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

Solvency and Financial Condition Report
Zavarovalnica Triglav, d.d.
2018

Ljubljana, April 2019

€324.9 **million** solvency capital requirement

265 % solvency ratio

€861.1 **million** own funds to cover solvency capital requirement

€2,035.6 **million** in investments

€547.3 **million** net premiums earned

Zavarovalnica Triglav, d.d.

€100.9 **million** minimum capital requirement

€65.5 **million** net profit

€2.5 dividend per share

MEMBERS OF THE MANAGEMENT BOARD:

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

Zavarovalnica Triglav is a public limited company with its registered office in the Republic of Slovenia where it holds the leading position on the insurance market. The beginnings of its operations go back 119 years. Today, it is the parent company of the Triglav Group that included 30 subsidiaries and 9 associated companies at the end of 2018. The Triglav Group operates in 6 countries of the broader Adria region where its 20% market share makes it the leading insurance and financial group. The Triglav Group and thereby its parent company Zavarovalnica Triglav as well as the subsidiary Pozavarovalnica Triglav Re are 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 strategic activities of Zavarovalnica Triglav include **insurance business and asset management**. As part of its insurance business, the Company concludes non-life, health, life, pension insurance and reinsurance contracts. It operates mainly on the Slovenian market, while it also operates outside Slovenia within the scope of the Triglav Group activities. Its 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.

Zavarovalnica Triglav is managed and governed according to a two-tier system of governance including the General Meeting of Shareholders, the Management Board and the Supervisory Board. At the end of 2018, the Management Board was comprised of five members. The Supervisory Board appointed Andrej Slapar for a new five-year term of office as President of the Management Board which starts in November 2019 and also confirmed his proposal and re-appointed Uroš Ivanc and Tadej Čoroli as Management Board members for a five-year term of office that starts in July 2019. The Supervisory Board is composed of nine members, three of whom are employee representatives. The Company's system of governance also includes four key functions that report directly to the Management Board (risk management function, compliance function, internal audit function and actuarial function) and six risk management system committees that are appointed by the Management Board. Their work is placed into the second line of defence of the three lines of defence model of risk management. The work of the Company's committees is explained in detail in section B.3.4 of this Report.

The operations of Zavarovalnica Triglav were again **profitable in 2018**, with net profit amounting to EUR 65.5 million (up 4.8% compared to the year before). The Company recorded premium growth in all insurance segments and booked a total of EUR 660.2 million in gross insurance, co-insurance and reinsurance premium. Its operations were mostly affected by the higher growth in net insurance premium income when compared to the growth of net claims incurred. Its combined ratio for non-life insurance at the end of 2018 was 86.1%. The Company's operations in 2018 are presented in more detail in sections A.2, A.3 and A.4 of this Report.

The Company has over 14 thousand shareholders from 37 countries with the majority coming from Slovenia. At the end of 2018, the shareholdings of its top ten shareholders stood at 77.4%. The number of shares owned by international shareholders gradually strengthened from the start of the listing of the Company's share on the Ljubljana Stock Exchange in 2008 and amounted to 37.8% at the end of 2018, up 48% compared to the year before. Details of the Company's ownership structure are explained in section A.1.4 of this Report.

Zavarovalnica Triglav implements an attractive and sustainable dividend policy whereby the amount of dividend payment for 2017 was EUR 2.50 gross per share or 82% of the Triglav Group's consolidated net profit for 2017.

Zavarovalnica Triglav faces numerous risks in its operations. Through active management, it supervises all of the underwritten and potential risks with the aim of keeping its risk profile within the limits of the risk appetite. It is important for Zavarovalnica Triglav to have the **three lines of defence model** in place that allows it to identify all risks concurrently as well as to monitor them carefully and manage them effectively. 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 together perform the measurement of individual risks, monitor exposure to such risks and determine the exposure limit system. The third line of defence is represented by the Internal Audit of Zavarovalnica Triglav. Over the previous period, the Company actively upgraded the risk management system and regularly monitored the risk profile. Details on the Company's risk management process are explained in section B.3 of this Report.

Zavarovalnica Triglav performs the **Own Risk and Solvency Assessment process** (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 Company uses the results of the ORSA as the basis for the determination of its existing and future capital needs and for the adoption of strategic and business decisions. In doing so, it suitably determines the effects of said risks and external factors on the risk profile and subsequently the solvency level. The ORSA process therefore represents the basis for the decisions of the Management Board related to capital management in the strategic period and is closely tied to strategic planning. Last year, the Company carried out the ORSA process for the 2018 financial year. The details on the ORSA process are provided in section B.3.6.

Zavarovalnica Triglav has a management policy established for each type of risk. The Company measures and assesses risks using internal methodologies and indicators according to regulatory capital adequacy criteria and through capital adequacy according to the S&P risk assessment method. The regulatory solvency capital requirement (SCR) is calculated for the four types of risk, to which the Company is exposed. These are **underwriting, market, credit and operational risks**. The Company calculates the SCR using the standard formula stipulated in Commission Delegated Regulation (EU)[1]. Section C of this Report outlines the exposure, important concentrations, risk mitigation techniques and sensitivity for each of the risk types.

At the end of 2018, the SCR, which does not take into account mutual risk effects (i.e. diversification), amounted to EUR 496.7 million for the four main risk types. 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. 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 Company. The method is presented in more detail in section E of this Report.

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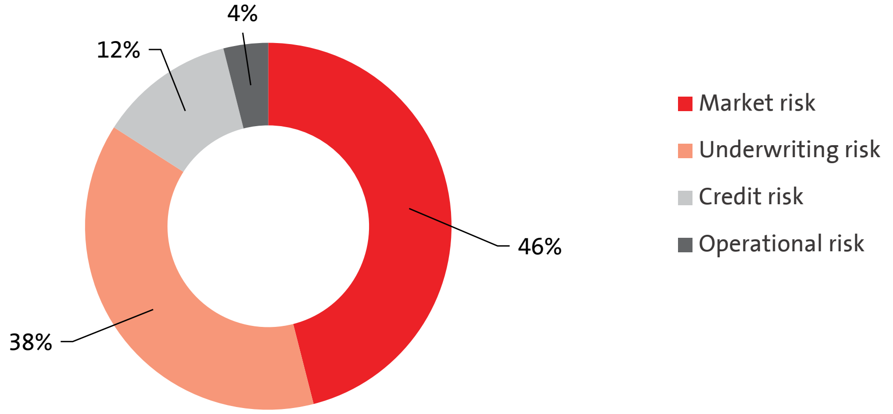
[1] COMMISSION DELEGATED REGULATION (EU) 2015/35 of 10 October 2014 supplementing Directive 2009/138/EC of the European Parliament and of the Council on the taking-up and pursuit of the business of Insurance and Reinsurance (Solvency II)

[2] Voluntary supplementary pension insurance

[3] Annuity stemming from Voluntary supplementary pension insurance

Risk profile of Zavarovalnica Triglav as at 31 December 2018



Zavarovalnica Triglav is most exposed to **market risk**, which it faces when investing collected premiums and own funds. The Company holds a broad range of various financial instruments in its 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 Company achieves portfolio returns that provide for stable and safe operations.

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

The Report presents the Company'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 with one of the fundamental differences being the valuation method. Assets and liabilities are **valued at fair value** for solvency purposes. When assets and liabilities are valued, the Company uses the risk-free interest rate curve prescribed by EIOPA[4] and does not apply any adjustments to the curve.

In the beginning of 2018, the Company adjusted its **capital management** objectives and consequently redefined its dividend policy. The Company manages capital in a centralised manner at the Group level by ensuring optimum and cost-effective capital allocation and use through capital concentration at the parent company. Capital management relies on the abovementioned risk management system and is based on strategic objectives of the Group, regulatory requirements, good practices and internally established methodologies. In doing so, it takes into account the special features of the Company's position, business environment, macroeconomic conditions and ownership structure. Effective capital management at the Company ensures safety and profitability of operations, the attainment of suitable capital

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

adequacy, maintenance of a high credit rating and confidence of all stakeholders. These objectives were achieved in 2018 as well.

Capital adequacy or the capital adequacy ratio is calculated as the ratio between the total eligible own funds and the solvency capital requirement. Zavarovalnica Triglav was adequately capitalised as at 31 December 2018. It had sufficient own funds to meet both the minimum solvency capital requirement (851%) and the SCR (265%):

Solvency ratio of Zavarovalnica Triglav (as at 31 December 2018) =

$$\frac{\textit{Eligible own funds}}{\textit{SCR}} = \frac{861}{325} = \mathbf{265\ \%}$$

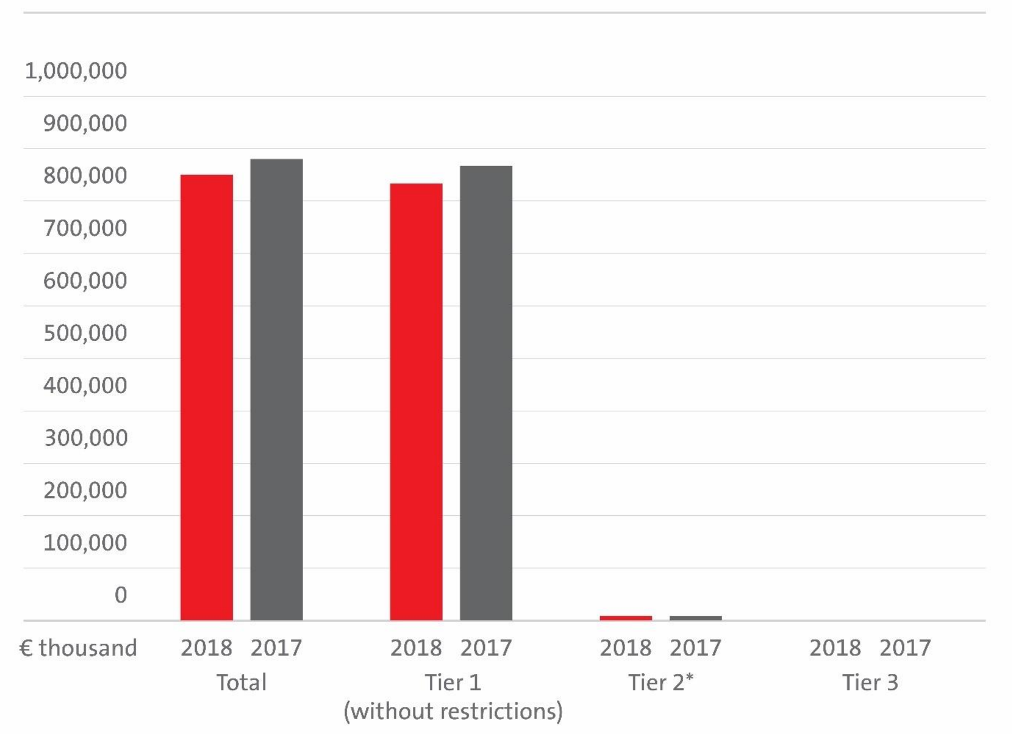
Capital adequacy of the Company as at 31 December 2018 and 31 December 2017

(€ thousand)

Capital adequacy of the Company	31 December 2018	31 December 2017
Total eligible own funds to meet the SCR	861,066	887,484
Total eligible own funds to meet the MCR	858,766	883,525
SCR with ring-fenced funds	324,920	322,242
Minimum capital requirement	100,913	95,947
Capital adequacy to SCR	265%	275%
Capital adequacy to MCR	851%	921%

The Company's capital adequacy amount is affected by eligible own funds that the Company holds in order to meet the SCR as well as by its SCR. The Company's capital adequacy decreased by 10 pp compared to the year before, which is mainly the result of the decrease in eligible own funds. The Company held the highest quality **eligible own funds** at the end of 2018 as shown in the chart below.

Quality of the Company's eligible own funds to meet the SCR as at 31 December 2018:

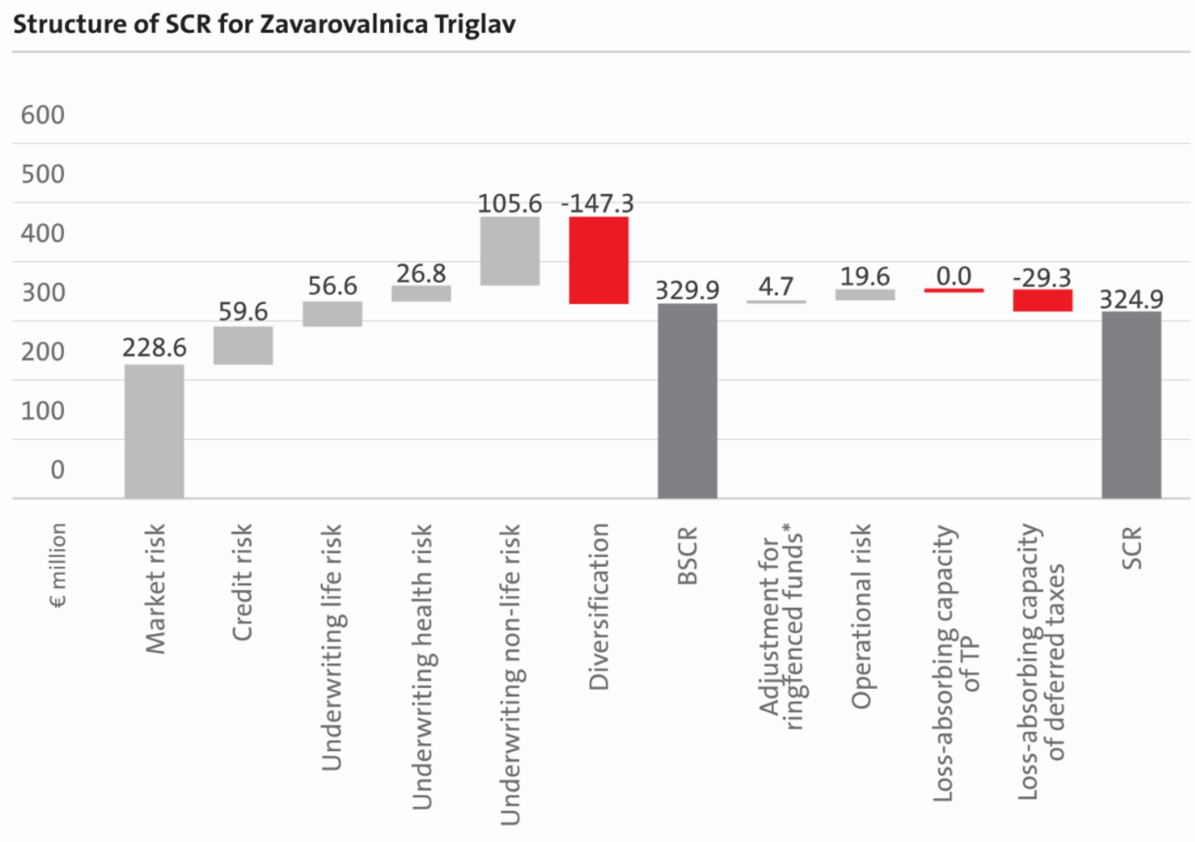


* Tier 2 own funds are suitable for the coverage of the MCR as long as they do not exceed 20% of the MCR.

The quality of own funds is measured subject to their availability to cover potential losses and their subordination to underwriting liabilities. The duration of the item, absence of incentives for payment, absence of mandatory fixed servicing costs and the absence of encumbrances are all taken into account in this regard as well. Tier 1 thus includes the highest quality basic own funds, while Tier 2 only includes those that are characterised by subordination to a large extent. All other items are classified into Tier 3. All three tiers are eligible to meet the SCR up to the defined thresholds, while only Tier 1 and a part of Tier 2 capital are eligible to meet the minimum 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 Company's share capital (EUR 73.7 million), subordinated liabilities (EUR 22.5 million) and the reconciliation reserve (EUR 764.9 million). The calculation of eligible own funds takes into account the value of expected dividends for the 2018 financial year (EUR 56.8 million) that are paid out in 2019.

The **solvency capital requirement** is calculated using the standard formula and without simplification. It is the sum of the SCR for the four main risks of the Company as indicated in its risk profile.



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

The Company calculates the minimum capital requirement using the method for composite insurance companies, where the linear minimum capital requirements are calculated first. The linear minimum capital requirement for non-life insurance is linked to the activities from non-life and life insurance, also taking into account additional accident insurance for life insurance.

At the end of 2018, 84% of the Company's SCR related to underwriting and market risks, while practically all of its own funds were classified as Tier 1 in terms of quality. Zavarovalnica Triglav manages own funds efficiently which ensures safety and profitability of operations as well as the realisation of planned and strategic goals. Zavarovalnica Triglav has a well-thought risk management system that works well in practice and is appropriately incorporated into the governance of the Company.

A. Business and performance

A. Business and performance

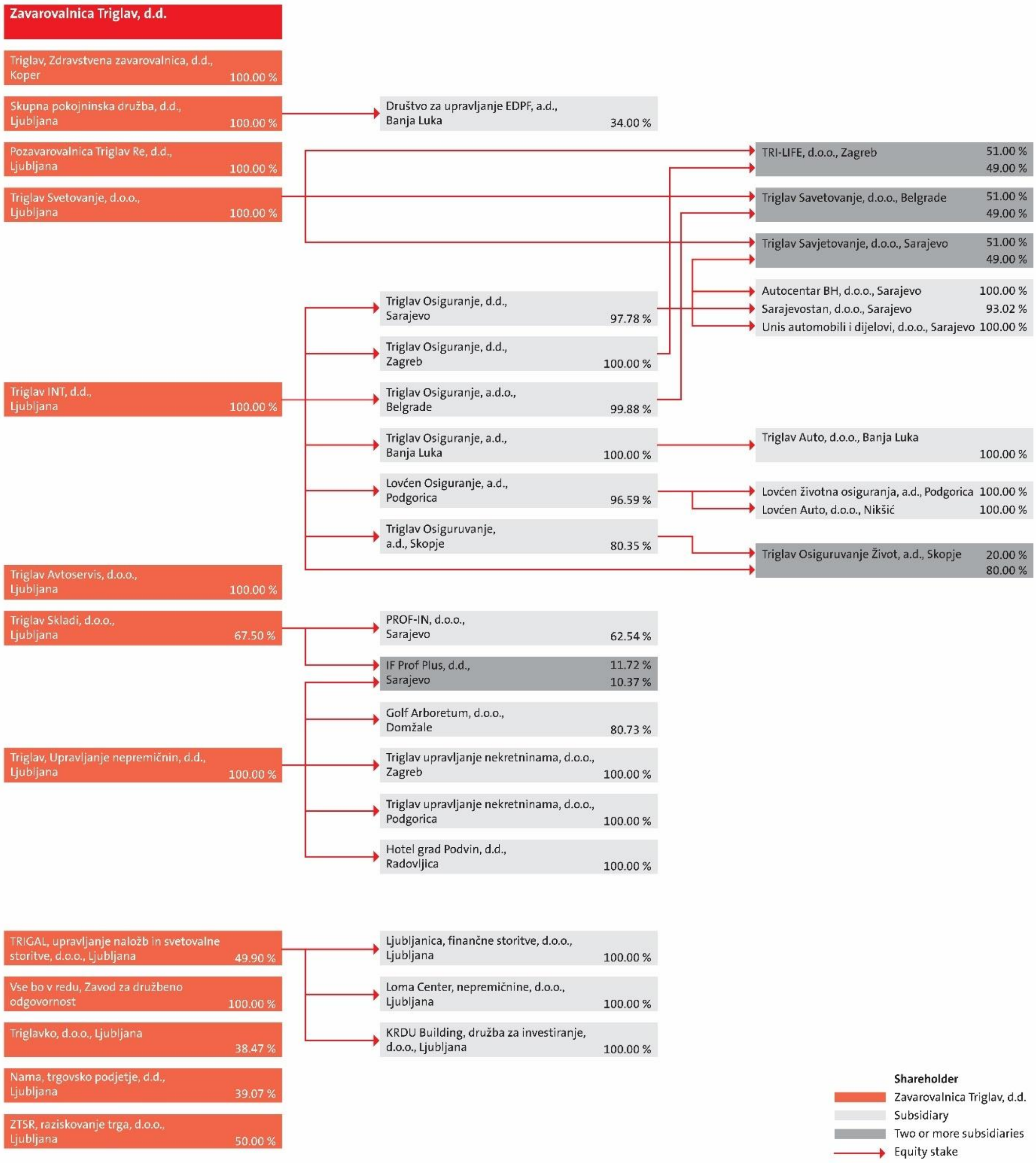
A.1 Business

A.1.1 About Zavarovalnica Triglav

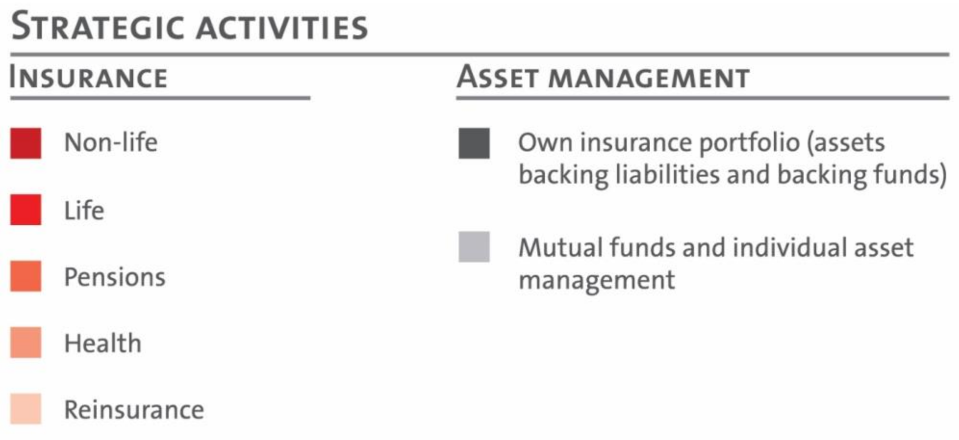
Zavarovalnica Triglav, d.d. (hereinafter: the Company) headquartered in Ljubljana, Miklošičeva 19, is the parent company of the Triglav Group (hereinafter: the Group) comprising 30 subsidiaries and 9 associated companies.

Below is the schematic presentation of the Group's subsidiaries and associated companies as well as their respective equity interests as at 31 December 2018.

Figure 1: Schematic presentation of the Group's subsidiaries and associated companies and their respective equity interests as at 31 December 2018



The Company carries on the insurance and reinsurance activities as well as the asset management activity. As part of its insurance business, the Company concludes non-life, health, life and pension insurance contracts. It operates mainly on the Slovenian market, while it also operates outside Slovenia within the scope of the Group.



The Company held a 28% market share in Slovenia at the end of 2018 and thereby a convincing leading market position.

In 2018, the Company operated in all segments of non-life insurance with the exception of the segment of worker's compensation insurance. Out of all the non-life insurance segments, the Company earns the most premium from fire and other damage to property insurance (LoB 7), other motor insurance (LoB 5) and motor vehicle liability insurance (LoB 4).

In 2018, index-linked and unit-linked insurance (LoB 31) represented the largest segment of life insurance. These were followed by insurance with profit participation (LoB 30) and other life insurance (LoB 32).

The Company also carries on the asset management activity. Asset management is performed via insurance services and via Company's mutual funds. Asset management enables the assurance of adequate funds for the payment of contractual liabilities and the maintenance of suitable capital adequacy.

A.1.2 Supervisory body

The Company's supervisory body is:

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

A.1.3 External audit

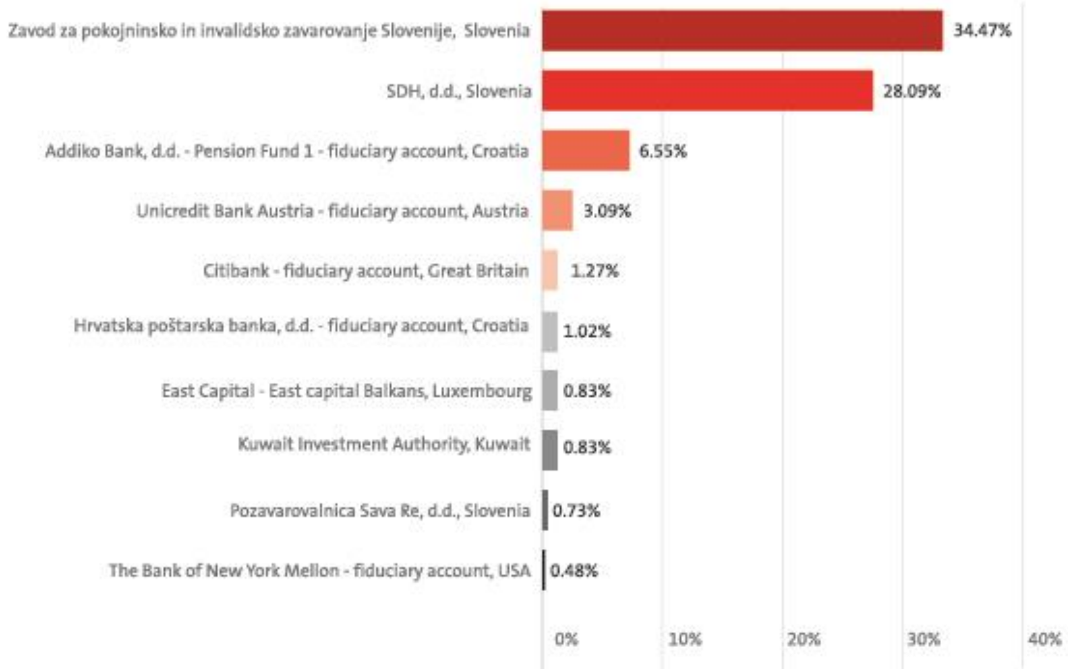
Based on the resolution of the General Meeting of Shareholders of the Company, the following audit firm was appointed as the external auditor of the Company for the 2018 financial year:

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 to the ownership structure of the Company in 2018. The top ten shareholders held a 77.4% shareholding at the end of the year, an 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 1: 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 Company's active policy in the area of investor relations.

A.1.5 Major business events and achievements in 2018

- <u>Good business results:</u> The Company'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 Company 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 Company 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 Company is thus continuing to strengthen its asset management activity at the Group level.
- 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.2 Underwriting performance

The Company's net profit in 2018 was up 5% compared to the year before, i.e. from EUR 62.5 million to EUR 65.5 million. The main reason for the increase in net profit is higher growth in net premium income compared to the net claims incurred as well as good operating performance.

The non-life combined ratio stood at 86.1% at the end of 2018, down 1.8 pp compared to the year before. The main reason behind the decrease of the combined ratio compared to the year before is the decrease in the net claims incurred compared to the written premium in the period.

The net return on equity, which is the ratio between net income returned and the average shareholder's equity, stood at 11.6% in 2018, an increase of 0.6 pp compared to the year before. Compared to the year before, the increase is mainly the result of higher net profit.

Table 1: Company's operating performance in 2018 and 2017

(€ thousand)

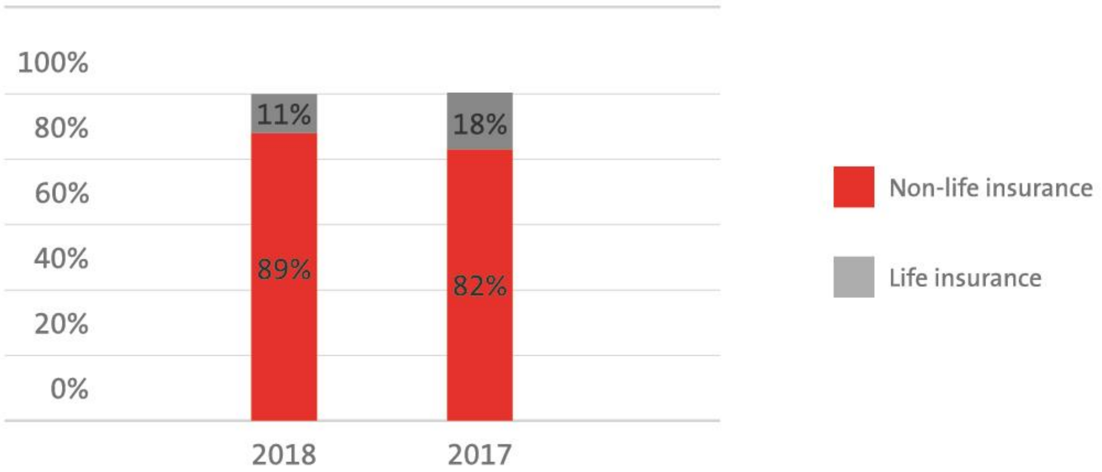
	2018	2017
Net profit	**65,544**	**62,522**
- Non-life insurance	58,260	51,330
- Life insurance	7,284	11,192
Non-life insurance combined ratio*	**86.1 %**	**87.9 %**

ROE	**11.6%**	**11.0%**

* 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.

Company's 2018 net profit was in 11% represented by life insurance, while 89% was generated from non-life insurance. Compared to the previous year, the share of non-life insurance grew by 7 p.p. at the expense of life insurance.

Chart 2: Company's net profit or loss in 2018 and 2017



The Company recorded a total of EUR 660,2 million in gross insurance, co-insurance and reinsurance premium in 2018. The premium grew by EUR 38.2 million compared to last year. According to the segmentation applied for solvency purposes, the Company's gross written premium from insurance, coinsurance and reinsurance under non-life insurance amounted to EUR 513.5 million and EUR 146.7 million from life insurance. The biggest share of the non-life insurance premium is derived from fire and other damage to property insurance segments. These were followed by other motor insurance and motor vehicle liability insurance.

According to the segmentation for solvency purposes, gross claims incurred in 2018 amounted to EUR 396.1 million, out of which EUR 260.3 million came from non-life insurance and EUR 135.9 million came from life insurance. Most of the gross claims incurred among non-life insurance arose from claims in other motor insurance segments as well as fire and other damage to property insurance. Gross claims incurred decreased by EUR 8.9 million compared to the year before, of which gross claims incurred under life insurance decreased by EUR 28.8 million and those under non-life insurance increased by nearly EUR 19.9 million.

The Company's expenses in 2018 amounted to EUR 162.5 million, of which EUR 134 million came from non-life insurance and EUR 28.7 million came from life insurance. According to the segmentation for solvency purposes, the highest expenses were incurred in the fire and other damage to property insurance segment. Expenses decreased by EUR 1.8 million when compared to 2017.

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

Table 2: Premium, claims and expenses of the Company by major insurance segments for solvency purposes in 2018 and 2017

		(€ thousand)
	2018	2017
Premium written	**660,210**	**621,972**
- Non-life insurance	**513,529**	**475,519**
-- Motor vehicle liability insurance (LoB 4)	89,074	84,651
-- Other motor insurance (LoB 5)	118,489	106,609
-- Fire and other damage to property insurance (LoB 7)	155,582	137,353
-- Other non-life insurance segments	150,384	146,905
- Life insurance	**146,681**	**146,453**
-- Insurance with profit participation (LoB 30)	54,943	56,542
-- Index-linked and unit-linked insurance (LoB 31)	85,277	83,869
-- Other life insurance (LoB 32)	6,461	6,042
-- Annuities stemming from non-life insurance contracts (LoB 34)	0	0
Claims incurred	**396,148**	**405,021**
- Non-life insurance	**260,278**	**240,386**
-- Motor vehicle liability insurance (LoB 4)	51,351	42,897
-- Other motor insurance (LoB 5)	77,268	72,187
-- Fire and other damage to property insurance (LoB 7)	66,787	75,854
-- Other non-life insurance segments	64,872	49,448
- Life insurance	**135,870**	**164,636**
-- Insurance with profit participation (LoB 30)	66,286	68,534
-- Index-linked and unit-linked insurance (LoB 31)	69,890	90,441
-- Other life insurance (LoB 32)	1,237	1,251
-- Annuities stemming from non-life insurance contracts (LoB 34)	-1,543	4,410
Expenses incurred	**162,595**	**164,414**
- Non-life insurance	**133,943**	**136,764**
-- Motor vehicle liability insurance (LoB 4)	22,397	22,128
-- Other motor insurance (LoB 5)	28,305	27,180
-- Fire and other damage to property insurance (LoB 7)	43,974	43,060
-- Other non-life insurance segments	39,267	44,397
- Life insurance	**28,652**	**27,650**
-- Insurance with profit participation (LoB 30)	9,531	9,799
-- Index-linked and unit-linked insurance (LoB 31)	16,258	15,233
-- Other life insurance (LoB 32)	2,810	2,568
-- Annuities stemming from non-life insurance contracts (LoB 34)	53	50
Other expenses	**8,221**	**4,769**

The Company operates mostly in the territory of the Republic of Slovenia, with life insurance sold exclusively in Slovenia. More than 97% of premium income is generated by the sale of insurance to domestic clients and more than 99% of all claims are paid to domestic clients as well. The percentages above did not change significantly compared to 2017.

Table 3: Geographic distribution of the premium and claims of the Company in 2018 and 2017

		(€ thousand)
	2018	2017
Premium written	**660,210**	**621,972**
-- Slovenia	642,738	610,351
-- Other countries	17,472	11,621
Claims incurred	**396,148**	**405,021**
-- Slovenia	395,957	404,873
-- Other countries	191	148

Detailed quantitative data on the Company's operations subject to the geographic distribution is shown in template S.05.02 in Annex to this Report.

A.3 Investment performance

The Company's investment policy remains conservative and the majority of the investments in the portfolio is still represented by debt securities that are closely tied to liabilities. The main factors affecting the Company's investment performance are the structure of the investments and the developments on capital markets. This chapter presents the Company's investment result broken down by the contribution of individual investment classes. A comparison with the investment performance published, by the Company last year, is also provided. The investment performance was also published in The Triglav Group and Zavarovalnica Triglav d.d. Annual Report 2018, chapter 3.6 of the accounting report section of the report.

Taking into account index-linked and unit-linked insurance contracts, the investment performance in 2018 was lower than in 2017. Interest income fell in nearly all investment classes on account of the prolonged period of low interest rates. This trend is expected to continue in the future as well. The "Other" category presents interest income from default interest on receivables and interest expenses. Dividend income, which comes mostly from the dividends received from subsidiaries, decreased additionally. The "Net profit or loss" category comprises changes in the fair value of assets classified as "fair value through profit or loss", gains and losses from sale and permanent impairments. The category decreased noticeably compared to the previous year which is mainly the result of the increase in credit spreads in the corporate bond segment and the price corrections on stock markets in the last months of the 2018 calendar year. The loss is additionally increased by the negative result in the "derivatives" investment class where the Company hedged against a rapid rise in interest rates. The effect of the drop on stock markets, increase in credit spreads in the corporate bond sector and the exposure to government issues (e.g. debt securities of the Republic of Italy) is also reflected in the decrease in unrealised gains. The "unrealised gains and losses" category relates only to investments classified as "available for sale" and represents a periodical change in the revaluation surplus which is an integral part of equity. "Other net finance income" (the major portion of this amount is represented by exchange rate differences) contributed significantly lower expenses than in the previous year because of the relatively stable exchange rate. The leasing result remains unchanged in comparative terms.

Table 4: Performance of the Company's investment activities for financial reporting purposes in 2018 and 2017

2018 **(€ thousand)**

Investment performance	Net interest	Dividends	Net profit or loss	Other net financial income	Unrealised gains and losses	Rents
Financial asset	**42,272**	**7,584**	**-26,553**	**-1,417**	**-39,515**	**4,819**
Real estate	0	0	1,165	0	0	4,819
Shares	0	7,124	-543	0	-988	0
Government bonds	17,363	0	3,778	0	-13,428	0
Corporate bonds	17,914	0	-3,396	0	-22,582	0
Collective investment undertakings	0	460	-23,534	0	-2,517	0
Loans	2,270	0	0	0	0	0
Deposits, cash and cash equivalents	14	0	0	0	0	0
Derivatives	0	0	-3,536	0	0	0
Other	4,711	0	-487	-1,417	0	0

2017 **(€ thousand)**

Investment performance	Net interest	Dividends	Net profit or loss	Other net financial income	Unrealised gains and losses	Rents
Investments	**43,954**	**8,961**	**43,453**	**-6,196**	**2,935**	**4,657**
Real estate	0	0	17	0	0	4,657
Shares	0	8,681	1,470	0	3,340	0
Government bonds	18,392	0	2,072	0	553	0
Corporate bonds	19,197	0	7,669	0	-276	0
Collective investment undertakings	0	280	32,941	0	-682	0
Loans	2,064	0	0	0	0	0
Deposits, cash and cash equivalents	4	0	0	0	0	0
Derivatives	0	0	-721	0	0	0
Other	4,297	0	5	-6,196	0	0

The Company has no investments in securitized products.

A.4 Performance of other activities

A.4.1 Other income and expenses

The Company's other income comprising other insurance income and other income amounted to EUR 39.9 million in 2018, the majority of which coming from other insurance income (EUR 27.5 million). Other income is mostly comprised of income from reinsurance commissions and interest on receivables. The values of the abovementioned category did not change materially compared to 2017.

The Company's other expenses in 2018 amounted to EUR 27.4 million. Fire tax, fee and commission expenses and other expenses accounted for the majority of the abovementioned amount. The value of the Company's other insurance expenses increased by EUR 4.8 million compared to 2017. The main reasons for the increase in other insurance expenses are higher impairment losses and write-offs of receivables which increased by EUR 2.6 million compared to the year before.

Detailed information on the Company'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 5: Other income and expenses of the Company for financial reporting purposes in 2018 and 2017

(€ thousand)

	2018	2017
Other income	**39,940**	**38,684**
- Other insurance income*	27,448	27,733
- Other income	12,492	10,951
Other expenses	**27,414**	**21,850**
- Other insurance expenses	11,820	6,981
- Other expenses*	15,594	14,869

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

A.4.2 Lease agreements

In the reporting period, the Company was a party to several lease agreements both as lessor and as lessee.

Among the contractual relationships where the Company acts as the lessor, only investment property is considered material. Of the total value of investment properties of EUR 45.3 million, the annual leasing income amounted to EUR 4.4 million.

The Company acts as the lessee when leasing business premises and parking spaces, leasing software and data lines, leasing multi-function devices and leasing cars. The total annual leasing costs amounted to EUR 3.3 million in 2018, 47% of which are the costs of leasing software and data lines. All lease agreements are operating lease agreements, meaning that all cost effects are shown as leasing costs and have no impact on the value of the underlying asset. In 2019, all long-term leases will be recognised in the balance sheet as right-of-use assets will be depreciated proportionally to the lease period, i.e. in accordance with the amendments to the International Financial Reporting Standards (IFRS 16).

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.

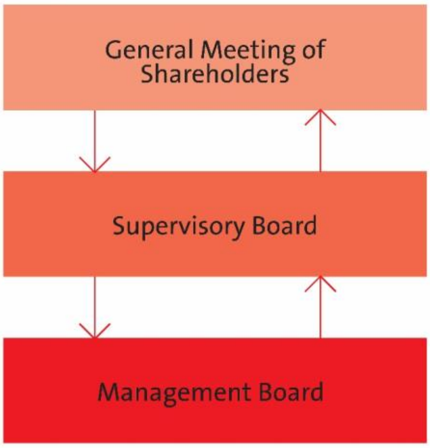
OTHER RELEVANT INFORMATION

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

B. System of governance

B. System of governance

B.1 General information on the system of governance



A two-tier system of governance including the following bodies is set up at the Company: General Meeting of Shareholders, the Management Board and the Supervisory Board. The bodies operate in accordance with the laws and other regulations, the Articles of Association and their respective rules of procedure. The Company's Articles of Association are published on the Company's official website www.triglav.eu.

The Company's system of governance also includes the risk management function, the compliance function, the internal audit function and the actuarial function, which are defined as key functions by law, as well as committees appointed by the Management Board.

The key functions at the Company are organised as independent organisational units, which carry out their duties and responsibilities independently from one another and from the other organisational units of the Company. The key functions at the Company are organised so as to ensure suitable internal supervisory mechanisms and report directly to the Management Board. They operate in line with the structure of the three lines of defence within the Company's governance system.

All key functions cooperate with one another and regularly exchange information required for their optimum respective operation. The responsibilities for the performance of tasks, processes and reporting obligations of every key function are defined within the system of governance. For further details on key functions, see Sections B.3.3, B.4.1, B.5 and B.6.

The system of governance also includes committees, the members of which are appointed and recalled by the Management Board. The committees differ from one another in terms of their purpose, composition and powers, while their decisions are binding. Committees within the risk management system are presented in Section B.3.4.

B.1.1 Management bodies of the Company

B.1.1.1 Management Board

The Management Board governs and manages the Company independently and at its own responsibility. It represents and presents the Company without limitations. The Company is always represented and presented in legal transactions by two Management Board members jointly, i.e. the President and member.

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

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 6: 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

B.1.1.2 General Meeting of Shareholders

Shareholders exercise their rights in Company matters at the General Meeting of Shareholders that is convened no less than once a year. The powers and operation of the General Meeting are defined by the Companies Act and the Company's Articles of Association. A Company's share provides each owner with the right to: one vote at the Company's General Meeting of Shareholders, proportionate dividend from the profit and – in the event of bankruptcy or liquidation – a proportionate share of the remaining bankruptcy or liquidation estate. A shareholder registered in the share register kept by the KDD[5] 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 The Triglav Group and Zavarovalnica Triglav d.d. Annual Report 2018, section 6.2.

B.1.1.3 Supervisory Board

The Supervisory Board 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-appointed without limitation.

The Supervisory Board supervises the management of the Company. In addition to the powers granted to the Supervisory Board by 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 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, the acquisition or sale of Zavarovalnica Triglav's stakes in foreign or domestic companies, the issue of debt securities of the Company and long-term borrowing from domestic and foreign banks, the acquisition and sale of the Company's real estate as well as investment in its real estate. The Supervisory Board 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.

When supervising the conduct of the Company's business, the Supervisory Board in particular supervises the adequacy of procedures and effectiveness of internal auditing, considers the findings of the ISA, tax inspection and other supervisory authorities in procedures for the supervision of the Company, verifies annual and other financial reports of the Company and

[5] KDD - Central Securities Clearing Corporation

prepares a reasoned opinion thereto, reviews the proposal for the distribution of accumulated profits, which was drafted by the Management Board, and submits its findings to the General Meeting of Shareholders in the form of a written report, checks the drafted Annual Report submitted by the Management Board, takes a position on the audit report and draws up a written report for the General Meeting of Shareholders by including potential comments or approving it.

The Supervisory Board is not directly part of the three lines of defence within the Company's risk management system, but its role in the system is nevertheless essential. Just as the Management Board, the Supervisory Board is a primary stakeholder serviced by all three lines of defence and simultaneously the entity responsible for the functioning of the three lines of defence system within the risk management system and control processes.

The Supervisory Board appoints and may also recall the members of the Management Board. In doing so, it strives to ensure the continuity of their work through prudent and timely selection of the President and other members (at the President's proposal) of the Management Board.

The Supervisory Board decides with the majority of the votes cast by the members present.
As at 31 December 2018, the Supervisory Board composition was as follows:

Table 7: Members of the 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 draft resolutions of the Supervisory Board, assure their implementation and perform other expert tasks. A committee or commission may not decide on issues that fall under the competence of the Supervisory Board.

The following Supervisory Board committees operated at the Company in 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 8: 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

The Company implements 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

The remuneration of the Management Board, i.e. both the basic salary and the annual operating performance-based bonus, are set and paid out 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.

EXECUTIVE AND MANAGEMENT EMPLOYEES AND OTHER EMPLOYEES WORKING UNDER INDIVIDUAL AGREEMENTS

The basic salary (fixed part of pay) for executive and management employees and other employees working under individual agreements is stipulated in the employment contract, whereby the minimum and maximum basic gross salary for each group is stipulated in an internal act.

Management employees and other employees working under individual agreements are entitled to a work performance-based part of pay (variable part of pay) provided they exceeded the predetermined targets and expected work results in the assessment period. The wage bill for the payment of the work performance-based part of pay is set by the Management Board in observance of operating results.

In accordance with the criteria determined by the Management Board and subject to good results, executive, managerial and other employees working under individual agreements are entitled to the operating performance-based part of pay – annual bonus. The amount of the bonus is limited at the top end.

EMPLOYEES WORKING UNDER A COLLECTIVE AGREEMENT

The basic salary of employees working under a collective agreement is determined by taking into account the qualifications and responsibilities required by the position of employment as well as how demanding the position of employment is. If they exceed the predetermined targets and expectations, they are entitled to a work performance-based part of pay (variable part of pay). The wage bill for the payment of the work performance-based part of pay is set by the Management Board in observance of operating results.

In accordance with the criteria determined by the Management Board and subject to good results, workers are entitled to the operating performance-based part of pay – annual bonus.

All employees at the Company can join the collective voluntary supplementary pension insurance (VSPI) and voluntary pension insurance (VPI). The Company pays the premium as a proportion of the employee's gross salary for each employee in accordance with the agreement reached with the workers' representatives. Collective voluntary supplementary pension insurance represents the collection of funds on the members' personal accounts with the aim of providing them with the disbursement of a supplementary old age pension from retirement onwards. Voluntary pension insurance represents saving to acquire a monthly pension payment that is paid out either from a particular date onward or from the date of retirement until the end of one's life, but for no less than 10 years.

B.1.3 Related party transactions

Related parties of the Company include:

- shareholders who have a significant influence on the operations of the Company;
    - Zavod za pokojninsko in invalidsko zavarovanje Slovenije (Pension and Disability Insurance Institute of Slovenia) holding a 34.47% stake;
    - Slovenski državni holding, d.d. (Slovenian Sovereign Holding) holding a 28.09% stake;
- members of the Management Board;
- members of the Supervisory Board.

The only materially significant transaction in 2018 was the distribution of dividends. In 2018, the Company paid out dividends for 2017 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.

There were no material related-party transactions at the Company during the year.

B.2 Fit and proper requirements

The Commission Delegated Regulation requires the persons who manage or supervise the Company or perform work in key functions to have suitable professional qualifications and be suitable for the job (good reputation and integrity).

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

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

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

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

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

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

B.3.1 Description of the risk management system

The risk management system is one of the main building blocks of the Company's governance system. Its objective is to identify, monitor and manage short-term and long-term risks underwritten by the Company in accordance with its strategic goals. The system at the Company is set up so that risk assessments performed are communicated in a timely manner to all stakeholders who require such information for improved operation. It is also important for the

Company's management team to build a suitable corporate culture, mainly in terms of the awareness of risks as well as cooperation and open communication about the risks as this makes for the most effective possible functioning of the risk management system.

The Company has determined a certain level of risks (Risk Appetite) measured by the level of potential loss that it is still willing to assume in the course of its business operations so as to attain the set business objectives and strategic goals. The objective of the risk management system is to ensure the realisation of the Company's strategic goals, the mission and the vision.

The main activity of the risk management system is supervision of the identified, underwritten and contingent risks. The system enables timely detection of risks and the implementation of measures to ensure that the risk profile levels are the same as those laid down in the risk appetite. The key guidelines when taking on risk are:

- avoidance of risks in lines of business that are unacceptable to the Company because of the excessive level of risk;
- underwriting of risks in areas where a balanced ratio between the costs and returns of the underwritten risk is expected;
- limitation and mitigation of risks to an acceptable level by setting limits;
- risk transfer and hedging.

The risk management system at the Company is based on the three lines of defence.

Figure 2: Risk management system at the Company

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.

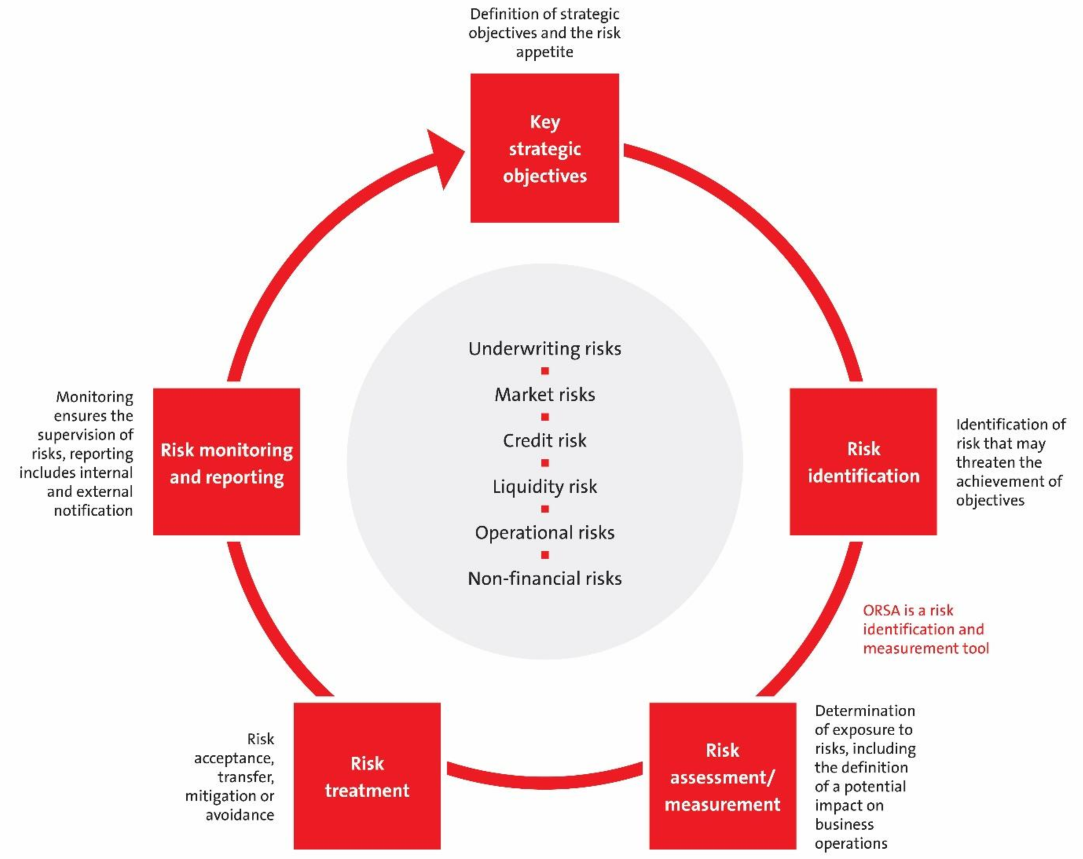
The risk management system at the Company is based on basic building blocks: knowledge and understanding of underwritten risks, integration of risk management into the overall organisational culture and structure, definition of limits and the system for risk exposure monitoring and action, risk measurement and risk reporting.

The risk management system encompasses:

- identification of risks occurring in the Company's operations;
- quantification or assessment of the materiality of individual risks for the Company, taking into account its business model;
- definition of underwriting objectives, taking into account the guidelines from the Company's defined risk appetite, and establishment of a limit system on the basis of the risk appetite;
- control over the underwriting of risks arising from Company operations and reporting;
- risk management in a manner that ensures compliance with the strategy and the defined restrictions as well as the implementation of measures in the event deviations are identified or in case of strained operating conditions.

The main building blocks of the comprehensive risk management system of the Company are the Strategy of the Group and the Business Plan of the Company.

Figure 3: Risk management process at the Company



The main task of the process for the determination of planned guidelines and objectives of the Company for the strategic period is the identification of events that could have a negative impact on the operating performance of the Company, especially those affecting the achievement of the Company's planned key indicators and guidelines. The financial effect and the impact on capital adequacy of these events are assessed within the scope of the Own Risk and Solvency Assessment process.

The Company regularly monitors, manages and reports on the more important detected events. Risks are regularly measured and monitored using various methods:

- The regulatory method is used in the process of calculating capital adequacy at the Company level and to justify significant changes in the period.
- Internal methods are used in the internal risk measurement process when own calculations of the defined key risk indicators are performed, thereby assessing the risk level of a particular category.
- The S&P risk assessment method is used when the Company calculates capital adequacy based on the methodology of the S&P rating agency.

The risk management system committees are actively involved in the monitoring of the assessed material risks.

When managing risks, the Company acts preventively whereby it applies two approaches: decomposition (e.g. product) and diversification (e.g. investment) of individual risk types. When balancing risk exposure, the key measure is the setup of a suitable limit system that the Company adjusts to the current external developments subject to the business opportunities, whereby it remains within the defined risk appetite at all times.

In order to set up an effective risk management system, the Company pursues the principle of the optimum management of the ratio between risk exposure and return ("Risk vs. Return"), the principle of the ratio between the costs and the benefits ("Cost Benefit Principle") and the liquidity assurance objective in addition to transparency.

B.3.2 Risk management strategy and definition of the risk appetite

The Company has outlined and described the complete risk management system with the risk management strategy and the risk appetite. The risk management strategy clearly defines the principles and objectives of the risk management system as well as a comprehensive risk management process (including the delimitation of competences and responsibilities) and provides guidelines for the underwriting of individual risk types (appetite and tolerance). The risk appetite is one of the central building blocks of the risk management system that represents the level of risk measured by the level of potential loss that the Company is still willing to assume in the course of its business operations so as to attain the set business objectives and strategic goals.

The objective of risk management at the Company is advance identification of individual risk types and their assumption and management through the implementation of a clearly defined comprehensive risk management system. The Company also quantitatively defines the level to which the Group and indirectly the Company is able and willing to expose itself in individual risk segments, taking into account its strategic goals and capital strength.

The Company aims to achieve optimum exposure to all material risks. In order to meet the return on equity objective, the Company assumes underwriting, market, credit, liquidity, operational and non-financial risks in accordance with the Company's business strategy, risk management strategy, investment policy and the annual business plan of the Company. When implementing its business strategy, the Company assumes and manages non-financial risks that arise mainly from external and internal factors, including their impact on reputation and the achievement of strategic goals, especially in the process of business expansion on strategic markets.

The Company defines its risk appetite in the form of indicators that are defined for all material risks.

B.3.3 Risk management function

In addition to the previously described bodies, all four key functions and the committees operating within the scope of the risk management system play an important role in the risk management system at the Company.

Out of the four key functions, the risk management function holds an independent role of the risk management system holder. The function is directly accountable to the Management Board and operates autonomously and independently from other business functions.

The key tasks of the risk management function are to support the Management Board and the Supervisory Board in the effective implementation of the risk management system, to put in place and monitor the risk management system, to monitor the overall risk profile of the Company as a whole, to report in detail on risk exposure and to advise both the Management Board and the Supervisory Board on matters of risk management, including matters related to strategic issues, such as the Company's strategy, mergers and acquisitions, and major business projects and investments. All of the above includes identification and assessment of emerging risks, active care for good operation of the committees that are part of the risk management system, coordination and calculation of capital requirements, coordination of the process and preparation of the Own Risk and Solvency Assessment process, and the drafting of regular reports, including the SFCR.

The key tasks of the risk management function holder are supervision and unbiased reporting on the implementation of tasks. The risk management function holder is authorised by the Management Board subject to consent from the Supervisory Board. The risk management function holder is responsible for the performance of supervision and reporting to the Management Board and the Supervisory Board.

As part of the regular assessment of the Company's risks, the risk management function assesses the suitability and effectiveness of risk management procedures and – if it detects deviations – performs the advisory function. By providing guidelines, recommendations and proposals, it co-creates internal controls for improved monitoring of risks within a specific process, functional area or at the level of the entire Company. It notifies the risk management system committees of the more important findings. In addition, it also reports to the ISA in line with the Insurance

Act and the issued implementing regulations relating to the tasks of the risk management function.

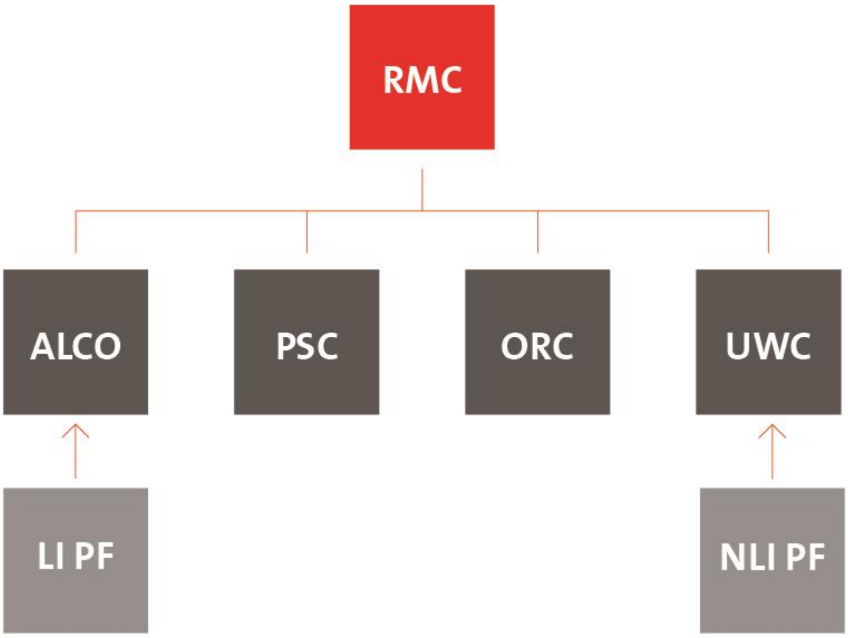
The findings and opinions of the risk management function holder are to be as far as possible objective and independent from the influence of other functional areas.

The risk management function holder performs tasks as part of the second line of defence.

B.3.4 Committees operating within the scope of the risk management system

The following committees form the second line of defence at the Company level within the scope of the risk management system and they work with one another and exchange the required information. Committees ensure effective functioning of the risk management system at divisions for which they are responsible and regularly monitor the risks of the Company.

Figure 4: Organisational chart of the committees within the Company'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 Company has 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 Company. 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 of the Company, 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 of the Company.

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 Company's 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.

The Underwriting Committee (UWC) is an integral part of the Company'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 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 an integrated operational risk management system that is tailored to the Company'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 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 of the 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). IT security risk, including cyber risk, is monitored as a special category of operational risk.

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 monitoring of insurance products for the Slovenian and other markets in which the Company markets its products. When developing and changing insurance products, it is necessary to ensure compliance with the Company'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 appetite 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.

B.3.5 Risk reporting system

The Company regularly implements the risk reporting system in the form of standardised risk reports, including regulatory and internal indicators for all risk and operation segments. All divisions participate in the drafting of the report. In addition to the recommendations of the Risk Management Department, the report also contains comments on indicator trends and values in relation to the set limits and target values. The committees in the risk management system as well as the Management Board and the Supervisory Board discuss risk reports within their respective powers. The following is also part of the risk reporting system: Annual Report, Solvency and Financial Condition Report (SFCR), Own Risk and Solvency Assessment (ORSA), Regular Supervisory Report (RSR) and reports to external stakeholders.

B.3.6 Own risk and solvency assessment process

The principal aim of the Own Risk and Solvency Assessment (hereinafter: ORSA) process is for the Company to disclose – at the level of the parent company and the Group – its own assessment of risks arising from operation that affect its current and future capital requirements. In order to suitably perform the ORSA process, it is necessary to put in place suitable and robust processes for the identification, monitoring and assessment of own risks and solvency requirements, whereby it is also necessary to ensure that the risk assessment results are used appropriately in decision-making procedures at the Company and at Group companies.

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

ORSA contains an assessment of the Company's current solvency requirements as well as an assessment for the coming four-year period taking into account the analysis of the sensitivity of the Company's capital adequacy to identified scenarios with a material impact on operations. As part of the assessment of the Company's current solvency requirements, an assessment of the suitability of the standard formula in the light of the actual risk profile of the Company is carried out, including an identification and assessment of other risks not included in the standard formula. A statement from the actuarial function has been issued with regard to the suitability of the methodology applied in the calculations of insurance-technical provisions.

ORSA is based on the identified risks that are taken into account in the assessment of solvency requirements in the future operating period. An important part of ORSA is also the process, within the scope of which the Company assesses important future risks for the duration of its business strategy based on the knowledge about the current risks. This serves as the basis for the assessment of solvency requirements in future years. As part of the annual strategic planning process, guidelines previously confirmed by the Management Board are used to determine all strategic indicators set by the Company's Management Board and Supervisory Board for the monitoring of the operations and the adoption of business decisions. One of the important indicators determined within the scope of the business strategy is the capital adequacy of the Group and the Company, which must pursue the objectives outlined in the risk appetite of the Company and which represents an important impact on the design of the capital management policy in the future period. The Company has put in place a process for the determination of future solvency requirements so that the process is harmonised as much as possible with the strategic planning process and that it builds on the same guidelines.

The ORSA process is implemented regularly, 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 of the Company or in case of the identification of potential future events or scenarios that could have a material impact on the achievement of strategic goals or capital adequacy. The Company prepares the ORSA report upon the conclusion of the activities, whereby the report contains key findings and recommendations for the upgrading of processes and guidelines for functional areas. The report is considered by the RMC and formally confirmed by the Management Board. The Company notifies the Supervisory Board of the progress and the material findings of the ORSA process.

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 it 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 Company's capital adequacy determined 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.

ORSA assessed the impact of extraordinary circumstances for 2018. 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 Company's operations and to help identify the risks and prepare appropriate measures. The currently applicable scenarios that the Company has evaluated include the financial (stress test EIOPA 2018), underwriting (earthquake in Ljubljana), cyber attack scenario and the non-financial risk scenario (regulatory changes with an impact on the increase in capital requirements).

B.4 Internal control system

The Company's internal control environment is based on the values and ethical principles laid down in the Group's Code of Conduct (http://www.triglav.eu) and encompasses risk assessment, setup of internal controls, regular assessment of their suitability and adequacy as well as communication and reporting.

The internal control system covers all organisational units and business functions of the Company. It includes all employees at the Company, including the Management Board, risk management system committees and key functions. Internal controls are thus performed in all business and operational processes through the three lines of defence system.

The roles and responsibilities within the internal control system are distributed among business function holders who are responsible for the setup, documenting and continuous care for the effectiveness of internal controls, key functions of the second line of defence that monitor and control the suitability of internal controls and the Internal Audit Department which performs final control of the internal control system at the Company.

The Management Board approves the Group's Code, the internal document on internal controls and the key function policies as well as the rules of procedure of committees, including amendments thereto. The Management Board monitors and manages the internal control system of the Company based on the reports issued by key functions, reporting by business functions and the decisions taken by the Management Board.

B.4.1 Compliance function

The compliance function monitors the compliance of the Company's operations with regulations and other commitments within the scope of the internal control system, and in this context monitors and assesses the potential impacts of changes in the legal environment on the Company's operations. As part of the above, it assesses risks to the compliance of the Company's operations, the suitability and effectiveness of procedures for the harmonisation of the Company's operations with the established changes and in doing so carries out the advisory function. By providing guidelines, recommendations and proposals, it co-creates internal controls for the assurance of compliance within a specific process, functional area or at the level of the entire Company. It regularly reports to the Management Board, the Supervisory Board and the Audit Committee of the Supervisory Board on compliance of the Company's operations with regulations and other commitments. The compliance function also plays an important role in the Company from the point of view of efforts aimed at fair and transparent practices. It monitors the observation of ethical commitments and ensures they are implemented in practice.

The compliance function works autonomously and independently of the other business functions within the scope of the headquarters department and is directly subordinated to the Management Board. It is part of the second line of defence in the three-level internal control system. The organisational placement, the role and responsibilities of the compliance function within the system of governance of the Company, including its reporting obligations, are defined in general in the Company's internal documents on the organisation, system and policy of governance and compliance.

B.5 Internal audit function

The internal audit function carries out continuous and comprehensive control over the Company's operations. It reviews the Company's governance and risks systematically and methodically, assesses the suitability and effectiveness of the management of control procedures and provides recommendations for improvement. It cooperates with external auditors and other supervisory bodies, monitors the realisation of internal and external auditors' recommendations, participates in the performance of internal audits at other Group companies, maintains the quality and provides for continuous development of internal auditing at the Company, and also transfers the internal auditing know-how and good practices to other Group companies. It provides advisory services in agreement with the Management Board and the management teams of functional areas.

The internal audit function, which is organised as an independent organisational unit within the Company and directly subordinated to the Management Board, is both functionally and organisationally separated from other organisational units of the Company. The internal audit function is independent in determining the areas, objectives and scope of internal audits, performance of tasks and reporting on internal auditing. The function holder and 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 the subject of internal auditing. The Management Board provides for appropriate working conditions to the internal audit function, both in terms of organisational independence and the funds available for its operation as well as in terms of access to all records, assets and people at the Company (including the members of the Management Board, Audit Committee and the Supervisory Board).

The internal audit function reports on its work directly to the Management Board and Supervisory Board. The internal audit function holder therefore reports on the work of the function and the eventual limitations on the operations (occurrence of circumstances that could impair the objectivity of internal auditors, eventual limitation of funds for work and the like), findings of internal audits performed as well as the realisation of recommendations and the assessment of the suitability and effectiveness of risk management and control procedures in the audited areas:

- to the Management Board so as to maintain independence from other business functions at the Company;
- to the Audit Committee and the Supervisory Board, thereby strengthening the independence from the Management Board.

The internal audit function performs its tasks in accordance with the hierarchy of rules on internal auditing adopted by the Slovenian Institute of Auditors and the internal rules on the functioning of the internal audit function adopted by the Management Board subject to consent from the Supervisory Board.

B.6 Actuarial function

The actuarial function is one of the key functions of the Company. It is performed separately for non-life insurance and life insurance and operates autonomously and independently of other business functions.

The Management Board and the Supervisory Board of the Company authorise the actuarial function holder who is responsible for performing the tasks of the actuarial function.

The actuarial function must have full, free and unlimited access to all information, data, activities and personnel of the Company, which it requires to perform its tasks.

Some of the key tasks of the actuarial function include the coordination and performance of calculations of technical provisions and the assurance that appropriate methods, models and assumptions are used in the calculations of technical provisions as well as the assurance of the suitability, adequacy and quality of the data used in the calculations of technical provisions. Key task of this function is the verification of the suitability of the general underwriting risk policy and delivering an opinion on 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. The function also verifies the adequacy of reinsurance and participates in the implementation of the ORSA process at the level of the Company. It also coordinates and calculates capital requirements within the scope of underwriting risk.

The actuarial function holder is authorised for the supervision and impartial reporting on the performance of actuarial tasks. The actuarial function holder reports regularly to the Management Board and the Supervisory Board of the Company on the operation of the actuarial function, and regularly informs the RMC, ALCO and UWC of material findings. They perform tasks delegated by the abovementioned committees and also work with other committees, which are part of the risk management system, as appropriate.

B.7 Outsourcing

Pursuant to the requirements of the Insurance Act, the Company has set up all of the legally required controls and processes related to operations that are outsourced (hereinafter: Outsourced Operations).

The procedures and measures for supervising the Outsourced Operation providers and the assurance of compliance of their actions with the applicable legislation and internal rules are defined in each agreement or service-level agreement concluded between the person in charge and the provider of an individual Outsourced Operation. Consequently, each service provider is bound by the agreement to ensure the same standard of conduct as the one that the Company is committed to ensuring. An agreement is also an easier way of ensuring that the Company's supervisory bodies have the same options of performing supervision over the providers of Outsourced Operations than if the Company had performed these operations using its own resources. In accordance with the contractual provisions, service providers are obliged to set up and ensure *mutatis mutandis* the same internal controls and mechanisms to manage any potential deficiencies as the Company. The Company has the right to supervise the functioning of the service provider's internal control system and issue guidelines regarding the performance of the outsourced service.

The Company pays special attention to the risks arising from an Outsourced Operation or the Outsourced Operation provider. These risks are considered by the Company both in making a decision to outsource an operation and in the selection of a provider, thereby ensuring that – despite a certain service being outsourced – the same level of service is provided to the policyholders as well as the same level of stability of operations as if the services were provided using own resources. Outsourced services must be regularly monitored and supervised, i.e. at least once a year.

Supervision is also performed by assessing the ability of the provider and the risks arising from an outsourced service with the aim of defining the risks and eventual changes in the assessment of the risks arising from an Outsourced Operation.

The Company outsources one operation relating to asset management. The operation is provided for the Company by one of its subsidiaries that specialises in asset and investment fund management. The Company performs eleven Outsourced Operations for other Group companies. These relate to the sale of insurance, asset management, IT system maintenance and the performance of internal auditing.

B.8 Any other information

SYSTEM OF GOVERNANCE ADEQUACY ASSESSMENT

An adequate system of governance is in place at the Company that is proportionate both to the nature and the scope of its operations as well as the complexity of the risks arising in the course of its operations. The system is adjusted to the legislative requirements. Adequacy is confirmed by the findings of regular internal audits of the system of governance.

OTHER RELEVANT INFORMATION

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

C. Risk profile

C. Risk profile

As part of its operations, the Company is exposed to underwriting, market, credit, liquidity, operational and other risks. The Company manages risks using internal methodologies and indicators according to regulatory capital adequacy criteria and through capital adequacy according to the S&P risk assessment method, all in accordance with the process described in section B of this Report.

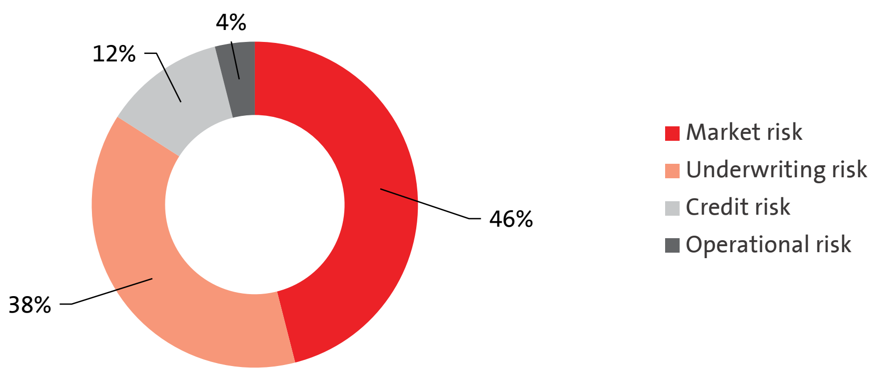
Out of all the risks, the Company's greatest exposure is to market and underwriting risks, while it is less exposed to credit and operational risks.

In order to ensure adequate risk management, the Company has risk exposures and rates in place for each risk type that help it assess the level of underwritten risk. Appropriate exposure limits that prevent excessive risk underwriting and ensure adequate portfolio diversification are also defined as appropriate. 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 Company measures risk using the standard formula defined in the Commission Delegated Regulation[6], which measures risk as the value-at-risk of the Company's own basic funds with a confidence level of 99.5% over a period of one year.

As at the end of 2018, the overall risk estimate of the Company, which does not take into account mutual risk effects (i.e. diversification), amounted to EUR 496.7 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 147.3 million.

Chart 3: Risk profile of the Company as at 31 December 2018



The Company has established two ring-fenced funds, i.e. VSPI[7] and VSPI annuity[8], for which risks are calculated separately, i.e. for each risk category under the standard formula. The above chart

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

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 Company. 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 Company assumes underwriting risks when concluding insurance transactions that represent its core activity.

The main objective of underwriting risk management is to maintain such quality of the portfolio that provides for stable and safe operations while maximising return. In order to achieve the main objective, the Company has put in place procedures to ensure an appropriate level of underwriting risk exposure.

As at 31 December 2018, underwriting risk accounted for 38% of the Company's non-diversified overall risk estimate (excluding diversification) which in turn represents EUR 189 million.

The Company identifies the following underwriting risks in respect of its portfolio:
- non-life underwriting risk;
- health underwriting risk;
- life underwriting risk.

C.1.1 Non-life insurance

Under non-life insurance, the company underwrites premium and reserve risks, lapse risks and catastrophe risks.

PREMIUM RISK is the risk that the written premium for regular claims 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. The Company monitors this risk in quantitative terms using the combined ratios that measure the suitability of actual claims and costs arising from concluded insurance policies.

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 under existing non-life insurance contracts whereby the time value of money and the risk margin are observed by the Company. In the event that the future realisation of paid claims is higher than the volume of formed provisions, the Company 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 Company will generate profit.

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 from large and catastrophic losses and due to the concentration of an insurance transaction in individual geographical areas, sectors or economic activities, or insured perils. These are then monitored separately by perils and by individual policyholder. This risk may also arise as a result of a correlation between individual insurance classes. This risk represents the risk of a one-off loss event with a loss potential that is materially higher than the estimated average incurred claims at the Company.

As at 31 December 2018, the Company's risk estimate under non-life insurance represents 27% of the Company's overall risk estimate, excluding diversification.

Table 9: Company's risk estimate for underwriting risks under non-life insurance for 2018 and 2017

(€ thousand)

	2018	2017
Premium and reserve risks	92,087	85,147
Lapse risk	18,507	15,753
Catastrophe risk	30,513	31,294
Diversification	-35,473	-33,149
Non-life underwriting risk	**105,634**	**99,044**

Table 10: Company's risk estimate for underwriting risks under health insurance for 2018 and 2017

(€ thousand)

	2018	2017
Health insurance risk valued as life risk	11	9
Premium and reserve risks	25,312	24,736
Lapse risk	5,591	5,664
Catastrophe risk	2,758	2,854
Diversification	-6,921	-7,023
Health underwriting risk	**26,751**	**26,240**

The growth in the risk estimate as at the end of 2018 is mainly the result of the portfolio growth as the latter increases premium and reserve risk. The lower decrease in the risk estimate over the period under consideration can only be observed in the non-life catastrophe risk sub-module where the risk estimate decreases as a result of the decrease in the largest catastrophe perils resulting from human actions and the associated reinsurance protection.

RISK EXPOSURE

The Company is most exposed to premium risk in the other motor insurance segment. The exposure of the volume measure for premium risk ranges in accordance with the net earned premium. It increased at the Company by EUR 9.9 million compared to the year before. Details on the net earned premium of the Company as at 31 December 2018 are shown in template QRT S.05.01 in Annex to this Report.

Table 11: Exposure measured as net earned premium of the Company for underwriting risks under non-life insurance for 2018 and 2017

(€ thousand)

	2018	2017
Net earned premium	**401,129**	**374,947**
- Other motor insurance (LoB 5)	104,151	94,286

- Fire and other damage to property insurance (LoB 7)	91,679	81,832
- Motor vehicle liability insurance (LoB 4)	81,012	78,162
- Income protection insurance (LoB 2)	53,083	54,014
- General liability insurance (LoB 8)	26,007	24,034
- Other non-life insurance segments	45,197	42,619

The Company is most exposed to reserve risk in the motor vehicle liability insurance segment. The exposure of the volume measure for reserve risk ranges in accordance with the net claims provisions that decreased somewhat at the Company compared to the year before. Details on the net claims provisions of the Company as at 31 December 2018 are shown in template QRT S.17.01 in Annex to this Report.

Table 12: Exposure of the Company's reserve risk volume measure for underwriting risks under non-life insurance for 2018 and 2017

		(€ thousand)
	2018	**2017**
Net claims provisions	**177,898**	**183,552**
- Motor vehicle liability insurance (LoB 4)	65,282	65,336
- General liability insurance (LoB 8)	38,028	40,517
- Income protection insurance (LoB 2)	30,581	28,518
- Fire and other damage to property insurance (LoB 7)	19,857	24,969
- Other motor insurance (LoB 5)	13,597	14,007
- Other insurance segments	10,553	10,205

Catastrophe exposures stem mainly from credit and suretyship insurance as well as insurance of property damage that may result from the flood peril.

CONCENTRATION RISK

The concentration of underwriting risks is managed by the Company using suitable forms of reinsurance that are based on the tables of maximum own shares or retention limits. Even the occurrence of such a single event in a particular segment of operations may have a material effect on the ability to meet obligations. When managing concentration risk, the Company strives 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.

RISK MITIGATION TECHNIQUES

The Company mitigates risk mainly by purchasing various forms of reinsurance protection. In case of individual insurance, under which risks are underwritten based on consideration on a case by case basis, the Company transfers a part of the risk by purchasing facultative reinsurance protection whereby it takes into account both the maximum own shares, the PML and the risk appetite. The risk of the remainder of the portfolio is mitigated by transferring it to reinsurance by purchasing various forms of proportional or non-proportional reinsurance.

The effectiveness of reinsurance protection is monitored regularly by the Company which reconciles the amount of the transferred/ceded risks with the risk appetite no less than once a year. The Company devotes special attention to the natural disaster risk which it monitors and measures using its own actuarial analyses and the standard formula as well as external models for the level of natural disaster risk.

SENSITIVITY

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

C.1.2 Life insurance

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

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

As at 31 December 2018, the Company's risk estimate under life insurance represents 11% of the Company's overall risk estimate, excluding diversification.

Mortality risk is the risk that the persons covered for the event of death will, on average, live for a shorter period than expected.

Longevity risk is the risk that the persons receiving an annuity or pension payments under insurance contracts will, on average, live longer 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 Company is exposed to this risk in policies that cover critical and serious diseases and disability.

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.

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 Company is exposed to expense risk in respect of all policies.

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

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

Table 13: Company's risk estimate for underwriting risks under life insurance for 2018 and 2017

(€ thousand)

	2018	2017
Mortality risk	5,548	5,337
Longevity risk	11,485	10,475
Disability and morbidity risk	303	289
Lapse risk	21,581	18,846
Expense risk under life insurance	21,653	20,817
Revision risk	1,342	1,122
Catastrophe risk under life insurance	3,626	3,415
Diversification	-8,964	-8,259
Life underwriting risk	**56,573**	**52,041**

The risk estimate for 2018 increased compared to the year before because of the increase in 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 larger volume of liabilities. The increase in the 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 amounted to 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 14: Company's exposure to underwriting risks under life insurance for 2018 and 2017

(€ thousand)

	2018	2017
Mortality risk	1,151,794	1,170,220
Longevity risk	1,221,514	1,215,364
Disability and morbidity risk	15,374	17,383
Lapse risk	1,065,503	1,090,140
Expense risk under life insurance	1,230,314	1,225,215
Revision risk	69,720	45,139
Catastrophe risk under life insurance	1,066,910	1,092,555
Exposure to life underwriting risk	**5,822,129**	**5,856,016**

The Company 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 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 beneficiaries live longer, on average, than is assumed in the calculation of annuities, the Company may incur losses. The longevity risk is low under policies that are not lifetime or very long-term policies.

The Company 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 of the policy, changing of the coverage or premium amounts, deciding what proportion of saved assets they will use to purchase the annuity, etc. It is in the Company's interests for the concluded policies to remain in the portfolio under the agreed conditions until the expiry or 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 Company.

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

A broad range of life insurance products ensures the simultaneous servicing of the majority 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.

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 Company performs sensitivity tests regularly in order to ensure that risks are managed suitably.

Chart 4: Company'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

Market risk is the risk of loss or adverse changes in the financial standing of the Company resulting from fluctuations in the level and volatility of the market prices of assets, liabilities and financial instruments. The investment of the collected premium and own funds of the Company represents one of the main activities at the Company. The Company holds a broad range of various financial instruments in the investment portfolios whereby the value of the instruments depends on the fluctuations on financial markets. The Company 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 15: Company's risk estimate for market risks in 2018 and 2017

(€ thousand)

	2018	2017
Interest rate risk	31,247	28,588
Equity risk	99,960	109,361
Property risk	31,925	31,821
Spread risk	91,060	109,209
Currency risk	8,412	12,337
Concentration risk	22,858	8,336
Diversification	-56,863	-48,117
Market risk	**228,599**	**251,536**

As at 31 December 2018, market risk represents 46% of the Company's overall risk estimate, excluding diversification.

The risk estimate is calculated at the level of the entire Company 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 amounted to EUR 4.4 million.

RISK EXPOSURE

The Company is exposed to market risks as part of the investment portfolio and the portfolio of liabilities. In view of the structure of investments, the Company is most exposed to spread risk and equity risk.

Table 16: Company's investment portfolio structure as at 31 December 2018 and 31 December 2017

		(€ thousand)
Company's exposure to market risk	**2018**	**2017**
Property, plant and equipment held for own use	68,751	64,442
Real estate (except real estate held for own use)	52,936	57,914
Holdings in related undertakings, including participations	365,464	323,668
Equities	55,527	71,615
Bonds	1,520,293	1,509,064
- Government bonds	715,057	671,143
- Corporate bonds	800,892	828,033
- Structured notes	4,344	9,888
Collective investment undertakings	19,813	51,888
Derivatives	1,393	1,871
Deposits other than cash and cash equivalents	18,492	10,495
Other investments	1,689	1,680
Assets held for index-linked and unit-linked contracts	576,835	629,147
Loans and mortgages	45,276	47,398

INTEREST RATE RISK arising from assets is decreased to a large extent by the interest rate risks from liabilities. All assets and liabilities, the value of which depends on the change in the interest rate (bonds, loans, deposits, interest-sensitive derivatives, cash flows from insurance policies), are exposed to interest rate risk. The Company balances interest rate risk by matching assets and liabilities and by also exploiting the fact that the life and non-life insurance segments represent natural mutual safeguards for the two segments at the Company as they have distinctly different duration gaps. The duration gap of interest-sensitive items is monitored by the Company based on the market valuation, whereby investments to the benefit of unit-linked life insurance policyholders and investments from the voluntary supplementary pension insurance are both excluded. The duration gap for the Company is low and comes in at -0.9 years (the tenor of assets is 5.6 years while the tenor of liabilities is 9.4 years). The duration gap between assets and liabilities for the life insurance portfolio is -1.8 years while it is 0.5 years for the non-life insurance portfolio. The risk estimate for the Company's interest rate risk increased slightly compared to the year before.

Spread risk is associated with an important source of returns generated by the Company through bond portfolio management. The Company increased its exposure to bond investments by approximately EUR 11.2 million compared to the year before. The increase in exposure is observable mainly in the corporate bond segment, which came mainly as a result of the decrease in exposure to the segment of corporate bonds and structured notes. The decrease in investments in collective investments undertakings reduced the exposure to investments that are subject to interest rate risk or spread risk. The Company's bond portfolio credit rating structure improved further compared to the year before. We recorded an increase in A or AA-rated investments and a decrease in sub-investment-grade investments, mainly BB. The tenor of the corporate bond portfolio decreased compared to the year before, i.e. by approximately one third of a year. The decrease in the amount of the exposure to corporate bonds coupled with the decrease of the average tenor of this segment is the main factor for the decrease in the risk estimate for the coverage of spread risk compared to the year before. The Company 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. Only assets are exposed to spread risk because liabilities, with the exception of investments associated with index-linked or unit-linked contracts, 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.

Equity risk represents all exposures to investments, the value of which is sensitive to a change in the level or volatility of stock market values. These are mainly stocks, undertakings for collective investment into shares and derivatives associated with stock markets. An important part of the Company's exposure to stock markets is the result of investments into associated companies. The Company holds equity investments in order to generate higher long-term returns and for diversification purposes. The Company significantly reduced its exposure to stock markets in 2018, i.e. both in the segment of equities and the segment of collective investment undertakings that are exposed to equity risk. The increase in capital and shareholdings coupled with the good operating performance of associated companies increases exposure to equity risk in the segment of associated companies. The risk estimate for the coverage of the equity risk subsequently decreased compared to the year before.

Property risk arises from the Company's investment properties, real estate held for own use and property, plant and equipment held for own use. The risk estimate for the coverage of property risk is nearly unchanged compared to the year before.

The Company's **currency risk** arises from the mismatched asset and liability currency positions. The Company's liabilities are denominated in their entirety in euros. The Company pursues the policy of currency matching and invests the majority of its assets into euro-denominated investments. The risk estimate for currency risk is derived mainly from USD-denominated bonds (total value of exposure of EUR 12.9 million) and non-euro investments through collective investment undertakings with a global and non-European geographic orientation. Both sources of risk decreased compared to the year before which is why the risk estimate for currency risk decreased compared to the year before. The Company hedges a portion of the foreign currency-denominated exposure using currency derivatives.

CONCENTRATION RISK

The major share of the Company's assets is held in the form of bonds. 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 Company continuously monitors exposure and compliance with the system of limits on exposure to issuers at the level of individual issuers or groups of related issuers. The standard formula with threshold amounts subject to the credit rating has a significant effect on the limit system. 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 exposures to non-strategic associates in the Group and strategic financial undertakings, i.e. Skupna pokojninska družba and Triglav Skladi, that are not fully consolidated for solvency purposes.

RISK MITIGATION TECHNIQUES

The Company has 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 Company. The basic principles for the setting of limits are derived from the identified risks that arise from the investment portfolio trading and management activity.

In addition to the adequately diversified investment portfolio, the Company also uses various derivative financial instruments as risk mitigation techniques as appropriate. Derivatives are only used when they enable additional flexibility in asset management and for the achievement of effects that would be more difficult to achieve safe for the said instruments.

The use of such a range of instruments is assessed from various points of view, most often 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.

The Company actively manages interest rate sensitivity of assets and liabilities. The expected cash flows for liabilities over the medium- and long-term period as well as liquidity needs over the short-term period are an important factor for the assessment of the suitability of investments.

SENSITIVITY

As part of the ORSA process in 2018, the Company tested stress scenarios where it verified the sensitivity to extreme changes in market parameters. The Company's stress test results show that the Company would remain adequately capitalised even after stress events. The Company's solvency ratio sensitivity analysis as at 31 December 2018 shows how the solvency ratio would change under individual isolated market scenarios.

Chart 5: Company's life 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 Company'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 Company's assets as they can cause a decrease in the value or write-off of receivables, ceded liabilities under reinsurance or can affect the risk assessment via the increase in potential exposure. The Company is exposed to credit risk as a result of the increased counter-party concentration and counter-party default risk.

As at 31 December 2018, credit risk represents 12% of the Company's overall risk estimate, excluding diversification.

The risk estimate is calculated at the level of the entire Company 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 amounted to 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 17: Company's risk estimate for credit risks in 2018 and 2017

(€ thousand)

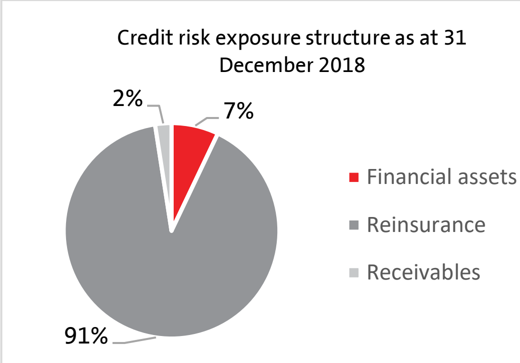
	2018	2017
Type 1	53,850	42,560
Type 2	4,192	3,189
Diversification	1,546	4,534
Credit risk	**59,588**	**50,283**

The risk estimate for type 1 risk increased in the reporting period because of the higher exposure to the fire scenario and the upgraded uniform database of counterparties which enables improved monitoring and valuation of their credit standing.

RISK EXPOSURE

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

The Company 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

The Company manages exposure concentration risk by individual segments of the operations, counterparty and its credit rating or country. Concentration risk from credit risk for the Company according to the standard formula is the highest vis-à-vis the associated reinsurance partner through which it performs a major part of its reinsurance programme.

RISK MITIGATION TECHNIQUES

The Company's 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.

The Company has a credit risk management process in place that is based on a well-defined risk appetite and limits, risk measurement methodology and the provision of information to all stakeholders. This enables optimum decision-making and, indirectly, also suitable credit risk management.

Credit risk from the Company's investment portfolio is balanced by investing assets into investments with a suitable credit rating, through a professional analysis of the counterparty credit risk and a sufficient rate of portfolio diversification. Exposure to counterparties without a credit rating is monitored and limited separately at the Company. In addition to the above, the Company defines restrictions and limits for the monitoring and mitigation of credit risk from the investment portfolio, whereby restrictions and limits apply to permitted types of investments and types of financial instruments, as well as maximum permissible exposures to individual counterparties or groups of related parties.

The Company 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. Using limits, the Company mitigates to risk of concentration arising from exposure to banks.

When underwriting credit risks resulting from reinsurance, the Company actively manages credit risks 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 Company 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 Company 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' credit rating which is uniform for all partners.

SENSITIVITY

The Company regularly analyses credit risk sensitivity. Exposure to credit risk resulting from the Company's reinsurance arises mainly from operations with the subsidiary Triglav RE. As at 31 December 2018, the abovementioned subsidiary held an A rating from S&P.

Credit risk sensitivity from reinsurance is measured by the Company 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 Company has the biggest exposure, in a similar manner.

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

C.4 Liquidity risk

Liquidity risk is the risk of loss resulting from the Company's inability to meet all of its past-due liabilities and obligations or from the fact that the 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 Company manages investments and liabilities in a manner that ensures that it is able to settle all mature liabilities at any moment. It also ensures an appropriate structure of assets subject to their nature, tenor and liquidity. In order to ensure an adequate liquidity position, the Company plans actual and potential net cashflows, holds an adequate amount and structure of liquid investments and regularly monitors the structure of its liabilities.

The Company has a system of limits in place which it upgrades and updates continuously. The Company also ensures that exposure to liquidity risk is kept within the appetite for such risk. Liquidity risk is monitored via indicators, the most important of which are the cash flow liquidity spread and the weekly primary, 30-day short-term and 1-year medium-term liquidity.

RISK EXPOSURE

The Company is most exposed to liquidity risk in case of catastrophic loss events and the consequent potentially higher payments of indemnities, increased rate of early insurance policy terminations (lapses) and, to a lesser extent, instability on financial markets. Liquidity management 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. Detected events that can cause a potential lack of liquidity over a short time period include unfavourable conditions on financial markets, an increased rate of insurance policy terminations (lapses) and catastrophic loss events such as natural disasters. The Company did not detect an elevated liquidity-related concentration risk in the period under consideration.

RISK MITIGATION TECHNIQUES

The Company has liquidity indicators with defined target values in place for the purpose of liquidity monitoring. Inflows from the Company's core operations are constant which positively affects its liquidity. The Company also has additional safeguards in place (portfolio of high quality and liquid assets), which also decreases its exposure to liquidity risk.

The 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.

In order to mitigate liquidity risk, the effect of financial instruments on the liquidity position is assessed prior to and after the acquisition of financial instruments. Limits that are subject to the nature of investments are considered prior to the acquisition of financial instruments. In case of important investments into investments that are by their very nature less liquid, special attention is devoted to the effect on liquidity prior to investing. The second part of liquidity risk mitigation entails the ongoing monitoring of liquidity indicators that measure the liquidity position of the Company both in ordinary and extraordinary circumstances treated within the scope of the ORSA process. This ensures that all such events are adequately considered and that measures are put in place that prevent the onset of a liquidity crisis.

SENSITIVITY

The Company monitors liquidity risk sensitivity using stress indicators that represent a 200-year event that causes an increase in liquidity risk. Events that affect liquidity risk sensitivity are tested within the scope of the ORSA process.

EXPECTED PROFIT FROM FUTURE PREMIUMS

The amount of the expected profit included in future premiums is the opposite value of the best estimate of net liabilities arising from future premiums. It is merged at the level operation types which enables eventual losses and profits to be compensated within the Group.

A portion of the Company's own funds is represented by expected profits included in the future premiums under existing insurance contracts that are estimated at EUR 62.5 million. They are equal to the sum of expected profits included in the future premiums under existing insurance contracts of the Company, i.e. by types of operations.

The amount of the expected profit included in future premiums as at 31 December 2018 and 31 December 2017 is shown in the table below.

Table 18: Amount of the expected profit included in future premiums as at 31 December 2018 and 31 December 2017

		(€ thousand)
Expected profit included in future premiums	**2018**	**2017**
Life insurance	48,145	29,909
Non-life insurance	14,378	9,388
Total	**62,523**	**39,297**

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 Company's portfolio. The reason for the change in life insurance is the increased volume of operations in certain segments, the re-posting of the liabilities of TZD[9] funds from the index-linked and unit-linked insurance segment to the insurance with profit participation segment 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 4% of the Company's overall risk estimate, excluding diversification and amounts to EUR 19.6 million.

The risk estimate is calculated at the level of the entire Company 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 amounted to EUR 0.6 million.

RISK EXPOSURE

The Company monitors its exposure to operational risk based on three types of information:

- recognition and assessment of potential operational risks;
- reporting of realised operational risks; and
- monitoring of the key indicators of operational risks that include early warning signals.

[9] Triglav zajamčeni donos

In 2018, the Company carried out the first comprehensive recognition and assessment of the exposure of all business processes to operational risk. Over the course of the entire year, realised operational loss events were reported via the internally developed application. Key indicators of operational risks by all divisions were monitored. Based on the collected data, the Company recognised regulatory risk, external fraud risk and cyber risk as the key types of operational risk. Extensive reporting requirements, pursuant to the existing regulatory requirements, and a high rate of amendments and new legislation in the legislative environment in recent times (especially the General Data Protection Regulation, Regulation (EU) on key information documents for packaged retail and insurance-based investment products, Directive on insurance distribution, new IFRSs) and the new, very high prescribed fines, are bringing regulatory risk to the forefront. The Company has prepared for the compliance with the abovementioned European legislation intensively and devoted adequate resources to these efforts. It has also adapted and put in place the necessary processes and internal controls, and is continuing to keep a close eye on legislative amendments and respond to them actively. The new legislative framework increases requirements for disclosure of information to consumers and other interested public which, in turn, increases exposure to conduct risk which is appropriately monitored by the Company. Because the Company is most exposed to insurance fraud, 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.

CONCENTRATION RISK

The Company 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 Company and its operations are highly dependent on the suitable functioning of IT, as a major IT security incident or suspension of operations can severely affect the Company's operations. This is why the Company devotes special attention to the management of IT security risk and disruptions or suspension of operations.

RISK MITIGATION TECHNIQUES

The Company has put in place a system or register of internal controls whereby each control has two responsible persons designated (owner and custodian). The register is updated regularly subject to the changes at the Company and in the business environment which ensures continuous reduction of operational risk exposure. The Company regularly monitors the actual exposure to operational risk based on the regular identification and assessment of potential operational risks, reporting of realised operational loss events and the monitoring of the key operational risk indicators which also include early warning signals. In the event of important (large) or repetitive operational loss events, and if the operational risk appetite and tolerances are exceeded, the Company 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 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 Company can verify the success of the implementation of risk mitigation measures.

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 Company 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. As part of the workshops in 2018 the first comprehensive recognition and assessment of exposures of all of the Company's business processes was carried out. It showed that – based on the currently available data – the standard formula is a suitable method of operational risk measurement. The Company additionally 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 scenario and cyber incident scenarios). Based on a longer data time series, the Company will, in the coming years, be able to quantify with even greater reliability whether the standard formula suitably reflects its actual exposure to operational risk.

C.6 Other material risks

NON-FINANCIAL RISK

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

An important aspect of non-financial risk management is the familiarity with and monitoring of events in the environment, identification of potential negative effects on the Company as well as the focus on emerging and sustainability risks where climate change risks are especially important.

Strategic risk is the risk of loss due to inappropriate strategic decisions by the management body, inconsistent implementation of adopted strategic decisions, inadequate implementation of adopted decisions and insufficient responsiveness (inadequate adaptability) to key changes in the business environment. This risk generally occurs in combination with other risks, but may also occur independently or as a result of: the expansion to new markets, new acquisition and investments, new products and services; changes and fluctuations on local and global markets; changes in the behaviour of competitors, business partners and policyholders; technological changes and the development of new products; political, legal and regulatory changes; climate change and other environmental phenomena.

Strategic risk was found to include the risk associated with future recruitment efforts, mainly due to the improvement of employment options, greater dynamics on the labour market and the consequently higher salary expectations, and the change in the demographic structure of the population. The Company has identified or recognised this risk and is responding to it through various activities such as working with students within the scope of projects, the provision of scholarships and care for employee satisfaction, etc.

In view of the changes in the environment linked with the events on financial markets, technological development and legislation, the Company classifies strategic risk as important. Conditions on financial markets are the reason behind intensive consolidation processes in the financial and insurance sectors both around the world and in Slovenia. This is an important aspect for the Company as well because it changes its competitive position owing to the fact that it strengthens direct competitors on the one hand and affects the business decisions of the policyholders on the other. Policyholders decide on which insurance company to use by taking into consideration the broader business relationship with transformed competitive entities on the market.

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

Strategic risk is suitably managed at the Company through the setup of the organisation and processes that ensure that the Company's management has at its disposal up-to-date and relevant information for the adoption of business decisions.

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 Company faces when acquiring fresh capital, particularly in adverse operating conditions, or if it needs to increase capital fast. This risk is regularly monitored and managed within the scope of the capital adequacy process and the ORSA process.

The main purpose of the ORSA process is for the Company to show its own assessment of risks arising from operations that impact the current or future capital needs. Suitable implementation of this process sets up the processes for the identification, assessment and monitoring of own risks and solvency requirements, whereby risk assessment results are regularly reported to those responsible which in turn enables the results to be used in decision-making processes at the Company.

Capital risk also includes changes in financial reporting standards, which affect the payout of dividends, and legislative amendments that affect the transferability of available capital in the Company. This risk additionally includes unfavourable conditions on capital markets that could negatively affect the acquisition of additional capital, which the Company monitors regularly as part of capital management processes.

Reputational risk is the risk of loss or reduction of future or current business because of a negative image in the eyes of the Company's policyholders, business partners, employees, shareholders and investors or competent or supervisory bodies and other interested public. This risk is very often associated mainly with operational risk and arises as a result of their realisation.

The Company manages reputational risk mainly through the analyses of publications by external media. The Company also analyses the strength of the Triglav brand and customer satisfaction and performs other quarterly analyses.

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

An important element of effective reputational risk management is an effective system for the internal flow of information and internal communication that ensures that all employees are familiar with and have a uniform understanding of the strategy, operations, plans and current affairs.

Another important aspect is the balanced, consistent and up-to-date provision of information to the external public on the Company's operations and activities that ensure confidence in the Company and its sound long-term relationship with all external stakeholders. The system includes the monitoring and analysis of reports about the Company in the environment.

GROUP RISK arises from the business model of the Company, which operates as the controlling company of a group of related parties. It includes risks that may jeopardise the achievement of strategic goals due to an ineffective system of governance of the Group and insufficient knowledge of the business environment where the Group companies operate. The Company's risk profile is also affected by transactions between related 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.

When striving to achieve effective integrated non-financial risk management, the Company pursues the principle of the optimum management of the ratio between risk exposure and returns ("Risk vs. Return") and the principle of the ratio between costs and benefits ("Cost Benefit Principle").

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

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

Management of investments and technical provisions at the Company is performed by pursuing the objectives aligned with policyholders' objectives: to maximise safety, liquidity, diversification, profitability and provision coverage with investments.

The assets of the Company are invested as far as possible so as to ensure their availability.

Target investment portfolio return is determined by the set investment targets that ensure long-term profitability in accordance with the expected risk appetite. In addition to the publicly available information, the Company also uses its own quantitative and qualitative indicators for the assessment of the debtors' ratings when it comes to asset management. As appropriate, it uses various indicators of liquidity, performance and indebtedness of individual companies and countries.

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

All assets are invested so that the Company avoids excessive concentration of exposure to an issuer, groups of issuers, sectors of the economy or geographical areas. When managing assets, the Company avoids risk concentration by employing various risk criteria and early warning indicators.

When investing assets, the Company pursues 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 the Company being managed by another subsidiary.

The Company also manages investment risks according to the prudent person principle.

OTHER RELEVANT INFORMATION

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

D. Valuation for solvency purposes

D. Valuation for solvency purposes

The Company values its assets and liabilities for solvency purposes at fair value.

When assets and liabilities are valued, the Company 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 Company for solvency and financial reporting purposes. Details on the Company's balance sheet are shown in template QRT S.02.01 in Annex to this Report.

Table 19: Balance sheet of the Company as at 31 December 2018

31 December 2018			**(€ thousand)**
Balance sheet		**Value for solvency purposes**	**Value for financial reporting purposes**
Assets		**2,868,631**	**2,730,188**
Intangible assets	D.1.1	0	62,163
Deferred tax assets	D.1.2	18,325	0
Property, plant and equipment held for own use	D.1.3	68,751	67,986
Investments	D.1.4	2,035,608	1,775,952
Assets held for index-linked and unit-linked contracts	D.1.5	576,835	576,510
Loans and mortgages	D.1.6	45,276	46,100
Reinsurance recoverables	D.1.7	62,513	87,893
Insurance & intermediaries receivables	D.1.8	14,822	67,083
Reinsurance receivables	D.1.9	18,158	18,158
Receivables (trade not insurance)	D.1.10	4,740	4,740
Cash and cash equivalents	D.1.11	20,307	20,307
Any other assets, not elsewhere shown	D.1.12	3,296	3,296
Liabilities		**1,973,210**	**2,170,067**
Technical provisions	D.2	1,830,299	2,061,382
Provisions, other than technical provisions	D.3.1	11,926	11,926
Deferred tax liabilities	D.3.2	48,990	2,814
Financial liabilities other than debts owed to credit institutions	D.3.3	1,580	1,580
Insurance & intermediaries payables	D.3.4	16,550	16,550
Reinsurance payables	D.3.5	0	13,820
Payables (trade not insurance)	D.3.6	36,559	36,559
Subordinated liabilities	D.3.7	22,483	20,613
Any other liabilities, not elsewhere shown	D.3.8	4,823	4,823
Excess of assets over liabilities		**895,421**	**560,121**

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

D.1 Assets

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

The assets disclosed in financial statements in a manner that is inconsistent with solvency requirements are revalued to fair value for solvency purposes. The best estimate of the fair value is the active market quotation or – if such is not available – the valuation models that reflect raw data from financial markets 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 of the Company consist of software and property rights which, however, are valued at zero for solvency purposes.

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 insofar 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 for these assets is performed every year.

Table 20: Intangible assets of the Company 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	62,163

D.1.2 Deferred tax assets

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

For financial reporting purposes, deferred taxes are accounted for all temporary differences between the value of assets and liabilities for tax purposes and their carrying amount. The calculation of deferred taxes is made at the tax rate of 19% which applied as at the reporting date. The net value of the assets and liabilities is shown for financial reporting purposes, but as the value on the liabilities side is higher than the value on the assets side, the net value is disclosed as zero.

Table 21: Deferred tax assets of the Company 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	18,325	15,797	0

Deferred tax assets increased in 2018 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.

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

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

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

Table 22: Company'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	68,751	64,442	67,986

The biggest contributor to the change compared to the year before in the value of property, plant and equipment held for own use was the additional investments into property, plant and equipment.

D.1.4 Investments

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

The Company values financial assets using publicly available market prices on the active markets for the same instrument. If this is not possible (e.g. no market or insufficiently deep market), such valuation is performed using publicly available data from the active markets of similar instruments. The activity of the market or the question of whether it is an active market or not is determined for an individual financial instrument subject to the available information and circumstances. Factors that need to be heeded when assessing a market's activity include the following, among others: low number of transactions in the period, extensive differences between bid and asking prices, extensive 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 23: Investments of the Company as at 31 December 2018

31 December 2018		(€ thousand)
Balance sheet	**Value for solvency purposes**	**Value for financial reporting purposes**
Investments	**2,035,608**	**1,775,952**
Real estate (except real estate held for own use)	52,936	45,271
Holdings in related undertakings, including participations	365,465	148,898
Equities	55,527	55,527
Bonds	1,520,293	1,483,788
Collective investment undertakings	19,813	19,813
Derivatives	1,393	1,393
Deposits other than cash and cash equivalents	18,492	19,573
Other investments	1,689	1,689

D.1.4.1 Real estate (except real estate held for own use)

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

Table 24: Real estate (except real estate held for own use) of the Company 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)	52,936	57,914	45,271

The value of real estate (except real estate held for own use) decreased by EUR 5 million in 2018. The biggest contribution to this came from the properties in Ljubljana (Zelena jama, Davčna ulica and Slovenska ulica) and the sale of Vila Marina in Portorož.

D.1.4.2 Holdings in related undertakings, including participations

Subsidiaries are disclosed in financial statements at cost adjusted for potential impairments. Associated companies are disclosed at fair value. Holdings in related undertakings are valued according to the following valuation method hierarchy for solvency purposes:

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

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

c. adjusted prices for similar assets in active markets or alternative valuation methods: if neither valuation method in accordance with paragraph a) nor the one in paragraph 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 Company applies in the preparation of annual or consolidated financial statements. In such cases, the value of goodwill and other intangible assets is deducted from the value of an individual undertaking.

The holdings in related insurance undertakings, the insurance holding and all strategic companies for the provision of services ancillary to the Company's principal activity are valued according to the AEM. When calculating the excess of assets over liabilities for related undertakings, the assets and liabilities of these related undertakings are valued according to the basic principles in accordance with Commission Delegated Regulation (EU). The strategic financial undertakings (Triglav Skladi in Skupna pokojninska družba) and other related undertakings, with the exception of the shareholding in Nama, d.d., 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 shareholding in Nama, d.d. is valued according to the AVM which basically closely follows the AEM using the fair value of assets and liabilities.

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

Table 25: Values of the Company'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
AEMS2	289,869	275,489	118,131

AEMS1	66,185	38,871	21,303
AVM	9,411	9,308	9,464
Total	**365,465**	**323,668**	**148,898**

The biggest difference between the value of the item for financial reporting purposes and the value for solvency purposes is the calculation method. Associated companies are valued at fair value for solvency purposes, while they are valued at cost for financial reporting purposes. The biggest difference from this at the Company arises from companies that previously disclosed positive operating results (Triglav Re, Triglav Skladi and Triglav Zdravstvena zavarovalnica).

Table 26: Company's holdings in related undertakings, including participations, 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**
Holdings in related undertakings	365,465	323,668	148,898

The value of this item increased in 2018. The biggest contribution to the difference 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.

D.1.4.3 Equities

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

Table 27: Equities of the Company 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	**55,527**	**71,615**	**55,527**
Listed equities	44,813	47,539	44,813
Unlisted equities	10,714	24,076	10,714

The value of equities decreased in 2018 mainly in the segment of unlisted securities. The decrease is mainly the result of the sale of holdings in Geoplin, d.o.o. and Plinhold, d.o.o for a total of EUR 14.5 million. The remaining changes are mostly the result of the revaluation of the portfolio where the largest positive contribution comes from the revaluation of the shareholding in Gorenjska banka, d.d.

The decrease in the listed securities segment is the result of the revaluation of investments on the Slovenian stock market and the sale of the shareholding in Gorenje, d.d.

D.1.4.4 Bonds

Bonds are valued for financial reporting purposes in accordance with the requirements for the financial statement category in which they are classified upon recognition (at fair value through profit or loss, available-for-sale, held to maturity, loans and receivables). Investments 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 economic circumstances have not changed materially since the last transaction;

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 Company 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 28: Bonds of the Company 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	**1,520,293**	**1,509,064**	**1,483,788**
Government bonds	715,057	671,143	686,685
Corporate bonds	800,892	828,033	792,758
Structured notes	4,344	9,888	4,345
Collateralised securities	0	0	0

The value of bonds increased in 2018 mainly as a result of inflows from other forms of investments (mainly collective investment undertakings and cash equivalents). The positive cash flow of EUR 37 million and the positive revaluation of EUR 6.8 million accounted for the nearly 44 million increase in government bonds. Outflows from the corporate bond and structured notes segment totalling EUR 22.4 million and the negative revaluation reduce exposure to the said segment by EUR 32.7 million. The segment of structured notes decreased in 2018 as a result of the natural maturity of the instruments.

Owing to the different valuation method for investments classified as "held to maturity" or "loans and receivables" in financial statements, we have a difference of EUR 36.5 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 29: Collective investment undertakings of the Company 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	19,813	51,888	19,813

The value of the item decreased in 2018 mainly as a result of outflows into other investment classes (mainly government bonds). The biggest drop was recorded by funds with a bond or debt component – with a total decrease of more than EUR 41 million. Capital calls increased the exposure to alternative funds.

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 30: Derivatives of the Company 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 upon the drop in global 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 31: Company's deposits other than cash and cash equivalents as at 31 December 2018

31. 12. 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	18,492	10,495	19,573

The value of the item increased in 2018 mainly as a result of the investment in a long-term deposit.

D.1.4.8 Other investments

Other Company investments represent works of art and funds in the uninsured motorist fund. For solvency purposes, the value of these assets follows the value as used for the preparation of financial statements.

Table 32: Other investments of the Company 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	1,689	1,680	1,689

The value of the item did not change materially 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 may be 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 33: Company'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	576,835	629,147	576,510

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.

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 34: Loans and mortgages of the Company 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	**45,276**	**47,398**	**46,100**
Loans on policies	2,149	1,704	2,148
Loans and mortgages to individuals	26	42	27
Other loans and mortgages	43,101	45,652	43,925

The assets listed under the loans and mortgages item decreased in 2018 as a result of the payment of two large loans.

D.1.7 Reinsurance recoverables

Reinsurance recoverables are determined for financial reporting purposes based on reinsurance contracts the Company has concluded with reinsurers. They are formed for unearned premiums and claims provisions according to the prudence principle.

Reinsurance recoverables are calculated for solvency purposes separately for premium and claims provisions. When calculating the provisions from the premium part, non-past due receivables from reinsurance contracts are taken into account. The Company determines reinsurance recoverables for non-life annuities and presents them (similarly as in the case of provisions for the same) among life insurance.

For both purposes, reinsurance recoverables are determined based on recoverable amounts from reinsurance contracts that are calculated in accordance with the thresholds from insurance and reinsurance contracts to which the amounts relate.

Table 35: Reinsurance recoverables of the Company 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 recoverables	**62,513**	**60,909**	**87,893**
Non-life insurance	43,262	42,956	87,893
Life insurance	19,251	17,953	0

Owing to the growth of the portfolio both in the premium and claim portions, the amounts of reinsurance recoverables increased in 2018. Their changes correspond with the amount of the provisions and the dynamics of the Company's payment of indemnities.

D.1.8 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 36: Company'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	14,822	10,426	67,083

Insurance receivables increased in 2018 due to the growth of the portfolio.

D.1.9 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.

Table 37: Reinsurance receivables of the Company 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	18,158	13,890	18,158

Assets in the reinsurance receivables item increased in 2018 as a result of the increase in receivables for the reinsurer's share in claims within the Group.

D.1.10 Receivables (trade not insurance)

Receivables (trade not insurance) at the Company comprise receivables from financing activities and receivables from operating activities. 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.

Table 38: Company'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)	4,740	8,474	4,740

Receivables (trade not insurance) decreased in 2018 mainly due to the decrease in receivables from financing activities.

D.1.11 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.

Table 39: Cash and cash equivalents of the Company 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	20,307	33,969	20,307

The values under this item decreased in 2018 by EUR 13.7 million as a result of outflows to other more profitable investment classes.

D.1.12 Any other assets, not elsewhere shown

The item includes short-term deferred costs and accrued revenue, inventories and other assets. Valuation for financial reporting purposes is the same as for solvency purposes.

Table 40: Company's any other assets, not elsewhere shown as at 31 December 2018

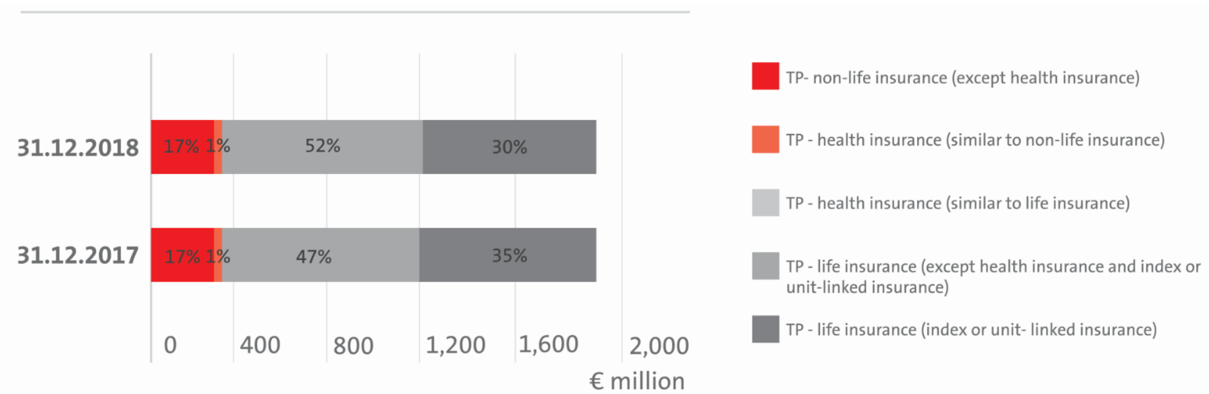
31 December 2018			(€ thousand)
Assets	**Value for solvency purposes**		**Value for financial reporting purposes**
	31 December 2018	**31 December 2017**	**31 December 2018**
Any other assets, not elsewhere shown	3,296	1,993	3,296

The value of any other assets, not elsewhere shown increased in 2018 as a result of the growth in short-term deferred costs.

D.2 Technical provisions

The value of technical provisions for solvency purposes is equal to the sum of the best estimate and the risk margin. The best estimate and the risk margin are calculated separately. The best estimate corresponds to the present value of expected future cash flows from the Company's insurance contracts. The Company calculates technical provisions separately for non-life and health as well as life insurance separately and allocates them according to the selected calculation method.

Chart 7: Company's technical provisions as at 31 December 2018 and 31 December 2017



CONTRACT BOUNDARIES AND HOMOGENEOUS RISK GROUPS

The Company recognises 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 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 insurance segments: insurance with profit participation, index-linked or unit-linked insurance, income protection insurance and other life insurance. The entire portfolio of life insurance policies is divided into homogeneous risk groups in accordance with the nature of the risks covered by the policies, actuarial judgement and historical developments subject to an empirical analysis.

When calculating the present market value of calculated nominal cash flows, the Company uses the basic risk-free interest rate term structure without a matching adjustment, transitional measure for adjustment or volatility adjustment.

The Company does not use adjustments in the calculation of capital adequacy.

D.2.1 Technical provisions for non-life insurance

Non-life technical provisions at the Company comprise claims provisions, premium provisions and the risk margin. They are set aside based on the generally recognised actuarial techniques for the valuation of provisions, whereby the costs of acquisition, administrative costs and claim adjustment costs are taken into account in accordance with Commission Delegated Regulation (EU).

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

The portfolio of non-life insurance is segmented at least into the insurance segments prescribed by Commission Delegated Regulation (EU).

D.2.1.1 Best estimate of non-life insurance technical provisions

The best estimate of technical provisions is calculated separately for claims incurred up to the calculation date and for claims incurred after the calculation date. The first calculation is termed the best estimate of the claims provision and the second is termed the best estimate of the premium provision.

D.2.1.1.1 Best estimate of the premium provision

The best estimate of the premium provision as at 31 December 2018 amounted to EUR 89.1 million.

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 in the calculation is matching the pattern of development of future cash flows from the premium provision with the pattern that is calculated and used in claim provisioning. Unearned premium calculated as at the calculation date is used as the measure of exposure.

D.2.1.1.2 Best estimate of the claims provision

The best estimate of the claims provision as at 31 December 2018 amounted to EUR 228.6 million.

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 that 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.

Provisions for incurred unreported claims are calculated at the level of insurance segments, for which a combination of established actuarial techniques is used, i.e. Chain-ladder and Bornhuetter-Ferguson. For the past five years of incurred claims, the calculation is made using both methods and the higher of the two calculated values for each year is taken into account. Inflation is taken into account appropriately in the calculation.

The best estimate of the claims provision for both incurred reported claims and incurred but not reported claims is reduced by the best estimate of expected subrogations and increased by expected claim adjustment costs. The best estimate of expected subrogations refers to the claims in the part for which the best estimate of the claims provision was made.

The basic assumption in the calculation is the matching of the sample of the past claims process with the expected future claims development. It is assumed that the past inflation of claims matches general inflation, whereby the estimated future inflation is based on the expected future inflation published by the International Monetary Fund. An expert judgement on the best possible estimate is carried out for the final claims ratios. It is assumed that the proportion of claim settlement costs remains unchanged compared to the year before .

D.2.1.2 Risk margin for non-life insurance

As at 31 December 2018, the risk margin amounted to EUR 19.2 million.

The risk margin comprises the calculation on the portfolio of risks under non-life insurance and the calculation on the portfolio of annuities under non-life insurance that are calculated using life insurance techniques. 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 (section 1.114).

Table below shows the results of technical provisions by the largest insurance segments as at 31 December 2018. The results are broken down into premium and claims provisions, and the risk margin. Non-life insurance technical provisions are shown in greater detail in template QRT S.17.01 in Annex to this Report.

Table 41: Non-life insurance technical provisions of the Company for solvency purposes as at 31 December 2018 with a comparison with the balance as at 31 December 2017

31 December 2018				(€ thousand)
Non-life insurance technical provisions	**Claims provision**	**Premium provision**	**Risk margin**	**Technical provisions**
-- Motor vehicle liability insurance (LoB 4)	72,320	21,412	3,288	97,019
-- Fire and other damage to property insurance (LoB 7)	32,362	25,458	5,587	63,408
-- General liability insurance (LoB 8)	54,986	3,929	1,999	60,913
-- Other motor insurance (LoB 5)	14,584	29,299	2,923	46,806

-- Other non-life insurance segments	45,538	11,316	6,812	63,667
Total	**219,790**	**91,414**	**20,609**	**331,813**

31 December 2017				**(€ thousand)**
Non-life insurance technical provisions	**Claims provision**	**Premium provision**	**Risk margin**	**Technical provisions**
-- Motor vehicle liability insurance (LoB 4)	71,855	21,017	3,110	95,982
-- Other motor insurance (LoB 5)	15,065	30,696	2,808	48,569
-- Fire and other damage to property insurance (LoB 7)	41,795	25,707	3,779	71,281
-- Other non-life insurance segments	99,927	11,659	9,486	121,072
Total	**228,642**	**89,079**	**19,183**	**336,904**

The Company recorded premium growth in the non-life insurance segment in 2018. The changes in the premium provisions are in line with portfolio growth, while the balance of the claims provision decreased as a result of the payment of higher indemnities compared to the year before.

D.2.1.3 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

Table 42: Differences 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	331,813	658,685

*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.

As at 31 December 2018, non-life insurance technical provisions for financial reporting purposes amounted to EUR 658.7 million, while they stood at EUR 331.8 million for solvency purposes. The basic difference between both valuation methods lies in the fact that the precautionary estimate of technical provisions is used for financial reporting purposes, whilst the best estimate is used for solvency purposes. Provision calculation applies slightly different portfolio segmentation.

Other reasons for the higher value of technical provisions for financial reporting purposes when compared to the value for solvency purposes include:

- discounted future cash flows for solvency purposes;
- in the valuation of the unearned premium for financial reporting purposes, the basis for the calculation is the deferral of the gross written insurance premium where the loss ratio is also deferred. Gross written insurance premiums are not deferred for solvency purposes as future cash flows are taken into account, including future cash flows from premiums. Future profits thus decrease the premium provision;

- non-past due receivables from direct insurance operations are not taken into account for the premium provision for financial reporting purposes, whereas these receivables decrease the provisions for solvency purposes;
- the valuation of the claims provision for financial reporting purposes takes into account the claims ratios on a more conservative basis mainly for the insurance segments of motor third-party liability insurance and general liability;
- in the calculation of the provisions for incurred and unreported claims for financial reporting purposes, the list of provisioned claims is additionally reduced by large claims. The entire list is thus added to the provisions for incurred unreported claims calculated in this manner so as to arrive at the claims provision. The reason for such an approach is the prudence principle;
- non-life insurance annuities are disclosed for financial reporting purposes under non-life insurance, while they are disclosed under life insurance for solvency purposes. The resulting difference amounts to EUR 70.2 million;
- the reinsurance share of provisions is valued on a similar basis as provisions. For solvency purposes, this basis is the best estimate, while it is the precautionary estimate for financial reporting purposes. The difference is EUR 24.4 million and arises because the valuation for solvency purposes takes into account the non-past due reinsurance liabilities worth EUR 13.8 million.

D.2.2 Technical provisions for life insurance

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

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

Table 43: 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	Claims provision	Premium provision	Risk margin	Technical provisions
Insurance with profit participation (LoB 30)	848	875,167	13,742	889,756
Index-linked and unit-linked insurance (LoB 31)	498	528,038	17,817	546,353
Other life insurance (LoB 32)	199	-12,326	4,260	-7,867
Annuities from non-life insurance contracts (LoB 34)	69,898	0	346	70,244
Total	**71,443**	**1,390,879**	**36,164**	**1,498,486**

31 December 2017 **(€ thousand)**

Life insurance technical provisions	Claims provision	Premium provision	Risk margin	Technical provisions

Insurance with profit participation (LoB 30)	869	790,496	12,956	804,321
Index-linked and unit-linked insurance (LoB 31)	510	626,685	17,605	644,799
Other life insurance (LoB 32)	204	-10,987	3,652	-7,131
Annuities from non-life insurance contracts (LoB 34)	63,273	0	312	63.585
Total	**64,856**	**1,406,194**	**34,525**	**1,505,575**

Life insurance technical provisions of the Company are shown in greater detail in template QRT S.12.01 in Annex to this Report.

D.2.2.1 Best estimate of life insurance technical provisions

For the purpose of projecting cash flows, the Company 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 Company recognises the best estimate of liabilities in the following manner: in the case of endowments, the best estimate of liabilities 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 technical provisions, but in practice it can hardly ever be realised 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 for the performance of insurance contracts: insurance management costs, investment management costs, claim management costs, and insurance acquisition costs.

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 Company performs separate calculations of the best estimate of liabilities for the guaranteed and the discretionary part of entitlements (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 and in accordance with internal acts and rules.

Using a range of economic scenarios that correspond to market conditions and are risk-neutral, the Company calculates the part of the best estimate of technical provisions that represents the time value of embedded contractual options and financial guarantees. This 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 the provisions for non-life insurance annuities is the sum of the best estimates for the existing and expected annuities. 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 84.6 million as a result of the re-posting of the liabilities of TZD 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 decreased by EUR 98.7 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 decreased by EUR 1.3 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 6.6 million mainly as a result of changes to non-economic assumptions in the valuation.

D.2.2.2 Risk margin for life insurance

The definition of the risk margin contains difficult to calculate solvency capital requirements for all future periods until the maturity of the existing portfolio of liabilities. Therefore, the Company 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 estimate of the realistic value of technical provisions (according to the LAT methodology) or a conservative value of technical provisions. The said conservative calculation of technical provisions 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 44: Differences between technical provisions for life insurance for solvency purposes and for financial reporting purposes

31 December 2018		(€ thousand)
Balance sheet	**Value for solvency purposes**	**Value for financial reporting purposes***
Life insurance technical provisions	1,498,486	1,402,697

*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 technical provisions (traditional life insurance) for financial reporting purposes, but with certain exceptions. The constant technical interest rate embedded in the individual tariff or the valuation interest rate, provided the latter is lower, is applied for discounting. The Slovenian SIA65 annuity tables are used for the valuation of technical provisions arising from annuity and pension insurance in the annuity pay-out period.

The assumptions about cost parameters are generally identical to those embedded in the tariff of a product, while an empirical valuation parameter needs to be applied in certain cases. Policyholder behaviour (surrender, capitalisation, cancellation, and annuitisation) is not taken into account in the valuation of technical provisions for financial reporting purposes. Technical provisions 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.

For insurance with profit participation, the positive difference between the valuation of technical provisions 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 technical provisions compared to the parameters used in the calculation for financial reporting purposes) and permitting negative technical provisions 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 70.2 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].
- 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 contracts and the mortality of employees. The total cost of the entitlement remains uncertain throughout the period, which is why the valuation of the present value of post-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.

Provisions for jubilee benefits and severance pay upon retirement for solvency purposes match the provisions calculated for financial reporting purposes. The calculation applies the interest rate curve for Eurozone debt securities rated AAA, which is published by the ECB. The application of the abovementioned curve has no material effect on the amount of provisions.

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

Table 45: Provisions, other than technical provisions, of the Company 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	11,926	11,425	11,926

Other technical provisions did not change materially in the reporting period.

D.3.2 Deferred tax liabilities

In accordance with International Accounting Standards, deferred taxes are calculated for all taxable temporary differences between the value of assets and liabilities for tax purposes and their carrying amounts. The calculation of deferred taxes is made at the tax rate of 19% which applied as at the reporting date.

For solvency purposes, deferred tax liabilities are valued as the product of the difference between the liability side of the financial statement and market-valued balance sheets and the

[10] Defined Benefit Plan

currently applicable tax rate of 19%. The resulting amount is added to the deferred tax liabilities for financial reporting purposes.

Table 46: Deferred tax liabilities of the Company 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	48,990	61,283	2,814

Deferred tax liabilities for solvency purposes decreased in 2018 because of the decrease in the difference between the Company's balance sheet liabilities for financial reporting purposes and those for solvency purposes. The decrease was additionally affected by the decrease in the value of deferred tax liabilities for financial reporting purposes.

D.3.3 Financial liabilities other than debts owed to credit institutions

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

Table 47: Company'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	1,580	1,845	1,580

Financial liabilities other than debts owed to credit institutions did not change materially in 2018.

D.3.4 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.

Table 48: Company'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	16,550	16,502	16,550

Insurance & intermediaries payables did not change materially in 2018.

D.3.5 Reinsurance payables

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

The same method is used for solvency purposes, whereby the non-past due reinsurance payables are included in the reinsurance share of the premium provision, which is why they are not included in this item.

Table 49: Reinsurance payables of the Company 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	0	0	13,820

The Company had no past due reinsurance payables in the reporting period.

D.3.6 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.

Table 50: Company's payables (trade not insurance) 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**
Payables (trade not insurance)	36,559	34,105	36,559

These liabilities increased in 2018 due to the higher current liabilities to employees.

D.3.7 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 51: Subordinated liabilities of the Company 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	22,483	23,148	20,613

Subordinated liabilities decreased in 2018 due to revaluation.

D.3.8 Any other liabilities, not elsewhere shown

Any other liabilities, not elsewhere shown are all of the Company's other liabilities not included in any of the previous liability items of the balance sheet. Valuation for financial reporting purposes is the same as for solvency purposes.

Table 52: Company'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	4,823	2,681	4,823

The value of any other liabilities, not elsewhere shown increased in 2018 as a result of the growth in deferred income.

D.3.9 Lease agreements

In the reporting period, the Company was not party to any material lease agreement.

D.4 Alternative methods for valuation

In the reporting period, the Company 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 Company as per the requirements stipulated in Article 296 (4) of Commission Delegated Regulation (EU).

The Company's largest off-balance-sheet exposure is related to the futures item; the Company therefore regularly monitors the development of its exposure to this type of positions. Detailed information on off-balance sheet items not reported by the Company are presented in The Triglav Group and Zavarovalnica Triglav d.d. Annual Report 2018, i.e. in section 5.6 of the financial portion of the said report.

OTHER RELEVANT INFORMATION

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

E. Capital management

E. Capital management

The capital management system and related processes are based on strategic goals, regulatory requirements, good practices and internally established methodologies that take into account the characteristics of the Company as a whole, especially the nature, volume and complexity of operations.

The Company has defined objectives and principles 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.

The objective of capital management is the efficient use of available own funds, which provides for:

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

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

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

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 Company keeps in step with the effects of the environment on capital adequacy and ensures optimum capital allocation.

In the beginning of 2018, the Company adjusted its **capital management** objectives and consequently redefined its dividend policy. The Company manages capital in a centralised manner at the Group level by ensuring optimum and cost-effective capital allocation and use through capital concentration at the parent company. Within the scope of the capital management process, the Company 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 Company. Capital management relies on the aforementioned risk management system and is based on strategic objectives of the Group, regulatory requirements, good practices and internally established methodologies.

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

- setting of mutually coordinated and clearly communicated objectives, and defining the long-term business strategy of each insurance segment;
- adoption of optimum 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.3.6 hereof, is of the utmost importance.

Basic own funds are classified into tiers, taking into account capital quality, subordination and availability to cover unexpected events. The criteria of constant availability and subordination are applied for the abovementioned classification.

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

Only eligible own funds are used to meet the MCR, whereby they comprise all Tier 1 own fund items as well as Tier 2 own fund items up to the amount stipulated in the regulation. The value of the eligible own funds for the coverage of the Company's MCR must at least equal the minimum capital requirement.

CAPITAL ADEQUACY OF THE COMPANY

As at 31 December 2018, the Company was adequately capitalised and had sufficient own funds available to meet both the solvency capital requirement (265%) and the minimum capital requirement (851%).

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

When calculating eligible own funds to meet the minimum capital requirement (MCR), the limitation is taken into account, i.e. that Tier 2 own funds may not exceed 20% of the MCR.

Table 53: Capital adequacy of the Company as at 31 December 2018 and 31 December 2017

Company's capital adequacy	31 December 2018	31 December 2017
		(€ thousand)
Total eligible own funds to meet the SCR	861,066	887,484
Total eligible own funds to meet the MCR	858,766	883,525
Solvency capital requirement (SCR)	324,920	322,242
Minimum capital requirement (MCR)	100,913	95,947
Capital adequacy to SCR	265 %	275 %
Capital adequacy to MCR	851 %	921 %

The Company's capital adequacy decreased by 10 pp in the reporting period, which is mostly the result of the decrease in eligible own funds, which are described in more detail in section E.1 of this Report.

Details on the values for the calculation of the Company'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 Company only had basic own funds totalling EUR 861.1 million. They were composed of the Company's share capital (EUR 73.7 million), subordinated liabilities (EUR 22.5 million) and the reconciliation reserve (EUR 764.9 million). The reconciliation reserve consists of the excess of assets over liabilities in the amount of EUR 895.4 million less the value of expected dividends for the 2018 financial year (EUR 56.8 million) and the Company's share capital.

The Company did not have any ancillary own funds as at 31 December 2018. It also had no available capital deductible items.

The structure of the Company'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 of this Report.

Table 54: Structure of the Company's own funds according to tier as at 31 December 2018 and 31 December 2017

31. 12. 2018 (€ thousand)

Own funds	Total	Tier 1 (without restrictions)	Tier 2*	Tier 3
Available own funds to meet the SCR	861,066	838,583	22,483	0
Available own funds to meet the MCR	861,066	838,583	22,483	0
Eligible own funds to meet the SCR	861,066	838,583	22,483	0
Available own funds to meet the MCR	858,066	838,583	20,183	0

31. 12. 2017 v 000 evrih

Own funds	Total	Tier 1 (without restrictions)	Tier 2*	Tier 3

Available own funds to meet the SCR	887,484	864,336	23,148	0
Available own funds to meet the MCR	887,484	864,336	23,148	0
Eligible own funds to meet the SCR	887,484	864,336	23,148	0
Available own funds to meet the MCR	883,525	864,336	19,189	0

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

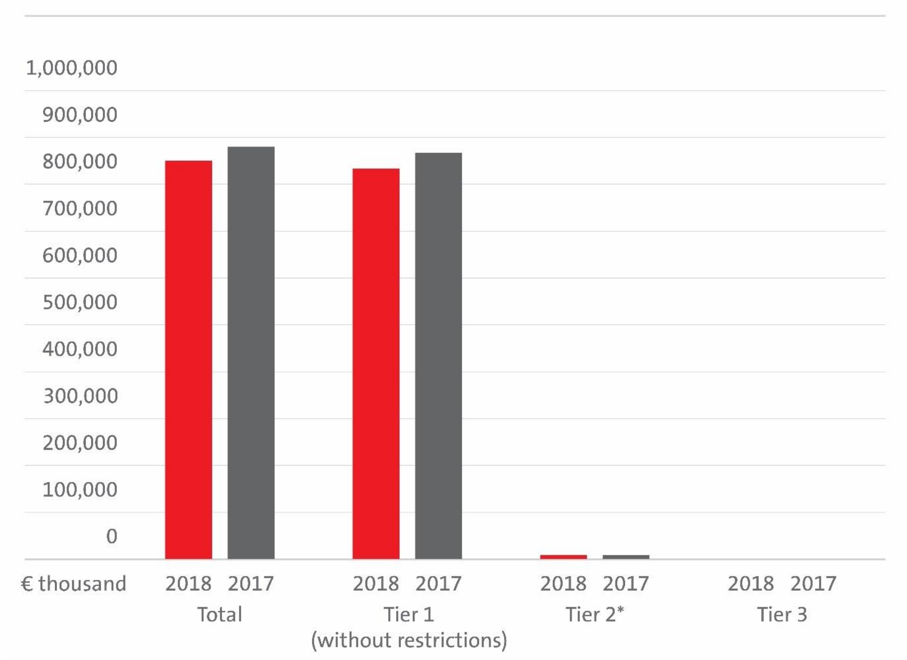
The Company's own funds decreased by EUR 26.4 million in the reporting period whereby they decreased by EUR 25.7 million on account of the decrease in the reconciliation reserve and decreased by EUR 0.7 million on account of the decrease in subordinated liabilities.

Own funds do not comprise items that include restrictions affecting availability and transferability.

The Company's eligible own funds to meet the MCR as at 31 December 2018 amounted to EUR 858.8 million, whereby Tier 2 funds that exceed 20% of the MCR are already excluded from the said amount.

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

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

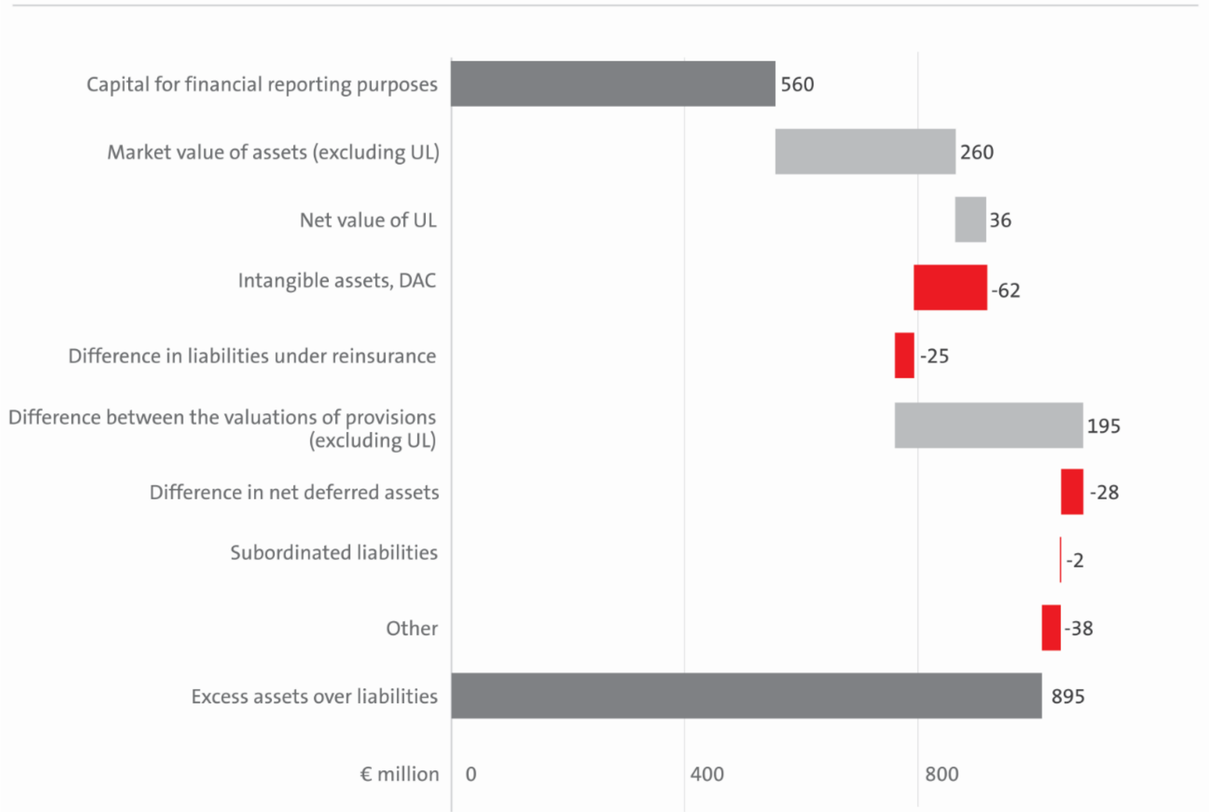


* Tier 2 own funds are suitable for the coverage of the MCR as long as they do not exceed 20% of the MCR.

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

The differences between capital for the Company's 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 the Company's capital and own funds for financial reporting purposes 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 560.1 million, while the excess of assets over liabilities for solvency purposes amounted to EUR 895.4 million. The difference is most affected by the different valuation of technical provisions (EUR 195.3 million) and the market value of assets (EUR 259.6 million). The difference is mostly lowered by intangible assets and reinsurance recoverables.

E.2 Solvency Capital Requirement and Minimum Capital Requirement

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

In accordance with the provisions of the Insurance Act, the Company reports at least once a year to the supervisory authority on the amount of the SCR and at least once every quarter on the MCR.

E.2.1 Solvency capital requirement

The Company's SCR as at 31 December 2018 amounted to EUR 324.9 million, an increase of EUR 2.7 million compared to the year before. The main reason for the increase is the decrease in the loss-absorbing capacity of deferred taxes by EUR 11.6 million because this item decreases the SCR. The decrease in the loss-absorbing capacity 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 55: SCR of the Company as at 31 December 2018 and 31 December 2017

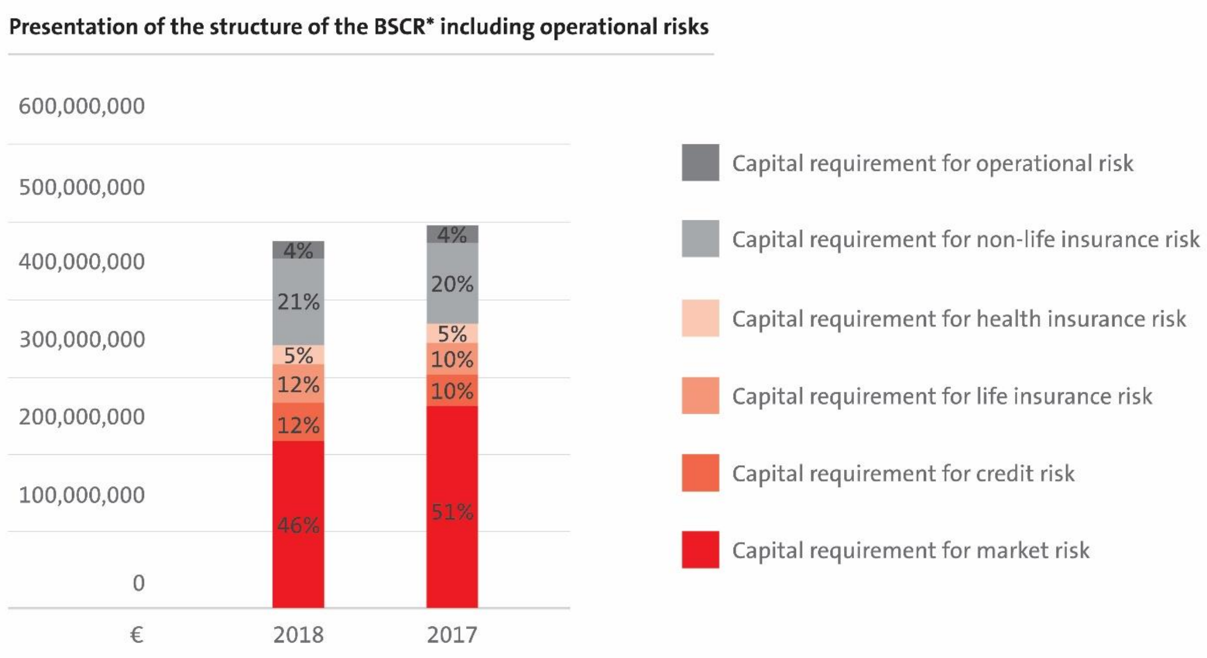
		(€ thousand)
Company's capital requirement	**31 December 2018**	**31 December 2017**
Underwriting risk	188,957	177,326
Market risk	228,599	251,536
Credit risk	59,588	50,283
Diversification	-147,258	-139,641
Basic solvency capital requirement	**329,886**	**339,504**
Operational risk	19,580	18,915
Loss-absorbing capacity of technical provisions	0	0
Loss-absorbing capacity of deferred taxes	-29,258	-40,836
Adjustment for ring-fenced fund risk diversification	4,712	4,659
SCR	**324,920**	**322,242**

Changes in the basic SCR result from increased capital requirements for underwriting and credit risk as well as from the decrease in capital requirements for market risk. The increase in the capital requirement for underwriting risk is the result of the volume of operations that increases reversal risk owing to its profitability. This applies to both the life and non-life segments. The capital requirement for credit risk increased in the reporting period because of the increase in risk from the segments of fire and other property damage insurance where gross exposure and subsequently also the reinsurance portion of this exposure increased. Owing to the upgrades to the process for the determination of the credit ratings of reinsurance partners, the associated capital requirement increased slightly.

The capital requirement for credit risk decreased in the reporting period because of the changed structure of investments, i.e. increase in government bonds as a result of the decrease in corporate bonds and collective equity investment undertakings which reduced equity risk and spread risk. The increase in the value on the risk concentration module is the result of the increase in the value at strategic financial undertakings Skupna pokojninska družba and Triglav Skladi that are not fully consolidated for solvency purposes.

Chart below shows the structure of capital requirements for individual risks whereby the presentation also takes into account the capital requirement for operational risk that is not an element of the basic SCR.

Chart 10: Presentation of the capital requirements of the Company as at 31 December 2018 and 31 December 2017



*BSCR - basic solvency capital requirement

The BSCR decreased by EUR 9.6 million compared to the year before. The main reason for the decrease is the capital requirement for market risk that decreased by EUR 22.9 million compared to the year before as a result of the changed investment structure.

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 Company took into account the ring-fenced funds and calculated the SCR using method 3 – simplification at risk module level defined in the EIOPA Guidelines on ring-fenced funds. This means that capital requirements for ring-fenced funds and the remaining part of the Company'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 capital requirement

The Company calculates the minimum capital requirement in accordance with the Commission Delegated Regulation (EU) 2015/35 methodology. The minimum capital requirement is calculated as a linear function of the following variables:

1. insurance technical provisions;
2. written premium;
3. risk capital;
4. deferred taxes and
5. management costs.

The Company calculates the minimum capital requirement using the method for composite insurance companies, where the linear minimum capital requirements are calculated first. The linear minimum capital requirement for non-life insurance is linked to the activities from non-life and life insurance, also taking into account additional accident insurance for life insurance. The linear minimum capital requirement for life insurance is calculated including the activities related to non-life insurance annuities that are already being paid out. The Company's minimum capital requirement is calculated from linear minimum capital requirements for non-life and life insurance so that the requirement is never lower than 25% or higher than 45% of the solvency capital requirement and that the absolute floor of the minimum capital requirement for non-life insurance (EUR 3.7 million) and life insurance (EUR 3.7 million) is exceeded.

Table 56: Notional MCR of the Company as at 31 December 2018 and 31 December 2017

31 December 2018 **(€ thousand)**

Notional minimum capital requirement	**Non-life insurance**	**Life insurance**
Linear notional minimum capital requirement	61,539	39,374
Notional SCR (excluding capital add-ons)	188,733	120,755
Notional minimum capital requirement cap	84,930	54,340
Notional minimum capital requirement floor	47,183	30,189
Notional combined minimum capital requirement	61,539	39,374
Absolute cap for notional minimum capital requirement	3,700	3,700
Notional minimum capital requirement	**61,539**	**39,374**

31 December 2017 **(€ thousand)**

Notional minimum capital requirement	**Non-life insurance**	**Life insurance**
Linear notional minimum capital requirement	59,349	36,598
Notional SCR (excluding capital add-ons)	199,328	122,914
Notional minimum capital requirement cap	89,697	55,311
Notional minimum capital requirement floor	49,832	30,729
Notional combined minimum capital requirement	59,349	36,598
Absolute cap for notional minimum capital requirement	3,700	3,700
Notional minimum capital requirement	**59,349**	**36,598**

The notional MCR increased in the reporting period by EUR 2.2 million as a result of the growth of the portfolio of non-life insurance. The notional MCR for life insurance increased by EUR 2.8 million in the reporting period partly because of the growth of the portfolio and partly because of the re-posting of the liabilities of TZD funds from the index-linked and unit-linked insurance segment to the insurance with profit participation segment.

Details on the MCR are shown in template QRT S.28.02 in Annex to this Report.

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

The Company does not use the duration-based equity risk sub-module to calculate and monitor capital adequacy.

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

The Company does not use internal models to calculate and monitor capital adequacy.

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

As at 31 December 2018, the Company did not find any non-compliance with the minimum 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 Company in sections E.1 through E.5.

Annexes

Annexes

Quantitative Reporting Templates (QRT) of the Company 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.12.01.02 - Technical provisions for life insurance and health insurance
5. S.17.01.02 - Technical provisions for non-life insurance
6. S.19.01.21 - Information on non-life insurance claims
7. S.23.01.01 - Own funds
8. S.25.01.21 - Solvency capital requirement for undertakings using the standard formula
9. S.28.02.01 - Minimum capital requirement for life and non-life insurance products

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

Assets	Solvency II value
Intangible assets	
Deferred tax assets	18,325
Pension benefit surplus	
Property, plant & equipment held for own use	68,751
Investments (other than assets held for index-linked and unit-linked contracts)	**2,035,608**
Property (other than for own use)	52,936
Holdings in related undertakings, including participations	365,464
Equities	**55,527**
Equities - listed	44,813
Equities - unlisted	10,713
Bonds	**1,520,293**
Government Bonds	715,057
Corporate Bonds	800,892
Structured notes	4,344
Collateralised securities	0
Collective Investments Undertakings	19,813
Derivatives	1,393
Deposits other than cash equivalents	18,492
Other investments	1,689
Assets held for index-linked and unit-linked contracts	576,835
Loans and mortgages	**45,276**
Loans on policies	2,148
Loans and mortgages to individuals	26
Other loans and mortgages	43,101
Reinsurance recoverables from:	**62,513**
Non-life and health similar to non-life	43,262
Non-life excluding health	42,827
Health similar to non-life	435
Life and health similar to life, excluding health and index-linked and unit-linked	19,251
Health similar to life	0
Life excluding health and index-linked and unit-linked	19,251
Life index-linked and unit-linked	0
Deposits to cedants	0
Insurance and intermediaries receivables	14,822
Reinsurance receivables	18,158
Receivables (trade, not insurance)	4,740
Own shares (held directly)	0
Amounts due in respect of own fund items or initial fund called up but not yet paid in	0
Cash and cash equivalents	20,307
Any other assets, not elsewhere shown	3,297
Total assets	**2,868,631**

Liabilities	Solvency II value
Technical provisions - non-life	**331,813**
Technical provisions - non-life (excluding health)	**307,945**
TP calculated as a whole	
Best estimate	288,661
Risk margin	19,283
Technical provisions - health (similar to non-life)	**23,868**
TP calculated as a whole	
Best estimate	22,544
Risk margin	1,325
TP - life (excluding index-linked and unit-linked)	**952,133**
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)	**951,954**
TP calculated as a whole	
Best estimate	933,607
Risk margin	18,346
TP - index-linked and unit-linked	**546,353**
TP calculated as a whole	
Best estimate	528,536
Risk margin	17,817
Contingent liabilities	0
Provisions other than technical provisions	11,926
Pension benefit obligations	0
Deposits from reinsurers	0
Deferred tax liabilities	48,990
Derivatives	0
Debts owed to credit institutions	0
Financial liabilities other than debts owed to credit institutions	1,580
Insurance & intermediaries payables	16,550
Reinsurance payables	0
Payables (trade, not insurance)	36,559
Subordinated liabilities	**22,483**
Subordinated liabilities not in BOF	0
Subordinated liabilities in BOF	22,483
Any other liabilities, not elsewhere shown	4,824
Total liabilities	**1,973,210**
Excess of assets over liabilities	**895,421**

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	719	53,535	0	89,066	118,467	12,419
Gross - Proportional reinsurance accepted	316	72	0	7	23	1,149
Gross - Non-proportional reinsurance accepted						
Reinsurers' share	266	944	0	6,423	9,404	4,699
Net	**769**	**52,663**		**82,650**	**109,085**	**8,869**
Premiums earned						
Gross - Direct Business	718	53,950	0	87,255	113,333	12,305
Gross - Proportional reinsurance accepted	245	85	0	7	23	1,210
Gross - Non-proportional reinsurance accepted						
Reinsurers' share	271	952	0	6,251	9,204	4,672
Net	**691**	**53,083**		**81,012**	**104,151**	**8,844**
Claims incurred						
Gross - Direct Business	57	23,900	0	51,352	77,276	4,224
Gross - Proportional reinsurance accepted	132	365	0	-1	-7	74
Gross - Non-proportional reinsurance accepted						
Reinsurers' share	9	472	0	4,526	4,504	497
Net	**180**	**23,793**		**46,824**	**72,764**	**3,801**
Changes in other technical provisions						
Gross - Direct Business	0	-58	0	46	-682	-108
Gross - Proportional reinsurance accepted	0	0	0	0	1	-73
Gross - Non-proportional reinsurance accepted						
Reinsurers' share	0	0	0	0	0	0
Net	**0**	**-58**		**46**	**-681**	**-181**
Expenses incurred	**666**	**18,103**	**0**	**21,078**	**26,701**	**2,701**
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	136,565	33,304	26,148	443	13,058	2,589
Gross - Proportional reinsurance accepted	19,017	4,340	1,151	0	227	253
Gross - Non-proportional reinsurance accepted						
Reinsurers' share	61,082	11,210	4,338	29	704	1,583
Net	**94,500**	**26,434**	**22,961**	**414**	**12,580**	**1,259**
Premiums earned						
Gross - Direct Business	130,196	32,701	24,772	415	12,531	2,632
Gross - Proportional reinsurance accepted	17,137	4,342	1,134	0	227	248
Gross - Non-proportional reinsurance accepted						
Reinsurers' share	55,655	11,037	4,384	23	685	1,606
Net	**91,679**	**26,007**	**21,522**	**392**	**12,073**	**1,274**
Claims incurred						
Gross - Direct Business	55,519	583	10,045	8,226	9,996	6,031
Gross - Proportional reinsurance accepted	11,268	376	273	0	211	14
Gross - Non-proportional reinsurance accepted						
Reinsurers' share	16,858	1,903	1,032	2	497	4,113
Net	**49,928**	**-944**	**9,286**	**8,224**	**9,709**	**1,932**
Changes in other technical provisions						
Gross - Direct Business	5	-7	1	1	-12	58
Gross - Proportional reinsurance accepted	-9	3	0	0	0	9
Gross - Non-proportional reinsurance accepted						
Reinsurers' share	0	0	0	0	0	0
Net	**-4**	**-4**	**1**	**1**	**-11**	**67**
Expenses incurred	**36,375**	**5,455**	**3,770**	**225**	**5,140**	**358**
Other expenses						
Total expenses						

	Line of Business for: accepted non-proportional reinsurance				
	Health	**Casualty**	**Marine, aviation, transport**	**Property**	**Total**
Premiums written					
Gross - Direct Business					486,313
Gross - Proportional reinsurance accepted					26,554
Gross - Non-proportional reinsurance accepted	0	51	106	505	662
Reinsurers' share	0	42	0	220	100,944
Net		**10**	**106**	**286**	**412,586**
Premiums earned					
Gross - Direct Business					470,809
Gross - Proportional reinsurance accepted					24,658
Gross - Non-proportional reinsurance accepted	0	51	106	505	662
Reinsurers' share	0	42	0	220	95,001
Net		**10**	**106**	**286**	**401,129**
Claims incurred					
Gross - Direct Business					247,208
Gross - Proportional reinsurance accepted					12,705
Gross - Non-proportional reinsurance accepted	0	0	0	365	365
Reinsurers' share	0	0	0	205	34,620
Net				**160**	**225,658**
Changes in other technical provisions					
Gross - Direct Business					-756
Gross - Proportional reinsurance accepted					-68
Gross - Non-proportional reinsurance accepted	0	0	0	0	0
Reinsurers' share	0	0	0	0	0
Net					-824
Expenses incurred	**0**	**6**	**6**	**73**	**120,657**
Other expenses					**7,883**
Total expenses					**128,540**

	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	Life reinsurance	Total
Premiums written								
Gross		54,943	85,277	6,461				146,681
Reinsurers' share		27	34	427				488
Net		**54,916**	**85,243**	**6,034**				**146,193**
Premiums earned								
Gross		54,955	85,277	6,458				146,689
Reinsurers' share		27	34	427				488
Net		**54,928**	**85,243**	**6,031**				**146,201**
Claims incurred								
Gross		66,286	69,890	1,237	-85	-1,457		135,870
Reinsurers' share		0	0	98				98
Net		**66,286**	**69,890**	**1,139**	**-85**	**-1,457**		**135,773**
Changes in other technical provisions								
Gross		21,743	-42,733	429				-20,561
Reinsurers' share								
Net		**21,743**	**-42,733**	**429**				**-20,561**
Expenses incurred		**9,466**	**16,257**	**2,810**		**53**		**28,587**
Other expenses								**338**
Total expenses								**28,925**

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
Premium written		**BG**	**FI**	**RO**	**GR**	**CY**	
Gross - Direct Business	468,840	6,657	6,194	2,170	500	474	484,836
Gross - Proportional reinsurance accepted	26,554	0	0	0	0	0	26,554
Gross - Non-proportional reinsurance accepted	662	0	0	0	0	0	662
Reinsurers' share	97,103	1,463	1,361	477	110	104	100,619
Net	**398,953**	**5,194**	**4,833**	**1,693**	**390**	**370**	**411,433**
Premium earned	479,247	6,432	5,985	2,097	483	458	494,703
Gross - Direct Business	453,927	6,432	5,985	2,097	483	458	469,382
Gross - Proportional reinsurance accepted	24,658	0	0	0	0	0	24,658
Gross - Non-proportional reinsurance accepted	662	0	0	0	0	0	662
Reinsurers' share	91,387	1,377	1,281	449	103	98	94,695
Net	**387,860**	**5,055**	**4,704**	**1,648**	**380**	**360**	**400,007**
Claims incurred	260,087	0	0	0	118	0	260,205
Gross - Direct Business	247,017	0	0	0	118	0	247,135
Gross - Proportional reinsurance accepted	12,705	0	0	0	0	0	12,705
Gross - Non-proportional reinsurance accepted	365	0	0	0	0	0	365
Reinsurers' share	34,592	0	0	0	17	0	34,609
Net	**225,495**				**101**		**225,596**
Changes in other technical provisions	795	11	10	4	1	1	822
Gross - Direct Business	-727	-11	-10	-4	-1	-1	-753
Gross - Proportional reinsurance accepted	-68	0	0	0	0	0	-68
Gross - Non-proportional reinsurance accepted	0						0
Reinsurers' share	0						0
Net	**-795**	**-11**	**-10**	**-4**	**-1**	**-1**	**-822**
Expenses incurred	**116,542**	**1,568**	**1,459**	**511**	**118**	**112**	**120,309**
Other expenses							**7,883**
Total expenses							**128,193**

	Home Country	Top 5 countries (by amount of gross premiums written) - life obligations	Total Top 5 and home country
Premium written			
Gross	146,681		146,681
Reinsurers' share	488		488
Net	**146,193**		**146,193**
Premium earned			
Gross	146,689		146,689
Reinsurers' share	488		488
Net	**146,201**		**146,201**
Claims incurred			
Gross	135,870		135,870
Reinsurers' share	98		98
Net	**135,773**		**135,773**
Changes in other technical provisions			
Gross	-20,561		-20,561
Reinsurers' share	0		0
Net	**-20,561**		**-20,561**
Expenses incurred	**28,587**		**28,587**
Other expenses			**338**
Total expenses			**28,925**

Annex 4: S.12.01.02 - Technical provisions for life insurance and health insurance

		Index-linked and unit-linked insurance		Other life insurance	
	Insurance with profit participation	**Contracts without options and guarantees**	**Contracts with options or guarantees**	**Contracts without options and guarantees**	**Contracts with options or guarantees**
Technical provisions calculated as a whole					
Total Recoverables from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default associated to TP as a whole					
Technical provisions calculated as a sum of BE and RM					
Best Estimate					
Gross Best Estimate	876,015		528,536		-12,127
Total Recoverables from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default					
Best estimate minus recoverables from reinsurance/SPV and Finite Re	**876,015**		**528,536**		**-12,127**
Risk Margin	13,742	17,817		**4,260**	
Amount of the transitional on Technical Provisions					
Technical Provisions calculated as a whole					
Best estimate					
Risk margin					
Technical provisions - total	**889,756**	**546,353**		**-7,867**	

	Annuities stemming from non-life insurance contracts and relating to insurance obligation other than health insurance obligations	Accepted reinsurance	Total (Lifeother thanhealth insurance, includingUnit-Linked)	Health insurance (direct business)		Annuities stemming from non-life insurance contracts and relating to health insurance obligations	Health reinsurance (reinsurance accepted)	Total (Health similar to life insurance)
				Contracts without options and guarantees	Contracts with options or guarantees			
Technical provisions calculated as a whole								
Total Recoverables from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default associated to TP as a whole								
Technical provisions calculated as a sum of BE and RM								
Best Estimate								
Gross Best Estimate	69,720		**1,462,143**			178		**178**
Total Recoverables from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default	19,251		**19,251**					
Best estimate minus recoverables from reinsurance/SPV and Finite Re	**50,469**		**1,442,892**			**178**		**178**
Risk Margin	**345**		**36,164**			1		**1**
Amount of the transitional on Technical Provisions								
Technical Provisions calculated as a whole								
Best estimate								
Risk margin								
Technical provisions - total	**70,064**		**1,498,307**			**179**		**179**

Annex 5: S.17.01.02 - Technical provisions for non-life insurance

	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**
Technical provisions calculated as a whole						
Total Recoverables from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default associated to TP as a whole						
Technical Provisions calculated as a sum of BE and RM						
Best estimate						
Premium provisions						
Gross - Total	107	-8,660		21,412	29,299	688
Total recoverable from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default	-19	-14		803	1,160	-533
Net Best Estimate of Premium Provisions	**126**	**-8,645**		**20,609**	**28,139**	**1,220**
Claims provisions						
Gross - Total	55	31,041		72,320	14,584	7,076
Total recoverable from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default	9	460		7,038	987	1,035
Net Best Estimate of Claims Provisions	46	30,581		65,282	13,597	6,041
Total Best estimate - gross	**162**	**22,381**		**93,732**	**43,884**	**7,764**
Total Best estimate - net	**173**	**21,936**		**85,891**	**41,736**	**7,261**
Risk margin	138	1,187		3,288	2,923	1,436
Amount of the transitional on Technical Provisions						
TP as a whole						
Best estimate						
Risk margin						
Technical Provisions						
Technical provisions - total	**301**	**23,568**		**97,019**	**46,806**	**9,200**
Recoverable from reinsurance contract/SPV and Finite Re after the adjustment for expected losses due to counterparty default - total	**-10**	**446**		**7,841**	**2,148**	**502**
Technical provisions minus recoverables from reinsurance/SPV and Finite Re- total	**311**	**23,122**		**89,178**	**44,659**	**8,697**

	Fire and other damage to property insurance	General liability insurance	Credit and suretyship insurance	Legal expenses insurance	Assistance	Miscellaneous financial loss
	Direct business and accepted proportional reinsurance					
Technical provisions calculated as a whole						
Total Recoverables from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default associated to TP as a whole						
Technical Provisions calculated as a sum of BE and RM						
Best estimate						
Premium provisions						
Gross - Total	25,458	3,929	13,790	48	5,285	49
Total recoverable from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default	-847	-905	1,709	-3	155	-136
Net Best Estimate of Premium Provisions	**26,305**	**4,834**	**12,082**	**51**	**5,130**	**186**
Claims provisions						
Gross - Total	32,362	54,985	1,149	32	2,330	3,638
Total recoverable from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default	12,505	16,957	549	1	66	2,284
Net Best Estimate of Claims Provisions	19,857	38,028	600	32	2,263	1,354
Total Best estimate - gross	**57,821**	**58,914**	**14,939**	**80**	**7,614**	**3,688**
Total Best estimate - net	**46,162**	**42,861**	**12,681**	**83**	**7,393**	**1,540**
Risk margin	5,587	1,999	3,359	12	448	133
Amount of the transitional on Technical Provisions						
TP as a whole						
Best estimate						
Risk margin						
Technical Provisions						
Technical provisions - total	**63,408**	**60,913**	**18,298**	**92**	**8,063**	**3,821**
Recoverable from reinsurance contract/SPV and Finite Re after the adjustment for expected losses due to counterparty default - total	**11,658**	**16,053**	**2,258**	**-2**	**221**	**2,148**
Technical provisions minus recoverables from reinsurance/SPV and Finite Re- total	**51,749**	**44,860**	**16,040**	**94**	**7,842**	**1,673**

	Accepted non-proportional reinsurance:				
	Non-proportional health reinsurance	**Non-proportional casualty reinsurance**	**Non-proportional casualty reinsurance**	**Non-proportional property reinsurance**	**Total Non-Life obligations**
Technical provisions calculated as a whole					
Total Recoverables from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default associated to TP as a whole					
Technical Provisions calculated as a sum of BE and RM					
Best estimate					
Premium provisions					
Gross - Total				9	91,415
Total recoverable from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default					1,370
Net Best Estimate of Premium Provisions				**9**	**90,045**
Claims provisions					
Gross - Total				217	219,790
Total recoverable from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default					41,892
Net Best Estimate of Claims Provisions				217	177,898
Total Best estimate - gross				**226**	**311,205**
Total Best estimate - net				**226**	**267,943**
Risk margin		23	3	73	20,608
Amount of the transitional on Technical Provisions					
TP as a whole					
Best estimate					
Risk margin					
Technical Provisions					
Technical provisions - total		**23**	**3**	**299**	**331,813**
Recoverable from reinsurance contract/SPV and Finite Re after the adjustment for expected losses due to counterparty default - total					**43,262**
Technical provisions minus recoverables from reinsurance/SPV and Finite Re- total		**23**	**3**	**299**	**288,551**

Annex 6: S.19.01.21 - Information on non-life insurance claims

Gross Claims Paid (non-cumulative)	Development year (absolute amount)											In Current year	Sum of years (cumulative)
	0	1	2	3	4	5	6	7	8	9	10 & +		
Prior											2,285	2,285	2,285
2009	237,561	74,043	14,742	6,328	3,715	2,445	1,193	1,183	696	364		364	342,269
2010	213,965	72,132	11,958	5,271	2,828	1,767	906	1,734	1,345			1,345	311,905
2011	179,218	61,837	16,366	6,522	2,695	1,648	1,892	1,351				1,342	271,520
2012	176,509	62,220	10,185	6,361	2,899	1,411	1,786					1,783	261,369
2013	165,396	52,139	10,584	4,699	1,997	1,749						1,738	236,552
2014	176,349	51,002	9,266	5,679	4,535							4,387	246,684
2015	155,631	47,364	10,561	6,039								5,242	218,798
2016	157,054	50,315	13,577									12,132	219,501
2017	165,632	70,588										66,510	232,142
2018	171,504											168,426	168,426
											Total	**265,554**	**4,071,634**

Gross undiscounted Best Estimate Claims Provisions	**Development year (absolute amount)**											**Year end (discounted data)**
	0	**1**	**2**	**3**	**4**	**5**	**6**	**7**	**8**	**9**	**10 & +**	
Prior											9,073	5,737
2009								1,693	1,621	1,259		1,236
2010							4,613	3,055	1,919			1,869
2011						5,733	3,981	3,947				3,879
2012					19,352	16,481	12,205					11,971
2013				11,848	9,333	7,799						7,670
2014			15,044	11,607	7,009							6,946
2015		20,726	13,012	8,260								8,159
2016	79,936	31,108	16,284									16,103
2017	102,780	34,550										34,162
2018	98,054											97,496
											Total	**181,977**

Annex 7: S.23.01.01 - Own funds

	Total	Tier 1 - unrestricted	Tier 1 - restricted	Tier 2	Tier 3
Basic own funds before deduction for participations in other financial sector as foreseen in article 68 of Delegated Regulation (EU) 2015/35					
Ordinary share capital (gross of own shares)	**73,701**	73,701			
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					
Surplus funds					
Preference shares					
Share premium account related to preference shares					
Reconciliation reserve	**764,882**	764,882			
Subordinated liabilities	**22,483**			22,483	
An amount equal to the value of net deferred tax assets					
Other own fund items approved by the supervisory authority as basic own funds not specified above					
Own funds from the financial statements that should 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 should not be represented by the reconciliation reserve and do not meet the criteria to be classified as Solvency II own funds					
Deductions					
Deductions for participations in financial and credit institutions					
Total basic own funds after deductions	**861,066**	**838,583**		**22,483**	

	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					
Other ancillary own funds					
Total ancillary own funds					

	Total	Tier 1 - unrestricted	Tier 1 - restricted	Tier 2	Tier 3
Available and eligible own funds					
Total available own funds to meet the SCR	**861,066**	**838,583**		**22,483**	
Total available own funds to meet the MCR	**861,066**	**838,583**		**22,483**	
Total eligible own funds to meet the SCR	**861,066**	**838,583**		**22,483**	
Total eligible own funds to meet the MCR	**858,766**	**838,583**		**20,183**	
SCR	**324,920**				
MCR	**100,913**				
Ratio of Eligible own funds to SCR	**265 %**				
Ratio of Eligible own funds to MCR	**851 %**				

Reconciliation reserve	
Excess of assets over liabilities	**895,421**
Own shares (held directly and indirectly)	
Foreseeable dividends, distributions and charges	56,838
Other basic own fund items	**73,701**
Adjustment for restricted own fund items in respect of matching adjustment portfolios and ring fenced funds	
Reconciliation reserve	**764,882**
Expected profits	
Expected profits included in future premiums (EPIFP) - Life Business	48,145
Expected profits included in future premiums (EPIFP) - Non- life business	14,378
Total Expected profits included in future premiums (EPIFP)	**62,523**

Annex 8: S.25.01.21 - Solvency capital requirement for undertakings using the standard formula

	Gross solvency capital requirement	USP	Simplifications
Market risk	228,599		
Counterparty default risk	59,588		
Life underwriting risk	56,573		
Health underwriting risk	26,751		
Non-life underwriting risk	105,634		
Diversification	-147,258		
Intangible asset risk			
Basic Solvency Capital Requirement	**329,886**		

Calculation of Solvency Capital Requirement	
Operational risk	19,580
Loss-absorbing capacity of technical provisions	
Loss-absorbing capacity of deferred taxes	-29,258
Capital requirement for business operated in accordance with Art. 4 of Directive 2003/41/EC	
Solvency capital requirement excluding capital add-on	324,920
Capital add-on already set	
Solvency capital requirement	**324,920**
Other information on SCR	
Capital requirement for duration-based equity risk sub-module	
Total amount of Notional Solvency Capital Requirements for remaining part	309,488
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	

Annex 9: S.28.02.01 - Minimum capital requirement for life and non-life insurance products

	Non-life activities	Life activities
Linear formula component for non-life insurance and reinsurance obligations	60,475	2,460

Linear formula component for non-life insurance and reinsurance obligations

MCR calculation Non Life	Non-life activities		Life activities	
	Net (of reinsurance /SPV) best estimate and TP calculated as a whole	Net (of reinsurance) written premiums in the last 12 months	Net (of reinsurance /SPV) best estimate and TP calculated as a whole	Net (of reinsurance) written premiums in the last 12 months
Medical expense insurance and proportional reinsurance	173	769		
Income protection insurance and proportional reinsurance	20,901	25,314	1,034	27,349
Workers' compensation insurance and proportional reinsurance				
Motor vehicle liability insurance and proportional reinsurance	85,891	82,650		
Other motor insurance and proportional reinsurance	41,736	109,085		
Marine, aviation and transport insurance and proportional reinsurance	7,261	8,869		
Fire and other damage to property insurance and proportional reinsurance	46,162	94,500		
General liability insurance and proportional reinsurance	42,861	26,434		
Credit and suretyship insurance and proportional reinsurance	12,681	22,961		
Legal expenses insurance and proportional reinsurance	83	414		
Assistance and proportional reinsurance	7,393	12,580		
Miscellaneous financial loss insurance and proportional reinsurance	1,540	1,259		
Non-proportional health reinsurance				
Non-proportional casualty reinsurance		10		
Non-proportional marine, aviation and transport reinsurance		106		
Non-proportional property reinsurance	226	286		

Linear formula component for life insurance and reinsurance obligations

MCR calculation Life	Non-life activities			Life activities
	Net (of reinsurance/SPV) best estimate and TP calculated as a whole	Net (of reinsurance /SPV) total capital at risk	Net (of reinsurance/SPV) best estimate and TP calculated as a whole	Net (of reinsurance/ SPV) total capital at risk
Obligations with profit participation - guaranteed benefits			867,808	
Obligations with profit participation - future discretionary benefits			8,207	
Index-linked and unit-linked insurance obligations			534,880	
Other life (re)insurance and health (re)insurance obligations	50,647			
Total capital at risk for all life (re)insurance obligations				2,125,072

	Non-life activities	Life activities
Linear formula component for life insurance and reinsurance obligations	1,064	36,914

Linear MCR	100,913
SCR	324,920
MCR cap	139,270
MCR floor	77,372
Combined MCR	100,913
Absolute floor of the MCR	7,400

Minimum Capital Requirement	**100,913**

Notional non-life and life MCR calculation	Non-life activities	Life activities
Notional linear MCR	61,539	39,374
Notional SCR excluding add-on (annual or latest calculation)	188,733	120,755
Notional MCR cap	84,930	54,340
Notional MCR floor	47,183	30,189
Notional Combined MCR	61,539	39,374
Absolute floor of the notional MCR	3,700	3,700
Notional MCR	61,539	39,374