 December 2018 and 31 December 2017

(€ thousand)

Capital adequacy of the Group	31 December 2018	31 December 2017
Total eligible own funds to meet the SCR	843,246	878,039
Total eligible own funds to meet the MCR	843,246	878,039
Solvency capital requirement (SCR)	390,904	394,778
Minimum consolidated capital requirement	154,322	149,459
Capital adequacy to SCR	216 %	222%
Capital adequacy to MCR	546 %	587%

The Group's capital adequacy decreased by 6 pp compared to the year before, which is the result of the decrease in eligible own funds and changes to the risk profile, which are described in more detail in sections E.1 and 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 to this Report.

E.1 Own funds

As at 31 December 2018, the Group only had basic own funds. They amounted to EUR 843.2 million. They were composed of the Group's share capital (EUR 73.7 million), subordinated liabilities (EUR 17.4 million) and the reconciliation reserve (EUR 752.1 million). The reconciliation reserve consists of the excess of assets over liabilities in the amount of EUR 895 million less the value of expected dividends for the 2018 financial year (EUR 56.8 million), share capital (EUR 73.7 million) and other unavailable funds (EUR 12.4 million). Other unavailable funds are represented by the following deductible item:

- 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.

The Group did not have any ancillary own funds as at 31 December 2018.

The structure of the Group's own funds according to tier as at 31 December 2018 and 31 December 2017 is shown in table below and in template S.23.01 of Annex to this Report.

Table 58: Structure of own funds according to tier as at 31 December 2018 and 31 December 2017

31 December 2018 **(€ thousand)**

Own funds	Total	Tier 1 (without restrictions)	Tier 2*	Tier 3
Available own funds to meet the SCR	843,246	825,836	17,410	0
Available own funds to meet the MCR	843,246	825,836	17,410	0
Eligible own funds to meet the SCR	843,246	825,836	17,410	0
Available own funds to meet the MCR	843,246	825,836	17,410	0

31 December 2017 **(€ thousand)**

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

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

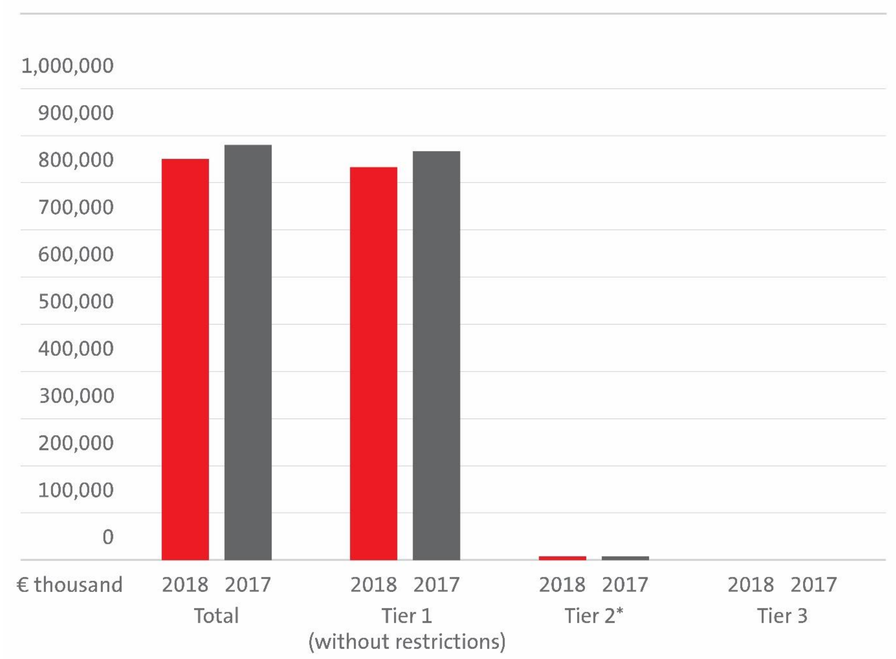
The Group's own funds decreased by EUR 34.8 million in the reporting period whereby they decreased by EUR 34.3 million on account of the decrease in the reconciliation reserve and by EUR 0.5 million on account of the decrease in subordinated liabilities. The decrease in the reconciliation reserve was caused in the reporting period by the changes in the market values and the structure of investments as well as other assets and technical provisions and by the dynamics of the operations and market conditions. The reconciliation reserve is also affected by the amount of the expected dividends for the 2018 financial year.

Eligible own funds do not comprise items that include restrictions affecting fungibility 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 2018 amounted to EUR 843.2 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 own funds, while it classifies subordinated bonds as Tier 2 own funds.

Chart 8: Comparison of available eligible own funds to meet the SCR as at 31 December 2018 and 31 December 2017

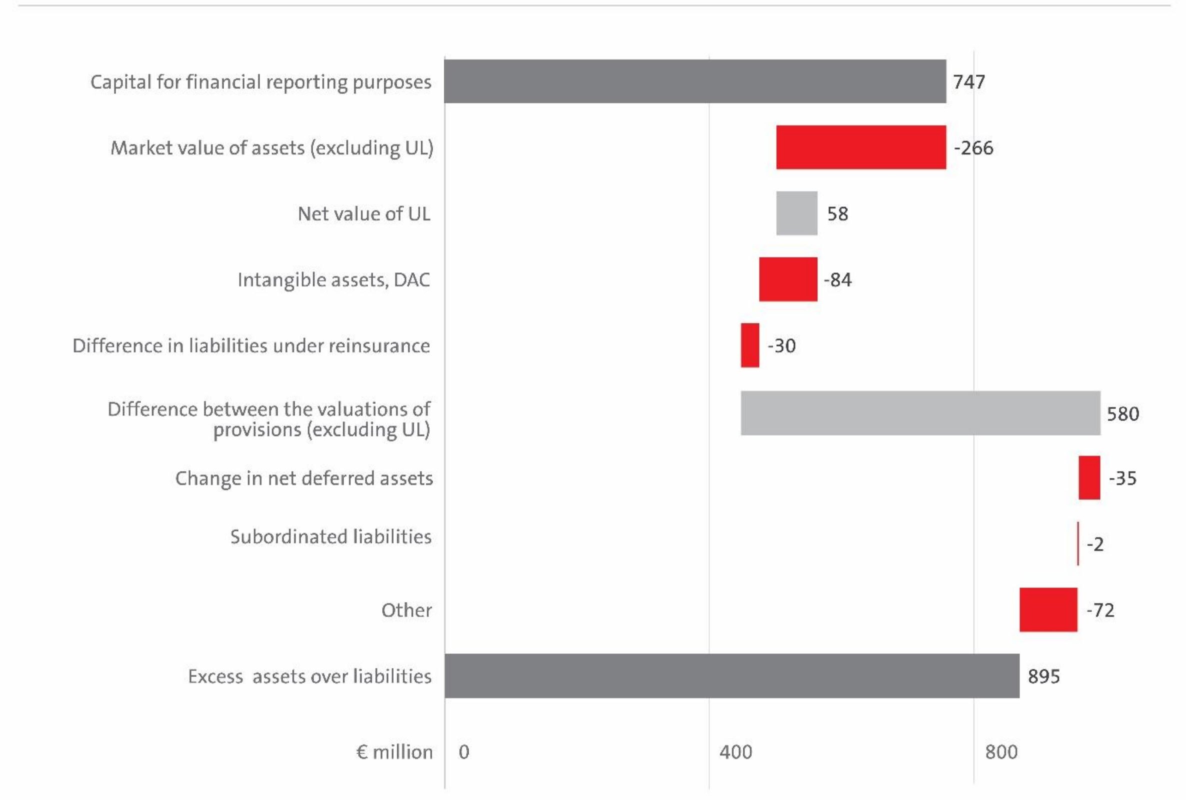


* Tier 2 own funds are suitable for the coverage of the minimum consolidated capital requirement as long as they do not exceed 20% of the minimum consolidated capital requirement.

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 the 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 9: Differences in the valuation of capital for financial reporting purposes and own funds of the Group as at 31 December 2018



UL – unit-linked asset

DAC – deferred acquisition costs

Capital for financial reporting purposes as at 31 December 2018 amounted to EUR 746.9 million, while the excess of assets over liabilities for solvency purposes amounted to EUR 895 million. Triglav Skladi and Skupna pokojninska družba are fully consolidated for financial reporting purposes and included according to the equity method for solvency purposes. The difference in the inclusion of companies has the biggest impact on the difference in financial assets and the value of technical provisions whereby technical provisions of Skupna pokojninska družba, d.d. are also included in financial statements.

The difference is mostly the result of the different valuation of technical provisions (EUR 542.3 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 parent 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 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 minimum solvency capital requirement of the Company and the proportionate share of the minimum solvency capital requirement of all associated (re)insurance companies. The calculation for the Group insurance companies that are not subject to Commission Delegated Regulation (EU) takes into account the local MCRs in proportionate amounts.

E.2.1 Solvency capital requirement

The Group's SCR as at 31 December 2018 amounted to EUR 391 million, decrease of EUR 3.9 million compared to the year before. The main reason for the decrease is the decrease in the BSCR by EUR 23.3 million. The decrease is limited by the decrease in the loss-absorbing capacity of deferred taxes by EUR 10.8 million which is the result of the decrease in the amount of net deferred tax assets that are described in more detail in sections D.1.2 and D.3.2 of this Report.

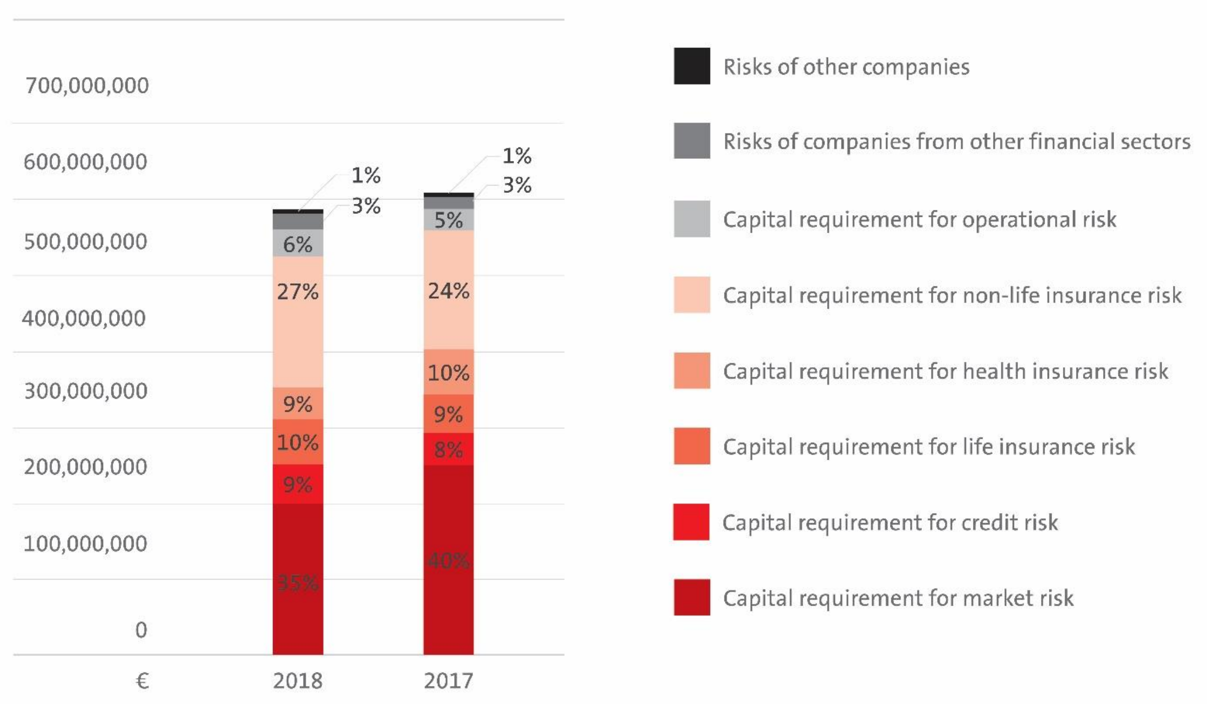
Table 59: SCR of the Group as at 31 December 2018 and 31 December 2017

(€ thousand)

Group's capital requirement	31 December 2018	31 December 2017
Underwriting risks	273,040	263,355
Market risk	208,775	245,143
Credit risk	50,946	49,320
Diversification	-179,950	-181,714
Basic solvency capital requirement	**352,811**	**376,104**
Operational risk	34,199	32,172
Loss-absorbing capacity of technical provisions	-172	-613
Loss-absorbing capacity of deferred taxes	-29,088	-39,933
Adjustment for ring-fenced fund risk diversification	5,094	4,782
Consolidated solvency capital requirement	**362,844**	**372,512**
Capital requirement for Triglav Skladi	11,514	7,847
Capital requirement for Skupna pokojninska družba	9,332	7,986
Capital requirement for other companies (non-ancillary activity, associates)	7,214	6,433
SCR	**390,904**	**394,778**

The basic SCR decreased for market risk and increased somewhat for underwriting and credit risk in the reporting period. The values of individual categories are shown in greater detail in template QRT S.25.01 in Annex to this Report. Chart 10 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 10: Presentation of the capital requirements of the Group as at 31 December 2018 and 31 December 2017



The BSCR decreased by EUR 23.3 million compared to the year before. The main reason behind the decrease is the capital requirement for market risk that decreased by EUR 36.4 million compared to the year before because of the changed structure of investments, i.e. mainly the increase in government bonds as a result of the decrease in corporate bonds and collective equity investment undertakings which consequently reduced equity risk and spread risk. In 2018, the currency matching between assets and liabilities at the Group level improved which contributed to the lower capital requirements for currency risk.

The increase in the capital requirement for underwriting risk is the result of the increase in the volume of operations. The capital requirement for credit risk increased in the reporting period because of the upgrades of the process for the determination of the reinsurance partners' credit quality which enables all reinsurance partners to be considered uniformly for all insurance undertakings in the Group, including the determination of the partner's controlling company.

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 necessary to additionally 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 to this Report.

E.2.2 Minimum consolidated capital requirement

The minimum consolidated capital requirement at the Group level as at 31 December 2018 amounted to EUR 154.3 million. Eligible own funds to meet the minimum consolidated capital requirement are equal to eligible own funds to meet the solvency capital requirement and amount to EUR 843.2 million.

Table below shows the calculation of the minimum consolidated capital requirement of the Group as at 31 December 2018.

Table 60: Minimum consolidated capital requirement of the Group as at 31 December 2018 and 31 December 2017

(€ thousand)

	2018	2017
Minimum consolidated capital requirement of the Group	**154,322**	**149,459**
Zavarovalnica Triglav	100,913	95,947
Pozavarovalnica Triglav RE	13,688	13,262
Triglav zdravstvena zavarovalnica	7,265	6,561
Triglav Osiguranje, Zagreb	7,832	9,425
Triglav Osiguranje, Sarajevo	4,090	4,090
Lovčen Osiguranje, Podgorica	3,000	3,000
Triglav Osiguranje, Beograd	6,387	6,390
Triglav Osiguranje, Banja Luka	2,557	2,556
Triglav Osiguruvanje, Skopje	2,995	3,014
Lovčen životno osiguranje, Podgorica	2,600	2,200
Triglav Osiguruvanje Život, Skopje	2,995	3,014

The minimum consolidated capital requirement of the Group increased by EUR 4.9 million in the previous reporting period. The major portion of the change comes from the Group's parent company.

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 large and well diversified between non-life, health, life insurance and reinsurance, 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 sapital 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 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 non-compliance with the solvency capital requirement

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

E.6 Any other information

All relevant 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 2018:

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

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

Assets	Solvency II values
Intangible assets	
Deferred tax assets	36,332
Pension benefit surplus	
Property, plant & equipment held for own use	107,059
Investments (other than assets held for index-linked and unit-linked contracts)	**2,221,527**
Property (other than for own use)	95,596
Holdings in related undertakings, including participations	77,906
Equities	**59,588**
Equities - listed	48,796
Equities - unlisted	10,792
Bonds	**1,913,237**
Government Bonds	994,823
Corporate Bonds	914,070
Structured notes	4,344
Collateralised securities	
Collective Investments Undertakings	23,756
Derivatives	1,393
Deposits other than cash equivalents	45,955
Other investments	4,096
Assets held for index-linked and unit-linked contracts	594,720
Loans and mortgages	**37,180**
Loans on policies	3,343
Loans and mortgages to individuals	89
Other loans and mortgages	33,748
Reinsurance recoverables from:	**56,180**
Non-life and health similar to non-life	51,617
Non-life excluding health	51,202
Health similar to non-life	415
Life and health similar to life, excluding health and index-linked and unit-linked	4,563
Health similar to life	
Life excluding health and index-linked and unit-linked	4,563
Life index-linked and unit-linked	
Deposits to cedants	6,281
Insurance and intermediaries receivables	37,802
Reinsurance receivables	17,911
Receivables (trade, not insurance)	17,943
Own shares (held directly)	
Amounts due in respect of own fund items or initial fund called up but not yet paid in	
Cash and cash equivalents	43,396
Any other assets, not elsewhere shown	7,151
Total assets	**3,183,483**

Liabilities	Solvency II values
Technical provisions - non-life	**493,360**
Technical provisions - non-life (excluding health)	**449,026**
TP calculated as a whole	
Best estimate	420,322
Risk margin	28,704
Technical provisions - health (similar to non-life)	**44,334**
TP calculated as a whole	
Best estimate	40,661
Risk margin	3,673
TP - life (excluding index-linked and unit-linked)	**1,019,761**
Technical provisions - health (similar to life)	**179**
TP calculated as a whole	
Best estimate	178
Risk margin	1
TP - life (excluding health and index-linked and unit-linked)	**1,019,582**
TP calculated as a whole	
Best estimate	999,359
Risk margin	20,223
TP - index-linked and unit-linked	**562,316**
TP calculated as a whole	
Best estimate	543,434
Risk margin	18,883
Contingent liabilities	
Provisions other than technical provisions	15,867
Pension benefit obligations	
Deposits from reinsurers	
Deferred tax liabilities	75,775
Derivatives	
Debts owed to credit institutions	420
Financial liabilities other than debts owed to credit institutions	4,999
Insurance & intermediaries payables	31,808
Reinsurance payables	3,818
Payables (trade, not insurance)	50,411
Subordinated liabilities	**17,840**
Subordinated liabilities not in BOF	430
Subordinated liabilities in BOF	17,410
Any other liabilities, not elsewhere shown	12,072
Total liabilities	**2,288,449**
Excess of assets over liabilities	**895,034**

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 insurance**	**Marine, aviation and transport insurance**
Premiums written						
Gross - Direct Business	148,847	69,454		159,667	140,953	17,863
Gross - Proportional reinsurance accepted	1,772	2,190		9,043	7,023	6,386
Gross - Non-proportional reinsurance accepted						
Reinsurers' share	1,641	1,566		10,294	13,529	8,654
Net	**148,978**	**70,077**		**158,417**	**134,447**	**15,595**
Premiums earned						
Gross - Direct Business	147,963	69,504		156,695	135,422	17,924
Gross - Proportional reinsurance accepted	1,548	2,234		8,923	6,830	6,251
Gross - Non-proportional reinsurance accepted						
Reinsurers' share	1,475	1,541		10,127	13,534	8,998
Net	**148,036**	**70,197**		**155,491**	**128,718**	**15,178**
Claims incurred						
Gross - Direct Business	120,193	33,253		79,804	93,793	6,870
Gross - Proportional reinsurance accepted	78	1,319		5,757	4,641	2,463
Gross - Non-proportional reinsurance accepted						
Reinsurers' share	559	940		7,463	7,154	1,271
Net	**119,711**	**33,631**		**78,097**	**91,280**	**8,062**
Changes in other technical provisions						
Gross - Direct Business	978	182		64	-565	-297
Gross - Proportional reinsurance accepted		0		0	1	-73
Gross - Non-proportional reinsurance accepted						
Reinsurers' share	0					-4
Net	**978**	**182**		**65**	**-565**	**-365**
Expenses incurred	**18,534**	**24,286**		**50,768**	**36,609**	**6,040**
Other expenses						
Total expenses						

	Line of Business for: non-life insurance and reinsurance obligations (direct business and accepted proportional reinsurance)					
	Fire and other damage to property insurance	General liability insurance	Credit and suretyship insurance	Legal expenses insurance	Assistance	Miscellaneous financial loss
Premiums written						
Gross - Direct Business	175,127	41,279	28,332	483	15,936	5,555
Gross - Proportional reinsurance accepted	91,730	6,944	5,588	34	909	2,084
Gross - Non-proportional reinsurance accepted						
Reinsurers' share	109,835	17,706	8,406	51	995	5,502
Net	**157,022**	**30,517**	**25,514**	**466**	**15,850**	**2,138**
Premiums earned						
Gross - Direct Business	167,786	40,929	26,706	456	15,349	5,334
Gross - Proportional reinsurance accepted	89,794	6,930	5,617	28	889	2,110
Gross - Non-proportional reinsurance accepted						
Reinsurers' share	102,863	17,694	8,428	45	957	5,202
Net	**154,717**	**30,165**	**23,895**	**439**	**15,281**	**2,242**
Claims incurred						
Gross - Direct Business	82,043	1,934	10,141	8,229	10,993	6,478
Gross - Proportional reinsurance accepted	43,351	1,673	1,481	3	726	2,667
Gross - Non-proportional reinsurance accepted						
Reinsurers' share	50,706	5,560	2,096	8	771	5,319
Net	**74,688**	**-1,953**	**9,526**	**8,225**	**10,948**	**3,826**
Changes in other technical provisions						
Gross - Direct Business	-272	-76	-69	1	74	55
Gross - Proportional reinsurance accepted	-9	3	260		0	9
Gross - Non-proportional reinsurance accepted						
Reinsurers' share	-63	-21				8
Net	**-218**	**-52**	**191**	**1**	**75**	**57**
Expenses incurred	**64,530**	**8,344**	**5,788**	**249**	**7,120**	**1,481**
Other expenses						
Total expenses						

Line of Business for: accepted non-proportional reinsurance

	Health	Casualty	Marine, aviation, transport	Property	Total
Premiums written					
Gross - Direct Business					803,496
Gross - Proportional reinsurance accepted					133,702
Gross - Non-proportional reinsurance accepted	194	4,317	2,088	17,520	24,119
Reinsurers' share	63	3,380	517	8,643	190,780
Net	**130**	**938**	**1,571**	**8,877**	770,537
Premiums earned					
Gross - Direct Business					784,069
Gross - Proportional reinsurance accepted					131,155
Gross - Non-proportional reinsurance accepted	194	4,577	2,090	17,408	24,268
Reinsurers' share	63	3,165	517	8,893	183,501
Net	**130**	**1,411**	**1,573**	**8,515**	755,990
Claims incurred					
Gross - Direct Business					453,731
Gross - Proportional reinsurance accepted					64,159
Gross - Non-proportional reinsurance accepted	114	3,038	1,390	15,590	20,132
Reinsurers' share		-1,656	28	4,545	84,765
Net	**114**	**4,694**	**1,362**	**11,045**	453,257
Changes in other technical provisions					
Gross - Direct Business					76
Gross - Proportional reinsurance accepted					192
Gross - Non-proportional reinsurance accepted					0
Reinsurers' share					-81
Net					348
Expenses incurred	**13**	**22**	**101**	**1,141**	225,024
Other expenses					9,076
Total expenses					**234,100**

	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 insurance obligations**	**Health reinsurance**	**Life reinsurance**	**Total**
Premiums written									
Gross		65,923	87,899	11,032				566	165,421
Reinsurers' share		33	36	551				530	1,150
Net		**65,889**	**87,863**	**10,481**				36	**164,270**
Premiums earned									
Gross		65,935	87,899	11,041				566	165,441
Reinsurers' share		33	36	551				530	1,150
Net		**65,902**	**87,863**	**10,490**				36	**164,291**
Claims incurred									
Gross		72,985	71,441	4,615	-85	-1,016		80	148,020
Reinsurers' share				98				125	223
Net		**72,985**	**71,441**	**4,518**	**-85**	**-1,016**		-45	**147,797**
Changes in other technical provisions									
Gross		21,629	-44,789	548					-22,613
Reinsurers' share									0
Net		**21,629**	**-44,789**	**548**					**-22,613**
Expenses incurred		**13,075**	**16,732**	**4,392**		**61**		-49	**34,212**
Other expenses									**343**
Total expenses									**34,555**

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

	Home Country	Top 5 countries (by amount of gross premiums written) - non-life obligations					Total Top 5 and home country
		HR	RS	ME	MK	BA	
Premium written							
Gross - Direct Business	613,725	51,357	45,444	30,869	23,140	22,779	787,314
Gross - Proportional reinsurance accepted	76,636	7,521	1,343	841	839	379	87,559
Gross - Non-proportional reinsurance accepted	10,577	2,569	471	548	324	41	14,530
Reinsurers' share	99,486	15,133	9,923	5,451	4,838	5,207	140,039
Net	**601,451**	**46,315**	**37,335**	**26,806**	**19,465**	**17,992**	**749,365**
Premium earned	684,447	61,134	45,111	32,095	23,528	22,752	869,067
Gross - Direct Business	598,642	51,135	43,230	30,654	22,479	22,328	768,468
Gross - Proportional reinsurance accepted	75,111	7,383	1,409	893	725	383	85,905
Gross - Non-proportional reinsurance accepted	10,694	2,616	471	548	324	41	14,694
Reinsurers' share	93,597	14,507	9,601	6,014	4,251	5,360	133,331
Net	**590,850**	**46,627**	**35,510**	**26,081**	**19,277**	**17,392**	**735,737**
Claims incurred	399,171	41,832	16,710	23,952	10,456	9,554	501,675
Gross - Direct Business	364,956	34,924	15,527	18,386	10,340	9,462	453,595
Gross - Proportional reinsurance accepted	29,631	4,278	1,094	5,248	330	95	40,676
Gross - Non-proportional reinsurance accepted	4,584	2,630	89	317	-213	-3	7,405
Reinsurers' share	34,533	13,787	2,127	7,226	216	2,340	60,228
Net	**364,638**	**28,045**	**14,583**	**16,726**	**10,240**	**7,214**	**441,447**
Changes in other technical provisions	-691	23	-40	430	151	-168	-295
Gross - Direct Business	276	-23	264	-430	-151	168	104
Gross - Proportional reinsurance accepted	415		-224				192
Gross - Non-proportional reinsurance accepted							0
Reinsurers' share	1,375	-4			-77		1,294
Net	**-684**	**-18**	**40**	**-430**	**-74**	**168**	**-998**
Expenses incurred	135,108	18,732	17,896	12,463	7,082	9,495	200,777
Other expenses							9,076
Total expenses							**209,853**

	Home Country	Top 5 countries (by amount of gross premiums written) - life obligations					Total Top 5 and home country
		HR	BA	RS	ME	MK	
Premium written							
Gross	147,109	6,996	5,421	3,546	2,049	299	165,421
Reinsurers' share	488	5	84	6	37	0	620
Net	**146,621**	**6,991**	**5,337**	**3,540**	**2,012**	**299**	**164,800**
Premium earned							
Gross	147,117	6,996	5,421	3,546	2,062	299	165,441
Reinsurers' share	488	5	84	6	37	0	620
Net	**146,629**	**6,991**	**5,337**	**3,540**	**2,025**	**299**	**164,821**
Claims incurred							
Gross	135,950	6,181	1,850	2,739	1,290	11	148,020
Reinsurers' share	98						98
Net	**135,852**	**6,181**	**1,850**	**2,739**	**1,290**	**11**	**147,922**
Changes in other technical provisions							
Gross	-20,561	-2,315			165	99	-22,613
Reinsurers' share							0
Net	**-20,561**	**-2,315**			**165**	**99**	**-22,613**
Expenses incurred	28,587	1,291	1,741	1,859	472	311	34,261
Other expenses							343
Total expenses							**34,604**

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					
Ordinary share capital (gross of own shares)	73,701	73,701			
Non-available called but not paid in ordinary share capital at 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 member accounts					
Non-available subordinated mutual member accounts at group level					
Surplus funds					
Non-available surplus funds at group level					
Preference shares					
Non-available preference shares at group level					
Share premium account related to preference shares					
Non-available share premium account related to preference shares at group level					
Reconciliation reserve	752,134	752,134			
Subordinated liabilities	17,410			17,410	
Non-available subordinated liabilities at group level					
An amount equal to the value of net deferred tax assets					
The amount equal to the value of net deferred tax assets not available at the group level					
Other items approved by supervisory authority as basic own funds not specified above					
Non available own funds related to other own funds items approved by supervisory authority					
Minority interests (if not reported as part of a specific own fund item)					
Non-available minority interests at group level					
Own funds from the financial statements that shall not be represented by the reconciliation reserve and do not meet the criteria to be classified as Solvency II own funds					
Own funds from the financial statements that shall not be represented by 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 undertakings, including non-regulated undertakings carrying out financial activities					
whereof deducted according to art 228 of the Directive 2009/138/EC					
Deductions for participations where there is non-availability of information (Article 229)					
Deduction for participations included by using D&A when a combination of methods is used					
Total of non-available own fund items					
Total deductions					
Total basic own funds after deductions	**843,246**	**825,836**		**17,410**	

	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					
A legally binding commitment to subscribe and pay for subordinated liabilities on demand					
Letters of credit and guarantees under Article 96(2) of the Directive 2009/138/EC					
Letters of credit and guarantees other than under Article 96(2) of the Directive 2009/138/EC					
Supplementary members calls under first subparagraph of Article 96(3) of the Directive 2009/138/EC					
Supplementary members calls - other than under first subparagraph of Article 96(3) of the Directive 2009/138/EC					
Non available ancillary own funds at group level					
Other ancillary own funds					
Total ancillary own funds					
Own funds of other financial sectors					
Credit institutions, investment firms, financial institutions, alternative investment fund managers, financial institutions					
Institutions for occupational retirement provision					
Non regulated entities carrying out financial activities					
Total own funds of other financial sectors					
Own funds when using the D&A, exclusively or in combination of method 1					
Own funds aggregated when using the D&A and combination of method					
Own funds aggregated when using the D&A and a combination of method net of IGT					

	Total	Tier 1 - unrestricted	Tier 1 - restricted	Tier 2	Tier 3
Available and eligible own funds					
Total available own funds to meet the consolidated group SCR (excluding own funds from other financial sector and from the undertakings included via D&A)	**843,246**	**825,836**		**17,410**	
Total available own funds to meet the minimum consolidated group SCR	**843,246**	**825,836**		**17,410**	
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)	**843,246**	**825,836**		**17,410**	
Total eligible own funds to meet the minimum consolidated group SCR	**843,246**	**825,836**		**17,410**	
Minimum consolidated Group SCR	**154,322**				
Ratio of Eligible own funds to Minimum Consolidated Group SCR	**546%**				
Total eligible own funds to meet the group SCR (including own funds from other financial sector and from the undertakings included via D&A)	**843,246**	825,836		17,410	
Group SCR	**390,904**				
Ratio of Eligible own funds to group SCR including other financial sectors and the undertakings included via D&A	**216%**				

Reconciliation reserve	
Excess of assets over liabilities	**895,034**
Own shares (included as assets on the balance sheet)	
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 non available own funds	12,360
Reconciliation reserve before deduction for participations in other financial sector	**752,134**
Expected profits	
Expected profits included in future premiums (EPIFP) - Life Business	56,281
Expected profits included in future premiums (EPIFP) - Non- life business	50,020
Total EPIFP	**106,301**

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

	Gross solvency capital requirement	USP	Simplifications
Market risk	208,775		
Counterparty default risk	50,946		
Life underwriting risk	61,687		
Health underwriting risk	52,230		
Non-life underwriting risk	159,123		
Diversification	-179,950		
Intangible asset risk			
Basic Solvency Capital Requirement	**352,811**		

Calculation of Solvency Capital Requirement	
Operational risk	34,199
Loss-absorbing capacity of technical provisions	-172
Loss-absorbing capacity of deferred taxes	-29,088
Capital requirement for business operated in accordance with Art. 4 of Directive 2003/41/EC	
Solvency capital requirement excluding capital add-on	**390,904**
Capital add-on already set	
Solvency capital requirement	**390,904**
Other information on SCR	
Capital requirement for duration-based equity risk sub-module	
Total amount of Notional Solvency Capital Requirements for remaining part	375,472
Total amount of Notional Solvency Capital Requirements for ring fenced funds	15,432
Total amount of Notional Solvency Capital Requirements for matching adjustment portfolios	
Diversification effects due to RFF nSCR aggregation for article 304	
Minimum consolidated group solvency capital requirement	154,322

Information on other entities	
Capital requirement for other financial sectors (Non-insurance capital requirements)	20,845
Capital requirement for other financial sectors (Non-insurance capital requirements) - Credit institutions, investment firms and financial institutions, alternative investment funds managers, UCITS management companies	11,514
Capital requirement for other financial sectors (Non-insurance capital requirements) - Institutions for occupational retirement provisions	9,332
Capital requirement for other financial sectors (Non-insurance capital requirements) - Capital requirement for non-regulated entities carrying out financial activities	
Capital requirement for non-controlled participation requirements	
Capital requirement for residual undertakings	7,214
Overall SCR	
SCR for undertakings included via D and A	
Solvency capital requirement	**390,904**

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

Country	Identification code of the undertaking	Type of code of the ID of the undertaking	Legal Name of the undertaking	Type of undertaking	Legal form	Category (mutual/non mutual)	Supervisory Authority	% capital share	% voting rights	Level of influence	Yes/No	Date of decision if art. 214 is applied	Method used and under method 1, treatment of the undertaking
SI	549300KGI78MKHO38N42	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	549300XGYWQT0XWO4R05	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	4851000094PJJQ1E0T23	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	48510000PUF0PHJMWE31	LEI	Skupna pokojninska družba, d.d., Ljubljana	Institution for occupational retirement provision	Public limited company	Non-mutual	Insurance Supervision Agency	100.00%	100.00%	Dominant	Included in the scope	2016-01-01	Sectoral rules
HR	74780000H0HHL1OVM657	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	485100004VIBWAYZM123	LEI	Triglav BH Osiguranje, d.d., Sarajevo	Composite undertaking	Public limited company	Non-mutual	Local Insurance Supervision Agency	97.78%	98.87%	Dominant	Included in the scope	2016-01-01	Full consolidation
BA	485100007Q6XSLF2XO57	LEI	Triglav Osiguranje, a.d., Banja Luka	Non life insurance undertaking	Public limited company	Non-mutual	Local Insurance Supervision Agency	100.00%	100.00%	Dominant	Included in the scope	2016-01-01	Full consolidation
RS	48510000D1F47ICK5Q68	LEI	Triglav Osiguranje, a.d.o, Beograd	Composite undertaking	Public limited company	Non-mutual	National bank of Serbia	99.88%	99.88%	Dominant	Included in the scope	2016-01-01	Full consolidation
ME	485100004QGLXDPDPC92	LEI	Lovčen Osiguranje, a.d., Podgorica	Non life insurance undertaking	Public limited company	Non-mutual	Local Insurance Supervision Agency	96.59%	96.59%	Dominant	Included in the scope	2016-01-01	Full consolidation

Country	Identification code of the undertaking	Type of code of the ID of the undertaking	Legal Name of the undertaking	Type of undertaking	Legal form	Category (mutual/non mutual)	Supervisory Authority	% capital share	% voting rights	Level of influence	Yes/No	Date of decision if art. 214 is applied	Method used and under method 1, treatment of the undertaking
ME	OP-39	Specific code	Lovčen životna osiguranja, Podgorica	Life insurance undertaking	Public limited company	Non-mutual	Local Insurance Supervision Agency	96.59%	96.59%	Dominant	Included in the scope	2016-01-01	Full consolidation
MK	48510000WZ S9RGTJVR81	LEI	Triglav Osiguruvanje, a.d., Skopje	Non life insurance undertaking	Public limited company	Non-mutual	Local Insurance Supervision Agency	80.35%	80.35%	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	Local Insurance Supervision Agency	96.07%	96.07%	Dominant	Included in the scope	2017-09-30	Full consolidation
BA	PP-90DE	Specific code	Društvo za upravljanje Evropskim dobrovoljnim penzijskim fondom, a.d., Banja Luka	Institution for occupational retirement provision	Public limited company	Non-mutual	Local Insurance Supervision Agency			Significant	Included in the scope	2017-09-30	Other method
SI	48510000NK Z3E6LSZM73	LEI	Triglav Skladi, d.o.o.	Credit institution, investment firm and financial institution	Private limited-liability company	Non-mutual		67.50%	100.00%	Dominant	Included in the scope	2016-01-01	Sectoral rules
SI	OP-19	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	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	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

Country	Identification code of the undertaking	Type of code of the ID of the undertaking	Legal Name of the undertaking	Type of undertaking	Legal form	Category (mutual/non mutual)	Supervisory Authority	% capital share	% voting rights	Level of influence	Yes/No	Date of decision if art. 214 is applied	Method used and under method 1, treatment of the undertaking
SI	OP-18	Specific code	Golf Arboretum, d.o.o., Domžale	Other	Private limited-liability company	Non-mutual		80.73%	80.73%	Dominant	Included in the scope	2016-01-01	Other method
SI	OP-32	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	Other method
SI	PP-90	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	Other method
SI	485100000Z4 BS9C24Q46	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	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
BA	OP-23	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	Specific code	Autocentar BH, 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

Count	Identification code of the undertaking	Type of code of the ID of the undertaking	Legal Name of the undertaking	Type of undertaking	Legal form	Category (mutual/non mutual)	Supervisory Authority	% capital share	% voting rights	Level of influence	Yes/No	Date of decision if art.	Method used and under method 1, treatment of the
BA	OP-40	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	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
BA	OP-22	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	98.91%	98.91%	Dominant	Included in the scope	2016-01-01	Full consolidation
RS	OP-53	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	Included in the scope	2016-01-01	Full consolidation
BA	485100F220KL 688LO342	LEI	PROF-IN, d.o.o., Sarajevo	Credit institution, investment firm and financial institution	Private limited-liability company	Non-mutual		62.54%	62.54%	Dominant	Included in the scope	2016-01-01	Other method
BA	PP-13	Specific code	Sarajevostan, d.o.o., Sarajevo	Other	Public limited company	Non-mutual		90.95%	91.97%	Dominant	Included in the scope	2016-01-01	Other method
HR	OP-54	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
ME	OP-55	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	PP-12	Specific code	ZIF Prof Plus, d.d., Sarajevo	Other	Public limited company	Non-mutual				Significant	Included in the scope	2016-01-01	Other method

Country	Identification code of the undertaking	Type of code of the ID of the undertaking	Legal Name of the undertaking	Type of undertaking	Legal form	Category (mutual/non mutual)	Supervisory Authority	% capital share	% voting rights	Level of influence	Yes/No	Date of decision if art. 214 is applied	Method used and under method 1, treatment of the undertaking
SI	747800P0D13G4YJHYI09	LEI	Nama, trgovsko podjetje, d.d. Ljubljana	Other	Public limited company	Non-mutual				Significant	Included in the scope	2016-01-01	Other method
SI	PP-03	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	Other method
SI	4851006WX9ON1MWW9471	LEI	Trigal, upravljanje naložb in svetovalne storitve, d.o.o.	Other	Private limited-liability company	Non-mutual				Significant	Included in the scope	2018-01-10	Other method
SI	PP-19	Specific code	ZTSR, raziskovanje trga, 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		50.00%	50.00%	Significant	Included in the scope	2018-12-31	Other method
SI	485100NGW733OBJGTE94	LEI	KRDU Building, družba za investiranje, 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		49.90%	49.90%	Significant	Included in the scope	2018-12-31	Other method
SI	48510027E8WA7R7UBQ60	LEI	LOMA CENTER, nepremičnine, 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		49.90%	49.90%	Significant	Included in the scope	2018-12-31	Other method
SI	485100BVIL6S7PXGWM56	LEI	Ljubljanica, finančne storitve, 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		49.90%	49.90%	Significant	Included in the scope	2018-12-31	Other method