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

Solvency and financial condition report
of Zavarovalnica Triglav, d.d.,
for 2017

Ljubljana, april 2018

Zavarovalnica Triglav d.d.

€ 323.1
million
solvency capital requirement

€ 887.5
million
own funds to cover solvency capital requirement

€ 95.9
million
minimum capital requirement

275 %
solvency ratio

€ 2.5
dividend per share

€ 521.1
million
net premius earned

€ 2,028.2
million
in investments

€ 62.5
million
net profit

MEMBERS OF THE MANAGEMENT BOARD:

President: Andrej Slapar

Members of the Management Board:

Uroš Ivanc

Tadej Čoroli

Barbara Smolnikar

Marica Makoter

Contents

Summary

Summary

Zavarovalnica Triglav is a public limited company with registered office in the Republic of Slovenia where it holds the leading position on the insurance market. The beginnings of its operations go back for 118 years. Today, it is the parent company of the Triglav Group that included 31 subsidiaries and 6 associated companies at the end of 2017. The Group operates in six countries of the broader region where its 20% market share makes it the leading insurance and financial group. The 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 2017, both gave the Group an independent rating of "A" with a stable medium-term outlook, thus confirming its financial stability, high capital adequacy and profitability of its operations.

The core activities of Zavarovalnica Triglav include insurance business and asset management. As part of its insurance business, Zavarovalnica Triglav concludes non-life, health, life and pension insurance and reinsurance contracts. It operates mainly on the Slovenian market, while it also operates outside Slovenia within the scope of the Group activities. Its activity is supervised by the Slovenian regulator, the Insurance Supervision Agency, while its external auditor for the 2017 financial year was the auditing firm ERNST & YOUNG Revizija, poslovno svetovanje, d.o.o..

Zavarovalnica Triglav is managed and governed by a two-tier system of governance including the General Meeting, the Management Board and the Supervisory Board. The Management Board was composed of five members at the end of 2017. In 2017, the term of office of Management Board member Benjamin Jošar ended, with the new Management Board member Barbara Smolnikar joining the board. The Supervisory Board is composed of nine members, three of whom are employee representatives. Five new Supervisory Board members were appointed as replacements for the previous members whose terms of office expired in 2017. The Company's system of governance also includes the so-called four key functions that report directly to the Management Board (risk management functions, the compliance function, the internal audit function and the actuarial function) and six committees that are appointed by the Management Board. They operate in line with the structure of the three lines of defence within the Company's governance system, which is described in greater detail in section B.3.3 of this Report.

The operations of Zavarovalnica Triglav were again profitable in 2017, with net profit amounting to EUR 62.5 million (down 17% compared to year 2016). The Company recorded premium growth in all insurance segments and posted a total of EUR 622 million in gross insurance, co-insurance and reinsurance premium. Its business was affected by increased claims, mainly mass loss events and unfavourable conditions on financial markets. Its combined ratio for non-life insurance at the end of 2017 was 89.6%. The Company's operations in 2017 are presented in more detail in sections A.2, A.3 and A.4 of this Report.

Zavarovalnica Triglav has more than 14 thousand shareholders, with the ownership stake of the top ten shareholders at the end of 2017 amounting to 77%, which is similar to the year before. Its shareholders come from 37 countries with the majority coming from Slovenia. The ownership stake of the international shareholders began strengthening since the start of the listing of the Company's share in 2008 and amounted to 18% in 2017. Details on the

Company's ownership structure are explained in section A.1.4 of this Report. The distribution of dividends for 2016 to shareholders amounted to EUR 2.50 gross per share or 69% of the Group's net profit for 2016.

The Company is exposed to numerous risks in its work. 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 identify all risks concurrently as well as to monitor them regularly and manage them effectively. The three lines of defence model was set up with this aim in mind. The first line of defence includes all of the Company's business functions that identify business risks. The second line of defence is composed of decision-making bodies and business functions that together perform the measurement of individual risks, monitor exposure to such risks and determine the exposure limit system. The third line of defence is represented by an Internal Audit of Zavarovalnica Triglav. Over the previous period, the Company actively upgraded the risk management system and regularly monitored the risk profile.

Zavarovalnica Triglav performs the ORSA process regularly and in doing so it takes into account all the risks, to which it is exposed, as well as potential risks that could have an impact on its operations over the next three-year period. Zavarovalnica Triglav uses the results of the ORSA as the basis for the determination of its existing and future capital needs and for the adoption of business decisions. In doing so, it suitably determines the effects of abovementioned 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, Zavarovalnica Triglav performed the ORSA process for the 2017 financial year. When implementing the ORSA process, Zavarovalnica Triglav considered all the material risks, to which it was exposed until the calculation date, as well as any potential risks that could have an impact on its business over the next three years.

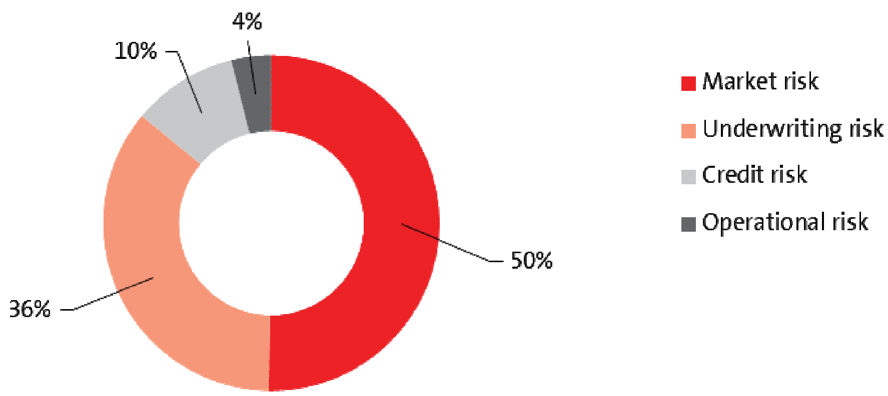
Zavarovalnica Triglav has a management policy established for each type of risk. The company measures and assesses its risks using internal methodologies and indicators according to regulatory capital adequacy criteria and through capital adequacy according to the S&P risk assessment method. The regulatory solvency capital requirement (SCR) is calculated for four types of risk, to which the Company is most of all exposed to. 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 these risk types.

At the end of 2017, the SCR, which does not take into account mutual risk effects (i.e. diversification), amounted to EUR 498.1 million for the four main risk types. The Company has formed two ring-fenced funds, i.e. PDPZ and PDPZ renta, for which risks are calculated separately for each risk category under the standard formula. The chart below applies the simplification at risk module level method and also takes into account the risks of the ring-fenced funds that contribute EUR 15.6 million to the overall SCR of the Company. The method

[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)

is presented in more detail in section E of this Report as is the effect of the change to the methodology for the calculation of capital adequacy for 2016.

Risk profile of Zavarovalnica Triglav* as at 31 December 2017



* non-diversified value of the SCR for risks underwritten by Zavarovalnica Triglav using the standard formula

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 (the risk of loss due to changes in interest rates that affect the value of interest rate sensitive items of assets and liabilities), equity risk (sensitivity of the value of assets and liabilities to adverse changes in the values or volatility of the market prices of equities as well as fluctuations in the value of associated companies), property risk and spread risk.

The second most important type of risks is **underwriting risk**, the bulk of which is represented by the risk of loss or of adverse change in the value of underwriting liabilities due to inadequate premiums and assumptions taken into account 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 2017, which differs from the balance sheet for financial reporting purposes. The differences between them are presented in greater detail in section D of this Report 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 published by EIOPA[2] and does not apply any adjustments of the curve.

Zavarovalnica Triglav has a well thought out **capital management system**, under which management is centralised at the Group level. Capital is concentrated at the parent company which ensures optimum and cost-effective capital allocation and use at the Group. 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

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

methodologies. In doing so, it considers 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 adequacy, maintenance of a high credit rating and confidence of all stakeholders. These objectives were achieved in 2017 as well. There were no major changes in the previous year in the system of governance other than the ones already mentioned.

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 2017. It had sufficient own funds to meet both the MCR (921%) and the SCR (275%):

Solvency ratio Zavarovalnica Triglav (as at 31 December 2017) =

$$\frac{Eligible\ own\ funds}{SCR} = \frac{887{,}5}{322{,}2} = \mathbf{275\%}$$

The company's capital adequacy decreased by 20 pp compared to previous year, which is mostly the result of the change in the methodology for the calculation of the adjustment for the loss-absorbing capacity of deferred taxes. Details of the calculation and comparison to previous year are provided in the table below.

Capital adequacy of the Company as at 31 December 2017 and 31 December 2016

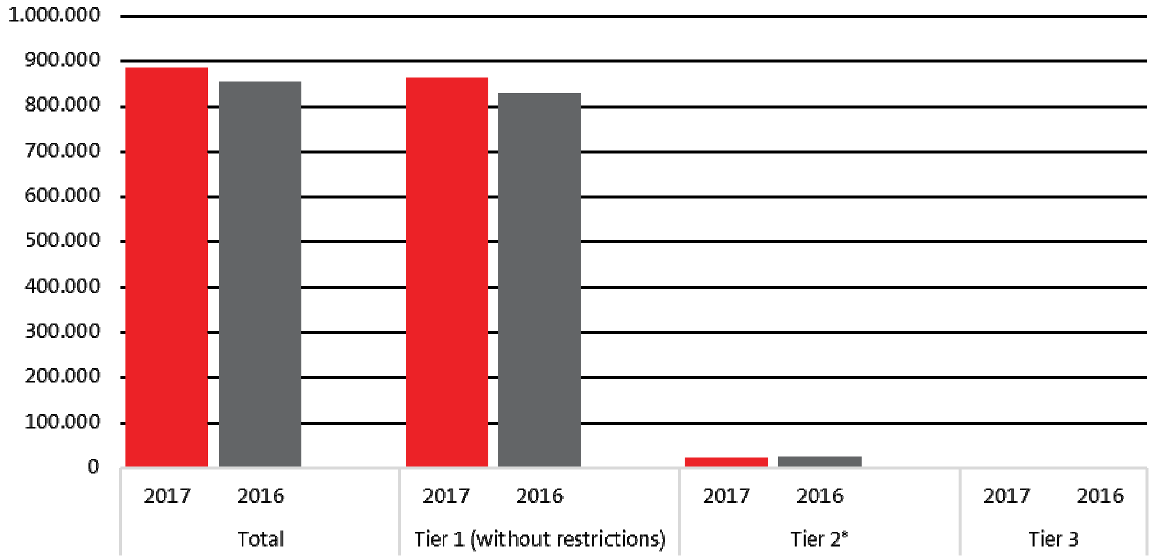
In EUR thousands

Capital adequacy of the Company	31 December 2017	31 December 2016	31 December 2016*
Total eligible own funds to meet the SCR	887,484	853,928	842,885
Total eligible own funds to meet the MCR	883,525	848,322	837,279
SCR excluding ring-fenced funds	-	-	278,275
SCR with ring-fenced funds	322,242	289,318	-
Minimum capital requirement	95,947	93,891	93,891
Capital adequacy to SCR	275%	295%	303%
Capital adequacy to MCR	921%	904%	892%

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

Depending on the calculation method, the company's capital adequacy amount can be affected by eligible own funds that the company must meet to cover SCR as well as by its SCR. The company holds the highest quality eligible own funds (details are provided in the chart below).

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



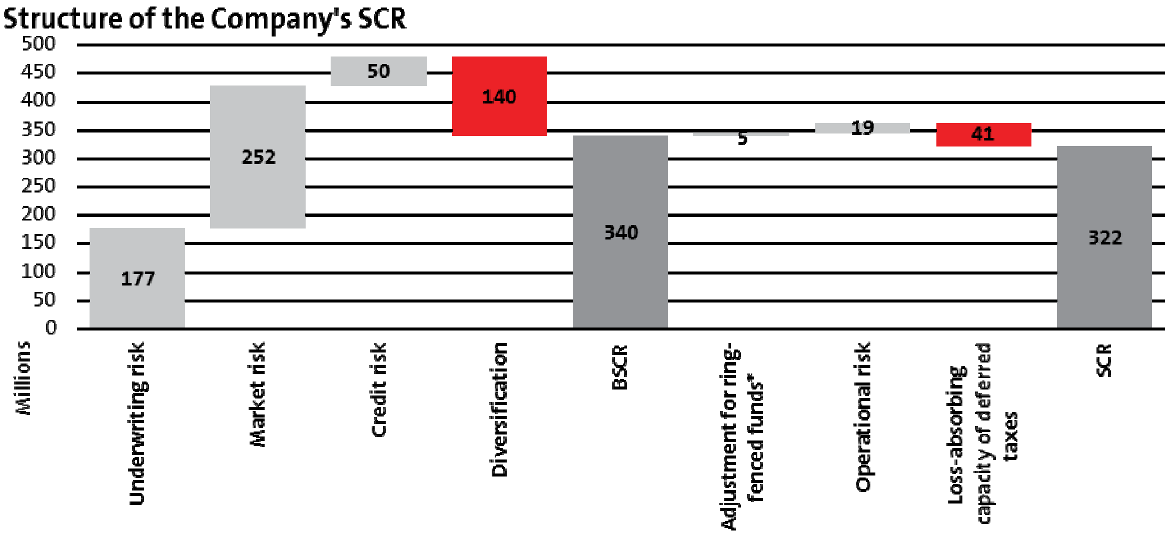
* Tier 2 own funds are suitable for the coverage of the MCR as long as they do not exceed 20% of the MCR.

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

Own funds are calculated as the difference between assets and liabilities whereby both sides of the balance sheet are valued at market value. They are composed of the Company's share capital (EUR 73.7 million), subordinated liabilities (EUR 23.1 million) and the reconciliation reserve (EUR 790.6 million). The calculation takes into account the expected dividends for the 2017 financial year (EUR 56.8 million).

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

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

Zavarovalnica Triglav 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 and health 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 2017, 85% of its solvency capital requirements related to underwriting and market risks, while practically all of its own funds were classified as Tier 1 which makes them high-quality funds. Zavarovalnica Triglav manages own funds efficiently, which ensures safety and profitability of operations as well as the meeting of planned and strategic objective. The company has a well thought out capital management system that works well in practice and is appropriately incorporated into the system of governance of the company.

Section A

Operations and business results

A. Operations and business results

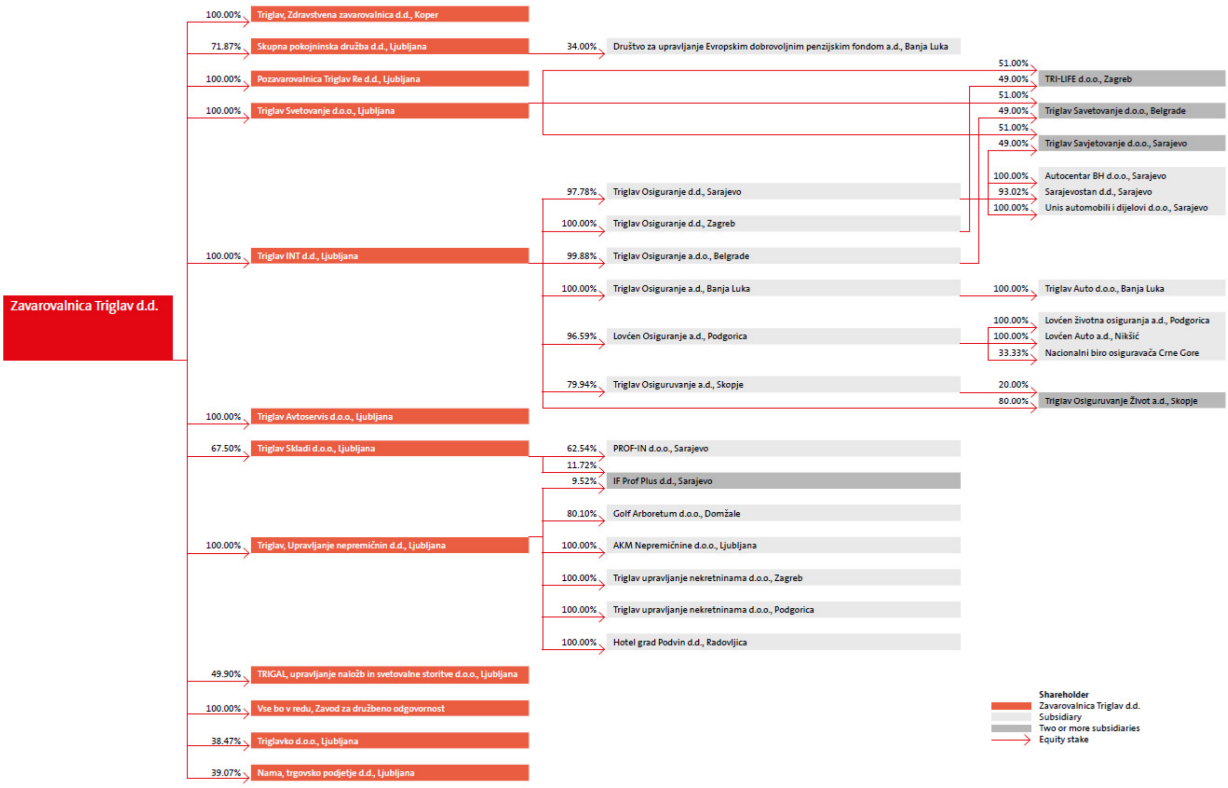
A.1. Business and performance

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 31 subsidiaries and 6 associated companies.

Below is a schematic presentation of the Group's subsidiaries and associates as well as the equity interest as at 31 December 2017.

Figure 1: Structure of the Group as at 31 December 2017



COMPANY'S ACTIVITIES, MARKETS AND POSITION

The key business pillars:

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 activities. It held a 28% market share in Slovenia at the end of 2017 and thereby a convincing leading market position.

In 2017, the Company operated in all segments of non-life and health insurance with the exception of the segments of workers' compensation insurance and legal expenses insurance. Of all the non-life and health insurance segments, the Company earns the most premium from property insurance against fire and other damage to property (LOB 7), other motor vehicle insurance (LOB 5) and motor vehicle liability insurance (LOB 7).

In 2017, unit-linked insurance represented the largest segment of life insurance. These were followed by insurance with profit participation and other life insurance. The asset management activity at the Company comprises in savings via our insurance services and investments into our mutual funds. This activity is performed by the life insurers of the Group: Triglav Skladi d.o.o., Triglav, Upravljanje nepremičnin d.d. and Trigal, d.o.o.

A.1.2 External audit

The General Meeting of Shareholders of the Company appointed the following audit firm as the external auditor of the Company:

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

A.1.3 Supervisory body

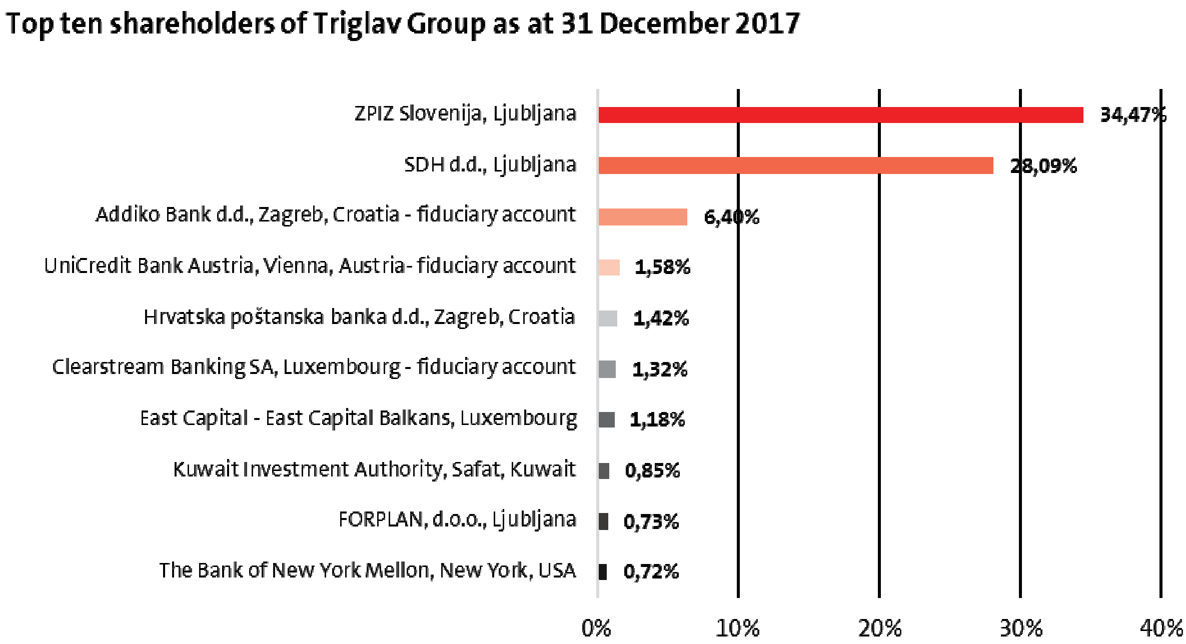
The Company's supervisory body is:

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

A.1.4 Ownership structure of Zavarovalnica Triglav

There were no material changes in the ownership structure of the Company in 2017. The concentration of ownership of the top ten shareholders at the end of the year stood at 76.7%, which is 0.4 pp increase compared to last year. The stakes of the largest owners remained unchanged, while Unicredit Bank Austria – fiduciary account increased its holding by 1.6 pp. Clearstream Banking SA, Luxembourg - fiduciary account reduced its stake in 2017 and is thus no longer part of the top shareholder group. The change meant that Forplan d.o.o., Ljubljana rose through the ranks to reach the tenth place.

Chart 1: Top ten shareholders of Zavarovalnica Triglav as at 31 December 2017



The Company had 14,297 shareholders at the end of 2017. Their number dropped by 22% compared to last year, mainly on the account of Slovenian natural person shareholders who owned a small number of shares exiting the Company. Their sale of the shares is an expected reaction to the legally prescribed termination of free registry accounts at the Central Securities Clearing Corporation (KDD).

The majority of the Company's shareholders are from Slovenia, with 3.1% of the shareholders coming from 37 countries. Their number and shareholdings strengthened in 2017 as well. At the end of the year, they held 18.0% of the Company's shares, which is 0.9 pp more than the year before.

A.1.5 Major business events and achievements in 2017

- Good performance: The Company's operations were profitable again, with premium growth achieved in all of the Company's insurance activity segments. It generated premium growth in all insurance operations segments.
- The Company maintained the high "A" credit rating: The S&P Global Ratings and A.M. Best rating companies confirmed the Group's A rating with a stable medium-term outlook.
- Dividend distribution: In 2017, the Company paid out dividends for 2016 in the total amount of EUR 56.8 million.
- Entrance into the life insurance market in Macedonia and the pension insurance market in Bosnia and Herzegovina: The Group founded a new life insurance company on the Macedonian market. It founded a pension fund management company in Bosnia and Herzegovina together with the EBRD, Pension Reserve Fund of the Republic of Srpska and the Enterprise Expansion Fund (ENEF).
- Setup of the Trigal trading platform for alternative investments: In conjunction with the German partner KGAL Group, the Company founded a company for the collection of institutional investor assets and their investment into various types of investments and projects (real estate, infrastructural projects and other alternative investments).
- Changes in the Company's Supervisory Board and Management Board: Owing to the expiry of the terms of office of five Supervisory Board members who were the shareholders' representatives, the shareholders appointed five new members. Barbara Smolnikar was appointed as the new Management Board member responsible for the Life Insurance Division and the Life Insurance Development and Actuarial Department. On 2 November 2017, the term of office of Benjamin Jošar as a Management Board member expired.
- Mass loss events**:** The Company's operations were impacted by mass loss events such as hail storms, frost, floods, drought and gale which caused EUR 25.9 million worth of claims.

A.2 Underwriting performance

The Company generated net profit of EUR 62.5 million in 2017, which is 17% less than in 2016. The main reason for the decrease in net profit is the significant growth in gross claims.

The non-life combined ratio stood at 89.6% at the end of 2017, up 1.6 pp compared to last year. The main reason behind the increase of the combined ratio is higher growth in net claims incurred compared to the written premium in the period.

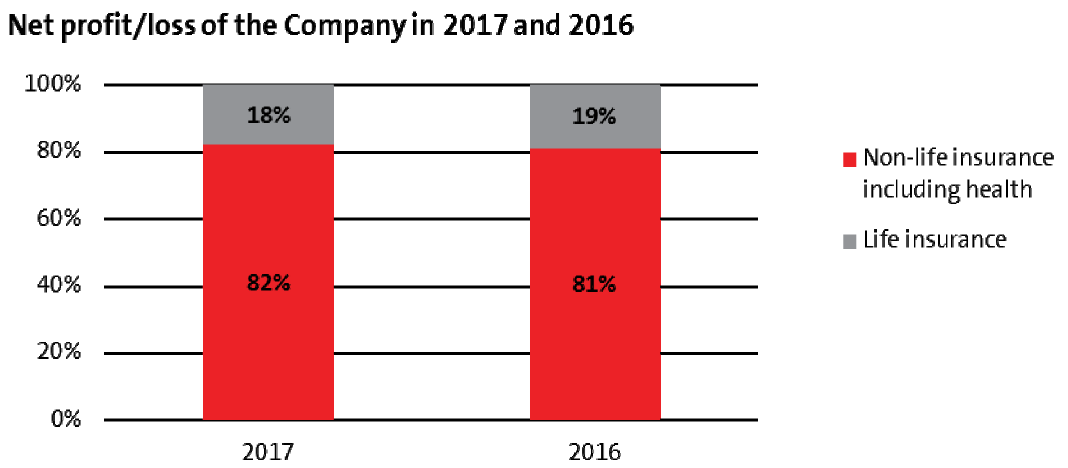
The net return on equity, which is the ratio between net income returned and the average shareholder’s equity, stood at 11% in 2017, a drop of 2.8 pp compared to last year. The drop is mainly the result of lower net profit.

Table 1: Operating performance of the Company in 2017 and 2016

	in EUR thousand	
	2017	2016
Net profit/loss	**62,522**	**75,334**
- Non-life insurance including health insurance	51,330	61,127
- Life insurance	11,192	14,206
Non-Life insurance combined ratio	**89.56%**	**87.94%**
ROE	**11.0%**	**13.8%**

Eighteen percent of the Company's 2017 net profit was generated from life insurance, while 82% was generated from non-life insurance including health insurance. The net profit structure did not change materially compared to the year before as the ratio was only 1 pp higher in favour of life insurance in 2016.

Chart 2: Net profit/loss of the Company in 2017 and 2016



The Company recorded a total of EUR 622 million in gross insurance, co-insurance and reinsurance premium in 2017. The premium grew by EUR 28.8 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 including health insurance amounted to 475.5 million and EUR 146.5 million from life insurance. The biggest share of the non-life and health insurance premium is derived from fire insurance and other damage to property insurance segments. These were followed by other motor vehicle insurance and motor vehicle liability insurance. The highest premium growth in 2017 was generated from non-life including health insurance, i.e. growth of EUR 25.7 million when compared to 2016.

Gross claims incurred in 2017 amounted to EUR 405 million, out of which EUR 240.4 million came from non-life insurance including health insurance and EUR 164.6 million from life insurance. Most of the gross claims incurred among non-life insurance including health insurance arose from claims in the fire insurance and other damage to property insurance as well as other motor vehicle insurance segments. The values under this item grew by EUR 35.8 million compared to last year, the biggest– EUR 26.1 million – arising under non-life insurance including health insurance.

The Company's expenses in 2017 amounted to EUR 164.4 million, out if which EUR 136.8 million came from non-life insurance including health insurance and EUR 27.6 million from life insurance. According to the segmentation for solvency purposes, the highest expenses were incurred in the fire insurance and other damage to property insurance segment. The expenses decreased by EUR 1.1 million compared to 2016.

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

Table 2: Premium, claims and expenses of the Company by major insurance segments for solvency purposes in 2017 and 2016

	In EUR thousands	
	2017	2016
Gross written premiums from insurance and co-insurance contracts	**621,972**	**593,129**
- **Non-life insurance including health insurance**	**475,519**	**449,820**
-- Motor vehicle liability insurance (LoB 4)	84,651	84,668
-- Other motor vehicle insurance (LoB 5)	106,609	97,783
-- Fire insurance and other damage to property insurance (LoB 7)	137,353	125,555
-- Other non-life insurance segments	146,905	141,814
- Life insurance	**146,453**	**143,309**
-- Insurance with profit participation (LoB 30)	56,542	58,664
-- Index-linked and unit-linked insurance (LoB 31)	83,869	79,664
-- Other life insurance (LoB 32)	6,042	4,981
-- Annuities from non-life insurance contracts (LoB 34)	0	0
Gross claims incurred	**405,021**	**369,242**
- **Non-life insurance including health insurance**	**240,386**	**214,245**
-- Motor vehicle liability insurance (LoB 4)	42,897	37,794
-- Other motor vehicle insurance (LoB 5)	72,187	69,215
-- Fire insurance and other damage to property insurance (LoB 7)	75,854	53,212
-- Other non-life insurance segments	49,448	54,024
- Life insurance	**164,636**	**154,997**
-- Insurance with profit participation (LoB 30)	68,534	73,650
-- Index-linked and unit-linked insurance (LoB 31)	90,441	78,162
-- Other life insurance (LoB 32)	1,251	585
-- Annuities from non-life insurance contracts (LoB 34)	4,410	2,600
Expenses	**164,414**	**165,497**
- **Non-life insurance including health insurance**	**136,764**	**137,588**

-- Motor vehicle liability insurance (LoB 4)	22,128	26,656
-- Other motor vehicle insurance (LoB 5)	27,180	26,144
-- Fire insurance and other damage to property insurance (LoB 7)	43,060	41,191
-- Other non-life insurance segments	44,397	43,598
- Life insurance	**27,650**	**27,909**
-- Insurance with profit participation (LoB 30)	9,799	10,668
-- Index-linked and unit-linked insurance (LoB 31)	15,233	14,796
-- Other life insurance (LoB 32)	2,568	2,394
-- Annuities from non-life insurance contracts (LoB 34)	50	51
- Other expenses	**4,769**	**8,476**

The Company operates mainly in the territory of the Republic of Slovenia and sells life insurance exclusively in Slovenia. More than 98% of premium income is generated in the home country where the Company pays more than 99% of total claims. The above percentages did not change significantly compared to last year.

Table 3: Geographic distribution of the premium and claims of the Company in 2017 and 2016

	In EUR thousands	
Geographic distribution of the premium and claims	2017	2016
Gross written premiums from insurance and co-insurance contracts	**621,972**	**593,129**
- Slovenia	610,351	592,360
- Other countries	11,621	768
Claims paid	**405,021**	**369,242**
- Slovenia	404,873	369,140
- Other countries	148	102

Detailed quantitative data on the Company's operations subject to the geographic distribution is shown in template QRT S.05.02 in Annex 3 to this Report.

A.3 Investment performance

The investment result depends strongly on the structure of the Company's investments and the developments on capital markets. The Company's investments are conservative, mostly including debt securities that are closely tied to liabilities. This chapter presents the Company's investment result broken down by the contribution of individual investment classes. A comparison with the investment result is provided that was published by the Company last year. The Company also published its investment result in its financial statements that are published on the Company's official website (http://www.triglav.eu).

The investment result (taking into account unit-linked life insurance contracts) in 2017 is higher than the one in 2016. 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" item presents income from default interest on receivables and interest expenses. The lower interest income was compensated by higher dividend income arising mostly from dividends received from subsidiaries. The higher average exposure to collective investment undertakings during the year leads to a comparably higher dividend yield than in 2016. The Net profits or losses item comprises changes in the fair value of assets classified as "through profit or loss", gains and losses from sale and permanent impairments. The item is higher compared to last year, as well as the contributions of individual investment classes which are also significantly different than last year. The biggest increase in the item can be observed in the collective investment undertaking class. Collective investment undertakings that cover unit-linked insurance are generally classified into the financial reporting category of "through profit or loss". The positive developments on stock markets in 2017 and the sale of a significant portion of investments from this class resulted in higher profits from these items. The fact that the EUR interest rate stopped falling and increased slightly had a positive impact on the financial reporting effect of hedging instruments compared to the year before. The lower government bond and share portfolio turnover resulted in lower realisation in these segments. The effect of stock market growth is thus hidden in the increase in unrealised gains. The slow rise in interest rates and moderate realisation decreased the level of unrealised gains in the bond segment. The "Unrealised gains and losses" category relates only to investments classified as "available for sale" and represents the change in the surplus from revaluation in the period. Owing to the positive conditions on financial markets in 2017, no major impairments of investments were required. Other financial income (the major portion of this amount is represented by exchange rate differences) lagged significantly from the results in the previous year. The leasing result remains unchanged in year 2017.

Table 4: Performance of the Company's investment activities for financial reporting purposes in 2017 and 2016

2017 In EUR thousands

Investment performance	Net interest	Dividends	Net profit or loss	Other net financial income	Unrealised gains and losses	Rents
Financial asset	**43,953**	**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 undertaking	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

2016 In EUR thousands

Investment performance	Interest	Dividends	Net profit or loss	Other financial income	Unrealised gains and losses	Rents
Financial asset	**47,831**	**2,430**	**38,017**	**-2,332**	**22,190**	**4,760**
Real estate	0	0	112	0	0	4,760
Shares	0	2,352	7,317	0	-522	0

Government bonds	19,616	0	9,357	0	3,731	0
Corporate bonds	21,632	0	8,099	0	15,307	0
Collective investment undertaking	0	78	20,063	0	3,130	0
Loans	1,784	0	0	0	544	0
Deposits, cash and cash equivalents	3	0	0	0	0	0
Derivatives	0	0	-6,931	0	0	0
Other	4,725	0	0	-2,332	0	0

The Company has no investments in securitized products.

A.4 Performance of other activities

A.4.1 Other income and expenses

As at 31 December 2017, other income of the Company amounted to EUR 32.9 million, the majority of which came from other insurance income. These mostly comprise of other income from insurance operations and Green Card insurance sale income. The values of this item at the Company level did not change materially compared to last year.

The Company's other expenses in 2017 amounted to EUR 20.3 million. Fire tax, fee and commission expenses and other expenses accounted for the bulk of the abovementioned amount. The structure and value of the Company's other expenses did not change materially compared to last year.

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

Table 5: Other income and expenses of the Company for financial reporting purposes in 2017 and 2016

	In EUR thousands	
	2017	2016
Other income	**32,890**	**31,806**
- other insurance income	21,939	19,160
- other income	10,951	12,646
Other expenses	**20,300**	**20,620**
- other insurance expenses	6,981	8,476
- other expenses	13,320	12,144

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 48.2 million, EUR 41.5 million worth of properties are leased (properties intended for sale account for the difference), generating an annual leasing income of EUR 4.6 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 amount to EUR 2.8 million, 34% of which are the costs of leasing business premises and parking spaces. All lease agreements are operating lease agreements, meaning that all cost effects are shown as leasing costs and have no impact on the value of the underlying asset.

A.5 Other information

EVENTS IN 2018

Based on the announced activities of EIOPA3 regarding the change of the standard formula, mainly in the part for the determination of the adjustment for the loss-absorbing capacity of deferred taxes and based on the additionally established different practices of insurance companies in their calculation, the Company adjusted the methodology for the calculation of capital adequacy for the first time on 31 December 2017 for the Company and the Group. Following the expert analyses performed in cooperation with external advisers, the Company's view is that regulatory and subsequently operational risk would increase excessively if the current methodology were kept and if the standard formula were changed as announced.

The Company thus more conservatively assesses the amount of the adjustment for deferred taxes thus increasing the solvency capital requirement. The effect on capital adequacy is outlined in section E of this Report. In March of 2018, the Company correspondingly adjusted the objectives related to capital management and the dividend policy. The target capital adequacy is set between 200 and 250% (pursuant to the former calculation methodology, it was set at between 250 and 300%). A detailed presentation of the capital management policy is provided section E of this Report.

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

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

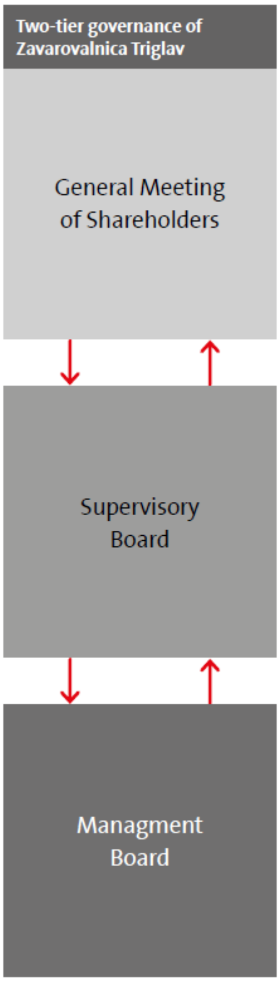
Section B

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. It operates in accordance with the laws and other regulations, the Articles of Association and the various 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. They are directly subordinated to the Management Board and organised with the aim of providing with appropriate internal supervisory mechanisms. They operate in line with the structure of the three lines of defence within the Company's system of governance.

All key functions cooperate with one another and regularly exchange information required for their respective operation. The responsibilities for the performance of tasks, processes and 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 Zavarovalnica Triglav

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 jointly represented and presented in legal transactions by the two Management Board members, i.e. the President and member.

The most important competences 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 as well as reporting to the Supervisory Board on the performance of both the Company and the Group.

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

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

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

	member	- Life Insurance Development and Actuarial Department - Health and Pension Insurance Division - Money Laundering Prevention Division
Marica Makoter	Management Board member - Workers' Director	- 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 Central Securities Clearing Corporation (KDD) as the holder of the shares at the end of the fourth day prior to the General Meeting session may participate in the General Meeting of Shareholders. They may exercise their voting right provided if 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 vested in the holders by the shares as well as the notes on restrictions regarding the transfer and attainment of the qualifying share are presented in detail in the business section of the Group's and Company's annual reports for 2017, i.e. 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-elected 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 the Company’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 real estate. The Supervisory Board grants its consent to the appointment and dismissal of the Internal Audit Department Director.

In 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 of the supervision of the Company, verifies annual and other financial reports of the Company and 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 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 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 is responsible for the functioning of the three lines of defence system within the risk management system and control processes.

The Supervisory Board decides with the majority of the votes cast by the members present.

In 2017, the composition of the Supervisory Board changed whereby the terms of office of Supervisory Board members who act as shareholders' representatives, Dr. Dubravko Štimac, Dr. Mario Gobbo, Rok Kastelic, Rajko Stanković and Matija Blažič, expired on 12 June 2017. The General Meeting of Shareholders appointed the following to the position of Supervisory Board member for a 4-year term of office that began on 13 June 2017: Nataša Damjanovič, Dr. Mario Gobbo, Žiga Škerjanec, Andrej Andoljšek and Milan Tomaževič.

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

Supervisory Board member	Function	Competences
Igor Stebernak	Chairman, shareholders' representative	Appointments and Remuneration Committee
Nataša Damjanovič	member, shareholders' representative	Audit Committee, Appointments and Remuneration Committee
Žiga Škerjanec	member, shareholders' representative	Appointments and Remuneration Committee, Strategic Committee
Dr. Mario Gobbo	member, shareholders' representative	Audit Committee
Andrej Andoljšek	Vice Chairman, shareholders' representative	Strategic Committee
Milan Tomaževič	member, shareholders' representative	Strategic Committee
Ivan Sotošek	member, workers' representative	Audit Committee
Boštjan Molan	member, workers' representative	Appointments and Remuneration Committee
Peter Celar	member, workers' representative	Strategic Committee

SUPERVISORY BOARD COMMITTEES

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

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

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

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

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

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

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

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

B.1.2 Remuneration policy

The remuneration policy is implemented to ensure the realisation of a solid and reliable system of governance as well as ensuring the integrity and transparency of its 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 retirement 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 is stipulated for each group.

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 of management employees and other employees working under individual agreements is set by the Management Board subject to 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 for each group is limited on 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 its difficulty. 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 subject to 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 joint the collective supplementary pension insurance (SVPI) 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 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 onwards 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;
- Supervisory Board members.

The only materially significant transaction in 2017 was the distribution of dividends. In 2017, the Company paid out dividends for 2016 in the total amount of EUR 56.8 million. The Pension and Disability Insurance Institute of Slovenia received EUR 19.5 million and the Slovenian Sovereign Holding received EUR 16 million.

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

B.2 Fit and property assessment policy

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

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

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

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

THE HOLDER OF THE ACTUARIAL FUNCTION must possess 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 full membership in a full member of the International Actuarial Association – IAA and must have performed the actuarial function and tasks of a certified actuary on a comparable portfolio for at least the last two years prior to certification;

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

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

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

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

B.3.1 Description of the risk management system

The risk management system is a set of rules, powers, responsibilities and activities established by the Company with the aim of risk underwriting at all levels being performed in accordance with the set strategic goals and with the aim of the main risks being suitably identified, assessed or measured, managed and monitored. A part of this system also involves the assurance that information on the assessments performed are provided to all stakeholders who require such information to perform their work better. In order to ensure effective functioning of the risk management system, it is very important to build a suitable corporate culture, mainly in terms of knowledge, cooperation and open communication on the risks. The Company's management team plays an important role in this regard.

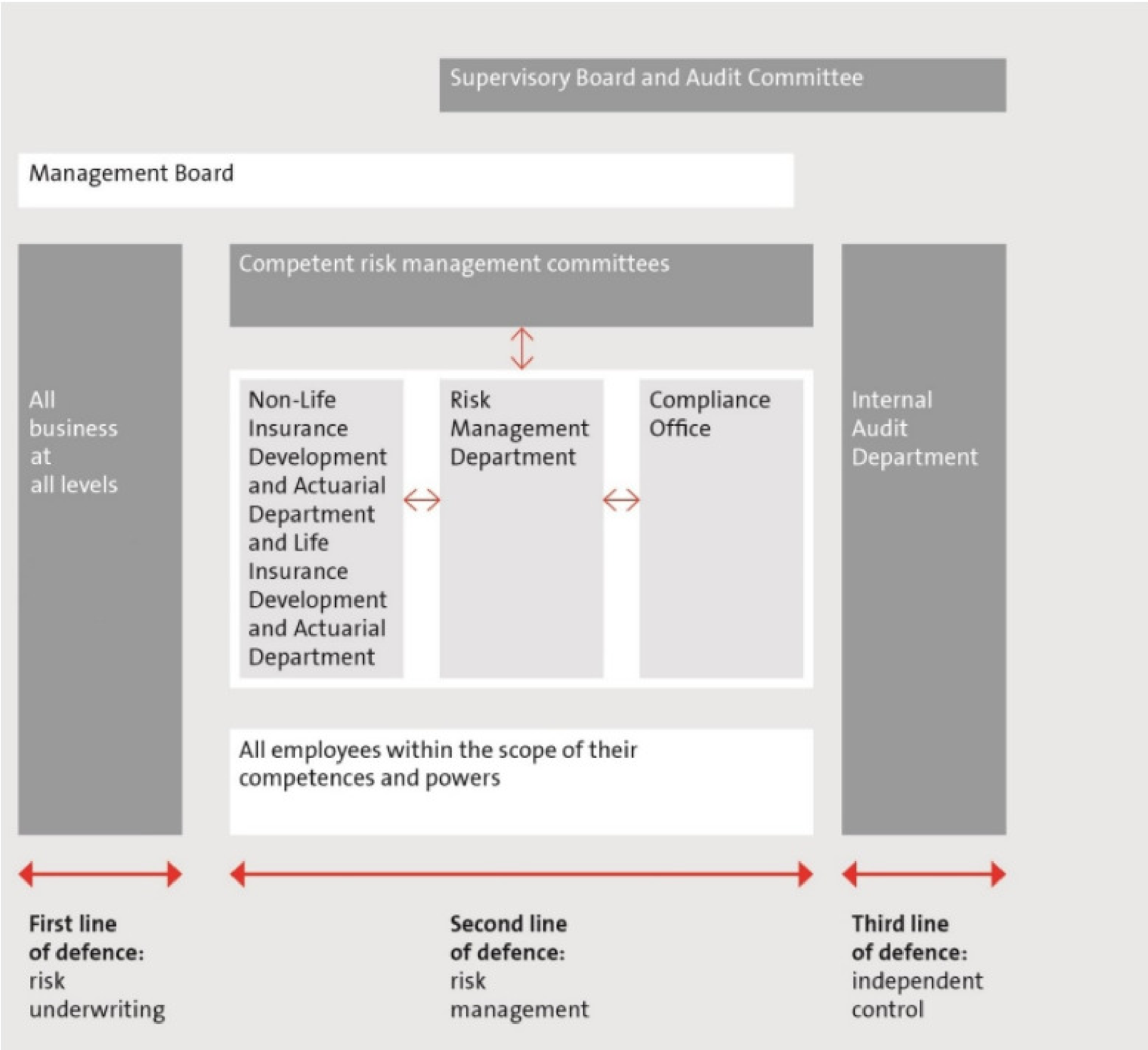
Risk management involves activities that use risk identification to ensure oversight of underwritten and potential risks and enable such risk management that ensures the risk profile within the risk appetite to remain within certain levels:

- avoidance of risks in functional areas that are unacceptable because of the excessive level of risk to the Company;

- underwriting of risks in areas where a balanced ratio between the costs of underwritten risks and returns is expected;
- limitation and mitigation of risks to an acceptable level through the setting of limits;
- risk transfer and hedging.

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

Figure 2: System of risk management 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 reviews of the effectiveness of the internal control environment in individual functional areas as well as the effectiveness of the risk management system.

The objective of the comprehensive risk management system, i.e. the essential part of the governance system at the Company, is to ensure the realisation of strategic goals, mission and vision.

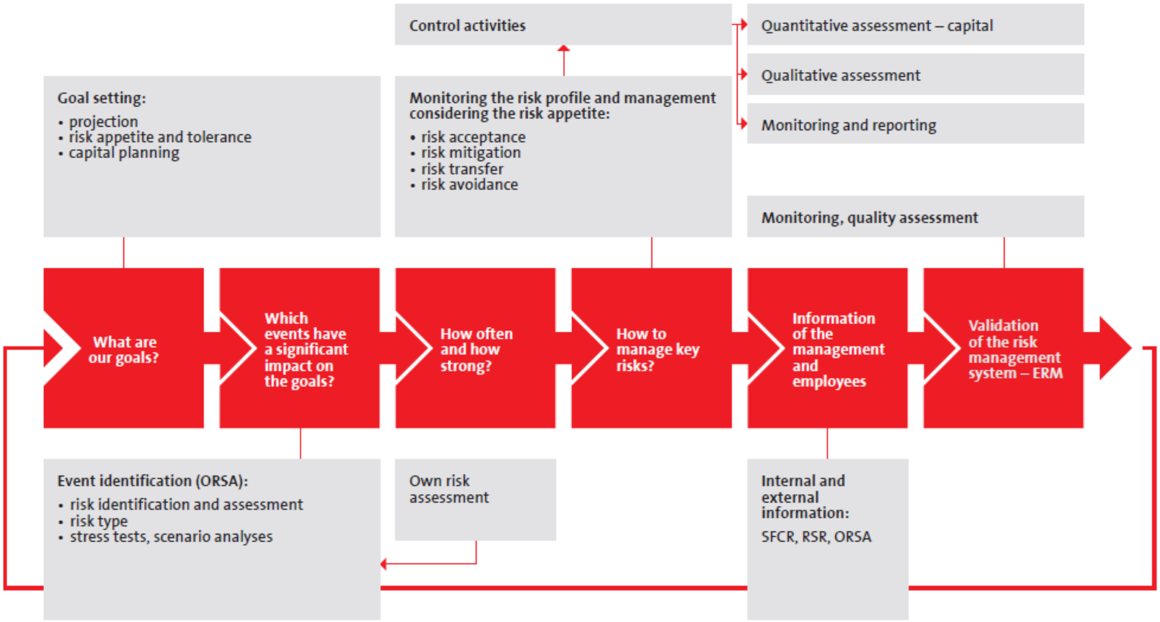
The Company has determined a certain level of risks (Risk Appetite) measured from the point of view of potential loss that it is still willing to accept in the course of its business operations so as to attain the set business objectives and strategic goals.

The Company has put in place a risk management system that is based on basic building blocks. These are 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 process consists of:
- 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 risk-taking objectives, taking into account the guidelines from the defined risk appetite, and establishment of a limit system on the basis of the risk appetite;
- control over the taking of risks arising from Company operations;
- risk management in a manner that ensures compliance with the strategy and the defined restrictions;
- risk profile monitoring using internal methodologies;
- regular reporting and
- taking action in the event of identified deviations and adverse 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 events that could have a negative impact on the operating performance of the Company are identified in the process of planning strategic guidelines and objectives, especially those affecting the achievement of the Company's planned key indicators and guidelines. For those kind of events, the financial effect and the effect on capital adequacy are assessed within the scope of the own risk and solvency assessment.

The Company regularly monitors and reports on the more important events, whereby risk management system committees are actively involved in the monitoring of assessed material risks as they task the competent parties with the performance of analyses. 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.

Prevention activities in risk management are based on the following two approaches: decomposition (e.g. product) and diversification (e.g. investment) of individual risk types. When balancing exposures, the essential measure to undertake is the setup of a suitable limit system that is adjusted by the Company subject to business opportunities to the current external events whereby it always stays within the boundaries of the defined risk appetite.

In order to achieve effective integrated risk management, the Company observes the transparency requirement as well as the principle of optimum risk vs. return management, the cost benefit principle and the objective of ensuring liquidity.

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

The risk management strategy and the risk appetite outline and describe the comprehensive risk management system. The risk management strategy clearly defines the principles, objectives of risk management, the process of comprehensive risk management (including the delimitation of powers and responsibilities) and provides guidelines for the underwriting of individual risk types (appetite and tolerance).

The objective of risk management at the Company is to clearly define the comprehensive risk management system so as to provide guidance on the underwriting and management of individual risk types that have been identified in advance. The Company also quantitatively defines the level to which the Group and, consequently, the Company is able and willing to expose itself to individual risk segments, taking into account its strategic goals and capital strength.

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. The Company aims to achieve optimum exposure to all material risks. 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 using indicators, which 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 have an important role in the risk management system at the Company.

Among the key functions, the risk management function stands out in its role of the holder of the risk management system. The function reports directly to the Management Board and operates 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 projects and investments. All of the above includes identification and assessment of emerging risks, active cooperation to provide for good operation of the committees that are part of the risk management system, coordination and calculation of capital requirements, process coordination and preparation of the all reports.

The risk management function holder is authorized by the Management Board with the consent of the Supervisory Board and is positioned in the organisational structure to allow them to supervise and objectively report on the implementation of tasks defined as key tasks. The risk management function holder is responsible for the implementation of supervision of the risk management function in the Company and reporting to both the Management Board and the Supervisory Board.

The risk management function holder informs all the committees included in the risk management system about any major findings. In addition, it also reports to the ISA in line with the Insurance Act and issues implementing regulations relating to the tasks of the risk management function.

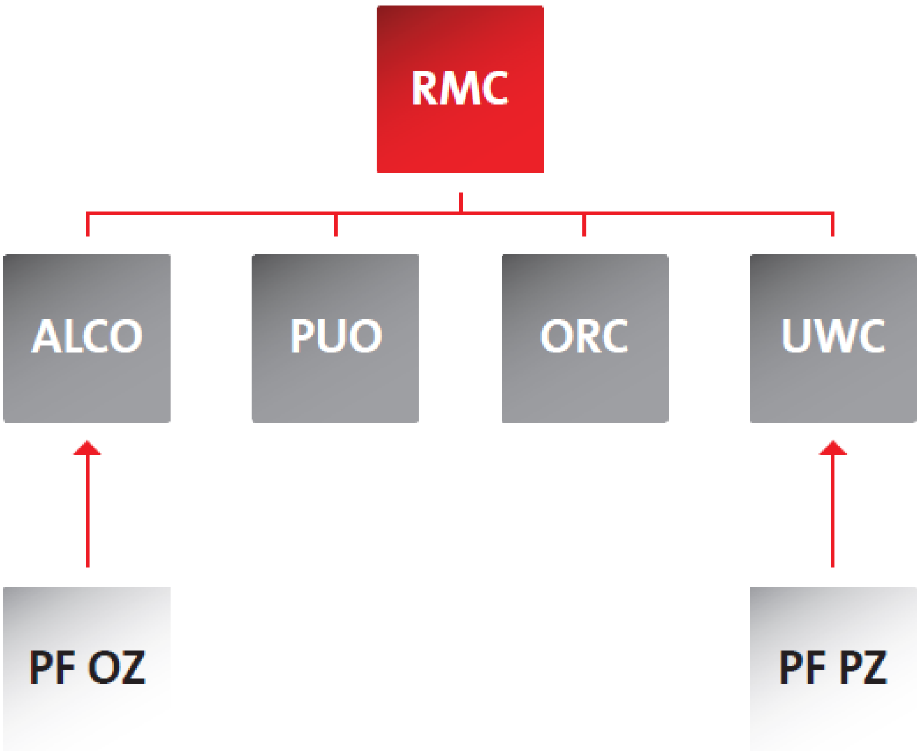
The findings and opinions of the risk management function holder are to be as far as possible objective and independent from the influence of other functional areas.

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

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 and Group members.

Figure 4: Organisational chart of the committees of the Company's risk management system as at 31 December 2017



The Risk Management Committee (RMC) is the committee of the Management Board, the fundamental objectives of which are to assist the Management Board in assessing exposure to business risks, identifying material risks and weaknesses in the internal control environment of the Company, controlling risk exposure and verifying whether risk exposure complies with the Risk Appetite of the Company. 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 committee also verifies the effectiveness of the functions that manage risk and ensures that the Company has an appropriate infrastructure in place as well as adequate resources and systems that allow for a satisfactory level of business risk management.

The Assets and Liabilities Committee (ALCO) is the committee that is primarily responsible for the monitoring of market and liquidity risk as well as life underwriting risk. The committee also monitors investment portfolio credit risk. An important objective of the committee is the creation of the 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.

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

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

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

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

B.3.5 Risk reporting system

The system regularly reports to the Company on the Company's risk profile. It prepares a standardized risk report including regulatory and internal indicators for all risk and operation segments. All divisions take part in the preparation of the report which contains comments on indicator trends and values in relation to the set limits and target values. All committees of the risk management system as well as the Management Board and the Supervisory Board discuss the risk report within their respective powers.The risk reporting system also includes the following: Annual Report, Solvency and financial condition report, Own risk and solvency assessment report, Regulatory supervisory report and reports to external stakeholders.

B.3.6 Own risk and solvency assessment process

The main purpose 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, assessment and monitoring of own risks and solvency requirements in order to use the risk assessment results in decision-making procedures at the Company and Group companies.

The solvency 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 assessments to arrive at conclusions regarding the retention or ceding/transfer of risks, optimisation of capital management, improvement of the setting of premium rates and to set up foundations for other strategic decisions.

Own risk assessment includes an assessment of the Company's current solvency requirements, as well as an assessment for the future three-year period taking into account the sensitivity analysis of the Company's capital adequacy to identified scenarios with a material effect on operations. As part of the current assessment of the Company's solvency requirements, the Company also performs an analysis of the suitability of using the standard formula in the light of the actual risk profile of the Company, including an identification and assessment of other risks not included in the standard formula. A statement is issued by the actuarial function on the appropriateness of the methodology used in the calculations of technical provisions.

The 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 the 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 the 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 Statement 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 is derived from 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 informs the Supervisory Board on the course and material findings of the ORSA process. Last year, the Company performed the ORSA process for the 2017 financial year. When implementing the ORSA process, the Company took into account all the material risks, to which it was exposed until the calculation date, as well as any potential risks that could have an impact on its operations over the next three years. The Company's capital adequacy plan which was assessed within the scope of the ORSA process was confirmed by the Company's Supervisory Board as part of the strategic plan for the 2018–2020 period. The ORSA process, including the assessment of underwritten risks, represents the basis for the Management Board's decisions on capital management in the strategic period.

B.4 Internal control system

An internal control system was set up at the Company that defines the elements of the system as well as the roles and responsibilities of the Company's employees, functions and bodies. The internal control environment at the Company is based on the fundamental values and ethical principles stipulated in the group's Code.

All business units and bodies of the Company are included in the internal control system. These are the Management Board and all the committees under the risk management system, all business and key functions of the Company, as well as all employees. Internal controls are thus performed at all organisational units and business functions as well as in all business and operational processes.

The following key rules have been defined within the Company's internal control system: the distribution of key functions, the application of the four eyes principle in the calculations, independent valuation and audit, restriction of IT access by level, and restriction of access to the property of the Company.

The Management Board adopts or 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

As part of the internal control system, the compliance function monitors the compliance of the Company with the regulations and other commitments. In this context, it assesses compliance risks and potential effects of changes in the legal environment on the operations of the Company, advises on the harmonisation and assesses the adequacy and effectiveness of the procedures and measures aimed at the harmonisation of the Company's operations with the identified changes in the legal environment. It also informs the Management Board and the Supervisory Board and/or its committees on compliance with the applicable regulations and other commitments.

The compliance function is organised within the framework of the headquarters department and is directly subordinated to the Management Board. It is not only autonomous and independent from the other business functions, but also one of the key functions in the system of governance of the Company. It is part of the second line of defence in the three-level internal control system.

The role of the compliance function is to manage the risks arising from non-compliance with legislation (compliance risks). It also plays an important role in the Company in terms of its efforts towards achieving fair and transparent conduct. The compliance function therefore advises process owners in the fulfilment of their responsibilities associated with the assurance of compliance. By providing guidelines, recommendations and by making proposals, it co-creates internal controls relating to the assurance of compliance in a specific process, business area or at the Group level. Based on regulations and other commitments, the Company assesses potential effects of changes in the legal environment on its operations. It further defines the risks of compliance with the applicable regulations and other commitments, informs the Management Board, the Supervisory Board and the Audit Committee about compliance of the operations with the applicable regulations and other commitments, including the risks arising from non-compliance of operations, as well as monitors compliance with ethical commitments and ensures their implementation in practice.

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 internal documents on the organisation, system and policy of governance and compliance.

B.5 Internal audit function

The internal audit function performs continuous and comprehensive control over the operations of the Company by reviewing and assessing the adequacy and effectiveness of the Company's governance, risk management and control procedures in an impartial, systematic and methodical manner and by making recommendations for their improvement. Apart from that, it provides advice in agreement with the Management Board and the management teams of functional areas, 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 as well as transposes the know-how and good practices to other Group companies.

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 in the functioning of the internal audit function adopted by the Management Board subject to consent from the Supervisory Board.

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) thereby enabling the internal auditors to perform internal audit activities independently and impartially. 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 internal audit function holder and internal auditors neither perform any development and operational tasks, which could cause a conflict of interest and weaken their impartiality, nor decide on activities in the areas that are subject to internal auditing.

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 findings of internal audits performed as well as on the realisation of recommendations and effectiveness of risk management and control procedures in the audited areas:

- to the Management Board to maintain independence from other functional areas or functions at the Company;
- to the Audit Committee and the Supervisory Board, thereby strengthening the independence from the Management Board.

The function holder is also obliged to inform the Management Board, the Audit Committee and the Supervisory Board of any limitation of the funds required for the execution of the risk-based internal audit plan and on the occurrence of any circumstances that could cause a conflict of interest, thereby affecting the impartiality of internal auditors when performing their work.

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. It operates autonomously and independently of the other business functions.

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

The key tasks of the actuarial function are as follows: the coordination and performance of calculations of technical provisions; ensuring that appropriate methods, models and assumptions are used in the calculations of technical provisions; assessment of the suitability, adequacy and quality of the data used in the calculations of technical provisions; 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; verification of the adequacy of reinsurance; and participation in the ORSA at the level of the Company. The actuarial function is also tasked with the coordination and calculation of the capital requirements for underwriting risks.

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 holder is authorised for the supervision and impartial reporting on the performance of actuarial tasks. The actuarial function holder reports regularly on the work performed by the function to the Company's Management Board and Supervisory Board. They also report regularly on major findings to RMC, ALCO and UWC, and perform the tasks delegated by the said committees. As appropriate, they also work with other committees that are part of the risk management system.

B.7 Outsourcing

Pursuant to the requirements of the act governing the insurance business, the Company has set up all 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 greater detail in the agreement itself or the service-level agreement concluded between the person in charge and the provider of an individual Outsourced Operation. The service providers are subject to the same level of supervision by the supervisory bodies of the Company as the Company itself and are obliged to comply with all the regulations applying to the Company in its operations. 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 provide guidelines regarding the performance of the outsourced service.

Special attention with respect to outsourcing is paid by the Company to the risks arising from an Outsourced Operation or the Outsourced Operation provider. These risks are considered by the Company both in deciding 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 regularly, 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 the management of the assets of two guarantee funds to a subsidiary specialised for the management of assets and investment funds. The Company performs eleven Outsourced Operations within the Group which 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. It is adjusted to the legislative requirements. Adequacy is confirmed by the findings of regular internal audits of the system of governance.

Section C

Risk profile

C. Risk profile

The Company monitors and manages risks arising from its operations in accordance with the process described in section B of this Report. In order to ensure adequate familiarity with the risk profile, the Company has risk exposures and rates in place for each risk type that help in assessing the level of 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 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 is calculated by the Company in accordance with the standard formula defined in the Commission Delegated Regulation[4] that is used below as the standard formula.

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

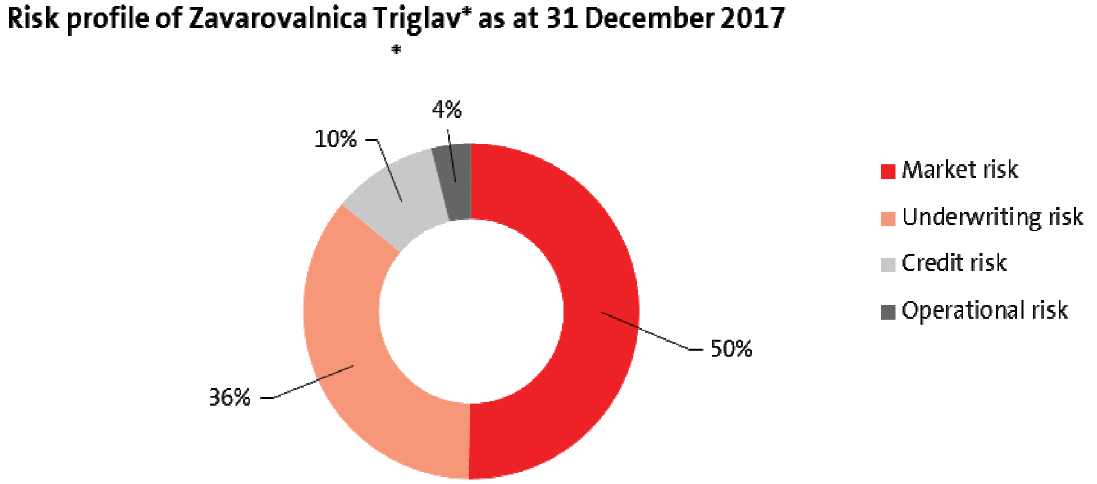
The Company applies the standard formula to calculate the capital requirement for the entire Company, i.e. for:

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

As at the end of 2017, the capital requirement, which does not take into account mutual risk effects (i.e. diversification), amounted to EUR 504 million for the abovementioned four risks.

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

Chart 3: Presentation of the non-diversified capital requirement for Company risks as at 31 December 2017



* non-diversified value of the SCR for risks underwritten by Zavarovalnica Triglav using the standard formula

The Company has formed two ring-fenced funds, i.e. PDPZ and PDPZ renta, for which risks are calculated separately for each risk category under the standard formula. The above chart applies the simplification at risk module level method and also takes into account the risks of the ring-fenced funds that contribute EUR 16.5 million to the overall capital requirements of the Company. The method is presented in more detail in section E.1 of this Report.

In addition to the risks, for which the Company calculates capital adequacy under the standard formula, the Company also monitors liquidity and other risks.

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

C.1 Underwriting risks

Underwriting risk is the risk of loss or of adverse change in the value of underwriting liabilities due to inadequate pricing (premiums) and assumptions taken into account in the calculation of technical provisions. The Company assumes underwriting risks when concluding insurance transactions.

The main objective of underwriting risk management is to achieve and maintain such quality of the portfolio that provides for stable and safe operations while maximising return. Every type of insurance has its own specific underwriting risks, which the Company suitably identifies and manages. 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 2017, underwriting risk accounted for 35% of the non-diversified capital requirement for the risks arising from the Company's portfolio, which in turn represents EUR 177.3 million.

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

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

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

C.1.1 Non-life and health insurance

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

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

Lapse risk

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

Catastrophe risk

Catastrophe risk under non-life and health insurance arises 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. It may also arise as a result of a correlation between individual insurance classes. This risk represents the risk of a single loss event with a loss potential that is materially higher than the estimated average incurred claims at the Company.

In order to calculate the capital requirement for risks under non-life and health insurance, the Company applies the standard formula. As at 31 December 2017, it represents 25% of the non-diversified capital requirement for the risks in the Company's portfolio.

Table 6: Company's capital requirement for underwriting risks under non-life insurance for 2017 and 2016

In EUR thousands

	2017	2016
Premium and reserve risks	85,147	84,685
Lapse risk	15,753	14,155
Catastrophe risk	31,294	29,186
Diversification	-33,149	-30,766
Non-life underwriting risk	**99,044**	**97,260**

Table 7: Company's capital requirement for underwriting risks under health insurance for 2017 and 2016

In EUR thousands

	2017	2016
Premium and reserve risks	24,736	23,729
Lapse risk	5,664	1,054
Catastrophe risk	2,854	2,925
Diversification	-1,999	-2,030
Health underwriting risk	**26,240**	**24,646**

The capital requirement increased in 2017 mainly on account of insurance portfolio growth. The increase in catastrophe risk under non-life insurance is partly also the result of the increase in natural disaster risk. That risk increased because of the increase in portfolio exposure to the underwritten perils as well as the change in the structure of reinsurance protection.

Risk exposure

The Company is most exposed to premium risk in the other motor vehicle insurance segment. The exposure of the volume measure for premium risk ranges in accordance with the net earned premium that increased at the Company by EUR 9.5 million compared to last year. Details on the net earned premium of the Company as at 31 December 2017 are shown in template QRT S.05.01 in Annex 2 to this Report.

Table 8: Exposure measured as net earned premium of the Company for underwriting risks under non-life and health insurance for 2017 and 2016

	In EUR thousands	
	2017	2016
Net earned premium	**374,947**	**365,426**
- Other motor vehicle insurance	94,286	86,862
- Fire insurance and other damage to property insurance	81,832	82,268
- Motor vehicle liability insurance	78,162	79,194
- Income protection insurance	54,014	54,949
- General liability insurance	24,034	22,271
- other insurance segments	42,619	39,882

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 claims provisions that increased at the Company by EUR 10.1 million compared to last year. Details on the net claims provisions of the Company as at 31 December 2017 are shown in template QRT S.17.01 in Annex 5 to this Report.

Table 9: Exposure of the Company's volume measure for reserve risk for underwriting risks under non-life and health insurance for 2017 and 2016

	In EUR thousands	
	2017	2016
Net claims provisions	**183,552**	**173,548**
- Motor vehicle liability insurance	65,336	66,273
- General liability insurance	40,517	41,912
- Fire insurance and other damage to property insurance	24,969	16,220
- Other motor vehicle insurance	14,007	12,653
- other insurance segments	38,723	36,490

Catastrophe exposures stem mainly from credit and surety insurance as well as insurance of property damage that may result from 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. Even the occurrence of such an event in a particular segment of operations may have a material effect on the ability to meet liabilities. When managing concentration risk, 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 transferred 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 own actuarial analyses and the standard formula as well as external models for the level of natural disaster risk.

Sensitivity

The Company performs sensitivity tests regularly in order to ensure 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 rise by 1 pp.

C.1.2 Life insurance

Under life insurance, the Company underwrites the risks of mortality, longevity, disability and morbidity, expenses, lapse, revision of conditions and catastrophes under life insurance.
Exposure to individual life underwriting risks is measured based on the best estimate of provisions under the policies, which are negatively affected by this risk, meaning that it increases liabilities arising from such policies.

The 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. Risks of these portfolios are measured without any diversification effects between the remainder of the portfolio and the two ring-fenced funds recognized in the Company.

The capital requirement for life insurance risk as at 31 December 2017 represents 11% of the non-diversified capital requirement for the risks arising from the Company's portfolio.

Mortality risk

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

Longevity risk

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

Disability and morbidity risk

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

Expense risk under life insurance

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

Lapse risk

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

Revision risk

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

Catastrophe risk under life insurance

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

Table 10: Company's capital requirement for underwriting risks under life insurance for 2017 and 2016

In EUR thousands

	2017	2016
Mortality risk	5,337	5,528
Longevity risk	10,475	10,890
Disability and morbidity risk	289	318
Lapse risk	18,846	16,908
Expense risk	20,817	21,080
Revision risk	1,122	1,568
Catastrophe risk	3,415	3,255
Diversification	-8,259	-8,454
Life underwriting risk	**52,041**	**51,094**

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

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

Risk exposure

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

Table 11: Company's exposure to underwriting risks under life insurance for 2017 and 2016

In EUR thousands

	2017	2016
Mortality risk	1,170,220	1,190,391
Longevity risk	1,215,364	1,252,462
Disability and morbidity risk	17,383	16,393
Lapse risk	1,090,140	1,114,290
Expense risk	1,225,215	1,262,279
Revision risk	45,139	62,071
Catastrophe risk	1,092,555	1,117,707
Exposure to life underwriting risk	**5,856,016**	**6,015,593**

Mortality risk

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. The Company calculates liabilities under such insurance using mortality rates that represent the probability of death of an individual beneficiary subject to their gender, age and risk class (depending on the insured person's health status and lifestyle).

Longevity risk

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

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

Disability and morbidity risk

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

Expense risk

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

Lapse risk

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

Revision risk

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.

Catastrophe risk under life insurance

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

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 the pool of underwritten risks is beneficial to matching of the risks.

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

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

Risk mitigation techniques

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

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

Risk monitoring is performed regularly using the analysis of portfolio mortality, morbidity and market practices. The result of these analyses is also 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 risks are managed suitably.

Table 12: Company's life insurance portfolio sensitivity test as at 31 December 2017

In percentage points (pp)

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

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

C.2 Market risk

The investment of the collected premium and own funds of 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. 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 that can negatively affect the Company's financial standing. The Company identifies the following types of market risk:

- THE RISK OF CHANGES IN INTEREST RATES or INTEREST RATE RISK is the risk of loss due to changes in interest rates that affect the value of interest rate sensitive items of assets and liabilities. The main elements include the repricing gap, the yield curve shift, the basis risk and the embedded options of interest rate sensitive items.

- THE RISK OF CHANGES IN THE PRICE OF EQUITIES or EQUITY RISK refers to the sensitivity of the value of assets and liabilities to adverse changes in the values or volatility of the market prices of equities.

- PROPERTY RISK refers to the sensitivity of the value of assets and liabilities to adverse changes in the market prices of real estate.

- THE RISK OF CHANGES IN CREDIT SPREADS or SPREAD RISK refers to the sensitivity of the value of assets and liabilities to adverse changes in credit spreads. The main elements of spread risk are the level and volatility of credit spreads over the term structure of the risk-free rate.

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

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

Table 13: Company's capital requirement for market risks in 2017 and 2016

In EUR thousands

	2017	2016
Interest rate risk	28,588	25,586
Equity risk	109,361	120,192
Property risk	31,821	29,547
Spread risk	109,209	101,085
FX risk	12,337	16,460
Concentration risk	8,336	20,151
Diversification	-48,117	-59,733
Market risk	**251,536**	**253,288**

As at 31 December 2017, market risk accounted for 50% of the non-diversified capital requirement for the risks arising from the Company's portfolio.

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

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 14: Company's exposure to market risk as at 31 December 2017 and 31 December 2016

In EUR thousands

Company's exposure to market risk	2017	2016
Own real estate	64,442	69,156
Investment property	57,914	49,033
Investments in subsidiaries	323,668	339,392
Shares	71,615	52,793
Bonds	1,509,064	1,466,458
- Government bonds	671,143	659,743
- Corporate bonds	828,033	789,097
Investments in investment funds	51,888	83,231
Derivatives	1,871	1,423
Deposits other than cash and cash equivalents	10,495	20,007
Other financial assets	1,680	1,700

INTEREST RATE risk is decreased to a large extent by the opposite 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 through ALM activities and it also exploits the fact that the life and non-life insurance segments represent natural mutual safeguards for the two segments at the Company as they have distinctly different tenors of liabilities. The capital requirement for the Company's interest rate risk increased slightly compared to last year. This increase was brought about among others by the tenor of assets, mainly in the government bond segment, and the method of the calculation of the capital requirement for interest rate risk under the standard formula – a higher baseline interest rate curve results in a higher move of the curve in a stress scenario.

The SPREAD RISK represents an important source of returns generated by the Company through bond portfolio management. The Company increased its exposure to bond investments by somewhat over EUR 42 million compared to last year. The increase in exposure is observable mainly in the corporate bond segment, i.e. EUR 39 million. It also increased exposure to interest rate risk by somewhat less than EUR 9 million, which it did through investments into undertakings for collective investment in bonds. The credit rating structure of the Company's bond portfolio remains nearly unchanged to year 2016; however, A-rated and higher-rated investments saw a slight rise, as did the unrated investments. The duration of the corporate bond portfolio increased compared to last year by approx. three months. The increase in the amount of the exposure to corporate bonds coupled with the extension of the average duration of this segment is the main factor for this year’s increase in the capital requirement for the coverage of spread risk. The Company considers the bonds, which are issued by the governments from the EEA and not denominated in the currency of the issuer country, to be ordinary corporate bonds for capital requirement purposes. Only assets are exposed to spread risk because liabilities are valued according to the risk-free interest rate curve. All assets and liabilities, the value of which depends on the change in the interest rate or more precisely of the part of the interest rate that the investor is compensated for because they are assuming credit risk, are exposed to interest rate risk. These are mainly bonds, loans and deposits.

Investments, the value of which is sensitive to a change in the level or volatility of stock market values, are exposed to equity risk. These are mainly stocks, undertakings for collective investment into shares and derivatives associated with stock markets. An important part of the 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 also for diversification purposes. Owing to the winding up of Salnal, d.o.o. under the fast-track procedure, the Company took over its most important investment in 2017. The investment was divided into two parts, i.e. Geoplin, d.o.o. and Plinhold, d.o.o.. The Company classified them as ordinary portfolio unlisted equity investments. This transaction contributed the most to the decrease in the value of investments in subsidiaries and the simultaneous increase in the value of unlisted equity investments. The Company significantly reduced its exposure to collective investment undertakings in 2017 that are exposed to equities risk. The capital requirement for the coverage of the equities risk subsequently decreased compared to last year.

The property risk arises from investment properties, own real estate and property, plant and equipment of the Company. At the end of 2017, the Company carried out a valuation of the real estate portfolio. The increase in the capital requirement for property risk is to a large extent the result of the revaluation of the real estate portfolio.

The Company's **FX (currency) risk** arises from the mismatched asset and liability FX positions. The Company's liabilities are entirely denominated in euros. The Company pursues the policy of currency matching and invests the majority of its assets into euro-denominated investments. The capital requirement for FX risk is derived mainly from USD-denominated bonds (total value exposure of EUR 17.6 million) and non-euro investments through collective investment undertakings with a global and non-European geographic orientation. Both sources of risk decreased in year 2017, which is why the capital requirement for FX risk decreased compared to last year.

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 later 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 basis for the limit system is the standard formula with threshold amounts subject to the credit rating. The biggest exposure to a single issuer is represented by the exposure to the Republic of Slovenia. Exposures where the threshold value for concentration risk according to the standard formula is exceeded are mainly the exposures to non-strategic associates in the Triglav Group and strategic financial undertakings that are not fully consolidated for solvency purposes. The winding up of Salnal, d.o.o. caused a decrease in the capital requirement for concentration risk in year 2017. The decrease in the concentration of investments in certain local banks also had a positive effect on the decrease of the capital requirement.

Risk mitigation techniques

In addition to the adequately diversified investment portfolio, the Company also used various derivative financial instruments as risk mitigation techniques. Derivatives are only used when they enable additional flexibility in assets management and for the achievement of effects that would be more difficult to achieve without the use of those type of instruments.

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

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.

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 2017, 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 2017 shows how the solvency ratio would change under individual isolated market scenarios.

Table 15: Effect of individual market scenarios on the Company's solvency ratio as at 31 December 2017

In percentage points (pp)

Market shocks to the Company's portfolio	**Change in the solvency ratio**
Effect of a decrease in interest rates	-9 %
Effect of a drop in the prices of equities	-33 %
Effect of a drop in the value of real estate	-10 %
Effect of an increase in spreads	-33 %
Effect of a drop in the value of a foreign currency	-4 %

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

C.3 Credit risk

Credit risk is defined as the risk of loss resulting from the debtor's inability to meet their financial or contractual obligations in part or in full for any reason whatsoever. It is defined as the risk of loss or adverse change in the financial standing of the Company resulting from fluctuations in the credit standing of counterparties and eventual debtors, to which the insurance undertakings are exposed through counterparty risk and concentration risk.

Credit risk is defined at the Company as the risk of loss or adverse change in the value of assets or the increase in the Company's capital requirement resulting from unexpected changes in the credit rating or solvency of a counterparty. Credit risk is divided into type 1 and type 2 credit risk subject to the counterparty. The Company limits its exposure to credit risk by ensuring that this exposure never exceeds 15 percent of the available economic capital for solvency purposes given the target solvency position.

Table 16: Company's capital requirement for credit risks in 2017 and 2016

In EUR thousands

	2017	2016
Type 1	42,560	38,814
Type 2	3.189	1,955
Diversification	4,534	-468
Credit Risk	**50,283**	**40,301**

In order to calculate the capital requirement for credit risks, the Company applies the standard formula. As at 31 December 2017, it represents 10% of the non-diversified capital requirement for the risks in the Company's portfolio.

The capital requirement for type 1 risk increased in the reporting period because of the higher exposure to the reinsurer as a result of the transfer of underwriting catastrophe risk from potential high claims under the aviation scenario. The value of diversification also changed materially compared to last year. It increased and is positive because of the method for the calculation of the Company's capital requirement when the ring-fenced funds are taken into account (details are available in section E.2 of this Report). Because the sum of the capital requirements for both of the ring-fenced funds is greater than the effect of diversification on the remaining part, the diversification effect for the Company is positive.

Capital requirements are calculated at the level of the entire Company whereby the capital requirements for the ring-fenced funds are added without diversification to the capital requirements for the remainder of the portfolio. As at 31 December 2017, the capital requirement for credit risks from both ring-fenced funds amounted to EUR 5.3 million.

Risk exposure

Exposure to type 1 credit risk includes risks resulting from non-diversified exposures to a counterparty with a credit rating. These exposures represent exposures to reinsurance companies and banks.

Exposure to type 2 credit risk includes risks resulting from non-diversified exposures to a counterparty without a credit rating. These exposures of the Company represent receivables from direct insurance operations and other past-due receivables.

Concentration risk

The Company monitors and measures concentration risk by taking into account the exposures to an individual segment of the operations, counterparty and its credit rating, sector and 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 the 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 underwriting risks, assurance of credit quality and diversification of the investment portfolio, and the management of exposures arising from reinsurance, non-payment of premiums and recourse.

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 with a suitable credit rating, through a professional analysis of the counterparty's 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.

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 purposes 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 the counterparty's creditworthiness where the Company relies on a robustly established process that is based on credit ratings from recognised rating agencies. The adequacy of the reinsurers' credit ratings is defined and monitored by the Company subject to criteria of the S&P ratings agency in order to achieve and maintain the Company's A rating.

Sensitivity

The Company regularly analyses credit risk sensitivity. Exposure to credit risk resulting from the Company's reinsurance comes almost entirely from operations with the subsidiary Triglav RE. As at 31 December 2017, 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 capital requirement calculation parameters remain the same. It measures the bank credit risk in a similar manner.

Table 17: Effect of the change in the rating of the Company's larger reinsurer and largest bank as at 31 December 2017

In percentage points (pp)

Shock of a change in the counterparty's rating	Change in the solvency ratio
Effect of the downgrading of the major reinsurer's rating	-19 %
Effect of the downgrading of the major bank's rating	1 %

C.4 Liquidity risk

Liquidity risk is the risk of loss resulting from the Company's inability to meet its past-due liabilities and obligations arising from major losses 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 materializes in the form of the inability to liquidate investments without selling at a significant discount to the current market prices.

The Company manages resources and investments in a manner that ensures it is able to meet all mature liabilities at any time. To meet these liabilities, the appropriate structure of assets is maintained in terms of their nature, duration and liquidity. In order to ensure an adequate liquidity position, the Company plans actual and potential net cash outflows, an adequate amount and structure of liquid investments is ensured and managed, and the structure of liabilities and financial assets is monitored regularly. Exposure to liquidity risk is kept within the appetite for such risk by setting the relevant limit systems.

Risk exposure

The Company maintains sufficient liquidity because outflows from the underlying transaction are constant and because it has additional safeguards in place (portfolio of high quality and liquid assets, lines of credit, repo agreements, etc.).

Concentration risk

Diversification of sources of liquidity available to the Company prevents risk concentration. The Company has good business practices established with several banks that allow it to maintain the diversification of the sources of liquidity.

Risk mitigation techniques

Liquidity risk mitigation techniques are divided into two parts. The first part involves the management of liquidity prior to the acquisition of financial instruments and following such acquisition. Prior to the acquisition, the Company observes – for liquidity risk management purposes – the limits for investments that are agreed subject to the nature of investments are considered. The second part of liquidity risk management entails the ongoing monitoring of liquidity indicators that measure the liquidity position of the Company both in ordinary and extraordinary circumstances. The Company performs relevant stress tests in order to assess the effect of extraordinary circumstances.

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

Sensitivity

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

Liquidity risk indicators point to a suitable level in the Company's liquidity.

EXPECTED PROFIT FROM FUTURE PREMIUMS

The amount of the expected profit included in future premiums is the potential surplus of the best estimate of net cash flows under the assumption described below over the net best estimate without that assumption.

A portion of the Company's own funds is represented by expected profits included in the future premiums under existing insurance contracts. These are estimated at EUR 39.3 million at the Company level. They are equal to the sum of expected profits included in the future premiums under existing insurance contracts of the Company. The profit is calculated by first calculating the best estimate of cash flows assuming that the expected premiums from concluded insurance contracts are not paid irrespective of the insurance terms and conditions with the other assumptions remaining unchanged.

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

Table 18: Amount of expected profit included in future premiums of the Company as at 31 December 2017 and 31 December 2016

Expected profit included in future premiums	In EUR thousands	
	2017	**2016**
Life insurance	29,909	21,665
Non-life insurance including health insurance	9,388	9,734
Total	**39,297**	**31,399**

The main reason for the growth in the expected profit included in future premiums is the growth of the Company's portfolio.

C.5 Operational risk

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

As at 31 December 2017, the Company's operational risk accounted for 4% of the non-diversified capital requirement for the risks arising from the Company's portfolio, which in turn represents EUR 18.9 million.

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

Risk exposure

The Company estimates that it is currently most exposed to regulatory risk and external fraud risk with the latter mainly represented by cyber risk. The increasingly more demanding reporting requirements pursuant to the existing regulatory requirements and a high rate of amendments to the legislation and new legislation in the legislative environment (especially the General Data Protection Regulation, Directive on insurance distribution, IFRS 17) is bringing regulatory risk to the forefront. Even though the insurance sector is most exposed to insurance fraud, the Company is aware that fraud can occur in all areas of operations. We are seeing cyber risk becoming the most important external fraud risk, i.e. due to the computerisation, digitalization and the rise of sophisticated cyber attacks. Being acutely aware of this, the Company has prepared scenarios for the ORSA in 2017 that represent the greatest vulnerability for the Company and are associated with cyber risks that can adversely affect the functioning of processes or data security. In order to manage these risks, the Company has fast-tracked the implementation of existing activities and the implementation of new security functionalities that will ensure a uniform information system that is first and foremost adequate for cyber threats we are facing.

Concentration risk

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

Risk mitigation techniques

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

Sensitivity

Capital requirements for operational risk according to the standard formula are not dependent on the actual exposure to this risk, but are rather associated with the volume of operations (premium income and technical provisioning). The Company generally assesses potential effects of operational risks and determines the ways of managing them on annual basis, i.e. as part of the workshops on potential operational risks. It also monitors the realised operational loss events and operational risk indicators. The Company additionally tests sensitivity to realised operational risk by performing stress tests (e.g. transfer of IT operations from the primary server location to a backup location). Based on a longer data time series, the Company will in the coming years be able to quantify whether the standard formula suitably reflects the actual exposure to operational risk.

C.6 Other risks

NON-FINANCIAL RISKS

In terms of the Company's operations, material non-financial risks include strategic risk, capital risk, reputational risk and Group risks. No-financial risks are very closely connected to other risks, especially operational risks, and they usually result from several realised factors within and outside the Company.

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

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

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

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

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

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

C.7 Other information

PRUDENT PERSON PRINCIPLE

Asset management at the Company proceeds in observance of the best interest of all policyholders and beneficiaries. The Company manages assets according to the principle of due skill, care and diligence of a good businessman. Management of investments and technical provisions is performed by pursuing the objectives aligned with policyholders' objectives: to maximise safety, liquidity, diversification, profitability and provision coverage with investments.

The assets of Company are invested in a manner 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, 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.

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.

Section D

Valuation for solvency purposes

D. Valuation for solvency purposes

The Company values its assets and liabilities for solvency purposes at fair value. Valuation is performed in accordance with the process described in section B of this Report.

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

Table 19 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 1 to this Report.

Table 19: Balance sheet of the Company as at 31 December 2017

31 December 2017		In EUR thousands	
Balance sheet		**Value for solvency purposes**	**Value for financial reporting purposes**
Assets		**2,914,642**	**2,786,490**
Intangible assets	D.1.1	0	59,786
Deferred tax assets	D.1.2	15,797	0
Property, plant and equipment for own use	D.1.3	64,442	67,526
Investments	D.1.4	2,028,194	1,779,155
Assets held for index-linked and unit-linked contracts	D.1.5	629,147	628,601
Loans and mortgages	D.1.6	47,398	48,781
Reinsurance recoverables	D.1.7	60,909	85,328
Insurance & intermediaries receivables	D.1.8	10,426	58,986
Reinsurance receivables	D.1.9	13,890	13,890
Receivables (trade not insurance)	D.1.10	8,474	8,474
Cash and cash equivalents	D.1.11	33,969	33,969
Other assets	D.1.12	1,993	1,993
Liabilities		**1,993,468**	**2,215,077**
Technical provisions	D.2	1,842,479	2,103,360
Other provisions	D.3.1	11,425	11,425
Deferred tax liabilities	D.3.2	61,283	9,301
Financial liabilities	D.3.3	1,845	1,845
Liabilities from direct insurance operations	D.3.4	16,502	16,502
Liabilities from reinsurance and co-insurance operations	D.3.5	0	15,250
Operating liabilities	D.3.6	34,105	34,105
Subordinated liabilities	D.3.7	23,148	20,608
Other liabilities	D.3.8	2,681	2,681
Excess of assets over liabilities		**921,174**	**571,412**

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 as much as possible are used to arrive at the fair value.

Asset-side balance sheet items are presented below.

D.1.1 Intangible assets

Intangible assets 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 in so far as it corresponds to the definition of an intangible asset and meets the recognition criteria. Intangible assets with an indefinite useful life are not amortised. An impairment test is performed for these assets every year.

Table 20: Intangible assets of the Company as at 31 December 2017

31 December 2017	In EUR thousands		
Balance sheet	**Value for solvency purposes**		**Value for financial reporting purposes**
	31 December 2017	**31 December 2016**	**31 December 2017**
Intangible assets	0	0	59,786

D.1.2 Deferred tax assets

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

For financial reporting purposes, deferred 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%.

Table 21: Deferred tax assets of the Company as at 31 December 2017

31 December 2017	In EUR thousands		
Balance sheet	Value for solvency purposes		Value for financial reporting purposes
	31 December 2017	31 December 2016	31 December 2017
Deferred tax assets	15,797	15,347	0

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

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

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

Table 22: Property, plant and equipment held for own use at the Company as at 31 December 2017

31 December 2017	In EUR thousands		
Balance sheet	Value for solvency purposes		Value for financial reporting purposes
	31 December 2017	31 December 2016	31 December 2017
Property, plant and equipment held for own use	64,442	69,156	67,526

As at 31 December 2017, the Company received new valuations for the majority of properties in the real estate portfolio from a certified real estate valuer. The biggest contributor to the change in year 2017 in the value of property, plant and equipment held for own use was the negative revaluations of certain properties (e.g. Verovškova business building, Murska Sobota business building). On the other hand, the appraised value of some properties (e.g. Slovenijales business building and land plot, Miklošičeva business building) increased as a result of additional investments and landscaping.

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 ask prices, great price volatility in the period and between sellers. Low market activity requires an additional analysis of transactions or quoted prices.

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

Table 23: Investments of the Company as at 31 December 2017

31 December 2017	In EUR thousands	
Balance sheet	**Value for solvency purposes**	**Value for financial reporting purposes**
Investments	**2,028,194**	**1,779,155**
Real estate, except real estate held for own use	57,914	48,215
Holdings in related undertakings	323,668	128,170
Equities	71,615	71,615
Bonds	1,509,064	1,465,216
Collective investment undertakings	51,888	51,888
Derivatives	1,871	1,871
Deposits other than cash and cash equivalents	10,495	10,500
Other investments	1,680	1,680

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.1.4.

Table 24: Company's real estate, except real estate held for own use as at 31 December 2017

31 December 2017	In EUR thousands		
Investments	**Value for solvency purposes**		**Value for financial reporting purposes**
	31 December 2017	**31 December 2016**	**31 December 2017**
Real estate, except real estate held for own use	57,914	49,033	48,215

The value of real estate (except real estate held for own use) rose by somewhat less than EUR 9 million in 2017. As at 31 December 2017, the Company received new valuations for the majority of properties in the real estate portfolio from a certified real estate valuer. The biggest contributor to the increase in year 2017 in the value of this item was the revaluation of properties (e.g. development land, Kranjska gora building) resulting from the identified positive trends on the real estate market. On the other hand, the appraised value of some properties (e.g. Slovenijales business building and land plot) increased as a result of the higher occupancy rate, additional investments and landscaping.

D.1.4.2 Holdings in related undertakings

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

c. adjusted prices for similar assets in active markets or alternative valuation methods: if neither valuation in accordance with paragraph a) nor paragraph b) is possible and the undertaking is not a subsidiary undertaking, holdings in related undertakings are valued using an alternative valuation method (alternative valuation method; hereinafter: AVM), which the 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 ancillary services are valued according to the AEM. When calculating the excess of assets over liabilities for related undertakings, the assets and liabilities of are valued according to the basic principles in accordance with Commission delegated Regulation (EU). The strategic financial undertakings and other related undertaking, with the exception of the shareholdings 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 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 2017

31 December 2017	In EUR thousands		
Valuation method	**Value for solvency purposes**		**Value for financial reporting purposes**
	31 December 2017	**31 December 2016**	**31 December 2017**
AEM SII	275,489	282,055	108,960
AEM SI	38,871	33,233	9,746
AVM	9,308	24,103	9,465
Total	**323,668**	**339,392**	**128,170**

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 Zdravstvena zavarovalnica, and Triglav Skladi).

Table 26: Holdings in the Company's related undertakings as at 31 December 2017

31 December 2017	In EUR thousands		
Investments	**Value for solvency purposes**		**Value for financial reporting purposes**
	31 December 2017	**31 December 2016**	**31 December 2017**
Holdings in related undertakings	323,668	339,392	128,170

The value of holdings in related undertakings decreased in 2017. Owing to the winding up of Salnal, d.o.o., the Company took over its investment that was previously split off into two portfolio investments. The holdings in these companies were sold under suspensive conditions at the total value that equals the value of the holding in Salnal that was used for solvency purposes at the end of 2016. The transaction will be completed in the beginning of 2018.

D.1.4.3 Equities

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

Table 27: Equities of the Company as at 31 December 2017

31 December 2017	In EUR thousands		
Investments	**Value for solvency purposes**		**Value for financial reporting purposes**
	31 December 2017	**31 December 2016**	**31 December 2017**
Equities	**71,615**	**52,793**	**71,615**
Listed equities	47,539	43,980	47,539
Unlisted equities	24,076	8,813	24,076

The value of equities increased mainly in the unlisted securities segment in 2017. This increase is mainly the result of the takeover of the Salnal, d.o.o. investment which ceased operations under a fast-track procedure, whereby the increase totalled EUR 14.5 million. The remaining changes are mostly the result of the revaluation of the portfolio that followed the positive trend on global stock markets.

D.1.4.4 Bonds

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

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

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

b) valuation model.

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

Table 28: Bonds of the Company as at 31 December 2017

31 December 2017	In EUR thousands		
Investments	**Value for solvency purposes**		**Value for financial reporting purposes**
	31 December 2017	**31 December 2016**	**31 December 2017**
Bonds	**1,509,064**	**1,466,458**	**1,465,216**
Government bonds	671,143	659,743	637,993
Corporate bonds	828,033	789,097	817,335
Structured notes	9,888	17,618	9,888
Collateralised securities	0	0	0

The value of bonds increased in 2017 as a result of inflows from other forms of investments (mainly collective investment undertakings) and positive valuation. The positive valuation accounted for EUR 36.3 million while bond increase accounted for EUR 6.3 million. Aimed at improved returns, the increase is more significant in the corporate bond segment. There were more than EUR 18 million worth of inflows in this segment. The segment of structured notes decreased in 2017 mainly 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 43.8 million up to the value for solvency purposes. Owing to the low interest rates and the narrow credit spreads, the fair value of these investments is generally higher than the amortised cost. The major portion of the revaluation comes from the government bond segment.

D.1.4.5 Collective investment undertakings

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

Table 29: Collective investments undertakings of the Company as at 31 December 2017

31 December 2017	In EUR thousands		
Investments	**Value for solvency purposes**		**Value for financial reporting purposes**
	31 December 2017	**31 December 2016**	**31 December 2017**
Collective investment undertakings	51,888	83,231	51,888

The value of the item decreased in 2017 mainly as a result of outflows into other investment classes (mainly bonds). The biggest drop was recorded by money market funds and funds with a bond component – with a total decrease of EUR 44 million. The share of funds with debt exposure rose by EUR 9 million, while exposure to alternative investment funds increased by somewhat less.

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 2017

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

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

D.1.4.7 Deposits other than cash and cash equivalents

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

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

31 December 2017	In EUR thousands		
Investments	**Value for solvency purposes**		**Value for financial reporting purposes**
	31 December 2017	**31 December 2016**	**31 December 2017**
Deposits other than cash and cash equivalents	10,495	20,007	10,500

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

D.1.4.8 Other investments

Other investments in the Company 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 2017

31 December 2017	In EUR thousands		
Investments	**Value for solvency purposes**		**Value for financial reporting purposes**
	31 December 2017	**31 December 2016**	**31 December 2017**
Other investments	1,680	1,700	1,680

The value of the item did not change materially in 2017.

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

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

Table 33: Company's Assets held for index-linked and unit-linked contracts as at 31 December 2017

31 December 2017	In EUR thousands		
Balance sheet	**Value for solvency purposes**		**Value for financial reporting purposes**
	31 December 2017	**31 December 2016**	**31 December 2017**
Assets held for index-linked and unit-linked contracts	629,147	630,342	628,601

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

D.1.6 Loans and mortgages

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

Table 34: Loans and mortgages of the Company as at 31 December 2017

31 December 2017	In EUR thousands		
Balance sheet	**Value for solvency purposes**		**Value for financial reporting purposes**
	31 December 2017	**31 December 2016**	**31 December 2017**
Loans and mortgages	**47,398**	**45,915**	**48,781**
Loans on policies	1,704	1,218	1,704
Loans and mortgages to individuals	42	81	44
Other loans and mortgages	45,652	44,615	47,033

The assets listed under the loans and mortgages item increased immaterially in 2017.

D.1.7 Reinsurance recoverables

Reinsurance recoverables are determined for financial reporting purposes based on reinsurance contracts the Company has concluded with reinsurers. These provisions are formed for unearned premiums and claims provisions taking into account the prudence principle. For financial reporting purposes, the reinsurance share of claims provisions for incurred but not reported claims takes into account only the part that relates to quota-share reinsurance and is certain. For solvency purposes, these are determined based on recoverable amounts from reinsurance contracts that are calculated in accordance with the thresholds from insurance and reinsurance contracts, to which the amounts relate. Recoverable amounts from reinsurance contracts for liabilities under non-life insurance are calculated for the technical provisions separately, i.e. for premium and for claims provisions. 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.

Table 35: Reinsurance recoverables of the Company as at 31 December 2017

31 December 2017	In EUR thousands		
Balance sheet	**Value for solvency purposes**		**Value for financial reporting purposes**
	31 December 2017	**31 December 2016**	**31 December 2017**
Reinsurance recoverables	**60,909**	**56,870**	**85,328**
Non-life and health insurance	42,956	40,207	85,328
Life insurance	17,953	16,663	0

Owing to the growth of the portfolio both in the premium and claim portions, the amounts of reinsurance recoverables increased in 2017. Their changes correspond to the changes in the portfolio.

D.1.8 Insurance & intermediaries receivables

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

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 2017

31 December 2017	In EUR thousands		
Balance sheet	**Value for solvency purposes**		**Value for financial reporting purposes**
	31 December 2017	**31 December 2016**	**31 December 2017**
Insurance & intermediaries receivables	10,426	5,978	58,986

Insurance receivables increased in 2017 mainly due to 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: Company's reinsurance receivables as at 31 December 2017

31 December 2017	In EUR thousands		
Balance sheet	**Value for solvency purposes**		**Value for financial reporting purposes**
	31 December 2017	**31 December 2016**	**31 December 2017**
Reinsurance receivables	13,890	7,538	13,890

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

D.1.10 Receivables (trade not insurance)

Receivables (trade not insurance) in the Company comprise of receivables from financing activities and receivables from operating activities. For financial reporting purposes, they are generally valued 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 2017

31 December 2017	In EUR thousands		
Balance sheet	**Value for solvency purposes**		**Value for financial reporting purposes**
	31 December 2017	**31 December 2016**	**31 December 2017**
Receivables (trade not insurance)	8,474	4,799	8,474

Other receivables increased in 2017 mainly due to the growth in receivables from financing activities.

D.1.11 Cash and cash equivalents

Cash and cash equivalents comprise of 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 2017

31 December 2017	In EUR thousands		
Assets	**Value for solvency purposes**		**Value for financial reporting purposes**
	31 December 2017	**31 December 2016**	**31 December 2017**
Cash and cash equivalents	33,969	22,232	33,969

The values under this item increased by EUR 11.7 million in 2017. The increase is the result of inflows from other investment classes whereby the aim is to maintain excess liquidity that will allow the Company to make use of potential investment opportunities in the following year.

D.1.12 Any other assets, not elsewhere shown

The item includes non-current deferred taxes, assets invested into software for the Group, inventories and other assets. Valuation for financial reporting purposes is the same as for solvency purposes.

Table 40: Company's any other assets, not elsewhere shown as at 31 December 2017

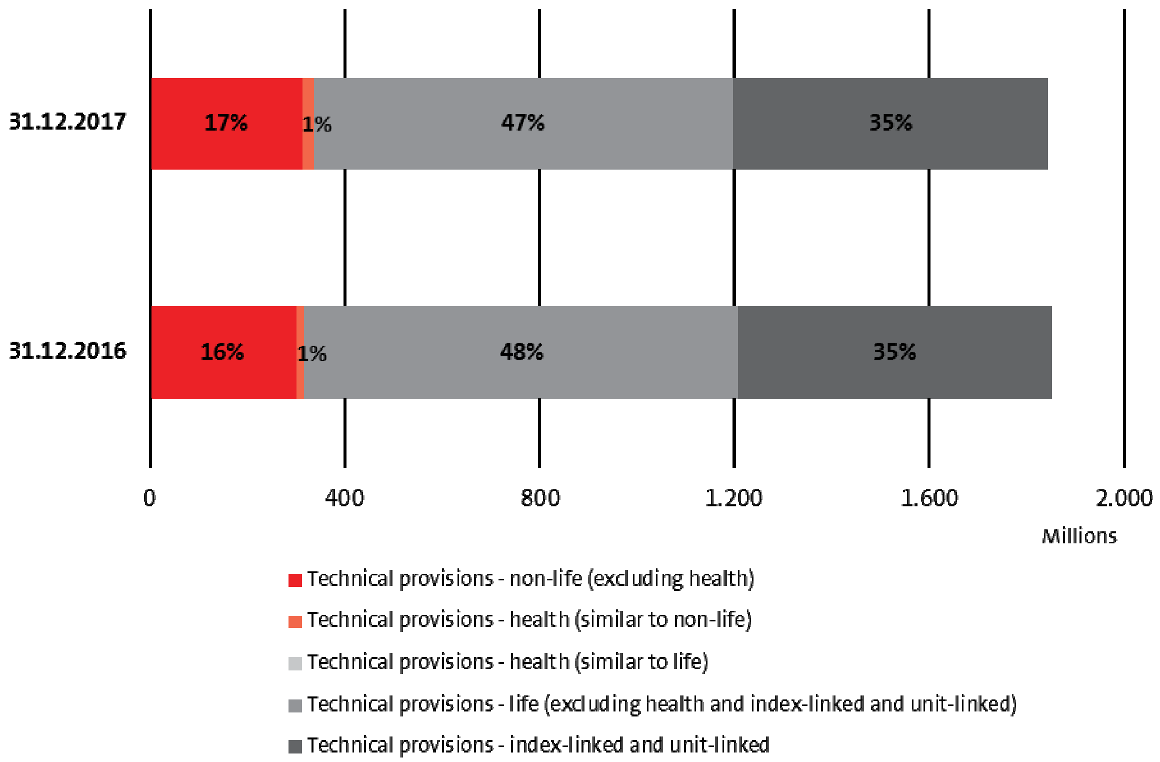
31 December 2017	In EUR thousands		
Assets	**Value for solvency purposes**		**Value for financial reporting purposes**
	31 December 2017	**31 December 2016**	**31 December 2017**
Any other assets, not elsewhere shown	1,993	1,949	1,993

The value of this item did not change materially in 2017.

D.2 Technical provisions

The value of technical provisions for solvency purposes is equal to the sum of the best estimate and 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 present value of future cash flows is calculated using the relevant risk-free interest rate curve. 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 4: Company's technical provisions as at 31 December 2017 and 31 December 2016



The cash flow projection takes into account all the cash inflows and outflows required to settle the liabilities to insurers, insured persons and other beneficiaries from insurance contracts.

The calculation of the best estimate is based on quality and credible information as well as assumptions. It is performed using adequate, applicable and relevant actuarial and statistical methods.

The risk margin is the present value of opportunity costs of all future solvency capital requirements until the expiry of the portfolio of liabilities. The cost-of-capital rate is determined in the Commission Delegated Regulation (EU), while the time structure of the risk-free interest rate term structure is published on EIOPA's website on a monthly basis. The risk margin is calculated separately for non-life, health and life insurance and is allocated to insurance segments on the basis of a suitable proportional allocation. The rate applied in the determination of expenses for the assurance of suitable own funds in the amount of the solvency capital requirement (SCR) is equal to the rate laid down in Article 39 of Commission Delegated Regulation (EU), i.e. 6%.

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 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.

Uncertainty of technical provisions:

The uncertainty of the best estimate value arises from the following factors:

- possible uncertainty of the quality of data on the existing portfolio as at the valuation date, which the Company attempts to eliminate with the data quality control process;
- uncertainty in the best estimate of assumptions about future developments, which are taken into account in cash flow projections. The value of a particular assumption is assessed in the form of a probable range, where the average value is used for the purposes of the deterministic projection, while the extreme values are used in the sensitivity analysis. The latter shows, which assumptions the Company should focus on more when calculating its best estimates, but without using the prudence margin. Part of the sensitivity analysis is based on the calculation of capital requirements in the sub-modules for individual risks covered by the standard formula, which requires scenario-based calculations;
- potential uncertainty regarding the correctness of actuarial models: this is reduced to the minimum with the relevant processes and management. In this respect, the Company performs basic controls of the rationality of the behaviour of models under different circumstances, cross-checks the results of individual policies based on similar models that were designed using different tools, manages changes in models, etc.

The uncertainty of the risk margin results from the levels of calculations and the factors that are above those of the best estimate of liabilities, which is why the level of uncertainty is even more difficult to assess. Depending on the methodology used to calculate the risk margin, the uncertainty arises from the methodological adequacy of substitutes and their values. The selection of individual substitutes may be justified on the basis of theoretical and empirical arguments. The uncertainty of their values is part of the uncertainty of the best estimate of liabilities outlined above.

When calculating the market present 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.

When calculating capital adequacy, the Company does not apply any adjustments, which are otherwise allowed under the Commission Delegated Regulation (EU). In view of the above, the appended QRT templates for this item are not filled out.

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

Non-life and health technical provisions are formed at the Company based on the generally recognised actuarial techniques for the valuation of provisions. They comprise claims provisions, premium provisions and the risk margin. When calculating these provisions, the costs of acquisition, administrative costs and claim handling 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 including health insurance. The data used meet the appropriateness, completeness and accuracy criteria.

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

D.2.2.1 Best estimate of non-life including health insurance liabilities

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

D.2.1.1.1 Best estimate of premium provision

The best estimate of premium provision as at 31 December 2017 amounted to EUR 89.1 million.

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

The basic assumption 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 the claim provisioning. Unearned premium estimated as at the date of the calculation is used as the measure of exposure.

D.2.1.1.2 Best estimate of claims provision

The best estimate of claims provision as at 31 December 2017 amounted to EUR 228.6 million.

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

- incurred and reported claims; and

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

The source for the best estimate of incurred claims is the list of provisioned claims that is the result of monthly processing and is monitored at the level of an individual claim list. Claim adjustment departments are responsible for compiling the said lists. Data on claims that affect the estimates are entered concurrently. The lists exclude annuity applications that are included in the best estimate of the annuity provision.

Provisions for unreported claims are calculated at the level of insurance segments, for which established actuarial techniques are used. A combination of the Chain-Ladder and Bornhuetter-Ferguson methods is used for the calculation. For the past five years of incurred claims, the calculation is made using both methods and the higher of both calculated values for each year is taken into account separately. The calculation also takes into account the inflation.

The best estimate for claims provisions for both incurred and reported claims and incurred but not reported claims is reduced by the best estimate for expected subrogations and increased by expected claim adjustment costs.

The best estimate for expected subrogations refers to the claims in the part for which the best estimate for claims provisions was made.

The basic assumption is the matching of the sample of the past claims process with the expected future claims development. The calculation includes the assumption of the matching of the past claims inflation with general inflation. 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 in relation to the last year.

D.2.1.2 Risk margin for non-life including health insurance

As at 31 December 2017, the risk margin amounted to EUR 19.2 million.

The risk margin is calculated on the portfolio of risks under non-life including health insurance and the portfolio of annuities that are calculated using life insurance techniques and result from non-life insurance.

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).

The table below shows the results of technical provisions by the largest insurance segments. The results are broken down into premium and claims provisions, and the risk margin. Non-life including health insurance technical provisions are shown in greater detail template QRT S.17.01 in Annex 5 to this Report.

Table 41: Non-life including health insurance technical provisions of the Company for solvency purposes as at 31 December 2017

31 December 2017	In EUR thousands			
Non-life and health insurance technical provisions	**Claims provision**	**Premium provision**	**Risk margin**	**Technical provisions**
--Motor vehicle liability insurance	71,855	21,017	3,110	95,982
-- Other motor vehicle insurance	15,065	30,696	2,808	48,569
-- Fire insurance and other damage to property insurance	41,795	25,707	3,779	71,281
-- Other non-life insurance segments	99,927	11,659	9,486	121,072
Total	**228,643**	**89,079**	**19,182**	**336,904**

31 December 2016	In EUR thousands			
Non-life and health insurance technical provisions	**Claims provision**	**Premium provision**	**Risk margin**	**Technical provisions**
- Motor vehicle liability insurance	72,709	19,309	3,563	95,581
-- Other motor vehicle insurance	13,599	28,656	2,586	44,841
-- Fire insurance and other damage to property insurance	26,031	22,641	3,722	52,394
-- Other non-life insurance segments	99,737	15,273	9,700	124,710
Total	**212,075**	**85,879**	**19,571**	**317,526**

The Company recorded premium growth in the non-life including health insurance segment in 2017. The changes in technical provisions are in line with the portfolio growth. The exception is the claims provision that recorded the growth at the end of the financial year. It grew in the fire insurance segment. The entire increase was recorded in the list of incurred reported claims. A few large claims and a storm that occurred a few days before the end of the financial year were recorded in 2017, which is why the liquidation process for this event has not commenced.

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 including health insurance for solvency purposes and for financial reporting purposes

31 December 2017	In EUR thousands	
	Value for solvency purposes	**Value for financial reporting purposes**
Non-life including health insurance technical provisions	336,904	668,287

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

As at 31 December 2017, the liabilities under non-life including health insurance contracts for financial reporting purposes came in at EUR 668.3 million, while they stood at EUR 336.9 million for solvency purposes. The main difference between both liability valuation methods lies in the fact that for financial reporting purposes the precautionary estimate of liabilities is used, whilst for solvency purposes the best estimate is used. The calculation of provisions under both valuation methods uses slightly different portfolio segmentation.

In addition to the valuation method for liabilities, the inclusion of non-past due receivables from direct insurance operations also significantly affects the difference in the amount of the premium provision. These receivables are decreased by provisions for solvency purposes, while they are not used for financial reporting purposes.

The value of technical provisions financial reporting purposes is higher than the value for solvency purposes. The main reasons for this are:

- future cash flows are discounted for solvency purposes;
- the basis for the calculation of the unearned premium for financial reporting purposes 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 the flows from premiums. Future profits thus decrease the premium provision;
- the valuation of the claims provision for financial reporting purposes takes into account the claims ratios on a conservative basis mainly for the insurance segments of motor vehicle liability insurance and general liability;
- in the calculation of incurred and unreported claims for financial reporting purpose, 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. The reason for such an approach is again the prudence principle. The provision for incurred unreported claims thus decreases more smoothly subject to the time that has elapsed since the claim was incurred; however, the gross claims provision is thus increased by large claims. The effect of detracting large claims amounts to EUR 34.6 million;
- non-life insurance annuities are disclosed for solvency purposes under life insurance, while they are disclosed under non-life insurance for financial reporting purposes. The resulting difference amounts to EUR 62 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 from the difference in the valuation for solvency purposes which takes into account the non-past due reinsurance liabilities worth EUR 15.3 million.

D.2.1.4 Application of adjustments in the capital adequacy calculation

The basic term structure of the risk-free rate is used in the calculation of the current market value of the calculated nominal cash flows, i.e. without applying any matching adjustment, transitional adjustment measures or volatility adjustment.

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

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 liabilities 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 2017 and 31 December 2016

31 December 2017 In EUR thousands

Life insurance technical provisions	Claims provision	Premium provision	Risk margin	Technical provisions
Insurance with profit participation	869	790,496	12,956	804,321
Index-linked and unit-linked insurance	510	626,685	17,605	644,799
Other life insurance	204	-10,987	3,652	-7,131
Annuities from non-life insurance contracts	63,273	0	312	63,596
Total	**64,858**	**1,406,193**	**34,525**	**1,505,575**

31 December 2016 In EUR thousands

Life insurance technical provisions	Claims provision	Premium provision	Risk margin	Technical provisions
Insurance with profit participation	1,099	819,802	13,915	834,815
Index-linked and unit-linked insurance	645	626,067	16,191	642,904
Other life insurance	258	-10,498	3,597	-6,643
Annuities from non-life insurance contracts	62,071	0	323	62,394
Total	**64,073**	**1,435,371**	**34,026**	**1,533,470**

Life insurance technical provisions of the Company are shown in greater detail in template QRT S.12.01 in Annex 4 to this Report.

D.2.2.1 Best estimate of life insurance liabilities

For the purpose of projecting the 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 recognizes the best estimate of liabilities in the following manner: in the case of endowments, the best estimate is calculated by policy; in the case of other risks, it is calculated at the level of homogenous risk groups using the BF methodology of actuarial triangles, which is a loss reserving technique used for non-life insurance. The theoretical concept defines the best estimate of liabilities as the market value of liabilities, but in practice it can hardly ever be measured in the market. Therefore, the best estimate of liabilities is calculated as the present value of all income and expenses arising from an insurance policy, weighted by the probability of occurrence. Income includes gross premiums, charged costs and other income (e.g. refunds), while expenses include actual costs, fees and commissions, claims and any other expenses. Return on assets is not included in income.

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

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

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

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

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

The calculation of cash flows takes into account certain future management measures with regard to the distribution of profits to policyholders, depending on the economic situation 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 liabilities that represents the time value of embedded contractual options and financial guarantees which allows it to estimate the present value of uncertainties that arise from them.

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

The best estimate for 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 risk-free interest rate curve published by EIOPA is used for discounting cash flows. The calculation takes into account the costs of claim adjustment.

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

- insurance with profit participation where provisions declined by EUR 30.5 million as a result of the lowering of the premium provision, which is lowered because of endowments in the period;
- index or unit-linked insurance where provisions increased by EUR 1.9 million as a result of the changes in cash flows in the reporting period, newly underwritten risks in the period and differences between realisation and assumptions;
- other life insurance where provisions decreased by EUR 0.5 million mainly as a result of changes to non-economic assumptions in the valuation;
- annuities under non-life insurance where provisions increased by EUR 1.2 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 applies a simplification based on the calculation of the future values of partial solvency capital requirements for individual risk sub-types (e.g. mortality, longevity, costs, etc.) on the basis of values of substitutes which can be calculated in practice.

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

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

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

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

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

Table 44: Differences between technical provisions for life insurance for solvency purposes and for financial reporting purposes

31 December 2017 In EUR thousands

Balance sheet	Value for solvency purposes	Value for financial reporting purposes*
Life insurance technical provisions	1,505,575	1,018,822

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

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

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

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

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

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

The material difference between the two valuations results from annuities under non- life insurance, which are posted under life insurance for solvency purposes and amount to EUR 63.6 million. They are posted under non-life insurance for financial reporting purposes.

D.3 Other liabilities

The Company's other liabilities are presented below.

D.3.1 Provisions, other than technical provisions

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

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

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

The total cost of the pre-determined employee entitlement is affected by a number of variables, such as wage growth, inflation, the termination of employment contracts and the mortality of employees. The total cost of the entitlement remains uncertain throughout the period, which is why the valuation of the present value of 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;
- the constructed actuarial assumptions.

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

Provisions for jubilee and retirement benefits 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 includes here – mostly provisions for legal disputes.

Table 45: Provisions, other than technical provisions, of the Company as at 31 December 2017

31 December 2017	In EUR thousands		
Liabilities	**Value for solvency purposes**		**Value for financial reporting purposes**
	31 December 2017	**31 December 2016**	**31 December 2017**
Provisions, other than technical provisions	11,425	11,237	11,425

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%.

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 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 2017

31 December 2017	In EUR thousands		
Balance sheet	**Value for solvency purposes**		**Value for financial reporting purposes**
	31 December 2017	**31 December 2016**	**31 December 2017**
Deferred tax liabilities	61,283	51,437	9,301

Deferred tax liabilities increased in 2017 because of the increase in the difference between the Company's balance sheet liabilities for financial reporting purposes and those for solvency 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 2017

31 December 2017	In EUR thousands		
Balance sheet	**Value for solvency purposes**		**Value for financial reporting purposes**
	31 December 2017	**31 December 2016**	**31 December 2017**
Financial liabilities	1,845	1,853	1,845

These liabilities did not change materially in 2017.

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 2017

31 December 2017	In EUR thousands		
Balance sheet	**Value for solvency purposes**		**Value for financial reporting purposes**
	31 December 2017	**31 December 2016**	**31 December 2017**
Insurance & intermediaries payables	16,502	16,887	16,502

These liabilities did not change materially in 2017.

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: Company's reinsurance payables as at 31 December 2017

31 December 2017	In EUR thousands		
Balance sheet	**Value for solvency purposes**		**Value for financial reporting purposes**
	31 December 2017	**31 December 2016**	**31 December 2017**
Reinsurance payables	0	0	15,250

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 2017

31 December 2017	In EUR thousands		
Liabilities	**Value for solvency purposes**		**Value for financial reporting purposes**
	31 December 2017	**31 December 2016**	**31 December 2017**
Payables (trade not insurance)	34,105	28,227	34,105

These payables increased in 2017 as a result of the higher trade payables for intangible assets (purchase of 3 annual licences).

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 2017

31 December 2017	In EUR thousands		
Balance sheet	**Value for solvency purposes**		**Value for financial reporting purposes**
	31 December 2017	**31 December 2016**	**31 December 2017**
Subordinated liabilities	23,148	24,385	20,608

These liabilities decreased in nominal terms by EUR 0.5 million in 2017 as a result of redemptions and 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 in 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 2017

31 December 2017	In EUR thousands		
Balance sheet	**Value for solvency purposes**		**Value for financial reporting purposes**
	31 December 2017	**31 December 2016**	**31 December 2017**
Any other liabilities, not elsewhere shown	2,681	2,761	2,681

These liabilities did not change materially in 2017.

D.3.9 Lease agreements

A lease is a contractual arrangement under which the lessor transfers the right to use an asset for an agreed time period to the lessee in exchange for payment.

In cases when the Company acts as the lessor, the lease is classified as a finance lease, since virtually all risks and benefits incident to ownership of the leased asset are transferred to the lessee. When an asset is subject to a finance lease, the net value of leased investment is recognised as a receivable. During the term of the lease, financial income is recognised as a constant periodic return on the net investment in the finance lease.

In cases when the Company acts as a lessee, the item of property, plant and equipment acquired under a finance lease is disclosed at the lower of fair value or the present value of minimum payments to the end of the lease, less accumulated depreciation and impairment losses. These assets are depreciated for the duration of their useful life. In the absence of reasonable assurance that the lessee will acquire ownership before the end of the term of the financial lease, the relevant item of property, plant and equipment has to be depreciated for the duration of the term of the financial lease or for the duration of its useful life, whichever is shorter.

Any lease that is not a finance lease is treated as an operating lease. For an operating lease, the carrying amount of the leased asset is increased by the initial direct expenses incurred in relation to lease brokerage and recognised for the duration of the term of the lease on the same basis as leasing income. Rents are recognised as income in the time period when generated

In the reporting period, the Company was not taking part in any material lease agreement.

D.4 Alternative valuation methods

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).

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

The 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 re presented in the Annual Report of the Triglav Group and Zavarovalnica Triglav, d.d. for 2017, i.e. in section 5.6 of the financial portion of the said report.

The Company regularly verifies the effect of risk mitigation techniques and upgrades or adjusts them as appropriate.

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

The method of risk concentration management is included in the risk management system of individual risk types; the Company's business practice indicates that concentration risk is not material thanks to the focus on the diversification of the portfolio and operations. Nevertheless, the Company reduced its exposure to the Republic of Slovenia as its largest concentration risk source in 2017.

However, a potential threat of non-life insurance segment concentration does exist in comprehensive car insurance. This insurance risk is suitably covered by catastrophe reinsurance coverage, which has previously proven to be adequate.

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

Section E

Capital management

E. Capital management

The system and the applicable elements of the process for the capital management of the Company are based on the Company's strategy for risk underwriting and management.

The system and related processes of capital management 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, its size, organisation and volume 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 and the capital adequacy as well as reporting.

The objective of capital management is an efficient use of 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;
- meeting the criteria of external rating agencies to maintain at least the A credit rating.

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

The basic criteria are derived from the regulatory capital adequacy requirements. When defining the objectives for capital management, the Company takes into account the regulatory requirements as well as the facts and circumstances arising from its position, role, the business environment and macroeconomic conditions in the markets where it operates, and the shareholder structure. The Company has also defined dividend policy criteria and capital management guidelines, including a set of activities aimed at ensuring the necessary capital strength. 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.

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 parent company. The criterion for capital transfer from subsidiaries is long-term stability and safety of their operations, taking into account the local regulations on capital requirements, whereby each method of capital withdrawal from subsidiaries not in the form of dividend payment is previously coordinated with the competent local supervisory institution.

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

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

The objective of the process for the management of the Company's capital at the Group level are defined in the SFCR of the Triglav Group, section E.

In the context of monitoring and measurement of economic capital value, profitability and use for each insurance segment 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.

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

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

Only eligible own funds are used to meet the solvency capital requirement (SCR). Eligible own funds comprise all Tier 1 own fund items as well as Tier 2 and Tier 3 own fund items up to the amount stipulated in the regulations. The value of the Company's eligible own funds for the coverage of the SCR must equal at least the SCR.

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

CAPITAL ADEQUACY OF THE COMPANY

As at 31 December 2017, the Company was adequately capitalized and had sufficient own funds available to meet both the solvency capital requirement (275%) and the minimum capital requirement (921%).

The capital adequacy ratio is defined as the ratio between the total eligible own funds and the 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 2017 and 31 December 2016

In EUR thousands

Capital adequacy of the Company	31 December 2017	31 December 2016	31 December 2016
Total eligible own funds to meet the SCR	887,484	853,928	842,885
Total eligible own funds to meet the MCR	883,525	848,322	837,279
SCR excluding ring-fenced funds	-	-	278,275
SCR with ring-fenced funds	322,242	289,318	-
Minimum consolidated capital requirement	95,947	93,891	93,891
Capital adequacy to SCR	275%	295%	303%
Capital adequacy to MCR	921%	904%	892%

*values from the Company's SFCR for 2016

The Company's capital adequacy decreased by 20 pp in 2017, which is mostly the result of the change in the methodology for the calculation of the adjustment for the loss-absorbing capacity of deferred taxes, which causes the increase of the capital requirement by EUR 27 million. Capital adequacy is also affected by the increase in eligible own funds and other changes to the risk profile that are explained in greater detail in section E.2 of this Report.

Details on the values for the calculation of the Company's capital adequacy are provided in template QRT S.23.01 in Annex 7 to this Report.

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

In its SFCR for the previous year, the Company presented its capital adequacy in template S.25.01 in a manner that proved as inappropriate based on the coordination with the ISA because the template did not show the solvency capital requirement (hereinafter: SCR) as the sum of the SCR for ring-fenced funds and the SCR for the remaining part, but rather showed only the SCR for the remaining part. The change in template S.25.01 also affects template S.23.01. When calculating the available eligible own funds, the Company deducted the amount required for the coverage of the SCR of ring-fenced funds from the reconciliation reserve, which is however no longer required according to the new methodology. The mentioned changes to the calculation of the SCR and the available eligible own funds to meet the SCR result in the change of the solvency ratio from 303% to 295%. The change in the method of filling in the forms has no material effect on the Company's capital adequacy.

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

Table 54: Effect of the change to the methodology for the presentation of the Company's capital adequacy as at 31 December 2016

31 December 2016 In EUR thousands

Effect of the changed method of calculation at the Company	In the 2016 report	Following the change	Commentary
Total eligible own funds to meet the SCR	842,885	853,928	Increase because eligible own funds for ring-fenced funds are not deducted from the total eligible own funds.
SCR	278,275	289,318	SCR is the sum of the SCR for ring-fenced funds and the SCR for the remaining part
Capital adequacy to SCR	303%	295%	

Annexes 11 and 12 feature the corrected templates for the Company, i.e. S.23.01 and S.25.01 for 2016. The changes in the method for the filling in of templates are observed in 2017 as well.

E.1 Own funds

As at 31 December 2017, the Company only had basic own funds. These amounted to EUR 887.5 million and were composed of the Company's share capital (EUR 73.7 million), subordinated liabilities (EUR 23.1 million) and the reconciliation reserve (EUR 790.6 million). Reconciliation reserve consists of the excess of assets over liabilities in the amount of EUR 921.2 million less the value of expected dividends for the 2017 financial year (EUR 56.8 million) and the Company's share capital (EUR 73.7 million).

The Company did not have any ancillary own funds as at 31 December 2017. It also had no available capital deductible items.

The structure of the Company's own funds according to tier as at 31 December 2017 and 31 December 2016 is shown in table 55 and in template S.23.01 of Annex 7 of this Report.

Table 55: Structure of the Company's own funds according to tier as at 31 December 2017 and 31 December 2016

31 December 2017 In EUR thousands

Own funds	**Total**	**Tier 1 (without restrictions)**	**Tier 2***	**Tier 3**
Available own funds to meet the SCR	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

31 December 2016 In EUR thousands

Own funds	**Total**	**Tier 1 (without restrictions)**	**Tier 2***	**Tier 3**
Available own funds to meet the SCR	853,928	829,544	24,385	0
Available own funds to meet the MCR	853,928	829,544	24,385	0
Eligible own funds to meet the SCR	853,928	829,544	24,385	0
Available own funds to meet the MCR	848,322	829,544	18,778	0

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

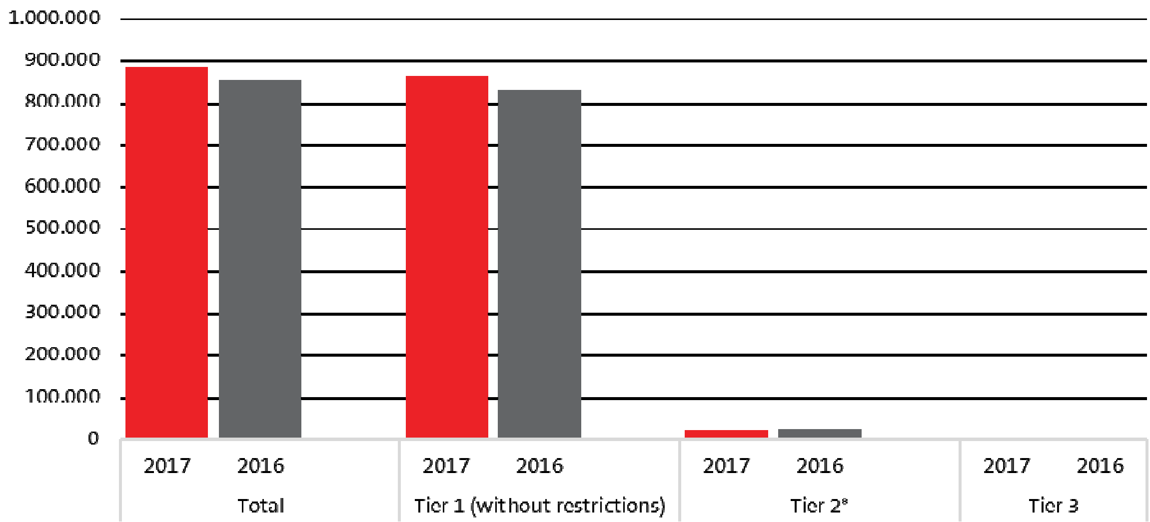
The Company's eligible own funds grew by EUR 33.6 million in the reporting period whereby they increased by EUR 34.8 million on account of the increase in the excess of assets over liabilities and decreased by EUR 1.2 million on account of the decrease in subordinated liabilities.

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

The amount of the Company's eligible own funds to meet the MCR as at 31 December 2017 amounted to EUR 883.5 million, whereby Tier 2 funds that exceed 20% of the MCR are excluded.

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

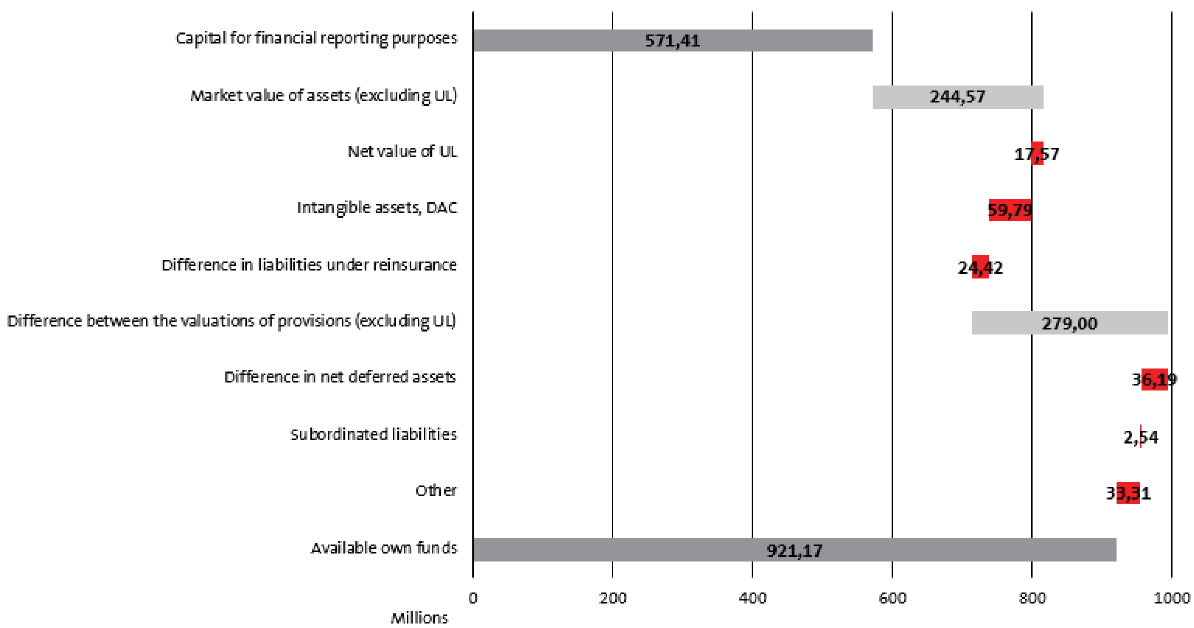


*Tier 2 own funds are suitable for the coverage of the MCR as long as they do not exceed 20% of the MCR.

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 difference in the valuation of assets and liabilities. Own funds are namely calculated as the difference between assets and liabilities whereby both sides of the balance sheet are valued at market value.

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



UL – unit-linked asset

DAC – deferred acquisition costs

Capital for financial reporting purposes as at 31 December 2017 amounted to EUR 571.4 million, while the excess of assets over liabilities for solvency purposes amounted to EUR 921.2 million. The difference is most affected by the different valuation of technical provisions (EUR 279 million) and the market value of assets (EUR 244.6 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 in the MCR.

E.2.1 Solvency capital requirement

The Company's SCR as at 31 December 2017 amounted to EUR 322.2 million, a YOY increase of EUR 32.9 million. The main reason for the increase is the decrease in the loss-absorbing capacity of deferred taxes by EUR 27 million because this item decreases the SCR.

The Company has changed the methodology for the calculation of adjustments for the loss-absorbing capacity of deferred taxes because it assesses that the material impact on capital adequacy and the EIOPA analyses published in the current period that demonstrate the mismatch of methods applied by different insurance companies as well as the announced changes to the standard formula in this area will increase the regulatory and operational risk for the Company excessively. The Company has thus more conservatively assessed the amount of the adjustment for deferred taxes thus increasing the capital requirement and, consequently, lowering the capital adequacy ratio. According to the new methodology, the adjustment used for the loss-absorbing capacity of deferred taxes is the one that the Company can justify using net deferred tax liabilities from the balance sheet for solvency purposes estimated prudently based on professional judgement.

Table 56: SCR of the Company as at 31 December 2017 and 31 December 2016

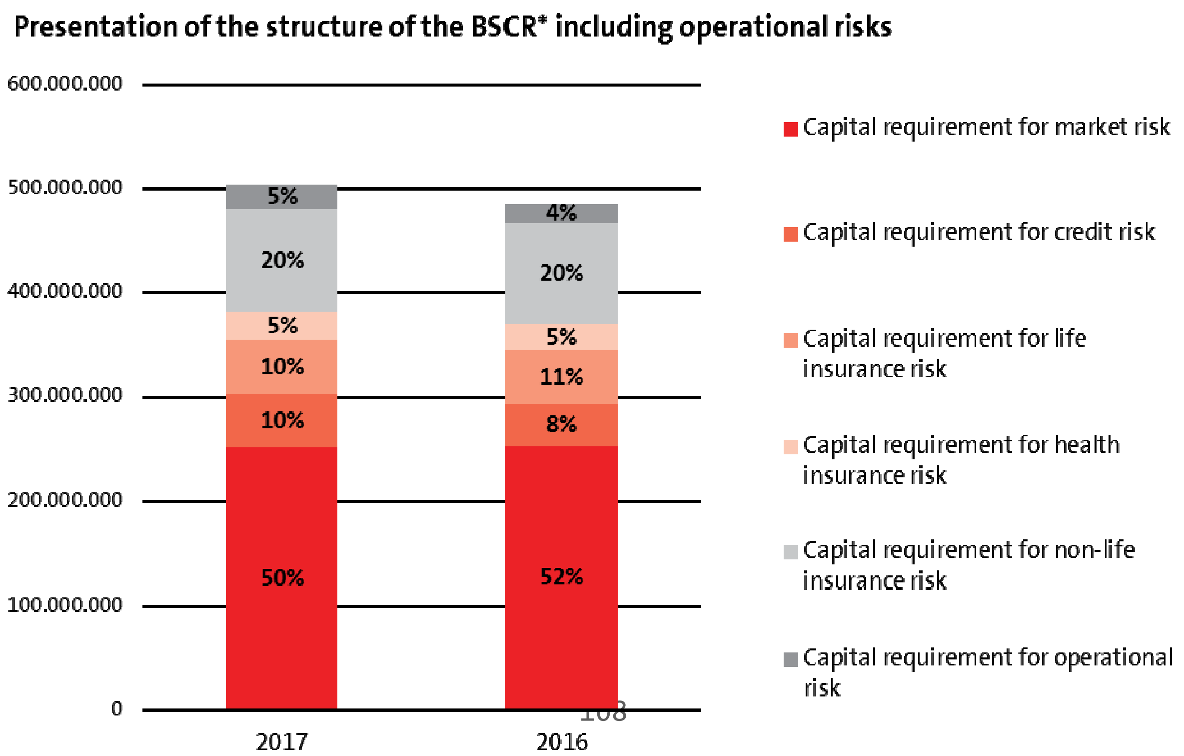
31 December 2017 In EUR thousands

Company's required capital	**31 December 2017**	**31 December 2016***
Underwriting risk	177,326	173,000
Market risk	251,536	253,288
Credit risk	50.283	40,301
Diversification	- 139,641	-132,605
Basic solvency capital requirement	**339,504**	**333,984**
Operational risk	18,915	18,879
Loss-absorbing capacity of technical provisions	0	-464
Loss-absorbing capacity of deferred taxes	-40,836	-67,865
Adjustment for ring-fenced fund risk diversification	4,659	4,783
SCR	**322,242**	**289,318**

The basic SCR mainly increased in the reporting period due to increased underwriting and credit risk whereas it was decreased by lower market risk. The increase in underwriting risk stems from the increase in the insurance portfolio volume and the increase in non-life insurance catastrophe risk which increased because of the increase in portfolio exposure to underwritten perils as well as the change in the structure of reinsurance protection. The capital requirement for credit risk increased in the reporting period because of higher exposure to reinsurers as a result of the transfer of underwriting catastrophe risk from potential high claims under the aviation scenario. The value of diversification changed materially compared to previous year and was affected by the different inclusion of ring-fenced funds.

Chart 7 shows the structure of this item by individual risks whereby the presentation also takes into account the capital requirement for operational risk that is part of the SCR.

Chart 7: Capital adequacy of the Company as at 31 December 2017 and 31 December 2016



The BSCR increased by EUR 5.5 million in year 2017. The majority of the increase came from the capital requirement for credit risk. Details on the changes in the value of capital requirements by individual risks are presented in section C of this Report.

In the reporting period, the 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 Group's portfolio are only summed up, while the effects of diversification between funds are not taken into account. When calculating the SCR, it is also necessary to calculate the adjustment for the aggregation of the theoretical SCR of ring-fenced funds. Details on the calculation are shown in template QRT S.25.01 in Annex 8 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. venture 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 and health 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 57: Notional minimum consolidated capital requirement of the Company as at 31 December 2017

31 December 2017 In EUR thousands

Notional minimum capital requirement	Non-life insurance including health 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

31 December 2016 In EUR thousands

Notional minimum capital requirement	Non-life insurance including health insurance	Life insurance
Linear notional minimum capital requirement	57,046	36,845
Notional SCR (excluding capital add-ons)	169,074	109,201
Notional minimum capital requirement cap	76,083	49,140
Notional minimum capital requirement floor	42,268	27,300
Notional combined minimum capital requirement	57,046	36,845
Absolute cap for notional minimum capital requirement	3,700	3,700
Notional minimum capital requirement	57,046	36,845

The notional MCR increased in the reporting period by EUR 2 million as a result of the growth of the portfolio of non-life insurance including health insurance.

Details on the MCR are shown in template QRT S.28.02 in Annex 9 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 other 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 the solvency capital requirement

As at 31 December 2017, the Company did not find any non-compliance with the minimum capital requirement and the solvency capital requirement.

E.6 Other information

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

Annexes

Annexes

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

1. S.02.01.02 - Balance sheet for solvency purposes
2. S.05.01.02 - Premiums, claims and expenses by line of business
3. S.05.02.02 - Premiums, claims and expenses by country
4. S.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 including health 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 including health insurance products
10. S.23.01.01 - Own funds (31 December 2016)
11. S.25.01.21 - Solvency capital requirement for undertakings using the standard formula (31 December 2016)

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

Assets	Value for solvency purposes
Intangible assets	
Deferred tax assets	15,797
Pension benefit surplus	
Property, plant and equipment held for own use	64,442
Investments (other than assets held for index-linked and unit-linked contracts)	**2,028,194**
Real estate (except real estate held for own use)	57,914
Holdings in related undertakings, including participations	323,668
Equities	**71,615**
Listed equities	47,539
Unlisted equities	24,075
Bonds	1,509,064
Government bonds	671,143
Corporate bonds	828,033
Structured notes	9,888
Collateralised securities	0
Collective investment undertakings	51,888
Derivatives	1,871
Deposits other than cash and cash equivalents	10,495
Other investments	1,680
Assets held for index-linked and unit-linked contracts	629,147
Loans and mortgages	**47,398**
Loans on policies	1,704
Loans and mortgages to individuals	42
Other loans and mortgages	45,652
Reinsurance recoverables from:	**60,909**
Non-life and health insurance similar to non-life	42,957
Non-life insurance excluding health insurance	42,654
Health insurance similar to non-life	**303**
Life and health similar to life, excluding health and index-linked and unit-linked	17,953
Health insurance similar to life	
Life, excluding health and index-linked and unit-linked	17,953
Life index-linked and unit-linked	
Deposits to cedants	0
Insurance & intermediaries receivables	10,426
Reinsurance receivables	13,890
Receivables (trade not insurance)	8,474
Own shares (held directly)	
Amounts owed to a company in respect of own fund items or initial capital called but not yet paid up	
Cash and cash equivalents	33,969
Any other assets, not elsewhere shown	1,993
Total assets	**2,914,642**

Liabilities	Value for solvency
Technical provisions – non-life	**336,904**
Technical provisions – non-life (excluding health)	**314,966**
Technical provisions calculated as a whole	
Best estimate	297,020
Risk margin	17,947
Technical provisions – health (similar to non-life)	**21,938**
Technical provisions calculated as a whole	
Best estimate	20,702
Risk margin	1,236
Technical provisions – life (excluding index-linked and unit-linked)	**860,775**
Technical provisions – health (similar to life)	**183**
Technical provisions calculated as a whole	
Best estimate	182
Risk margin	1
Technical provisions – life (excluding health and index-linked and unit-linked)	**860,593**
Technical provisions calculated as a whole	
Best estimate	843,674
Risk margin	16,919
Technical provisions – index-linked and unit-linked	**644,799**
Technical provisions calculated as a whole	
Best estimate	627,195
Risk margin	17,605
Contingent liabilities	
Provisions, other than technical provisions	11,425
Pension benefit obligations	
Deposits from reinsurers	
Deferred tax liabilities	61,283
Derivatives	
Debts owed to credit institutions	
Financial liabilities other than debts owed to credit institutions	1,845
Insurance & intermediaries payables	16,502
Reinsurance payables	0
Payables (trade not insurance)	34,105
Subordinated liabilities	**23,148**
Subordinated liabilities not in basic own funds	
Subordinated liabilities in basic own funds	23,148
Any other liabilities, not elsewhere shown	2,681
Total liabilities	**1,993,468**
Excess of assets over liabilities	**921,174**

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

	Line of business for: non-life insurance and reinsurance obligations (direct business and accepted proportional reinsurance)					
	Medical expense insurance	Income protection insurance	Workers' compensation insurance	Motor vehicle liability insurance	Other motor vehicle insurance	Marine, aviation and transport insurance
Premiums written						
Gross - direct business	404	54,321		84,643	106,536	12,818
Gross - proportional reinsurance accepted	83	64		8	74	1,156
Gross - non-proportional reinsurance accepted						
Reinsurer's share	283	1,195		6,406	8,934	5,289
Net	**204**	**53,190**		**78,245**	**97,675**	**8,685**
Premiums earned						
Gross - direct business	435	55,195		84,559	103,018	13,138
Gross - proportional reinsurance accepted	111	46		6	76	844
Gross - non-proportional reinsurance accepted						
Reinsurer's share	301	1,228		6,403	8,808	5,321
Net	**245**	**54,014**		**78,162**	**94,286**	**8,661**
Claims incurred						
Gross - direct business	3	20,366		42,897	72,107	3,312
Gross - proportional reinsurance accepted	31	54		0	80	694
Gross - non-proportional reinsurance accepted						
Reinsurer's share	-1	347		5,296	4,013	-530
Net	**35**	**20,073**		**37,601**	**68,174**	**4,536**
Changes in other technical provisions						
Gross - direct business	0	45		8	-709	115
Gross - proportional reinsurance accepted		0		0	0	92
Gross - non-proportional reinsurance accepted						
Reinsurer's share						
Net	**0**	**46**		**8**	**-708**	**207**
Expenses incurred	**219**	**18,217**		**20,758**	**25,561**	**3,209**
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 expense insurance	Assistance	Miscellaneous financial loss
Premiums written						
Gross - direct business	126,346	30,802	27,368		11,958	3,019
Gross - proportional	11,008	3,882	328		177	229
Gross - non-proportional						
Reinsurer's share	53,372	10,832	3,998		698	1,803
Net	**83,981**	**23,853**	**23,698**		**11,437**	**1,444**
Premiums earned						
Gross - direct business	127,798	31,909	24,947		11,294	3,128
Gross - proportional	6,972	3,000	325		175	204
Gross - non-proportional						
Reinsurer's share	52,938	10,874	3,978		672	1,793
Net	**81,832**	**24,034**	**21,294**		**10,797**	**1,539**
Claims incurred						
Gross - direct business	67,702	5,805	6,904		8,560	468
Gross - proportional	8,152	2,691	362		167	2
Gross - non-proportional						
Reinsurer's share	21,175	1,703	689		426	96
Net	**54,679**	**6,793**	**6,577**		**8,301**	**374**
Changes in other						
Gross - direct business	-341	-25	-1		48	-1
Gross - proportional	12	2			1	2
Gross - non-proportional						
Reinsurer's share						
Net	**-329**	**-23**	**-1**		**49**	**1**
Expenses incurred	**33,732**	**8,276**	**5,259**		**5,112**	**701**
Other expenses						
Total expenses						

	Line of business for: non-proportional reinsurance accepted			
	Casualty	Marine, aviation and transport	Property	Total
Premiums written				
Gross - direct business				458,214
Gross - proportional reinsurance accepted				17,008
Gross - non-proportional reinsurance accepted		17	281	297
Reinsurer's share			200	93,009
Net		**17**	**81**	382,510
Premiums earned				
Gross - direct business				455,423
Gross - proportional reinsurance accepted				11,757
Gross - non-proportional reinsurance accepted		17	267	283
Reinsurer's share			200	92,515
Net		**17**	**67**	374,947
Claims incurred				
Gross - direct business				228,124
Gross - proportional reinsurance accepted				12,233
Gross - non-proportional reinsurance accepted			29	29
Reinsurer's share			29	33,242
Net				207,144
Changes in other technical provisions				
Gross - direct business				-859
Gross - proportional reinsurance accepted				109
Gross - non-proportional reinsurance accepted				0
Reinsurer's share				0
Net				-751
Expenses incurred			**46**	121,088
Other expenses				4,513
Total expenses				**125,601**

	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
Premiums written						
Gross		56,542	83,869	6,042		
Reinsurer's share		24	33	309		
Net		**56,518**	**83,836**	**5,733**		
Premiums earned						
Gross		56,567	83,869	6,034		
Reinsurer's share		24	33	309		
Net		**56,542**	**83,836**	**5,725**		
Claims incurred						
Gross		68,534	90,441	1,251	69	4,341
Reinsurer's share		5	8	195		
Net		**68,529**	**90,433**	**1,057**	**69**	**4,341**
Changes in other technical provisions						
Gross		19,662	-131	1,908		
Reinsurer's share						
Net		**19,662**	**-131**	**1,908**		
Expenses incurred		9,763	15,233	2,568		50
Other expenses						
Total expenses						

	Life reinsurance obligations		
	Health reinsurance	Life reinsurance	Total
Premiums written			
Gross			146,453
Reinsurer's share			366
Net			146,087
Premiums earned			
Gross			146,469
Reinsurer's share			366
Net			146,103
Claims incurred			
Gross			164,636
Reinsurer's share			207
Net			164,429
Changes in other technical			
Gross			21,439
Reinsurer's share			0
Net			21,439
Expenses incurred			27,614
Other expenses			**256**
Total expenses			**27,870**

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

	Home country	Top 5 countries (in terms of gross premiums written) – non-life obligations					Total for top 5 countries and the home country
		BG	RO	HR	DE	FI	
Premiums written							
Gross - direct business	446,593	7,433	2,793	359	261	178	457,618
Gross - proportional reinsurance accepted	17,008						17,008
Gross - non-proportional reinsurance accepted	297						297
Reinsurer's share	90,601	1,540	579	74	54	37	92,886
Net	**373,297**	**5,893**	**2,214**	**285**	**207**	**141**	**382,037**
Premiums earned							
Gross - direct business	443,877	7,385	2,775	357	260	177	454,830
Gross - proportional reinsurance accepted	11,757						11,757
Gross - non-proportional reinsurance accepted	283						283
Reinsurer's share	90,120	1,532	576	74	54	37	92,393
Net	**365,796**	**5,853**	**2,199**	**283**	**206**	**140**	**374,478**
Claims incurred							
Gross - direct business	227,976			116	22		228,113
Gross - proportional reinsurance accepted	12,233			0	0		12,233
Gross - non-proportional reinsurance accepted	29			0	0		29
Reinsurer's share	33,221			17	3		33,240
Net	**207,017**			**99**	**19**		**207,134**
Changes in other technical provisions							
Gross - direct business	-836	-15	-6	-1	-1	0	-858
Gross - proportional reinsurance accepted	109						109
Gross - non-proportional reinsurance accepted							0
Reinsurer's share							0
Net	**-728**	**-15**	**-6**	**-1**	**-1**	**0**	**-750**
Expenses incurred	118,095	1,915	719	93	67	46	120,934
Other expenses							4,513
Total expenses							**125,601**

	Home country	Top 5 countries (in terms of gross premiums written) – life obligations	Total for top 5 countries and
Premiums written			
Gross	146,453		146,453
Reinsurer's share	366		366
Net	**146,087**		**146,087**
Premiums earned			
Gross	146,469		146,469
Reinsurer's share	366		366
Net	**146,103**		**146,103**
Claims incurred			
Gross	164,636		164,636
Reinsurer's share	207		207
Net	**164,429**		**164,429**
Changes in other technical			
Gross	21,439		21,439
Reinsurer's share			0
Net	**21,439**		**21,439**
Expenses incurred	27,614		27,614
Other expenses			256
Total expenses			**27,870**

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

	Insurance with profit participation	Index-linked and unit-linked insurance			Other life insurance		
			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 before adjustment for expected losses due to counterparty default associated with TP, calculated as a whole							
Technical provisions calculated as a sum of BE and RM							
Best estimate							
Gross best estimate	791,365			627,195			-10,783
Total recoverables from reinsurance/SPV and finite RE after adjustment for expected losses due to counterparty default							
Best estimate less recoverables from reinsurance/SPV and finite RE	**791,365**			**627,195**			**-10,783**
Risk margin	12,956	17,605			**3,652**		
Amount of the transitional deduction on technical provisions							
Technical provisions calculated as a whole							
Best estimate							
Risk margin							
Technical provisions - total	**804,321**	**644,799**			**-7,131**		

	Annuities stemming from non-life insurance contracts and relating to insurance	Insurance with profit participation	Total (life other than health, including unit-linked)	Life (direct business)	
				Contracts without options and guarantees	Contracts with options or guarantees
Technical provisions calculated as a whole			**0**		
Total recoverables from reinsurance/SPV and finite RE before adjustment for expected losses due to counterparty default associated with TP, calculated as a whole			**0**		
Technical provisions calculated as a sum of BE and RM					
Best estimate					
Gross best estimate	63,092		**1,470,869**		
Total recoverables from reinsurance/SPV and finite RE after adjustment for expected losses due to counterparty default	17,953		**17,953**		
Best estimate less recoverables from reinsurance/SPV and finite RE	**45,139**		**1,452,916**		
Risk margin	**311**		**34,524**		
Amount of the transitional deduction on technical provisions					
Technical provisions calculated as a whole			**0**		
Best estimate			**0**		
Risk margin			**0**		
Technical provisions - total	**63,403**		**1,505,392**		

	Annuities stemming from non-life insurance contracts and relating to health insurance obligations	Health reinsurance (accepted reinsurance)	Total (health similar to life)
Technical provisions calculated as a whole			**0**
Total recoverables from reinsurance/SPV and finite RE before adjustment for			**0**
Technical provisions calculated as a sum of BE and RM			
Best estimate			
Gross best estimate	182		**182**
Total recoverables from reinsurance/SPV and finite RE after adjustment for			**0**
Best estimate less recoverables from reinsurance/SPV and finite RE	**182**		**182**
Risk margin	1		**1**
Amount of the transitional deduction on technical provisions			
Technical provisions calculated as a whole			**0**
Best estimate			**0**
Risk margin			**0**
Technical provisions - total	**183**		**183**

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

	Direct business and accepted proportional reinsurance					
	Medical	**Income**	**Workers'**	**Motor vehicle**	**Other motor**	**Marine, aviation**
Technical provisions calculated as a whole						
Total recoverables from reinsurance/SPV and finite RE before						
Technical provisions calculated as a sum of BE and RM						
Best estimate						
Technical provisions for unearned premium						
Gross - total	**3**	**-8,290**		**21,017**	**30,696**	**803**
Total recoverables from reinsurance/SPV and finite RE after	-47	-72		319	754	-767
Best estimate of TP for unearned premium	50	-8,218		20,699	29,942	1,570
Claims provisions						
Gross - total	**50**	**28,939**		**71,855**	**15,065**	**7,582**
Total recoverables from reinsurance/SPV and finite RE after	1	421		6,519	1,058	1,013
Best estimate of claims provisions	49	28,518		65,336	14,007	6,569
Best estimate total - gross	53	20,649		92,872	45,761	8,385
Best estimate total - net	**100**	**20,299**		**86,035**	**43,949**	**8,139**
Risk margin	**5**	**1,231**		**3,110**	**2,808**	**600**
Amount of the transitional deduction on technical provisions						
Technical provisions calculated as a whole						
Best estimate						
Risk margin						
Technical provisions - total						
Technical provisions - total	**58**	**21,880**		**95,982**	**48,569**	**8,985**
Recoverables from reinsurance/SPV and finite RE after adjustment for	**-47**	**349**		**6,837**	**1,812**	**246**
Technical provisions less recoverables from reinsurance/SPV and finite	**105**	**21,530**		**89,145**	**46,757**	**8,739**

	Direct business and accepted proportional reinsurance					
	Fire and other damage to property insurance	General liability insurance	Credit and suretyship insurance	Legal expense insurance	Assistance	Miscellaneous financial loss
Technical provisions calculated as a whole						
Total recoverables from reinsurance/SPV and finite RE before adjustment for expected losses due to counterparty default associated with TP, calculated as a whole						
Technical provisions calculated as a sum of BE and RM						
Best estimate						
Technical provisions for unearned premium						
Gross - total	**25,707**	**4,029**	**9,420**		**5,617**	**67**
Total recoverables from reinsurance/SPV and finite RE after adjustment for expected losses due to counterparty default	-2,082	-1,206	1,011		137	-180
Best estimate of TP for unearned premium	27,789	5,235	8,409		5,480	248
Claims provisions						
Gross - total	**41,795**	**58,330**	**1,387**		**2,206**	**1,428**
Total recoverables from reinsurance/SPV and finite RE after adjustment for expected losses due to counterparty default	16,826	17,813	522		48	870
Best estimate of claims provisions	24,969	40,517	865		2,158	558
Best estimate total - gross	67,502	62,359	10,807		7,823	1,495
Best estimate total - net	**52,757**	**45,752**	**9,274**		**7,638**	**806**
Risk margin	**3,779**	**3,423**	**3,623**	**4**	**415**	**91**
Amount of the transitional deduction on technical provisions						
Technical provisions calculated as a whole						
Best estimate						
Risk margin						
Technical provisions - total						
Technical provisions - total	**71,281**	**65,782**	**14,430**	**4**	**8,238**	**1,587**
Recoverables from reinsurance/SPV and finite RE after adjustment for expected losses due to counterparty default, total	**14,744**	**16,607**	**1,533**		**185**	**689**
Technical provisions less recoverables from reinsurance/SPV and finite RE - total	**56,537**	**49,175**	**12,897**	**4**	**8,053**	**897**

	Non-proportional reinsurance accepted				
	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					**0**
Total recoverables from reinsurance/SPV and finite RE before adjustment for expected losses due to counterparty default associated with TP, calculated as a whole					**0**
Technical provisions calculated as a sum of BE and RM					
Best estimate					
Technical provisions for unearned premium					
Gross - total				**9**	**89,079**
Total recoverables from reinsurance/SPV and finite RE after adjustment for expected losses due to counterparty default					-2,134
Best estimate of TP for unearned premium				9	91,213
Claims provisions					
Gross - total				**6**	**228,643**
Total recoverables from reinsurance/SPV and finite RE after adjustment for expected losses due to counterparty default					45,091
Best estimate of claims provisions				6	183,552
Best estimate total - gross				15	317,721
Best estimate total - net				**15**	**274,765**
Risk margin				**92**	**19,182**
Amount of the transitional deduction on technical provisions					
Technical provisions calculated as a whole					**0**
Best estimate					0
Risk margin					0
Technical provisions - total					
Technical provisions - total				**107**	**336,904**
Recoverables from reinsurance/SPV and finite RE after adjustment for expected losses due to counterparty default, total					**42,957**
Technical provisions less recoverables from reinsurance/SPV and finite RE - total				**107**	**293,947**

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

Gross claims paid	Development year (absolute amount) 0	1	2	3	4	5	6	7	8	9	10 & +	In the current year	Sum of individual years(cumulative)
Prior											1.455	1,455	1,427,257
2008	265,649	97,249	17,174	7,665	2,906	2,794	1,812	1,127	827	593		593	397,795
2009	237,561	74,043	14,742	6,328	3,715	2,445	1,193	1,183	696			696	341,906
2010	213,965	72,132	11,958	5,271	2,828	1,767	906	1,734				1,734	310,561
2011	179,218	61,837	16,366	6,522	2,695	1,648	1,892					1,892	270,178
2012	176,509	62,220	10,185	6,361	2,899	1,411						1,411	259,585
2013	165,396	52,139	10,584	4,699	1,997							1,997	234,814
2014	176,349	51,002	9,266	5,679								5,679	242,296
2015	155,631	47,364	10,561									10,561	213,557
2016	157,054	50,315										50,315	207,369
2017	165,632											165,632	165,632
											Total	**241,967**	**4,070,950**

Gross undiscounted Best Estimate Claims Provisions	Development year (absolute amount) 0	1	2	3	4	5	6	7	8	9	10 & +		Year end (discounted data)
Prior											6,476		4,704
2008									2,163	1,742			1,699
2009								1,693	1,621				1,570
2010							4,613	3,055					2,966
2011						5,733	3,981						3,845
2012					19,352	16,481							16,212
2013				11,848	9,333								9,166
2014			15,044	11,607									11,436
2015		20,726	13,012										12,759
2016	79,936	31,108											30,500
2017	102,780												101,702
												Total	**196,560**

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 members accounts					
Surplus funds					
Preference shares					
Share premium account related to preference shares					
Reconciliation reserve	**790,634**	790,634			
Subordinated liabilities	**23,148**			23,148	
Amount equal to the value of net deferred tax assets					
Other own funds approved by the supervisory authority as basic own funds not specified above					
Own funds from financial statements that should not be presented under the reconciliation reserve and do not meet the criteria to be classified as Solvency II own funds					
Own funds from financial statements that should not be presented under the reconciliation reserve and do not meet the criteria to be classified as Solvency II own funds					
Deductions					
Deductions for participations in financial and credit institutions					
Total basic own funds after deductions	**887,484**	**864,336**	**2**		

Ancillary own funds	Total	Tier 1 – unrestricted	Tier 1 – restricted	Tier 2	Tier 3
Unpaid and uncalled ordinary share capital callable on demand					
Unpaid and uncalled initial funds, members' contributions or the equivalent basic own fund item for mutual and mutual-type undertakings, callable on demand					
Unpaid and uncalled preference shares callable on demand					
Legally binding commitment to subscribe and pay for subordinated liabilities on demand					
Letters of credit and guarantees in accordance with Article 96(2) of Directive 2009/138/EC					
Letters of credit and guarantees other than under Article 96(2) of Directive 2009/138/EC					
Supplementary members calls under the first subparagraph of Article 96(3) of Directive 2009/138/EC					
Supplementary members calls other than under subparagraph of Article 96(3) of Directive 2009/138/EC					
Other ancillary own funds					
Total ancillary own funds					

Available and eligible own funds	Total	Tier 1 – unrestricted	Tier 1 – restricted	Tier 2	Tier 3
Total available own funds to meet the SCR	**887,484**	**864,336**		**23,148**	
Total available own funds to meet the MCR	**887,484**	**864,336**		**23,148**	
Total eligible own funds to meet the SCR	**887,484**	**864,336**		**23,148**	
Total eligible own funds to meet the MCR	**883,525**	**864,336**		**19,189**	
SCR	**327,517**				
MCR	**95,947**				
Ratio of eligible own funds to the SCR	**270.97%**				
Ratio of eligible own funds to the MCR	**920.85%**				

Reconciliation reserve	
Excess of assets over liabilities	**921,174**
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	**790,634**
Expected profits	
Expected profits included in future premiums (EPIFP) – Life business	29,909
Expected profits included in future premiums (EPIFP) – Non-life business	9,388
Total expected profits included in future premiums (EPIFP	**39,297**

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

	Gross SCR	USP	Simplifications
Market risk	251,536		
Counterparty default risk	51,655		
Life underwriting risk	52,041		
Health underwriting risk	26,240		
Non-life underwriting risk	99,044		
Diversification	-140,275		
Intangible asset risk			
Basic solvency capital requirement	**340,242**		

Calculation of the SCR	
Operational Risk	23,466
Loss-absorbing capacity of technical provisions	
Loss-absorbing capacity of deferred taxes	-40,836
Capital requirement for business operated in accordance with Art. 4 of Directive 2003/41/EC	
SCR excluding capital add-on	322,242
Capital add-ons already set	
SCR	**322,242**
Other information on SCR	
Capital requirement for duration-based equity risk sub-module	
Total amount of Notional Solvency Capital Requirements for remaining part	311,006
Total amount of Notional Solvency Capital Requirements for ring-fenced funds	16,512
Total amount of Notional Solvency Capital Requirements for matching adjustment portfolios	
Diversification effects due to RFF nSCR aggregation for the purposes of Art. 304	

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

	Non-life activities	Life activities
Linear formula component for non-life insurance and reinsurance obligations	58,398	2,293

Linear formula component for non-life insurance and reinsurance obligations

	Non-life activities		Life activities	
MCR calculation Non Life	**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	100	204		
Income protection insurance and proportional reinsurance	20,283	26,244	17	26,946
Workers' compensation insurance and proportional reinsurance				
Motor vehicle liability insurance and proportional reinsurance	86,035	78,245		
Other motor insurance and proportional reinsurance	43,949	97,675		
Marine, aviation and transport insurance and proportional reinsurance	8,139	8,685		
Fire insurance and other damage to property insurance and proportional reinsurance	52,757	83,981		
General liability insurance and proportional reinsurance	45,752	23,853		
Credit and suretyship insurance and proportional reinsurance	9,274	23,698		
Legal expenses insurance and proportional reinsurance				
Assistance insurance and proportional reinsurance	7,638	11,437		
Miscellaneous financial loss insurance and proportional reinsurance	806	1,444		
Non-proportional health reinsurance				
Non-proportional casualty reinsurance				
Non-proportional marine, aviation and transport reinsurance		17		
Non-proportional property reinsurance	15	81		

Linear formula component for life insurance and reinsurance obligations

MCR calculation Life	Non-life activities: Net (of reinsurance/ SPV) best estimate and TP calculated as a whole	Non-life activities: Net (of reinsurance/ SPV) total capital at risk	Life activities: Net (of reinsurance/ SPV) best estimate and TP calculated as a whole	Life activities: Net (of reinsurance/ SPV) total capital at risk
Obligations with profit participation - guaranteed benefits			782,788	
Obligations with profit participation - future discretionary benefits			8,577	
Index-linked and unit-linked insurance obligations			627,195	
Other life (re)insurance and health (re) insurance obligations	45,321			
Total capital at risk for life (re) insurance obligations				1,996,399

	Non-life activities	Life activities
Linear formula component for life insurance and reinsurance obligations	952	34.305

Linear MCR	95,947
SCR	327,517
MCR cap	147,383
MCR floor	81,879
Combined MCR	95,947
Absolute floor for MCR	7,400
Minimum capital requirement	**95,947**

Notional non-life and life MCR calculation	Non-life activities	Life activities
Notional linear MCR	59,349	36,598
Notional SCR excluding add-on (annual or latest calculation)	199,328	122,914
Notional MCR cap	89,697	55,311
Notional MCR floor	49,832	30,729
Notional combined MCR	59,349	36,598
Absolute floor for notional MCR	3,700	3,700
Notional MCR	59,349	36,598

Annex 10: S.23.01.01 - Own funds (31 December 2016)

	Total	Tier 1 – unrestricted	Tier 1 – restricted	Tier 2	Tier 3
Basic own funds before deduction for participations in other financial sector as foreseen in 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 members accounts					
Surplus funds					
Preference shares					
Share premium account related to preference shares					
Reconciliation reserve	**755,842**	755,842			
Subordinated liabilities	**24,385**			24,385	
Amount equal to the value of net deferred tax assets					
Other own funds approved by the supervisory authority as basic own funds not specified above					
Own funds from financial statements that should not be presented under the reconciliation reserve and do not meet the criteria to be classified as Solvency II own funds					
Own funds from financial statements that should not be presented under the reconciliation reserve and do not meet the criteria to be classified as Solvency II own funds					
Deductions					
Deductions for participations in financial and credit institutions					
Total basic own funds after deductions	**853,928**	**829,544**		**24,385**	

Ancillary own funds	Total	Tier 1 – unrestricted	Tier 1 – restricted	Tier 2	Tier 3
Unpaid and uncalled ordinary share capital callable on demand					
Unpaid and uncalled initial funds, members' contributions or the equivalent basic own fund item for mutual and mutual-type undertakings, callable on demand					
Unpaid and uncalled preference shares callable on demand					
Legally binding commitment to subscribe and pay for subordinated liabilities on demand					
Letters of credit and guarantees in accordance with Article 96(2) of Directive 2009/138/EC					
Letters of credit and guarantees other than under Article 96(2) of Directive 2009/138/EC					
Supplementary members calls under the first subparagraph of Article 96(3) of Directive 2009/138/EC					
Supplementary members calls other than under subparagraph of Article 96(3) of Directive 2009/138/EC					
Other ancillary own funds					
Total ancillary own funds					

Available and eligible own funds	Total	Tier 1 – unrestricted	Tier 1 – restricted	Tier 2	Tier 3
Total available own funds to meet the SCR	**853,928**	**829,544**		**24,385**	
Total available own funds to meet the MCR	**853,928**	**829,544**		**24,385**	
Total eligible own funds to meet the SCR	**853,928**	**829,544**		**24,385**	
Total eligible own funds to meet the MCR	**848,322**	**829,544**		**18,778**	
SCR	**289,318**				
MCR	**93,891**				
Ratio of eligible own funds to the SCR	**295.15%**				
Ratio of eligible own funds to the MCR	**903.52%**				

Reconciliation reserve

Excess of assets over liabilities	**886,382**
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	**755,842**
Expected profits	
Expected profits included in future premiums (EPIFP) – Life business	21,665
Expected profits included in future premiums (EPIFP) – Non-life business	9,734
Total expected profits included in future premiums (EPIFP	**31,399**

Annex 11: S.25.01.21 - Solvency capital requirement for undertakings using the standard formula (31 December 2016)

	Gross SCR	USP	Simplifications
Market risk	253,288		
Counterparty default risk	40,301		
Life underwriting risk	51,094		
Health underwriting risk	24,646		
Non-life underwriting risk	97,260		
Diversification	-132,605		
Intangible asset risk			
Basic solvency capital requirement	**333,984**		

Calculation of the SCR	
Operational Risk	18,879
Loss-absorbing capacity of technical provisions	-464
Loss-absorbing capacity of deferred taxes	-67,865
Capital requirement for business operated in accordance with Art. 4 of Directive 2003/41/EC	
SCR excluding capital add-on	289,318
Capital add-ons already set	
SCR	**289,318**

Other information on SCR	
Capital requirement for duration-based equity risk sub-module	
Total amount of Notional Solvency Capital Requirements for remaining part	278,275
Total amount of Notional Solvency Capital Requirements for ring-fenced funds	11,043
Total amount of Notional Solvency Capital Requirements for matching adjustment portfolios	
Diversification effects due to RFF nSCR aggregation for the purposes of Art. 304	