Business Report 2011

triglavRE

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Every morning in Africa, a Gazelle wakes up. It knows that in order to survive, it must run faster than the fastest lion. Every morning in Africa, a Lion wakes up. It knows it must outrun the slowest Gazelle or it will starve to death. It doesn't matter whether you are a Lion or a Gazelle, when the sun comes up, you'd better start running and be **the fastest!**

Africa 6:15

MANAGEMENT REPORT

1

OPERATING PERFORMANCE AND EVENTS IN 2011

1.1 Business highlights

in EUR

	YEAR 2011	YEAR 2010	INDEX
Gross reinsurance premium written	121,931,838	120,167,238	101
Gross claims paid	55,572,858	61,837,383	90
Gross operating expenses*	2,724,451	2,869,491	95
Technical provisions	111,444,385	103,335,061	108
Equity	36,088,970	36,039,555	100
Net profit	2,962,397	5,984,090	50
Number of employees at year-end	37	38	97

*Gross operating expenses by functional groups

1.2 Significant events in 2011

NOVEMBER
On November 21, 2011, Standard & Poor's Rating Services affirmed the rating A (stable outlook) on Triglav Re, Reinsurance Company and Triglav Insurance Company.

DECEMBER
On December 9, 2011, Triglav Re was placed on CreditWatch with negative implication. Due to expected lowering of ratings of some Eurozone member countries, a number of insurers were placed on CreditWatch.

1.3 Significant events after year-end 2011

JANUARY
On January 17, 2012, Standard & Poor's Rating Services removed Triglav Re, Reinsurance Company from CreditWatch and affirmed the rating A but the outlook is negative.

FEBRUARY
At the 21st correspondence session of the Supervisory Board of Triglav Re on 29 February 2012, the board adopted the decision to extend the mandate of Gojko Kavčič as President of the Management Board to 30 September 2012.

1.4 Address by the President of the Management Board

The world is coming out of recession at a slower rate than expected. In 2011, economic growth dropped because fiscal stimuli were not followed by consumption. This situation on the financial markets has not improved either. Pessimism has now spread to most European countries as well as to the banking sector. All of the above also affected the business operations of Triglav Re in 2011, which can be considered successful despite the unfavourable economic, financial and environmental conditions.

Operating Performance in 2011

The 2011 business year was marked by a series of severe shocks and a high number of weather-related disasters around the world. The business operations of Triglav Re were significantly affected by the earthquake and tsunami that devastated Japan in March. The earthquake measured 9 on the Richter scale and is considered the most powerful earthquake ever recorded in Japan. The total gross damage for Triglav Re was estimated at EUR 2.8 million.

At the beginning of July, Triglav Re was hit by another major event that had a significant impact on its business operations. Heavy rainfall, probably the most severe in the previous 25 years, triggered major floods in and around Copenhagen, the Danish capital. No deaths or injuries were reported, but at least 1700 households and numerous businesses were hit by flooding. The resulting damage was severe and the total gross damage for Triglav Re was estimated at over EUR 2 million.

The summer in Asia was marked by the worst monsoon rain in decades in Thailand. The heavy rain started in June and lasted for four entire months, causing the flooding to climax in October and November. The floods resulted in the loss of numerous lives and caused huge economic damage, particularly due to the flooding of an industrial area outside Bangkok. Insurance coverage for floods is at a very low level among the general population and small companies, but large-scale industrial plants do have insurance coverage. Certain plants were under water for months, so the extent of insured damage is difficult to estimate. According to some estimates, the insured damage is between USD 4.8 and 7.0 billion, whereas the gross damage for Triglav Re is estimated at around EUR 1.1 million.

Despite a number of catastrophic events, Triglav Re closed the business year 2011 with a profit of nearly EUR 3 million, primarily due to favorable loss frequency in the southern and eastern Europe in dealings of Triglav Re within Triglav Group. The gross written reinsurance premium increased by 1.5 percent compared to the business year 2010, while the gross claims settled decreased by as much as 10.1 percent.

The overall business result was positively affected by the net profit on investments amounting to EUR 2.6 million, even though it had dropped by EUR 1.2 million as compared to 2010.

In 2011, the retention rate decreased by 3.7 percentage points, while the share of gross operating expenses compared to the gross reinsurance premium dropped by 1 percentage point as compared to 2010 and amounted to 2.4 percent, proving that the operation of Triglav Re was cost-efficient. According to S&P, the combined ratio in 2011 was 98.1 percent, which represents an increase of 3.5 percentage points as compared to 2010.

Maintenance of "A" credit rating

On 21 November 2011, the credit rating agency Standard&Poor's confirmed the "A" long-term credit rating and the financial strength credit rating of Triglav Re; however, the previous stable long-term outlook was replaced by a negative mid-term outlook. Triglav Re considers it a success that it has managed to maintain its "A" rating, since the credit ratings of numerous

companies throughout the world have dropped by one or even several levels during the previous year. Maintaining its credit rating is vital for the further development of Triglav Re, since it allows the Company to acquire major business from cedants outside the Triglav Group.

Challenges for the future

In 2011, Triglav Re reviewed its strategic goals and adapted them to the changing economic situation. Stable and profitable business results remain the guiding principle of the Company, in addition to which the Company will continue to strive for the implementation of all strategic and business targets. Motivated and highly qualified employees are a vital asset, which is why much attention will continue to be paid to this aspect in the future.

Gojko Kavčič
President of the Management Board

Mornings on squares and bazaars where Europe meets Orient and present meets tradition are meant for trading and also consultation, debating and listening. Their inhabitants know that **good communication** is as stimulating as black coffee and that it is difficult to fall asleep after it.

South Europe

10:15

2

REPORT BY THE SUPERVISORY BOARD ON THE EXAMINATION OF THE ANNUAL REPORT OF TRIGLAV RE FOR 2011

The Supervisory Board actively monitored the operations of Pozavarovalnica Triglav Re throughout the year. At regular sessions the Supervisory Board supervised the operations of the Company and examined the realisation of its long-term objectives. It was regularly informed of any new developments and changes in operations, produced reports and gave approvals to major business decision of the Management Board.

The Supervisory Board operated within the scope of its competences and powers set out by law, the Articles and Memorandum of Association and the Rules of Procedure of the Supervisory Board, in compliance with the principles of the Corporate Governance Policy of Zavarovalnica Triglav d.d. as the parent company of the Triglav Group.

The composition of the three-member Supervisory Board of Pozavarovalnica Triglav remained unchanged throughout 2011. Andrej Slapar acted as the Chairman, Aleksandra Vuković Kačar acted as the Deputy Chair and Nadja Pivk as a member. The members of the Supervisory Board held eight sessions, of which four were correspondence sessions. The Supervisory Board established the Audit Committee.

Pursuant to the Companies Act (ZGD-1) and the Insurance Act (ZZavar) the Supervisory Board examined the Annual Report of Pozavarovalnica Triglav Re for 2011 and prepared this report on that basis. It also took note of the Opinion of the Certified Actuary, which makes a constituent part of this report, and reviewed and adopted the Annual Internal Audit Report of the Company.

Operation of the Supervisory Board

While supervising and monitoring the governance of the Company the Supervisory Board adopted the following major resolutions and decisions; among others it:

- took note of the conduct of the Company with regard to "Invitation to Recapitalise Nova Ljubljanska Banka" and the conduct of the Company related to the public invitation to tender for the purchase of shares of Nova Ljubljanska banka as well as

- adopted the criteria for calculating the performance ratio for annual remuneration of the Management Board for 2011;

- approved the Maintenance Agreement for SQLFinance and Triglav_RE systems;

- adopted the Audited Annual Report of Pozavarovalnica Triglav Re d.d. for 2010 and presented the proposal for distribution of accumulated profits;

- adopted the proposal for the General Meeting of Shareholders to appoint the auditing company KPMG Slovenija podjetje za revidiranje d.o.o. as auditors for the Annual Report of Pozavarovalnica Triglav Re d.d. for 2010;

- took note of and agreed to the propose notice of the 20th General Meeting of Shareholders of Pozavarovalnica TriglavRe d.d.;

- adopted a resolution on amendments to the Rules of Procedure of the Supervisory Board of Pozavarovalnica Triglav Re d.d. and defined the areas where the decisions of the Management Board of the Company are subject to its approval in addition to those set out by law and the Articles and Memorandum of Association;

- took note of the calculation of the performance ratio for annual remuneration of the Management Board for 2010 and determined its amount;

- appointed Miha Novak as a member of the Supervisory Board Audit Committee of Pozavarovalnica Triglav Re d.d. with a term of office ending on 17 December 2013;

- took note of and approved the choice of contractor for the upgrade of the IT system;

- approved amendments to the Business Plan of Pozavarovalnica Triglav Re for 2012.

The Supervisory Board regularly discussed the periodic reports on different areas and consequently it:

- adopted the audited Annual Report of Pozavarovalnica Triglav Re for 2010;
- took note of the Management Report of Pozavarovalnica Triglav Re for the period from 1 January to 31 December 2010 and was regularly presented quarterly reports for 2011;
- took note of the Auditor's Report of 11 April 2011, Opinion of the Certified Actuary to the 2010 Annual Report, auditor's additions to the Annual Report of Pozavarovalnica Triglav Re for 2010 and Letter to the Management on the findings in auditing the financial statements for 2010 (in respect of which it instructed the Management Board to set the deadlines for the implementation of recommendations);
- adopted the Annual Internal Audit Report for 2010 and quarterly internal audit reports in 2011;
- took note of Report of the Certified Actuary as at 31 December 2010 and of the Report on Insurance Diversification;
- took note of quarterly reports on liquidity, solvency, capital adequacy, and the ratio between investments and technical provisions.

Self assessment and business operations assessment

In the decision making process the Supervisory Board took account of the business objectives of the Company and worked in the interest of the Company as well as the entire Triglav Group. An Audit Committee, made of Aleksandra Vuković Kačar (Chairman), Nadja Pivk, Tomaž Žust and Miha Novak (since 23 August 2011) worked within the scope of the Supervisory Board. The Audit Committee improved the efficiency of the Supervisory Board after having carried out due diligence of management and accounting reports as well as internal audit reports.

In accordance with the established practice, the Supervisory Board actively communicated with the Management Board throughout the year. The Management Board regularly informed the Supervisory Board of all the business aspects relevant for the assessment of the business position of the Company. The Supervisory Board constructively responded to the Management Board's decisions regarding the business conduct, gave opinion on the Company's operations and suggestions for improvement, especially with respect to business planning.

The Company's net profit of EUR 2.96 million, which was 53% of the target, was considerably affected by catastrophic loss events, such as the earthquake in Japan and floods in Australia, Thailand and Denmark. Despite 4 percentage points higher gross written premium than planned, its share written outside the Triglav Group was 3 percentage points lower than in

2010. As at 31 December 2011 the Company had an appropriate capital adequacy level, adequately managed individual risk categories, both of which is assessed as positive by the Supervisory Board.

The rating agency Standard & Poor's updated the credit rating of Triglav Re, which continues to be an "A" rating, however with a negative instead of a stable medium-term outlook. This change demands utterly serious implementation of measures geared in order to ensure good performance of the Company in the long run.

Examination and approval of the Annual Report for 2011

Pursuant to Articles 54 and 282 of the Companies Act (ZGD-1) and pertaining to Article 158 of the Insurance Act (ZZavar), the Management Board , by the legally required deadline, submitted the Annual Report, together with the Auditor's Report and the Opinion of the Certified Actuary to the Annual Report for 2011, to the Supervisory Board of the Company for comment

The Audit Committee of the Supervisory Board carefully reviewed the submitted audited annual report of the Company and established that the report had been prepared within the statutory term and covered all topics prescribed by the Companies Act (ZGD-1), the Insurance Act (ZZavar) and implementing regulations. Assurance of that was also provided by the Company's Management Board, auditors of KPMG Slovenija d.o.o. and the certified actuary Milan Stjepanović. On the basis of these findings, the Audit Committee proposed to the Supervisory Board to approve the Annual Report of Pozavarovalnica Triglav Re for 2011.

On the basis of the recommendation by the Audit Committee, the Supervisory Board approved the Annual Report and had no comments thereto. The Annual Report was received by the prescribed deadline, i.e. within one month of 14 May 2012, when the Management Board submitted it to the Supervisory Board.

Auditor's Report

The correctness of technical provisions and other reserves from profit was confirmed by the certified actuary and the auditor. The notes to financial statements contain all the information prescribed under items 1 through 20 of Article 69, paragraph 1, of the Companies Act (ZGD-1).

The Company's financial statements for 2011 and the business report were audited by the auditing company KPMG Slovenija, which issued a report with a positive opinion.

The Supervisory Board took note of the Auditor's Report to the Supervisory Board of Pozavarovalnica Triglav Re, in which the auditor provides assurance that financial statements give a true and fair view of the Company's financial position and have been prepared in compliance with the Slovene Accounting Standards. In this report to the Supervisory Board, the auditors also presented their recommendations.

Opinion of the certified actuary

The certified actuary Milan Stjepanović verified the operations of Pozavarovalnica Triglav Re in actuarial terms in accordance with the requirements provided in the Insurance Act (ZZvar). On 20March12, he produced the Report of the Certified Actuary as at 31 December 2011, and in addition to that on 19 March 2012 , submitted the Opinion of the Certified Actuary to the Annual Report of Pozavarovalnica Triglav Re for 2011.

The certified actuary confirmed that total premiums written in 2011 and total insurance technical provisions set aside by Pozavarovalnica Triglav Re as at 31 December 2011 were adequate and based upon reasonable actuarial assumptions provide for sustainable fulfilment of the Company's liabilities from reinsurance contracts. Assets backing liabilities are higher than technical provisions and have been invested and diversified in compliance with regulations. Pozavarovalnica Triglav Re also meets the prescribed requirements on capital adequacy. In his report the actuary presented his view of the Company's operations in 2011 to the Supervisory Board.

Proposed allocation of accumulated profits as at 31 December 2011

The Management Board of Pozavarovalnica Triglav Re prepared the proposal for the distribution of accumulated profits as at 31 December 2011. The Supervisory Board concluded that the Management Board of Pozavarovalnica Triglav Re adequately observed the provisions of Articles 64 and 230 of the Companies Act (ZGD) in allocating net profit and preparing the proposal for the distribution of accumulated profits. The proposal for the distribution of accumulated profits subject to the final approval by the General Meeting of Shareholders was drafted in compliance with Article 293 (4) of the Companies Act (ZGD).

Based on the above statements and in compliance with Article 293 (4) of the Companies Act, the Board of Management and the Supervisory Board of Pozavarovalnica Triglav Re propose to the Shareholders' Meeting to pass a resolution of on the distribution of accumulated profits as at 31 December 2011, as jointly proposed by the Management and Supervisory Boards.

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In challenging business conditions, marked by natural disasters and weak financial markets, Pozavarovalnica Triglav Re retained an adequate volume of business. It provided quality reinsurance protection to the Triglav Group and acquired business with cedants outside the Group.

Maintaining a high credit rating is essential for further strengthening of the market position and access to the most advanced reinsurance markets. More efficient adjustment to institutional changes, such as the implementation of the Solvency II regime, must be ensured, as it represents the basis for long-term development. As demonstrated so far, further endeavours of the Management Board and the employees remain essential for development.

Ljubljana, 28 May 2012

Andrej Slapar
Chairman of the Supervisory Board
Pozavarovalnica Triglav Re d.d.

KPMG

Report of the Independent Auditor on the Summary Financial Statements

To the Shareholders of Pozavarovalnica Triglav Re, d.d., Ljubljana

The accompanying summary financial statements of Pozavarovalnica Triglav Re, d.d., Ljubljana, which comprise the summary statement of financial position as at 31 December 2011, the summary income statement, summary statement of comprehensive income, summary statement of changes in equity and summary cash flow statement for the year then ended, and related notes, are derived from the audited financial statements of Pozavarovalnica Triglav Re, d.d., Ljubljana for the year ended December 31, 2011. We expressed an unmodified audit opinion on those financial statements and included a paragraph on emphasis of matter in our report dated 10 May 2012. Those financial statements, and the summary financial statements, do not reflect the effects of events that occurred subsequent to the date of our report on those financial statements.

The summary financial statements do not contain all the disclosures required by International Financial Reporting Standards as adopted by the European Union. Reading the summary financial statements, therefore, is not a substitute for reading the audited financial statements of Pozavarovalnica Triglav Re, d.d.

Management's Responsibility for the Summary Financial Statements

Management is responsible for the preparation of a summary of the audited financial statements on the basis described in Note 9.3.

Auditor's Responsibility

Our responsibility is to express an opinion on the summary financial statements based on our procedures, which were conducted in accordance with International Standard on Auditing (IAS) 810, *Engagements to Report on Summary Financial Statements.*

Opinion

In our opinion, the summary financial statements derived from the audited financial statements of Pozavarovalnica Triglav Re, d.d., Ljubljana for the year ended 31 December 2011 are consistent, in all material respects, with those financial statements, on the basis described in Note 9.3. Without qualifying our opinion we draw your attention as already in our report on the financial statements dated 10 May 2012, referring to inconsistency of requirements in the Insurance Act with the International Financial Reporting Standards as adopted by the European Union. The Company forms and discloses equalisation provisions within equity in accordance with the International Financial Reporting Standards as adopted by the European Union. If these financial statements would be prepared according to provisions of the Insurance Act, these equalisation provisions would have been formed and charged against the operating profit or loss and disclosed among technical provisions.

KPMG SLOVENIJA,
podjetje za revidiranje, d.o.o.

Simona Korošec Lavrič, M.Sc.Ec.
Certified Auditor

Katarina Sitar Šuštar, B.Sc.Ec.
Certified Auditor
Partner

Ljubljana, 28 June 2012

KPMG Slovenija, d.o.o.
1

Asia wakes up smiling. Wise men have invented a trick to soothe bad news and their consequences a long time ago. Their advice is to react to any news, even if it is really bad, with a smile. Maybe you won't notice its effect right away, but any conversation is much nicer **with a smile on your face.**

Asia 6:45

3

COMPANY PROFILE

3.1 Profile of Pozavarovalnica Triglav Re

Company name:	Triglav Re, Reinsurance Company Ltd.
Short name:	Triglav Re d. d.
Legal form:	Company limited by shares
Registered seat:	Miklošičeva 19, 1000 Ljubljana
Web site:	www.triglavre.si
E-mail:	mail@triglavre.si
Company identification number:	13 62 992
Tax number:	16465423
Entered in the Companies Register:	District Court in Ljubljana, Entry No. 1/31/403/00
Share capital:	EUR 4,950,000.00
President of the Management Board:	Gojko Kavčič
President of the Supervisory Board:	Andrej Slapar
Activity according to the Standard Classification of Activities:	Reinsurance

3.2 Development overview of the Company

3.2.1 History of Triglav Re

The beginnings of Triglav Re date back into 1999. In its first year of operation, the Company only reinsured the portfolio of Zavarovalnica Triglav d.d., and fulfilled its founders' expectations, since it operated well and generated profit, having, at the same time, an important impact on risk equalisation and management on the Slovene market. It was only in the 2000 financial year that the Company started to underwrite business from international markets.

Employing a prudent and conservative approach to the acceptance of risks and taking into account all elements of risk management, Triglav Re completed a capital increase procedure in 2001 and, in the following years, developed into a serious and reliable partner in the European reinsurance market. Its reputation has grown in particular in Central Europe.

The year 2008 was a milestone for Triglav Re with regard to its future activities, since Standard & Poor's rating agency assigned it an "A" rating. In 2009 the rating was upgraded to an A with stable outlook, which the Company retained in 2011 despite tense market conditions; however, the medium-term outlook was negative.

3.2.2 Anticipated development of Triglav Re in 2012

Despite the dire economic conditions in recent years, Triglav Re expects favourable further development. The assigned good credit ratings have strengthened the Company's market position. In addition to the confirmed financial stability of operation, the Company now has better access to reinsurance markets, where in the past cooperation was possible only with an adequate rating, due to either the requirement of local regulators or the internal rules of cedants.

In accordance with its business plan for 2012, Triglav Re will, along with the realisation of its reinsurance programme within the Triglav Group in Slovenia and abroad, continue to focus on the acquisition of reinsurance business with cedants outside the Group. As in the past, its growth will be based on a conservative underwriting policy and the further preservation of a stable and profit-generating portfolio.

3.3 Information on the Triglav Group

Pozavarovalnica Triglav Re is a company controlled by Zavarovalnica Triglav d.d., Miklošičeva 19, Ljubljana.

In addition to Triglav Re, the Triglav Group comprised the following companies in 2011:

- Triglav, Zdravstvena zavarovalnica d.d., Koper,
- Triglav Osiguranje d.d., Zagreb, Croatia,
- Triglav BH Osiguranje d.d., Sarajevo, Bosnia and Herzegovina,
- Triglav Pojišťovna a.s., Brno, Czech Republic,
- Lovćen Osiguranje a.d., Podgorica, Montenegro,
- Triglav Kopaonik a.d.o., Belgrade, Serbia,
- Triglav Krajina Kopaonik a.d., Banja Luka, Republic Srpska, Bosnia and Herzegovina,
- Vardar osiguruvanje a.d., Skopje, FYR of Macedonia,
- Triglav DZU d.o.o., Ljubljana, Slovenia,
- Triglav Naložbe, finančna družba d.d., Ljubljana, Slovenia,
- Triglav penzijski fondovi, a.d., Belgrade, Serbia,
- TRI - PRO d.o.o., Domžale, Slovenia,
- TRI - PRO BH d.o.o., Sarajevo, Bosnia and Herzegovina,
- AS Triglav-servis and trgovina d.o.o., Ljubljana, Slovenia,
- Triglav nepremičnine, upravljanje and svetovanje d.d., Ljubljana, Slovenia,
- Slovenijales d.d., Ljubljana, Slovenia,
- Golf Arboretum d.o.o., Radomlje, Slovenia,
- Gradis IPGI d.d., Ljubljana, Slovenia,
- Triglav INT, holdinška družba d.d.,
- Hotel Grad Podvin d.d.,

- Slovenijales trgovina d.o.o.,
- Autocentar BH d.o.o.,
- Unis automobili i dijelovi d.o.o.,
- Sarajevostan d.d.,
- Lovćen Auto a.d.o.,
- Lovćen životna osiguranja,
- PROF-IN d.o.o.,
- Polara Invest d.d.,
- Zdravstveni center morje d.o.o.,
- Poslovno hotelsko stanovanjski center Štemarje d.o.o.,
- Turistično hotelsko podjetje KRONA d.o.o..

3.4 Shareholder's equity and shareholders of the Company

As at 31 December 2011, the total equity of Triglav Re amounted to EUR 36,088,970. The share capital in the amount of EUR 4,950,000 is divided into 15,000 ordinary registered no-par value shares. Each share amounts to EUR 330, representing an equal portion and corresponding amount in the share capital.

As at 31 December 2011, the shareholder's equity was divided among the following shareholders:

	OWNERSHIP (in %)	NUMBER OF SHARES
Zavarovalnica Triglav d.d.	87.00	13,050
Nova Ljubljanska banka d.d.	5.00	750
FMR d.d., Idrija	1.33	200
Petrol d.d.	2.00	300
Maksima Holding d.d.	2.00	300
Sava d.d.	2.00	300
Helios Domžale d.d.	0.67	100
TOTAL	100.00	15,000

3.5 Credit rating of the Company

On November 21, 2011, Standard & Poor's Rating Services affirmed the rating on Triglav Re, which was still A (stable outlook). On January 17, 2012, Standard & Poor's affirmed again an A rating on Triglav Re, but has assigned a negative long-term forecast.

Early evening hours make people hurry towards subways and onwards towards home. At first glance their day is the same as any other, but inhabitants who live in the capital of the Land of the Rising Sun know that **small improvements lead to big changes.** Do not be afraid of slow progress; be afraid of being stuck in one place.

Asia 18:55

4

GENERAL ECONOMIC ENVIRONMENT IN 2011

4.1 Economic environment in 2011[1]

Last year's forecasts for the revitalisation of economic and financial markets did not materialise to the expected extent. It remains unclear when the global recession will end, as the recovery of advanced economies is slower than anticipated, and fiscal and financial market conditions are worsening.

The growth of public debt in Europe and natural disasters had a major impact on the economic environment and consequently on the operating performance of Triglav Re in 2011. High economic growth from 2010 dropped in 2011, primarily because domestic consumption could not follow the fiscal stimulations implemented by most developed countries. The reasons for this vary from country to country, however the major ones are stricter conditions for retail borrowing, imposed by the banks, and high household indebtedness.

The reporting year also saw unexpectedly high inflation around the world, mainly due to the growth in oil prices. The price of a barrel of oil increased from USD 95 to USD 127 in April and then remained at approximately USD 100/barrel throughout the year.

Consumption in the developed world was low. It was accompanied by increasing unemployment throughout 2011. Employment slowed down, particularly in public services. Due to economic downturn, further decrease of the employment rate and increase of unemployment are expected in 2012.

Economic outlook for 2011 and 2012

	Real GDP Growth			Consumer Price Index			Unemployment		
	2010	2011	2012	2010	2011	2012	2010	2011	2012
Advanced Economies	3.1	1.6	1.9	1.6	2.6	1.4	8.3	7.9	7.9
Euro Area	1.8	1.6	1.1	1.6	2.5	1.5	10.1	9.9	9.9
Great Britain	1.4	1.1	1.6	3.3	4.5	2.4	7.9	7.8	7.8
Sweden	5.7	4.4	3.8	1.9	3.0	2.5	8.4	7.4	6.6
Slovenia	1.2	1.9	2.0	1.8	1.8	2.1	7.3	8.2	8.0
Israel	4.8	4.8	3.6	2.7	3.4	1.6	6.7	5.9	5.8
Korea	6.2	3.9	4.4	3.0	4.5	3.5	3.7	3.3	3.3
Japan	4.0	-0.5	2.3	-0.7	-0.4	-0.5	5.1	4.9	4.8
USA	3.0	1.5	1.8	1.6	3.0	1.2	9.6	9.1	9.0

Source: IMF, World Economic Outlook, September 2011.

[1] The macroeconomic platform is based on the "World Economic Outlook Database", issued by the International Monetary Found (IMF) in April 2011.

4.2 Capital markets

Financial markets became increasingly sceptical about the ability to decrease public debt in many countries. Initially these doubts about the possibility of decreasing public debt were related to a few small peripheral European countries; however, the drop in economic growth expanded these doubts to most European countries as well as Japan and the USA. In August the European Central Bank intervened in capital markets with regards to Italian and Spanish government bonds, in order to prevent the broadening of the crisis. Neither the increased capacity of the European Rescue Fund nor the adoption of stricter deficit-related reforms prevented the further worsening of conditions in capital markets. The doubts also spread to banks with the bonds of indebted countries in their portfolio, which caused the decrease in the prices of the equities.

As expected, currency trends were very volatile. The value of the euro against the US dollar was varying throughout the year. At the beginning of 2011, the high economic growth in Germany caused the appreciation of the euro against other currencies. In the second half of 2011, investors lost trust in the euro and turned to the yen.

Due to increasing inflation, the European Central Bank initially increased the key interest rate in April and July of 2011. However, it was decreased back to approximately 1 percent toward the end of the year. In the USA, the Federal Reserve retained the interest rate between 0 and 0.25 percent, and the Japanese Central Bank's interest rate ranged even lower, between 0 and 0.1 percent.

4.3 Insurance market

Poor global economic conditions in 2011 had some impact on the reinsurance market. Due to worsened economic conditions, the demand for insurance in developed countries was somewhat lower. This, however, did not have a major impact on the growth of gross reinsurance premiums for non-life insurance, which were even slightly higher than the year before, due to price increases. Likewise, the demand for insurance coverage in the emerging markets increased considerably, with favourable impact on the growth of written premiums.

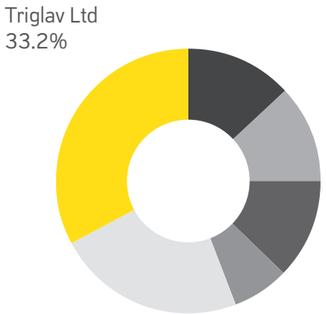
As early as the beginning of 2011, reinsurance companies suffered a catastrophic loss, which had a significant effect on their operations. Consequently, the market conditions for reinsurers improved following the new recovery in 2011, particularly in the natural disaster coverage.

4.4 Insurance business in Slovenia

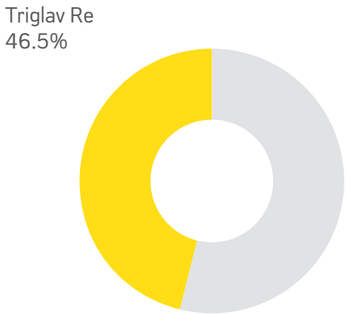
The insurance business holds, next to banking, the leading position in terms of balance sheet total and represents the second most important market segment. In 2011, nineteen (19) insurance and two (2) reinsurance companies operated in the Slovene insurance market. In total, insurance companies wrote EUR 2.1 billion in premiums in 2011. The bulk of that amount (69 percent) was generated in non-life insurance and 31 percent in life insurance business.

The degree of concentration in the Slovene insurance market is rather high, since in 2011 the four largest insurance companies controlled 70 percent of the market. With a 33-percent market share, Zavarovalnica Triglav continues to hold the leading market position among traditional insurance companies. The market share of Zavarovalnica Triglav together with Triglav Zdravstvena zavarovalnica totalled 37 percent in 2011.

MARKET SHARES OF INSURANCE COMPANIES ON THE SLOVENE MARKET



MARKET SHARES OF REINSURANCE COMPANIES ON THE SLOVENE MARKET



The beautiful Scheherazade told stories to the King Shahryar night after night, but never finished them. The King gave her another day of life again and again because he was curious how they ended. The stories that are told in the North Africa today are different, but all share the hidden Scheherazade thought – **each day deserves to be given a chance** to become most beautiful.

North Africa

9:15

5

RISK MANAGEMENT

This chapter gives a general description of risk management in Triglav Re, while additional analysis of risks in the Company is presented in Chapter 12 (The accounting part of the annual report).

Risk management has become one of the most important functions in the insurance and reinsurance industries. With a view to the incoming Solvency II regime, an increasing amount of time is devoted to risk management, which has gradually been introduced in all business processes. In accordance with the Insurance Act and other implementing regulations, Triglav Re ensures, both in the Company's day-to-day operations and in its planning and implementing the long-term goals of its business policy, that the Company:

- disposes of adequate capital based on the volume and class of reinsurance business being performed, and manages to a maximum extent the risks to which it is exposed in such classes of business (capital adequacy of Triglav Re);
- duly meets its matured liabilities (operating liquidity) and is permanently capable of fulfilling all of its liabilities (operating solvency);
- manages the risks to which the Company is exposed in individual or all classes of the reinsurance business and takes care that they do not exceed the legally prescribed limits.

In compliance with statutory provisions and deadlines, Triglav Re calculates and determines:

- the capital level and capital requirements;
- capital adequacy;
- the level of technical provisions;
- the level of assets backing liabilities;
- the types, spreads, matching and localisation of placements of assets backing liabilities;
- other statistical insurance data.

Triglav Re recognises the risks related to all of the above items. The level of the required and the available capital is verified in compliance with statutory provisions; furthermore, Triglav Re calculates its capital adequacy at least once a year, and examines the levels of various types of risks by applying the S&P capital adequacy model and the fifth quantitative impact study on Solvency II (QIS5). Based on these calculations, Triglav Re then adopts and implements appropriate risk mitigation measures and, at the same time, monitors the trend and behaviour of each type of risk.

Within the scope of risk management measures, Triglav Re and its Board of Management are also responsible for implementing the programme for the reinsurance of the risks assumed and for managing its resources and investments in a manner guaranteeing the capital adequacy, solvency and liquidity of the Company's operations.

The Internal Auditing Department plays an important role in risk management; it helps the Board of Management of Triglav Re to identify, assess and manage risks.

In 2011, the Risk Management Committee continued to perform its tasks, i.e. the survey and control of all risks encountered by the Company. The main responsibilities of the Risk Management Committee in 2011 comprised the survey and control of activities in relation to Solvency II, the S&P capital adequacy model, the business continuity project, and the investment policy.

5.1 Capital and capital requirements

Triglav Re calculates capital and capital requirements in line with the Insurance Act, IFRS and other implementing regulations governing the method and scope of including individual items in the calculation of the Company's capital and capital adequacy, the more detailed characteristics and types of items to be considered in the calculation of capital and capital adequacy, the more detailed characteristics of subordinated debt instruments and illiquid assets, and the more detailed rules for the calculation of the minimum capital of Triglav Re.

Triglav Re calculates capital adequacy only for the class of non-life insurance, because the Company does not deal with life insurance except to reinsure it against the risk of death (excluding the savings part), and retrocedes the majority of the assumed risks to foreign reinsurance companies.

The capital adequacy of the Company is also calculated within the Standard & Poor's requirements as part of the credit rating assignment and review process. Triglav Re endeavours to maintain the present Standard & Poor's "A" rating, which is, however, to a great extent also related to the credit rating of the parent company Zavarovalnica Triglav.

With regard to capital adequacy, the requirements of the parent company towards Triglav Re are equal to those set by Standard & Poor's Rating Services.

Triglav Re is making the necessary preparations to introduce a new method of capital adequacy calculation to meet the requirements of Solvency II, emphasising the importance of proper risk management and internal control. Thus, Triglav Re actively participated in the fifth quantitative impact study (QIS 5) in 2011, and applied the standard formula to calculate its capital adequacy.

5.2 Technical provisions

Triglav Re sets aside technical provisions, appropriate by substance and amount, for all assumed reinsurance business, both for the reinsurance business assumed in the current year and for that assumed for equalisation since the Company's establishment. The risk related to technical provisions is the possible risk that technical provisions are smaller than they should be. This risk has been managed primarily by comparing previous provisions for outstanding claims with subsequent actual liabilities incurred, by applying actuarial methods in formation of specific technical provisions, and by the prudent formation of provisions for outstanding claims.

Pursuant to the Insurance Act and implementing regulations on the more detailed rules and minimum standards for the calculation of technical provisions, Triglav Re makes provisions for unearned premiums, provisions for outstanding claims, equalisation provisions for credit insurance (recorded under equity), provisions for bonuses, rebates and cancellations, and other technical provisions, such as provisions for unexpired risks. Such calculated provisions constitute the basis for the preparation of financial statements in compliance with the IFRS. The level of the set-aside technical provisions is verified with the liability adequacy test (LAT). In case of non-life insurance, liabilities are subject to a liability adequacy test only for unearned premium provisions, while the provisions for outstanding claims and provisions for bonuses and rebates are deemed to be made in an adequate amount, and therefore the application of the

liability adequacy test is not needed. In the adequacy tests of provisions for unearned premiums, Triglav Re considers the difference between the sum of expected claims and expected expenses, i.e. between the combined ratio and unearned premium provisions (see detailed explanation under item 9.7.1).

The thus formed technical provisions shall be adequate and sufficient to ensure a permanent capacity to meet all liabilities of Triglav Re from reinsurance contracts, and has to comply with statutory requirements. The suitability of their calculation is audited and approved by the appointed certified actuary of Triglav Re.

5.3 Reinsurance risks

Reinsurance risks refer to the uncertainty of reinsurance events. These are the risks that reinsurance claims are higher than expected and/or that premiums earned are lower than expected.

Premium risk management is the responsibility of the heads of departments who underwrite reinsurance transactions. They take care that all the procedures related to the conclusion of reinsurance contracts are carried out at a highly professional level. In addition, they are responsible for designing a strategy regarding the reinsurance portfolio exposure to particular catastrophe events and regions.

A key aspect of the reinsurance risk faced by Triglav Re is the concentration of reinsurance risk arising from a particular event or series of events. Such a concentration may arise through a number of reinsurance contracts with the same territorial scope of cover. It could also arise from the accumulation of risks within a number of different insurance classes. Concentrations of risk can arise in low frequency loss events (such as natural disasters), in situations in which the Company is exposed to unexpected changes in trends (e.g. unexpected changes in human mortality) or unexpected changes in legislation that could have an impact on policy proceeds or damages.

It is very difficult to estimate the amount of claims, since the settlement of loss incurred prior to the balance sheet date depends on future events and their development. In this context, the provisioning risk arises. The amount of provisions for claims is calculated in compliance with the actuarial practice based on realisable assumptions, methods and estimates, while the assumptions are regularly tested and adjusted.

5.4 Financial assets and liabilities from reinsurance contracts

Triglav Re forms appropriate assets backing liabilities for the purpose of meeting future liabilities from completed reinsurance business, on the basis of which the Company is required to set up technical provisions.

For the purpose of preserving and upgrading the value of its assets backing liabilities, Triglav Re consistently observes the principles of safety, profitability and marketability of investments, and simultaneously provides for the adequate maturity, diversity and dispersion of its investment portfolio. Triglav Re intends to continue pursuing such an investment policy in the future.

Triglav Re has evaluated the assets backing liabilities in accordance with International Accounting Standards, the Insurance Act, and the relevant implementing regulations governing this sphere of activity.

5.5 Retrocession

With an appropriate reinsurance programme, Triglav Re covers the portion of risks underwritten that exceeds its own shares in the risk equalisation specified in the Company's tables of maximum coverage. The tables of maximum coverage contain pre-set limits for each class of insurance, whereby the level of maximum coverage varies from one class of insurance to another.

Triglav Re manages retrocession risk by selecting reassurers with low credit risk. The selection of a reinsurer is based on the credit rating assigned to it by one of the major credit rating agencies.

5.1 Operational risks

Triglav Re devotes continual attention to the management of operational risks in particular. Operational risks are divided into:

- organisation and business process risks (disturbances in the work process, lack of information, disruption in continuous operation, inappropriate cost management, poorly organised and controlled documentation, inadequate management of internal changes, etc.);
- staffing risk (inappropriate human resource management, inadequate staffing, unsuitable internal rules, etc.);
- information technology risk (inappropriate IT applications and IT infrastructure, technical tools, etc.); and
- legal risk (changes in legislation, loss of credit rating, competition, etc.).

Efficient management of operational risks is based on a system of internal controls that are improved and upgraded from year to year. Triglav Re manages the organisation and business process risks by adjusting internal organisation, delimitation or responsibilities and the gradual computerisation of business processes. Triglav Re manages staffing risks by applying a system of knowledge transfer among its employees and with consistent education and training. The key element of managing information technology risk is the restructuring of the information system that will support all reinsurance processes, while the key part of legal risk management lies in the continuous monitoring of new legislation and the active participation of a legal expert in all business decisions.

5.2 Financial risks

Financial risks comprise liquidity risk, credit risk and market risk. The theoretical part of financial risks is presented below, while its quantitative impact is explained under item 12.4.

Liquidity risk
Triglav Re ensures its liquidity with investments in a manner allowing it to meet, at any given moment, all of its matured liabilities. Within the scope of liquidity management, Triglav Re provides for the regular fulfilment of its obligations; the Company regularly monitors its liquidity position, and calculates the liquidity ratio on a weekly basis.

Credit risk
Credit risk is defined as the risk of losses incurred by Triglav Re as a consequence of the changed financial situation of its business partners, issuers of securities and other debtors with outstanding liabilities to Triglav Re. In compliance with the Insurance Act, implementing regulations issued by the Insurance Supervision Agency, and its own internal rules, Triglav Re manages its credit risks by investing its funds surplus in bank deposits and/or debt securities of companies with proper credit ratings, regularly monitored by the Company.

Market risk
Market risk is the risk of loss arising from adverse changes in market variables (price, interest rate, foreign currency exchange rate). Triglav Re devotes much attention to all three types of market risk that can have substantial impact on the market value of investments.

Latin America dances into the night with sounds of the Brazilian samba and Argentinian tango. Dance is its life and life is passion for its dancers. When you dance, don't try to dance better than others, dance as if you are trying to **overcome yourself.**

South America 22:00

6

FINANCIAL RESULT

In 2011, Triglav Re generated profit in the amount of EUR 2,962,396, which primarily resulted from favourable claims developments in eastern and southern Europe compared to the rest of the world.

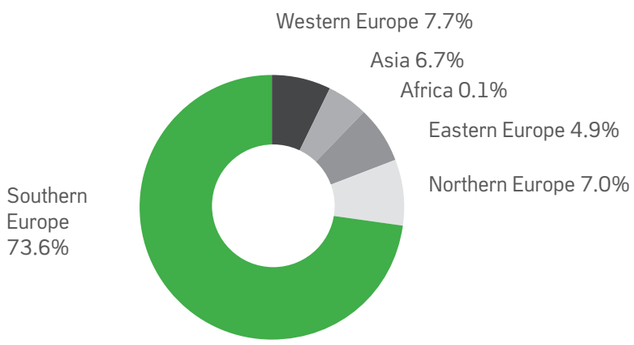
6.1 Reinsurance premiums

In 2011, the gross reinsurance premium amounted to EUR 121,931,838 and increased by 1.5 percent compared to 2010, mostly on the back of higher gross reinsurance premiums from contracts with the parent company Triglav. Triglav Re received 33,9 percent of gross premiums from cedents outside the Triglav Group.

in EUR

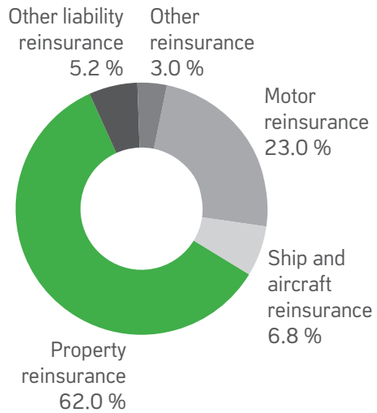
	YEAR 2011	YEAR 2010	INDEX	PLAN 2011	INDEX TO PLAN
Gross premium - Triglav Group	80,566,374	76,250,229	105.7	78,015,046	103.3
Gross premium - outside the Group	41,365,464	43,917,009	94.2	38,732,920	106.8
TOTAL GROSS PREMIUM	121,931,838	120,167,238	101.5	116,747,966	104.4
TOTAL NET PREMIUM	64,188,409	67,765,398	94.7	63,692,942	100.8

DIVISION OF GROSS REINSURANCE PREMIUMS BY REGIONS

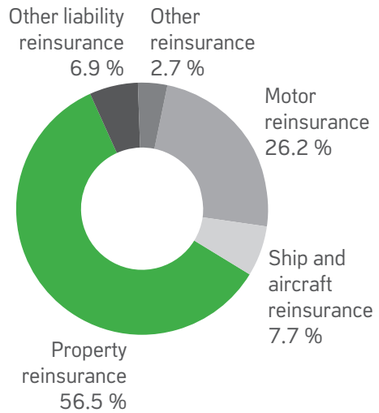


In comparison to the previous year, net premium fell by 5.3 percent as a consequence of increased outward reinsurance in 2011.

STRUCTURE OF GROSS REINSURANCE PREMIUM IN 2011



STRUCTURE OF NET REINSURANCE PREMIUM IN 2011



Note: Gross reinsurance premium by class of insurance is presented in the Appendix on performance indicators.

The largest portion in the structure of gross reinsurance premiums is represented by property insurance. In 2011 it increased by 2.4 percent compared to 2010, whereas the share of motor insurance fell by 3.1 percent in 2011. This is similarly true of net reinsurance premiums, where the share of net property and other liability reinsurance premiums increased by 0.9 percent in 2011, while the share of motor reinsurance fell by 1.0 percent.

Net reinsurance premium income (calculated from gross reinsurance premiums, reduced by reinsurers' share and adjusted by the change in gross unearned premium corrected for the reinsurers' share in unearned premium) reached EUR 63,309,963 in 2011 and decreased by 5.8 percent compared to 2010.

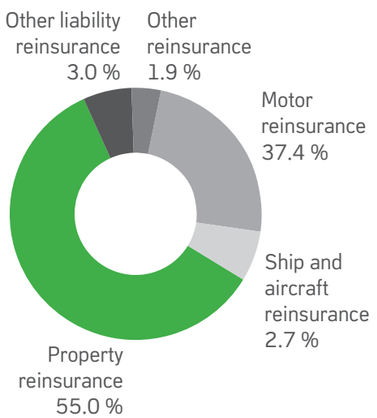
6.2 Reinsurance claims

With regard to the preceding year, gross claims fell by 10.1 percent in 2011 and amounted to EUR 55,572,858. The decrease in claims is primarily the consequence of fewer weather disasters, particularly in Slovenia and within the Triglav Group. In 2011, gross claims were 10.8 percent below the planned level, while net claims were 1.1 percent below the planned value.

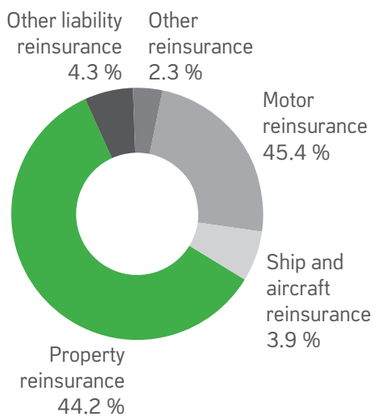
in EUR

	YEAR 2011	YEAR 2010	INDEX	PLAN 2011	INDEX TO PLAN
Gross claims – Triglav Group	31,812,869	41,907,386	75.9	39,999,107	79.5
Gross claims – outside the Triglav Group	23,759,989	19,929,997	119.2	22,300,841	106.5
TOTAL GROSS CLAIMS	55,572,858	61,837,383	89.9	62,299,948	89.2
TOTAL NET CLAIMS	36,965,276	34,990,348	105.6	36,555,450	101.1

STRUCTURE OF GROSS REINSURANCE CLAIMS IN 2011



STRUCTURE OF NET REINSURANCE CLAIMS IN 2011



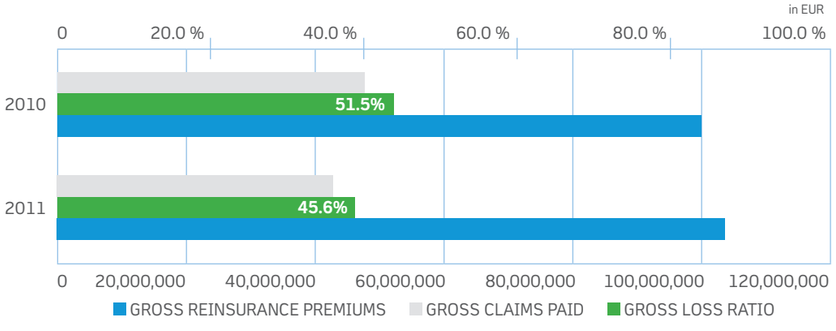
NOTE: Gross reinsurance claims by class of insurance are presented in the Item on performance indicators.

In 2011, the majority of gross claims were related to property and motor reinsurance. Compared to 2010, the highest increase in gross claims was recorded in other liability reinsurance with 2.4 percent, while the share of gross claims in motor reinsurance fell by 3 percent. The structure of net claims in 2011 is similar, where the majority of net claims also refers to property reinsurance (56.7 percent) and 28.1 percent to motor reinsurance.

In 2011, net claims incurred (gross claims incurred, reduced by reinsurers' share and adjusted by the change in gross provisions for claims corrected for the reinsurers' share in these provisions) were recorded in the amount of EUR 45,505,082, and were by 2.8 percent higher than net claims incurred in 2010.

6.3 Gross loss ratio

In 2011, the gross loss ratio representing the relation between gross claims paid and gross premiums fell by 5.9 percentage points on the account of lower claims incurred, predominantly due to fewer weather disasters in southern and eastern Europe.



6.4 Commission income and expense

Commission income amounted to EUR 10,990,672 in 2011 and increased by 29.2 percent compared to the preceding year. However, commission expenses decreased by 0.9 percent and amounted to EUR 24,437,779 in 2011, so that net commission expense totalled EUR 13,447,106 in 2011.

6.5 Financial income and expense

As at 31 December 2011, financial assets amounted to EUR 106,913,581 and grew by 5.5 percent, i.e. EUR 5,607,440 in comparison to the preceding year.

STRUCTURE OF TRIGLAV RE FINANCIAL ASSETS

in EUR

	31. 12. 2011	STR. 2011	31. 12. 2010	STR. 2010	INDEX
Shares and other variable yield securities	1,270,555	1%	2,080,529	2%	61.1
Debt securities and other fixed yield securities	85,296,537	80%	80,272,673	79%	106.3
Shares in investment funds	1,633,637	2%	3,449,516	3%	47.4
Bank deposits	14,988,235	14%	12,369,531	12%	121.2
Other financial investments	10,000	0%	30,907	0%	32.4
Reinsurer's investments from reinsurance contracts	3,714,618	3%	3,102,985	3%	119.7
TOTAL FINANCIAL INVESTMENTS	106,913,581	100%	101,306,141	100%	105.5

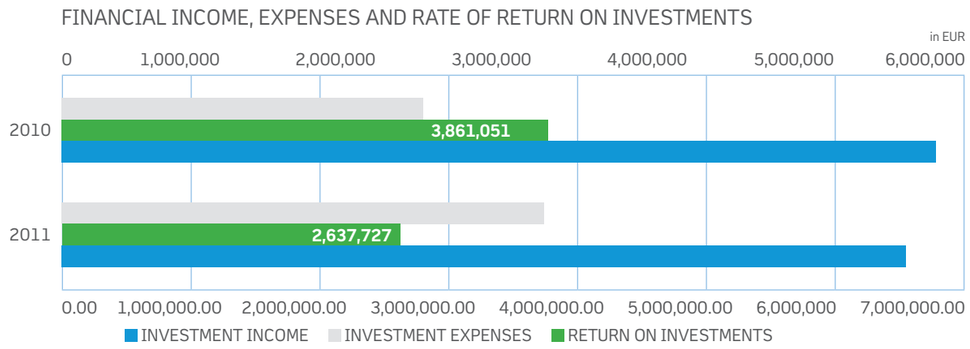
As at 31 December 2011, Triglav Re disclosed the following state of investments, classified by maturity:

- long-term financial investments in the amount of EUR 100,863,084;
- short-term financial assets in the amount of EUR 2,335,856;
  - o financial investments in member companies of the Triglav Group in the amount of EUR 23;
  - o retained premiums with cedants, which Triglav Re holds from reinsurance contracts, totalling EUR 3,714,618.

Debt securities represent the largest share of all investments, followed by deposits with banks and investments of reinsurers under reinsurance contracts, whereas interests in investment funds and shares take the smallest percentage in the investment structure.

The structure of different investment types remained very similar to the previous year. The share of deposits with banks and the share of debt securities somewhat decreased, the proportion of shares and interests in investment funds slightly decreased, while the share of investments of reinsurers under reinsurance contracts remained at the same level as in the previous year.

The book rate of return on the entire investment portfolio reached 2.5 percent in 2011, compared to 4.0 percent in the preceding year.



In 2011, financial income amounted to EUR 6,500,113 and financial expenses to EUR 3,862,386, while total return on investments resulted in EUR 2,637,727, i.e. only 68.3 percent of the figure for 2010.

In 2011, Triglav Re pursued a rather conservative investment policy. Taking into consideration the principles of security, profitability and marketability, the structure of the investment portfolio was optimised with adequate maturity, diversity and dispersion of investments of assets backing liabilities and of own funds. In 2012, the Company will continue to carefully monitor the uncertain financial situation and will, accordingly, invest funds in less risky and yet reasonably profitable investments.

6.6 Operating expenses

In 2011 gross operating expenses decreased by 2.7 percent in comparison to the preceding year. Depreciation expenses were lower by 15.3 percent in comparison to the preceding year, mainly due to the purchase of not effected purchase of new software and hardware, which was not realised. Costs of labour decreased as well, i.e. by 2.3 percent, mainly due to not hiring new staff to substitute those who left their positions. Other operating costs and expenses fell by 0.6 percent.

in EUR

	YEAR 2011	YEAR 2010	INDEX
Depreciation of operating assets	84,028	99,173	84.7
Labour costs	2,052,158	2,101,082	97.7
Costs of services by persons other than SPs, incl. contrib.	0	13,340	0.0
Other operating costs and expenses	846,245	851,445	99.4
OPERATING EXPENSES	2,982,431	3,065,041	97.3

6.7 Financial result ratios

	YEAR 2011	YEAR 2010
Rate of retention	52.6%	56.4%
Share of gross premium outside the Group in total gross premium	33.9%	36.5%
Share of net operating expenses in gross premium	2.4%	2.6%
Loss ratio	71.9%	65.9%
Expense ratio	26.4%	28.9%
Combined ratio	98.3%	94.8%

When the black continent goes to sleep, not even the biggest and strongest remain safe under the veil of the night. In order to survive, nature joined them into packs, flocks and herds and taught us that **connections ensure further existence and successful evolution** even in the modern world.

Africa 20:00

7

FINANCIAL POSITION

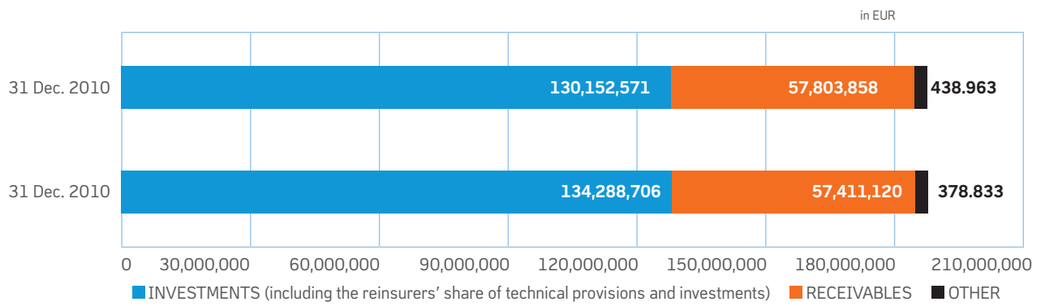
As at 31 December 2011, the balance sheet total of Triglav Re amounted to EUR 192,078,660, increasing by 2.0 percent compared to the end of 2010.

7.1 Assets

As at 31 December 2011, the financial assets, which constitute 69.9 percent of total assets, were up 3.2 percent from 31 December 2010, whereas receivables, accounting for 29.9 percent of total assets, fell by 0.7 percent.

On the assets side, the greatest increase in comparison with the preceding year was recorded in other assets (index 409.9), mainly due to stricter cost accrual, while intangible assets decreased compared to the previous year.

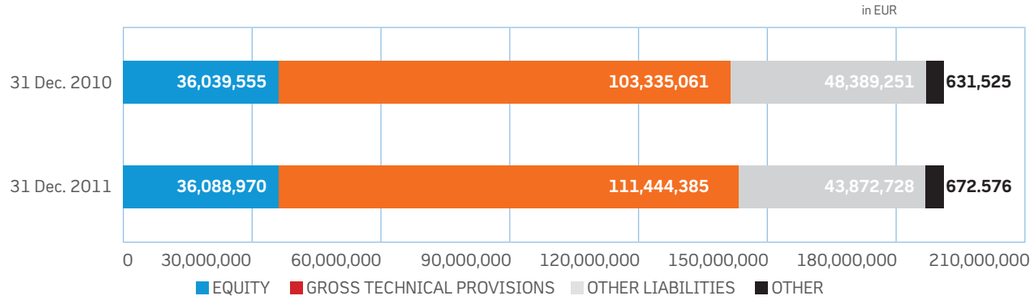
STRUCTURE OF ASSETS



7.2 Liabilities

The largest portion of liabilities constitutes gross technical provisions, reaching as much as 58.0 percent. As at 31 December 2011, the total equity of Triglav Re amounted to EUR 36,088,970 and increased by only 0.1 percent in comparison to 31 December 2010, primarily due to the decrease in fair value reserve on account of falling asset value. A material share of liabilities (22.8 percent) is represented by other liabilities, which as at 31 December 2011 amounted to EUR 43,872,728 and are mainly related to liabilities from the reinsurance business.

STRUCTURE OF LIABILITIES



7.3 Financial position ratios

	YEAR 2011	YEAR 2010
Share of equity in total liabilities	18.8%	19.1%
Return on equity	16.9%	17.8%
Gross technical provisions as % of total liabilities	58.0%	54.9%
Financial assets as % of total assets	55.7%	53.8%
Capital surplus (KUS)	19,715,066	17,143,620

North African markets beat in the rhythm of workshops where workers and their assistants create every-day objects. No matter how simple they are, their quality is not coincidental. It is always a result of a carefully thought through work and realization and is always **the best decision among many options.**

North Africa

8:30

ACCOUNTING REPORT

8

FINANCIAL STATEMENTS

8.1 Statement of financial position

in EUR

	Note	BALANCE AS AT 31 Dec, 2011	BALANCE AS AT 31 Dec, 2010
ASSETS		192,078,660	188,395,392
Intangible assets	10.1	57,544	96,374
Property, plant and equipment	10.2	213,218	209,482
Deferred tax assets	10.3	990,725	149,217
Financial investments:	10.4	106,913,581	101,306,141
- loans and deposits		24,498,578	21,177,264
- available for sale		80,392,999	77,719,804
- recognized at fair value		2,022,004	2,409,073
Reinsurers' share of technical provisions	10.5	27,375,125	28,846,430
Receivables	10.6	56,420,395	57,654,642
- receivables from reinsurance and co-insurance		56,018,113	57,620,184
- current tax assets		371,352	0
- other receivables		30,930	34,458
Other assets		77,645	18,945
Cash and cash equivalents		30,426	114,162
EQUITY AND LIABILITIES		192,078,660	188,395,392
Equity	10.7	36,088,970	36,039,555
- share capital		4,950,000	4,950,000
- share premium		1,146,704	1,146,704
- reserves from profit		2,575,190	2,446,123
- fair value reserve		-1,750,048	964,934
- retained earnings		26,333,795	20,695,574
- net profit for the year		2,833,329	5,836,221
Technical provisions	10.8	111,444,385	103,335,061
- unearned premiums		24,373,121	20,297,228
- provisions for outstanding claims		86,749,736	82,878,681
- other technical provisions		321,529	159,152
Other provisions		119,772	59,384
Operating liabilities	10.9	43,872,728	48,389,251
- liabilities from reinsurance and co-insurance		43,872,728	47,355,851
- current tax liabilities		0	1,033,399
Other liabilities	10.9	552,803	572,141

Notes to financial statements form an integral part of financial statements and shall be read in conjunction with them.

8.2 Income statement

in EUR

	Notes	YEAR 2011	YEAR 2010
NET PREMIUMS EARNED	11.1	63,309,963	67,195,076
- gross reinsurance premiums written		121,931,838	120,167,238
- premiums written ceded for retrocession		-57,743,429	-52,401,840
- change in unearned premiums		-878,446	-570,322
TOTAL INCOME FROM FINANCIAL ASSETS	11.2	6,500,113	6,721,541
OTHER REINSURANCE INCOME	11.3	10,990,672	8,509,032
- commission income		10,990,672	8,509,032
OTHER INCOME		1,288	129,072
NET CLAIMS INCURRED	11.4	-45,505,082	-44,252,310
- gross claims paid		-55,572,858	-61,837,383
- retrocessionaires' share of claims paid		18,607,582	26,847,035
- change in provision for outstanding claims		-8,539,807	-9,261,961
CHANGE IN OTHER TECHNICAL PROVISIONS		-158,996	80,207
EXPENSES FOR BONUSES AND REBATES		-3,381	-6,857
OPERATING EXPENSES	11.5	-2,724,451	-2,869,491
- insurance acquisition costs		-1,069,202	-1,288,543
- other operating expenses		-1,655,249	-1,580,948
EXPENSES FROM FINANCIAL ASSETS AND LIABILITIES	11.2	-3,862,386	-2,860,490
- impairment of financial assets other than recognized at fair value through profit or loss		-924,796	-170,704
- interest expenses		-572,230	-745,948
- losses on disposal of investments		-498,310	-521,191
- other financial expenses		-1,867,050	-1,422,647
OTHER REINSURANCE EXPENSES		-24,735,112	-25,076,655
- commission expenses	11.3	-24,437,779	-24,671,840
- other expenses		-297,333	-404,815
OTHER EXPENSES		-72,934	-56,043
PROFIT BEFORE TAX		3,739,695	7,513,083
TAX EXPENSE	11.6	-777,299	-1,528,992
NET PROFIT FOR THE PERIOD		2,962,396	5,984,091

Basic net earnings per share		197 euro/share	399 euro/share
Diluted net earnings per share		197 euro/share	399 euro/share

Notes to financial statements form an integral part of financial statements and shall be read in conjunction with them.

8.3 Statement of comprehensive income

in EUR

	YEAR 2011	YEAR 2010
Net profit/loss for the year after tax	2,962,396	5,984,091
Other comprehensive income after tax	-2,714,982	-1,189,629
Net gains/losses from the remeasurement of available-for-sale financial assets	-3,393,727	-1,487,036
- gains/losses recognized in fair value reserve	-4,085,923	-1,125,160
- transfer of gains/losses from fair value reserve to profit or loss	692,196	-361,876
Tax on other comprehensive income	678,745	297,407
Comprehensive income for the year after tax	247,414	4,794,462

Notes to financial statements form an integral part of financial statements and shall be read in conjunction with them.

8.4 Statement of cash flows

in EUR

	YEAR 2011	YEAR 2010
CASH FLOW FROM OPERATING ACTIVITIES		
Income statement items	10,965,144	14,994,242
Net written premium for the period	64,188,409	67,765,398
Investment income (excluding financial income), arising from:	4,931,414	5,719,184
technical provisions	4,516,173	5,554,294
other sources	415,241	164,890
Other operating income (excluding revaluation and provisions reductions) and financial income from operating receivables	1,288	129,072
Net claims for the period	-36,965,276	-34,990,348
Bonuses and rebates paid	-3,381	0
Net operating expenses excluding depreciation charges and accrued insurance acquisition expenses	-16,094,797	-18,939,453
Investment expenses (excluding amortization and fin. expenses) financed from:	-3,855,118	-2,854,163
technical sources	-3,658,844	-2,784,049
other sources	-196,274	-70,114
Other operating expenses excluding depreciation charge (except for revaluation and without increasing provisions)	-297,333	-404,815
Income tax and other taxes excluded from operating expenses	-940,062	-1,430,633
Changes in net operating assets (insurance receivables, other receivables, other assets and deferred tax assets and liabilities) - operating items from the statement of financial position	-4,146,670	-4,719,667
- opening less closing reinsurance receivables	1,602,070	-12,041,648
- opening less closing other receivables from (re)insurance operations	0	0
- opening less closing other receivables and assets	-370,124	1,038,762
- opening less closing deferred tax assets	-841,509	339,591
- closing less opening reinsurance liabilities	-3,483,123	5,389,361
- closing less opening other operating liabilities	-1,053,984	1,092,908
- movements in other liabilities (excluding unearned premiums)	0	0
- closing less opening deferred tax liabilities	0	-538,641
Net cash from operating activities	6,818,474	10,274,575
CASH FLOW FROM INVESTING ACTIVITIES		
Cash inflows from investing activities	129,335,760	86,412,974
Interest received from investing activities	681,645	643,337
investments financed from technical provisions	681,645	618,593
other investments	0	24,744
Cash inflow from profit sharing related to investing activities	33,826	0
investments financed from technical provisions	25,028	0
other investments	8,798	0
Cash inflows from the disposal of intangible assets financed from	0	0
technical provisions	0	0
other investments	0	0
Proceeds from disposal of property, plant and equipment items financed from:	23,503	5,824
technical provisions	0	0
other sources	23,503	5,824
Proceeds from disposal of long-term financial investments, financed from:	27,725,385	51,027,711
technical provisions	27,725,385	51,027,711
other sources	0	0
Proceeds from disposal of short-term financial investments, financed from:	100,871,401	34,736,102
technical provisions	100,871,401	34,736,102
other sources	0	0
Proceeds from disposal of investments in subsidiaries and associated companies, financed from:	0	0
technical provisions	0	0
other sources	0	0
Cash outflows from investing activities	-136,039,970	-96,506,294

	YEAR 2011	YEAR 2010
Payments for acquisition of intangible assets	0	-15,669
Payments for acquisition of property, plant and equipment items financed from:	-68,672	-82,688
technical provisions	0	0
other sources	-68,672	-82,688
Payments for acquisition of non-current investments, financed from:	-33,139,578	-75,320,393
technical provisions	-33,139,578	-75,320,393
Payments for acquisition of current investments, financed from:	-102,831,697	-21,087,545
technical provisions	-102,831,697	-21,087,545
other sources	0	0
Payments for acquisition of investments in subsidiaries and associated companies, financed from:	-23	0
technical provisions	0	0
other sources	-23	0
Net cash from investing activities	-6,704,210	-10,093,321
CASH FLOW FROM FINANCING ACTIVITIES		
Cash outflows from financing activities	-198,000	-125,250
Dividends and other shares in profit	-198,000	-125,250
Net cash from financing activities	-198,000	-125,250
Closing balance of cash and cash equivalents	30,426	114,161
x) Net cash for the period	-83,736	56,004
y) Opening balance of cash and cash equivalents	114,162	58,157

Notes to financial statements form an integral part of financial statements and shall be read in conjunction with them.

8.5 Statement of changes in equity for the period from 1 january to 31 december 2011

in EUR

	I. Share capital	II. Share premium	III. Reserves from profit			IV. Revaluation surplus	V. Retained earnings	VI. Net profit/loss	TOTAL EQUITY
			Legal and statutory	Credit risk reserves	Other reserves			Net profit/ loss for the year	
Opening balance 1 January 2010	3,129,695	1,146,704	519,762	1,158,530	619,961	2,154,562	15,684,218	6,956,911	31,370,343
Comprehensive income for the year after tax						-1,189,629		5,984,091	4,794,462
Subscribed or paid-in additional capital	1,820,305						-1,820,305		0
Redemption of equity									0
Net purchase/sale of treasury shares									0
Payment of dividends/ bonus shares									0
Payment of dividends							-125,250		-125,250
Net profit allocation to reserves from profit				147,870				-147,870	0
Covering of losses from previous years									0
Creation and use of reserves for credit risk and catastrophe losses									0
Other							6,956,911	-6,956,911	0
Closing balance 31 December 2010	4,950,000	1,146,704	519,762	1,306,400	619,961	964,933	20,695,575	5,836,221	36,039,555
Opening balance 1 January 2011	4,950,000	1,146,704	519,762	1,306,400	619,961	964,933	20,695,575	5,836,221	36,039,555
Comprehensive income for the year after tax						-2,714,982		2,962,396	247,414
Subscribed or paid-in additional capital									0
Redemption of equity									0
Net purchase/sale of treasury shares									0
Payment of dividends/ bonus shares									0
Payment of dividends							-198,000		-198,000
Net profit allocation to reserves from profit				129,067				-129,067	0
Covering of losses from previous years									0
Creation and use of reserves for credit risk and catastrophe losses									0
Other							5,836,223	-5,836,223	0
Closing balance 31 December 2011	4,950,000	1,146,704	519,762	1,435,467	619,961	-1,750,049	26,333,799	2,833,328	36,088,970
Accumulated profit at 31 December 2010							20,695,575	5,836,221	26,531,796
Accumulated profit at 31 December 2011							26,333,799	2,833,328	29,167,127

Notes to financial statements form an integral part of financial statements and shall be read in conjunction with them.

A legend says that a sultan placed a giant boulder on a roadway and waited to see who will remove it. The courtiers and wealthy merchants avoided the rock until a peasant came by and removed it with much effort. He noticed some gold and a message from the king under the rock, saying they belong to the one who removed the rock. **Every obstacle can present a new opportunity.**

South Europe

18:11

9

NOTES TO FINANCIAL STATEMENTS

9.1 Reporting entity

Triglav Re is a company limited by shares, with its registered seat at Miklošičeva c. 19, Ljubljana. The Company is a reinsurance company reinsuring non-life and life (only death risk) insurance in compliance with the provisions of the Insurance Act.

The Company's major shareholder (87 percent of voting rights) and ultimate controlling company is Zavarovalnica Triglav d.d. with its registered office at Miklošičeva c. 19, in Ljubljana, Slovenia.

Triglav Re is a member company of the Triglav Group. The consolidated annual report for the Triglav Group is prepared by Zavarovalnica Triglav d.d. The annual report of the Triglav Group is available for inspection in the registered office of Zavarovalnica Triglav d.d., Miklošičeva c. 19, Ljubljana, Slovenia.

9.2 Basis of preparation

9.2.1 Statement of compliance

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS), as adopted by the EU. The 2011 financial statements were authorised for issue by the Management Board of Triglav Re in 10. 5. 2012.

The audited 2011 financial statements are adopted by the Supervisory Board of Triglav Re in compliance with the Articles of Association, the Companies Act and IAS 10, and together with the Report of the Supervisory Board presented to the Shareholders' Meeting of Triglav Re for information.

The financial statements of Triglav Re constitute separate financial statements.

9.2.2 Functional and presentation currency

The financial statements are presented in euros, which is the currency of the primary economic environment in which the Company operates, i.e. the Republic of Slovenia. In the financial statements, the amounts are rounded to one euro.

9.2.3 Basis for measurement

The financial statements have been prepared on the historical cost basis, except for financial assets, which are measured at fair value.

9.2.4 Use of estimates and judgements

The preparation of financial statements in conformity with IFRS requires the Management Board to make judgments, estimates and assumptions that affect the application of accounting policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, and information available at the date of preparation of the financial statements, the results of which form the basis of making the judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Such estimates may change the profit or loss.

The estimates and underlying assumptions are reviewed on an on-going basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and any future periods affected.

The estimates and judgements are mostly used in the measurement of premiums, commissions and provisions for reinsurance contracts. See Item 9.5.2.

9.2.5 New standards and interpretations not yet in force

A number of new standards, amendments to standards and interpretations are not yet effective for the year ended 31 December 2011 and have not been applied in preparing these financial statements. These are the following:

- Amendment to IFRS 7: Disclosures - transfers of financial assets
  (Mandatory for annual periods beginning on or after 1 July 2011; earlier application is permitted.)

The amendment stipulates that an entity shall disclose information that enables users of its financial statements:

- to understand the relationship between transferred financial assets that are not derecognised in their entirety and the associated liabilities; and
- to evaluate the nature of, and risk associated with, the entity's continuing involvement in derecognised financial assets.
- The amendment defines "continuing involvement" for disclosure requirement purposes.

The use of the amendment to IFRS 7 will enhance disclosures relating to financial assets that are derecognised in part or in their entirety.

9.3 Significant accounting policies

This report is a summarized version of the Annual report of Triglav Re, d.d. for the year 2011, published in Slovene language. Referring to the full report, it highligths information assessed by management as significant and important.

9.3.1 Property, plant and equipment

Recognition and measurement
Items of property and equipment are measured at cost less accumulated depreciation and impairment losses, if any.

Subsequent costs
The cost of replacing part of an item of property and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Company and its cost can be measured reliably. The costs of the day-to-day servicing of property and equipment are recognised in profit or loss as incurred.

Depreciation
Depreciation is recognised in profit or loss on a straight-line basis over the estimated useful lives of each part of an item of property and equipment.

The estimated useful lives are as follows:

- Equipment 4 years
- Fixtures, fittings and motor vehicles 8 years

Depreciation methods and useful lives are reassessed, and adjusted if appropriate, at each reporting date.

Gains and losses on disposals are determined by comparing proceeds with carrying amount and are included in the income statement.

9.3.2 Intangible assets

Recognition and measurement
Intangible assets that are acquired by Triglav Re and have finite useful lives are measured at cost less accumulated amortisation and accumulated impairment losses.

Subsequent costs
Subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is recognised in profit or loss when incurred.

Amortisation
Amortisation is recognised in profit or loss on a straight-line basis over the estimated useful lives of intangible assets, from the date that they are available for use. The estimated useful lives are as follows:

- Software 5 years

The assets' useful lives are reviewed, and adjusted if appropriate, at each reporting date. Gains and losses on disposals are determined by comparing proceeds with carrying amounts, and are included in the income statement.

9.3.3 Financial instruments

Classification and recognition
The Company classifies its financial instruments in the following categories: financial assets at fair value through profit or loss, loans and receivables, available-for-sale financial assets and trade, and other financial liabilities measured at amortised cost. The classification depends on the purpose for which the financial assets and liabilities were acquired. The Management Board determines the classification of financial assets and financial liabilities at initial recognition.

Financial assets and liabilities at fair value through profit or loss
Financial assets at fair value through profit or loss are financial assets that are classified as held for trading or on initial recognition designated by the Company as at fair value through profit or loss. Derivative financial instruments are always classified as financial instruments held for trading.

As stated above, financial assets at fair value through profit or loss are classified in two sub-categories: financial instruments held for trading, and those designated by the management as at fair value through profit or loss at inception. Assets held for trading are those assets that the Company acquires or takes over principally for the purpose of selling or repurchasing in the near term or holds as a part of a portfolio that is managed together for short-term profit or position taking.

Loans and receivables
Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables arise when Triglav Re provides money to a debtor with no intention of trading with the receivable and include loans to customers, deposits with banks and debt securities for which no active market exists and have been reclassified into this category, pursuant to IAS 39.50E.

Available-for-sale financial assets
Available-for-sale financial assets are non-derivatives that are either designated as available-for-sale financial assets or not classified in any of the other categories. Financial assets designated as available for sale are intended to be held for an indefinite period of time, but may be sold in response to needs for liquidity or changes in interest rates, foreign exchange rates or equity prices. Available-for-sale financial assets include debt securities and equity securities.

Recognition and derecognition
Purchases and sales of financial assets and liabilities at fair value through profit or loss, held-to-maturity investments and available-for-sale financial assets are recognised on the trade date i.e. the date when the Company commits to purchase or sell the instrument. Loans and receivables and financial liabilities at amortised cost are recognised when advanced to borrowers or received from lenders.

Triglav Re derecognises financial assets (in full or part) when the contractual rights to receive cash flows from the financial instrument have expired or when it loses control over the contractual rights on those financial assets. This occurs when the Company substantially transfers all the risks and rewards of ownership to another business entity or when the rights are realised, surrendered or have expired. Triglav Re derecognises financial liabilities only when the financial liability ceases to exist, i.e. when it is discharged, cancelled or has expired. If the terms of a financial liability change, the Company will cease recognising that liability and will instantaneously recognise a new financial liability, with new terms and conditions.

Initial and subsequent measurement
Financial assets and liabilities are recognised initially at their fair value plus, in the case of a financial asset or financial liability not at fair value through profit or loss, or transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability.

After initial recognition, Triglav Re measures financial instruments at fair value through profit or loss and available for sale at their fair value, without any deduction for selling costs, whereby the effects of a change in the fair value are recognised in the statement of comprehensive income. Equity instruments classified as available for sale that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are stated at cost less impairment, unless their value exceeds EUR 500,000. The total value of such assets is lower than 1 percent of the Company's investment in securities.

Loans and receivables and held-to-maturity investments are measured at amortised cost less impairment losses, if any.

Gains and losses
Gains and losses arising from a change in the fair value of financial assets or financial liabilities at fair value through profit or loss are recognised in the income statement.

Gains and losses from a change in the fair value of available-for-sale assets are recognised directly in a fair value reserve within equity and are disclosed in the comprehensive income statement. Impairment losses, foreign exchange gains and losses, interest income and amortisation of premium or discount using the effective interest method on monetary items are recognised in the income statement.

Upon disposal or other derecognition of available-for-sale assets, any accumulated gains or losses are recognised in the income statement.

Losses on financial instruments carried at amortised cost are recognised in the income statement, when their value is impaired.

Fair value measurement principles
The fair value of financial assets and liabilities at fair value through profit or loss and financial assets available for sale is their quoted bid market price at the reporting date. If the market for a financial asset is not active, the Company establishes fair value by using various valuation techniques. These include the use of prices achieved in recent arm's length transactions,

reference to other instruments that are substantially the same, discounted cash flow analysis and option pricing models.

The fair value of non-exchange-traded derivatives is estimated at the amount that the Company would receive or pay to terminate the contract at the balance sheet date, taking into account current market conditions and the current creditworthiness of the counterparties. The fair value is determined on the basis of the latest transactions or by using another pricing model (discounting of expected cash flow, or the Black-Scholes option pricing model).

Impairment of financial assets
Triglav Re quarterly assesses whether there is objective evidence that financial assets not carried at fair value through profit or loss are impaired. Financial assets are impaired when objective evidence demonstrates that a loss event has occurred after the initial recognition of the asset and that the loss event has an impact on the future cash flows on the asset that can be estimated reliably.

Impairment of financial assets carried at amortised cost – loans and receivables
Triglav Re considers evidence of impairment at both a specific asset and a collective level. All individually significant financial assets are individually assessed for signs of impairment at the reporting date. All individually significant assets that are not assessed as impaired are then collectively assessed for impairment, based on the classification by similar credit risk.

In assessing collective impairment, Triglav Re uses statistical modelling of historical trends of the probability of default, timing of recoveries and the amount of loss incurred, adjusted for the management's judgement as to whether current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested by historical modelling. Default rates, loss rates and the expected timing of future recoveries are regularly benchmarked against actual outcomes to ensure that they remain appropriate.

Impairment losses on assets carried at amortised cost (debt securities, receivables and loans) are measured as the difference between the carrying amount of the financial assets and the present value of estimated cash flows discounted at the assets' original effective interest rates. Losses are recognised in profit or loss and reflected in an allowance account against loans and advances. Income is recognised at the effective interest rate in the income statement. When a subsequent event causes the amount of impairment loss on a debt security to decrease, the impairment loss is reversed through profit or loss.

Impairment of financial assets classified as available-for sale
Triglav Re impairs the available-for-sale financial assets, the fair value of which decreased substantially below their value at cost or has remained lower than their value at cost, for a period of nine months. A decrease of 40 percent (or more) in the fair value of a financial asset compared to its initial cost is considered substantial. Reversal through profit or loss of impairment losses for equity securities is not possible.

Debt securities classified as available-for-sale are impaired in case that their issuer violates contractual provisions and fails to meet its coupon liabilities on time or in case of the debtor's bankruptcy. Such impairment is recognised in the income statement. Impairment loss may be reversed if such reversal can be objectively linked to an event occurring after the impairment has been recognised. The impairment loss is reversed through profit or loss.

Grouping of financial assets measured at fair value into levels by reference to published price quotations in an active market in determining their fair value
Triglav Re groups financial assets measured at fair value (financial assets at fair value through profit or loss and available-for-sale financial assets) into three levels regarding the determination of their fair value:

- Level 1: financial assets valued by applying the unadjusted published price quotations in an active market for the relevant financial instrument;
- Level 2: financial assets valued by applying the valuation models that take into consideration known market parameters; and
- Level 3: financial assets valued by applying the valuation models that take into consideration significant non-market parameters, including known market parameters that require significant adjustments.

9.3.4 Trade and other liabilities

Recognition and measurement
Trade and other liabilities are initially recognised at fair value and then subsequently at amortised cost.

9.3.5 Cash and cash equivalents

Cash and cash equivalents comprise cash in hand and cash at bank.

9.3.6 Employee benefits

Employee benefits are all forms of compensation that are provided to the employees in return for their work in the Company.

Employee benefits include:
1) Short-term employee benefits, which are payable within 12 months after the end of the period of the employee's service, such as salaries and social security contributions, paid annual leave and paid sick leave, bonuses and non-monetary benefits (such as cars).
2) Other employee benefits, such as jubilee benefits and termination benefits upon retirement. The calculation of liabilities to employees arising from jubilee benefits and termination benefits upon retirement is based on the actuarial calculations using the following assumptions:

- The development of mortality or survivorship will be in accordance with average life expectancy set out in the mortality tables (mortality of Slovene population is taken into account and the corrected 2002 Slovene Mortality Tables are applied).
- The retirement age and pensionable employment of men and women are in agreement with Articles 36, 52 and 396.a of the amended Pension and Disability Insurance Act (ZPIZ-1).
- The average salary of an individual.
- The growth of salaries in the following years is estimated at an average of 4.7 percent per annum.
- The amount of termination benefit upon retirement is either equal to three average salaries of the employee or, in compliance with the law, equal to the amount of two average salaries of an employee in the Company or two average salaries in the Republic of Slovenia, whichever is higher.
- The amount of jubilee benefits is in compliance with the internal regulations of the Company.
- The discount rate remains at the level of the preceding year and is 4.1 percent.

9.3.7 Income tax

Income tax expense comprises current and deferred tax. Income tax expense is recognised in profit or loss, except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognised using the balance sheet method, taking into consideration the temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on laws that have been enacted or substantively enacted by the reporting date.

Deferred tax assets are only recognised to the extent that it is probable that future taxable profits will be available against which the deferred tax asset can be utilised. Deferred tax

assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Deferred tax assets and liabilities are not discounted and are classified as non-current.

9.3.8 Other provisions

A provision is recognised if, as a result of a past event, the Company has a present legal or constructive obligation and it is probable that an outflow of economic benefits will be required to settle the obligation. The policies for the recognition of employee benefit provisions are explained in Item 9.3.6 Employee benefits. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects the current market assessments of the time value of money and the risks specific to the liability.

9.3.9 Equity

Share capital
The share capital of the Company comprises no-par value shares. The shares are ordinary shares and give the holder a voting right and, based on the resolution of the Shareholder's Meeting, the right to dividends. Triglav Re does not record any subscribed shares not paid-in.

Reserve
Triglav Re records share premium, comprising other capital paid in under the Articles of Association.

Reserves from profit comprise legal reserve and other reserve from profit, which are set up in accordance with the decision of the Management Board of Triglav Re and the resolution of the Shareholders' Meeting, and strengthen the capital adequacy of the Company. Reserves from profit comprise statutory reserves and credit insurance equalisation reserves.

Statutory reserves represent accumulated appropriations from retained earnings in accordance with the Articles of Association and the Companies Act (ZGD-1).

Legal and statutory reserves may be used:
- to cover net loss for the period if it cannot be covered by charging it against retained earnings or other reserve from profit;
- to cover retained loss if it cannot be covered by charging it against the net profit for the period or other reserve from profit.

In compliance with IFRS, Triglav Re does not set up equalisation provision as part of insurance contract provisions. In accordance with the Insurance Act, however, the Company is liable to make equalisation provision for its credit insurance business. To comply with the statutory requirements, Triglav Re thus records this provision as revenue reserve under credit risk equalisation reserve. Such reserves are charged against profit and equity.

Fair value reserve
The fair value reserve represents unrealised net gains and losses arising from a change in the fair value of available-for-sale financial assets.

9.3.10 Income

Gross reinsurance premiums written
Premiums on reinsurance assumed are recognised as income and accounted as if the reinsurance were considered direct business, taking into account the product classification of the reinsured business.

Reinsurance premiums related to life assurance contracts are accounted for over the life of the underlying insurance policies using assumptions consistent with those used to account for the underlying policies.

Gross written reinsurance premiums from cessions or retrocessions assumed in the observed period are reinsurance premiums written in the observed period on the basis of reinsurance contracts concluded with cedants and retrocedants. The retroceded portion of gross written reinsurance premiums from assumed cessions or retrocessions is ceded for reinsurance in accordance with the retrocession contracts that Triglav Re concluded with its retrocessionaires. The net written reinsurance premium from cessions or retrocessions assumed in the reporting period is the amount of gross written reinsurance premium from assumed cessions or retrocession less the amount of gross written reinsurance premium of assumed cessions or retrocessions ceded for retrocession of assumed cessions or retrocessions. The criterion for the recognition of income is the premium written on the basis of cedants' or retrocedants' statements of account with partners within the Triglav Group. The criterion for the recognition of income with other partners, however, is the estimated premium on the basis of reinsurance contracts made with cedants.

Financial income
Interest income is recognised in the income statement using the effective interest rate method. Dividend income is recognised in the income statement on the date that the dividend is declared. The accounting policy in relation to capital gains recognition is disclosed in Item 9.3.3 under "Gains and losses".

9.3.11 Costs and expenses

Triglav Re records its expenses according to their type, when incurred. In financial statements, expenses are classified by functional group. These are: appraisal costs, asset management costs, policy acquisition costs and other operating expenses. Due to the manner of claim handling in Triglav Re, no costs arise in connection with the assessment of the entitlement to the amount of claim; therefore, they are not classified under the functional group of appraisal costs. A portion of costs by nature may be directly classified to a functional group, while other costs are classified to a functional group on the basis of a key. The key represents the consumption of working time by employees for an individual function and accordingly allocated costs of wages and salaries of the respective employees. Based on such a structure of wages and salaries, other operating costs are allocated to a functional group.

9.3.12 Classification of contracts

A reinsurance contract is a contract under which Triglav Re or a reinsurer accepts, against payment, a part or the whole of reinsurance risk from another party (a cedant or a retrocedant) by agreeing to compensate the cedant or retrocedant if a specified uncertain future event (the insured event) adversely affects the policyholder or other beneficiary. Reinsurance risk is defined as risk other than financial risk. Financial risk is the risk of a possible future change in one or more of a specified interest rate, security price, commodity price, foreign exchange rate, index of prices or rates, a credit rating or credit index or other variable, provided in the case of a non-financial variable that the variable is not specific to a party to the contract. Reinsurance contracts may also transfer certain financial risk.

Only contracts that give rise to a significant transfer of insurance risk are accounted for as insurance contracts. Amounts recoverable under such contracts are recognised in the same year as the related claim. All reinsurance contracts of Triglav Re are classified as insurance contracts in the sense as provided by IFRS 4. Triglav Re has no liabilities from financial contracts and, thus, the risks disclosed only arise from insurance contracts. According to the definition stated above, an insurance contract is a contract under which one party (the insurer) accepts significant insurance risk from another party (the policyholder) by agreeing to compensate the policyholder if a specified uncertain future event (the insured event) adversely affects the policyholder. A financial contract, however, is by definition a contract exposing the issuer to financial risk without a significant insurance risk involved. Insurance contracts, thus, transfer a significant portion of risk. When deciding upon the classification of contracts pursuant to IFRS 4, Triglav Re defines as contracts transferring significant risk all those reinsurance contracts for which uncertainty exists regarding the future insured event, since its occurrence is independent of an individual's will. The risk (uncertainty) exists as to whether a (re)insurance event will occur, when it will occur and how much the (re)insurer will need to pay if it occurs. According to the IFRS 4 definition, insurance risk is significant if, and only if,

an insured event could cause an insurer to pay significant additional benefits in any scenario, excluding scenarios that lack commercial substance (i.e. have no discernible effect on the economics of the transaction). The (re)insurance company shall assess the significance of insurance risk on a case-to-case basis and not by referring to the significance of financial statements; hence, insurance risk may be significant even in cases with minimum probability that the insured event from a (re)insurance contract might occur.

Triglav Re has no contracts with discretionary participation features.

9.3.13 Liabilities from reinsurance contracts

Non-life insurance provision
The liabilities of Triglav Re under reinsurance contracts comprise unearned premium provision, provision for incurred and reported but not settled claims (RBNS provision), provision for incurred but not reported claims (IBNR provision), provision for bonuses, rebates and cancellations, unexpired risk provision, and equalisation provision.

Provisions for unearned premiums
The provision for unearned premiums comprises the proportion of gross premiums written in the reinsurance period after the end of the financial year under review. Unearned premium is computed using the pro-rata temporis method or the fraction method adjusted if necessary to reflect any variation in the incidence of risk during the period covered by the contract.

Gross unearned premiums were set on the basis of notifications made by cedants. Unearned premium provision for retrocession business and for retrocedants that failed to present the statement of account of unearned premium is made in compliance with the Company's rules and regulations and by use of the fraction method. In addition, for reinsurance business with cedants outside the Triglav Group, gross unearned premium is estimated for the part that refers to the estimated part of gross written premium calculated according to the fraction method.

Unexpired risk provision
The provision for unexpired risks is made on the basis and in compliance with Article 6 of the Decision on detailed rules and minimum standards to be applied in the calculation of technical provisions (Official Gazette of RS, No. 3/2001). The provision is defined as the difference between the actual amounts required to cover unexpired risks and the unearned premiums. The provision for unexpired risks is made for those classes of business in which the average combined ratio in the last three years (current year and two previous years) exceeded 100 percent. When computing the unexpired risk provision and testing the adequacy of unearned premiums, Triglav Re takes into account that net unearned premium multiplied by the average combined ratio has to contain a portion needed to cover future or expected expenses; therefore, net unearned premiums are increased by a cost margin for the current year.

Provisions for outstanding claims
Provision for incurred and reported claims is made on the basis of lists submitted by cedants and notifications made by retrocedants. Provision for incurred but not-reported claims (IBNR provision) and provision for incurred but not-enough-reported claims (IBNER provision) are made on the basis of notifications made by cedants, while a part of provisions (IBNER and IBNR) was made on the basis of the Company's own calculations. A part of claims provision for contracts with cedants outside the Triglav Group is foreseen on the basis of the estimated loss ratios of reinsurance contracts, while the provision for business within the Triglav Group is made on the basis of using the triangle method for cumulative ultimately settled net claims by class of business, or by group of classes of business when the volume of premiums or claims is too small. When preparing the triangles with data on claims settled by underwriting year for the projection of future payments of claims incurred, extremely high claims are eliminated. To supplement the underdeveloped years, the Company supplements the chain ladder method with the Bornhueter-Ferguson method at the level of individual class of business or individual group of classes of business. Thus, the computed IBNR claims by class of business or by group of classes of insurance are then compared with the IBNR claims computed on the basis of data submitted by cedants. As the final result for a class of business or a group of classes of insurance, Triglav Re considers the higher result.

Provisions for bonuses and rebates
Provision for bonuses and rebates was made on the basis of the notification presented by the cedant with whom Triglav Re concluded a contract on export credit reinsurance.

Equalisation provisions
Pursuant to Article 54 of the Companies Act, insurance companies shall prepare their financial statements in compliance with International Financial Reporting Standards as adopted by the EU. Pursuant to Article 155 of the Insurance Act, insurance companies shall observe the provisions of the Companies Act when accounting. Pursuant to Article 133 of the Companies Act, technical provisions also include equalisation provisions. The provisions defined under Article 113 and Article 118 of the Insurance Act are in contradiction with the requirements of International Financial Reporting Standards as adopted by European Union. In compliance with International Financial Reporting Standards as adopted by the European Union, the Company presents equalisation provisions under reserves in the item of equity.

Life reinsurance provision
Triglav Re sets up no mathematical provisions for life reinsurance because, it has in its portfolio none of the classes of business classified in items 20 to 24 under Article 2, paragraph 2 of the Insurance Act (marriage assurance or birth assurance, life assurance related to investment fund units, tontine, capital redemption insurance, insurance of loss of income due to accident or illness). In its life reinsurance portfolio, Triglav Re has only the type of life reinsurance classified in item 19 under Article 2, paragraph 2 of the Insurance Act (life assurance), but endowment risk is not reinsured. Only death risk, critical illness risk and supplementary accident insurance are reinsured. For this reason, only unearned premium provision and claims provision for death risk, critical illness risk and supplementary accident insurance are made.

9.3.14 Outward reinsurance

Triglav Re cedes reinsurance in the normal course of business for the purpose of dispersion of its risks and limitation of its net loss potential. However, outward reinsurance arrangements do not relieve Triglav Re from its direct obligations to its cedants and retrocedants.

Premiums ceded and reimbursement claims are presented in the income statement and balance sheet on a gross basis.

Amounts recoverable under reinsurance contracts are assessed for impairment at each balance sheet date. Such assets are deemed impaired if there is objective evidence, as a result of an event that occurred after its initial recognition, that Triglav Re cannot recover all amounts due and that the event has a reliably measurable impact on the amounts that Triglav Re will receive from the reinsurer.

Amounts recoverable under reinsurance contracts are assessed in a manner consistent with the outstanding claims provision or settled claims associated with the reinsured policy. Reinsurance assets comprise the actual or estimated amounts, which, under contractual reinsurance arrangements, are recoverable from reinsurers in respect of reinsurance contract provisions. Reinsurance assets relating to reinsurance contract provision are established based on the terms of reinsurance contracts and valued on the same basis as the related reinsured liabilities. Triglav Re records an allowance for estimated irrecoverable reinsurance assets, if any.

9.3.15 Liabilities and related assets under liability adequacy test

Reinsurance contracts are tested for liability adequacy. Where a shortfall is identified, an additional provision is made, and Triglav Re recognises the deficiency in the income statement.

The assumptions of the liability adequacy test and the test itself are described in detail in Note 9.7.

9.4 Changes in accounting policies

In 2011 Triglav Re did not change any accounting policies.

9.5 Accounting estimates and judgements

These disclosures supplement the commentary on financial risk management (Note 12.4) and reinsurance risk management (Note 12.1).

Triglav Re makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and judgements that have a significant impact on financial statements are discussed below.

9.5.1 Key sources of estimation uncertainty

Impairment of financial assets
Impairments of loans and receivables are evaluated individually on the basis of the best estimate of the present value of the cash flows that are expected to be received. In estimating these cash flows, the Management Board makes judgements about a counterparty's financial situation and the net realisable value of any underlying collateral. Each impaired asset is assessed separately.

Equity securities classified as available-for-sale are impaired if their fair value has fallen below their value at cost or remained below that value for a period of at least nine months. A decrease of 40 percent (or more) in the fair value of a financial asset compared to its initial cost is considered substantial. Such impairment is recognised in the income statement.

Determining fair values for non-marketable financial assets and liabilities
The determination of fair value for financial assets and liabilities for which there is no observable market price requires the use of valuation techniques as described in accounting policy 9.3.3. For financial instruments that are not traded on the organised market, the determination of fair value is less objective and requires varying degrees of judgement depending on liquidity, concentration, uncertainty of market factors, pricing assumptions and other risks affecting the specific instrument.

Estimation of uncertainty in relation to recognition of income and expenses from reinsurance contracts
One of the key sources of estimation uncertainty in relation to the financial statements of Triglav Re relates to the recognition of income and expenses from reinsurance contracts with cedants outside the Triglav Group. In 2009, the Company changed its accounting policy and started to estimate a part of income and expenses on the basis of concluded reinsurance contracts with cedants outside the Triglav Group. The amounts of individual accounting items, i.e. gross premium, commission paid, amount of claims incurred, provision for claims outstanding and the amount of unearned premiums, are estimated on the basis of each individual contract concluded with a cedant outside the Triglav Group. Income and expenses are recognised in the accounting period to which the reinsurance contract relates and no longer depend on the time lag in reporting from business partners. Reinsurance risk management is discussed in detail in Note 12.1, while reinsurance contract provisions are analysed in Note 12.2.

Estimation of uncertainty in relation to recognising liabilities for reinsurance contracts
The most significant estimates in relation to the financial statements of Triglav Re relate to provisioning for reinsurance contracts and to the estimation of the amounts of reserve for reinsurance business with cedants outside the Triglav Group. Triglav Re verifies the sufficiency of provisions made by applying LAT tests; in addition, the run-off results are regularly analysed. In setting up its reserve for liabilities from reinsurance contracts, Triglav Re applies the regulations issued by the Insurance Supervision Agency. The Company employs a certified actuary. The Management Board of Triglav Re believes that the present amount of provisions for liabilities from reinsurance contracts is sufficient. Reinsurance risk management is discussed in detail in Note 12.1, while reinsurance contract provisions are analysed in Note 12.2.

Tax
Triglav Re provides for tax liabilities in accordance with the tax laws of the Republic of Slovenia. Tax returns are subject to the approval of the tax authorities, who are entitled to carry out subsequent inspections of taxpayers' records.

9.5.2 Critical accounting judgements in applying the Company's accounting policies

Critical accounting judgements made in applying the accounting policies of Triglav Re include:

Classification and reclassification of financial assets and liabilities
The Company's accounting policies provide scope for assets and liabilities to be designated on their inception into different accounting categories of assets and liabilities in certain circumstances. In classifying financial assets or liabilities as "trading", Triglav Re has determined that it meets the description of trading assets and liabilities set out in accounting policy 9.3.3. In designating financial assets or liabilities at fair value through profit or loss, Triglav Re has determined that it has met one of the criteria for this designation set out in accounting policy 9.3.3. In designating financial assets or liabilities classified under loans and receivables, Triglav Re has decided on such classification if the financial instrument meets one of the criteria set out in accounting policy 9.3.3.

9.6 Principal assumptions that have the greatest effect on net recognised reinsurance assets, liabilities, income and expenses

9.6.1 Non-life reinsurance

At the date of reporting, provision is made for claims reported but not settled. In addition, Triglav Re made provisions for claims incurred but not reported (IBNR provisions).

The liability for claims reported but not settled (RBNS provisions) is recorded separately on a case-by-case basis and based on the statement of account. Case reserves are monitored regularly and are updated as and when new information arises.

In 2011, Triglav Re continued to estimate the claims incurred but not reposed (IBNR provisions) on the basis of specific data or estimates for reinsurance contracts with cedants outside the Triglav Group; in addition, Triglav Re created an adequate amount of IBNR provisions for business within the Triglav Group, as assessed by the Company's certified actuary.

The chain ladder method and the Bornhuetter-Ferguson method use settled claims' development information and assume that the historical claims development pattern will occur again in the future. There are reasons this may not be the case, which, insofar as they can be identified, have been allowed for by deducting major settled claims arising from catastrophe or irregular events that are not expected to recur from year to year from settled claims taken into account as they developed.

The assumption which has the greatest effect on the measurement of non-life reinsurance liabilities is the expected claims ratio.

The expected claims ratio represents the ratio of expected claims incurred to reinsurance premiums earned. The assumptions in respect of expected claims ratios for the most recent accident year, per class of business, have the most influence on the level of IBNR provisions. The ultimate loss ratio, in contrast, has the most influence on the estimate of provisioned claims in the assessment of reinsurance business abroad. Further impact, in addition to claims ratio, is the result of expense ratio (which affects the commission amount) and the amount of estimated gross reinsurance premiums for reinsurance contracts with cedants outside the Triglav Group.

9.6.2 Life reinsurance

Since thus far Triglav Re has not assumed for reinsurance any risks that would require the setting-up of mathematical provisions, any information relating to life reinsurance is stated together with the information on non-life reinsurance.

9.7 Liability adequacy test (LAT)

9.7.1 Non-life reinsurance

Triglav Re makes provisions for unexpired risks, thus complying, inter alia, with the criteria of the LAT test. For non-life insurance, the liabilities are subject to a liability adequacy test only for unearned premium provisions, while the provisions for claims outstanding and the provisions for bonuses and rebates are deemed to be made in the adequate amount; therefore, the application of the liability adequacy test is not needed. Equalisation provisions are used as a buffer in adverse cases and are not a liability under the reinsurance contracts in force in compliance with IFRS 4. Unexpired risk provisions are made on the basis of the liability adequacy test for unearned premium liability, since additional provisions are higher than unearned premium provisions by the amount set aside with respect to risks to be borne after the end of the accounting period and to provide for all claims and expenses in connection with reinsurance contracts in force.

Triglav Re undertakes the liability adequacy test for unearned premium provisions to determine the difference between the sum of expected claims and the expected expense, i.e. in this case between the combined ratio and unearned premium provisions. Unexpired risk provisions are calculated in compliance with the internal Regulations on Establishing Other Technical Provisions. In line with these Regulations, provisions are made for those classes of business with an average combined ratio in the last three years (the current period and the previous two periods are taken into account) exceeding 100 percent. The combined ratio consists of the claims ratio and the expense ratio; therefore, it is a relevant indicator of a possible inadequacy of provisioning. When computing the unexpired risk provision and carrying out the liability adequacy test for unearned premiums, Triglav Re took into account that net unearned premium multiplied by the average combined ratio has to contain a portion needed to cover future or expected expenses; therefore, net unearned premiums are increased by a cost margin for the current year. Triglav Re applies the liability adequacy test to calculate the provision for unexpired risks, and the deficit is recognised as an increase in liabilities (provisions) in the profit or loss for the current accounting period.

9.7.2 Life reinsurance

Triglav Re carried out the test of adequacy of life reinsurance provision within the frame of its non-life reinsurance and found that there was no need to set up any additional life reinsurance provisions.

9.8 Sensitivity of present value of future liabilities to changes in significant variables

9.8.1 Non-life reinsurance

In non-life reinsurance, the insurance variables that would have the greatest impact on insurance liabilities relate to motor liability court claims. Court claims-related liabilities are sensitive to legal, judicial, political, economic and social trends. The management believes it is not practical to quantify the sensitivity of non-life provisions to changes in these variables.

9.8.2 Life reinsurance

The sensitivity of the present value of future liabilities to changes in the significant variables of life reinsurance has not been calculated, because none of the classes of business set out under items 20 through 24 of Article 2, paragraph 2 of the Insurance Act (marriage assurance or birth assurance, unit-linked life assurance, tontine, capital redemption insurance, insurance of loss of income due to accident or illness) is recorded in the Company's portfolio. In its life reinsurance portfolio, Triglav Re has only the type of life reinsurance classified in item 19 under Article 2, paragraph 2 of the Insurance Act (life assurance), but endowment risk is not reinsured. Only death risk, critical illness risk and supplementary accident insurance are reinsured.

9.9 Reinsurance contracts with material effect on future cash flow uncertainty

9.9.1 Non-life reinsurance

Triglav Re offers all types of non-life reinsurance: motor, property, liability, marine, aviation, transport and accident reinsurance. Contracts may be concluded for a fixed term of one year or on a continuous basis, with either party having the option to cancel with three months' notice. Triglav Re is therefore able to re-price the risk under a contract at intervals of not more than one year. Reinsurance claims are the main source of uncertainty, which influences the amount and the timing of future cash flows. The amount of particular claim payments is limited by the limit of coverage, which is defined in the reinsurance contract.

Special attention is paid to motor reinsurance and liability reinsurance as described below.

Motor reinsurance
The motor reinsurance portfolio comprises both motor third party liability reinsurance and motor (hull) reinsurance. Motor third party liability reinsurance covers bodily injury claims and property claims in the cedant's country (i.e. domestic claims) as well as claims caused abroad by insured parties (Green Card system).

Property damage (e.g. on a vehicle) is generally reported and settled within a short period of the accident occurring. Reporting and payments relating to bodily injury claims, however, take longer to finalise and are more difficult to estimate. Such claims may be settled in the form of a lump-sum settlement or an annuity.

Liability reinsurance
Liability reinsurance covers all types of liability insurance: general and producer's liability insurance, liability insurance of the Management Board and Supervisory Board members and professional liability insurance.

9.9.2 Life reinsurance

Triglav Re sets up no mathematical provisions for life reinsurance, because in its portfolio it has none of the following classes of business: marriage assurance or birth assurance, unit-linked life assurance, tontine, capital redemption insurance, insurance of loss of income due to accident or illness. Only life reinsurance is recorded in the life reinsurance portfolio. Pure endowment risk is not reinsured. Only death risk, critical illness risk and supplementary accident insurance are reinsured. For this reason, only unearned premium provision and claims provision for death risk, critical illness risk and supplementary accident insurance are made.

Late afternoons in the gardens and parks of Japan's cities are filled with meditations in motion, which train a human being in discipline and improve his self-esteem. Trust in oneself is the first **secret of success.**

Asia 19:15

10

DISCLOSURES TO THE STATEMENT OF FINANCIAL POSITION

10.1 Intangible assets

in EUR

	SOFTWARE	TOTAL
COST		
Balance at 1 January 2010	415,683	415,683
- Additions	15,669	15,669
- Disposals	0	0
- Other	0	0
Balance at 31 December 2010	431,352	431,352
- Additions	0	0
- Disposals	0	0
Balance at 31 December 2011	431,352	431,352
ACCUMULATED AMORTISATION		
Balance at 1 January 2010	283,454	283,454
- Increase	51,523	51,523
- Disposals	0	0
Balance at 31 December 2010	334,977	334,977
- Increase	38,830	38,830
- Disposals	0	0
Balance at 31 December 2011	373,807	373,807
CARRYING AMOUNT		
Balance at 31 December 2010	96,374	96,374
Balance at 31 December 2011	57,544	57,544

The amortisation charge is recognised under operating expenses in the income statement. Liabilities arising from acquired intangible assets are not recorded under liabilities.

10.2 Property, plant and equipment

in EUR

	MOTOR VEHICLES	EQUIPMENT AND FURNITURE	TOTAL
COST			
Balance at 31 December 2009	179,056	219,265	398,321
- Acquisitions	67,796	19,642	87,438
- Disposals	-21,957	-10,177	-32,134
- Other	0	0	0
Balance at 31 December 2010	224,894	228,730	453,624
- Acquisitions	55,243	31,443	86,686
- Disposals	-34,990	-22,854	-57,844
- Other	0	-10,768	-10,768
Balance at 31 December 2011	245,147	226,551	471,698
ACCUMULATED DEPRECIATION			
Balance at 31 December 2009	27,611	190,435	218,046
- Increase	36,829	21,402	58,231
- Disposals	-21,958	-10,177	-32,135
Balance at 31 December 2010	42,482	201,660	244,142
- Increase	56,771	15,410	72,181
- Disposals	-34,990	-22,854	-57,844
Balance at 31 December 2011	64,263	194,216	258,479
CARRYING AMOUNT			
Balance at 31 December 2010	182,412	27,070	209,482
Balance at 31 December 2011	180,884	32,335	213,219

The depreciation charge is recognised under operating expenses in the income statement. Liabilities arising from acquired property, plant and equipment are not recorded under liabilities.

10.3 Deferred tax assets and liabilities

in EUR

	YEAR 2010	Changes	YEAR 2011
DEFERRED TAX ASSETS			
Recognized in profit or loss	390,450	162,764	553,213
Recognized in equity	0	437,512	437,512
BALANCE at 31 December	390,450	600,276	990,725
DEFERRED TAX LIABILITIES			
Recognized in profit or loss	0	0	0
Recognized in equity	241,233	-241,233	0
BALANCE at 31 December	241,233	-241,233	0
OFFSET OF ASSETS/LIABILITIES			
DEFERRED TAX ASSETS	149,217	0	990,725
DEFERRED TAX LIABILITIES	0	0	0

In 2011, Triglav Re set up deferred tax assets for non-deductible investment impairments recognised during 2011 in the amount of EUR 547,068 (2010: EUR 384,512) and for the provisions for jubilee and termination benefits in the amount of EUR 6,146 (2010: EUR 5,938). In 2011, Triglav Re set up deferred tax liability for the revaluation surplus in investments in the amount of EUR 437,512 (2010 tax assets: EUR 24,233).

10.4 Financial assets

in EUR

	YEAR 2011	YEAR 2010
Available for sale	80,392,999	77,719,804
At fair value through profit or loss	2,022,004	2,409,073
Loans and receivables	24,498,578	21,177,264
TOTAL	106,913,581	101,306,141

in EUR

YEAR 2011	AVAILABLE FOR SALE	AT FAIR VALUE THROUGH PROFIT OR LOSS	LOANS AND RECEIVABLES	TOTAL
Equity securities	1,270,554	0	0	1,270,554
- listed	959,356	0	0	959,356
- unlisted	311,197	0	0	311,197
Debt securities	77,488,808	2,022,004	5,259,475	84,770,287
- government securities	46,473,224	0	0	46,473,224
- corporate securities	31,015,584	2,022,004	5,259,475	38,297,063
Investment funds	1,633,637	0	0	1,633,637
- open-end	524,514	0	0	524,514
- closed-end	1,109,123	0	0	1,109,123
Loans and receivables	0	0	19,229,103	19,229,103
- bank deposits	0	0	15,514,485	15,514,485
- financial investments arising from reinsurance contracts with cedants	0	0	3,714,618	3,714,618
Derivative financial instruments	0	0	0	0
Other investments	0	0	10,000	10,000
TOTAL	80,392,999	2,022,004	24,498,578	106,913,581

in EUR

YEAR 2010	AVAILABLE FOR SALE	AT FAIR VALUE THROUGH PROFIR OR LOSS	LOANS AND RECEIVABLES	TOTAL
Equity securities	2,080,529	0	0	2,080,529
- listed	1,765,241	0	0	1,765,241
- unlisted	315,288	0	0	315,288
Debt securities	72,189,759	2,388,166	5,694,747	80,272,673
- government bonds	45,970,213	0	0	45,970,213
- corporate bonds	26,219,546	2,388,166	5,694,747	34,302,460
Investment funds	3,449,516	0	0	3,449,516
- open ended	631,224	0	0	631,224
- closed ended	2,818,292	0	0	2,818,292
Loans and receivables	0	0	15,472,516	15,472,516
- deposits with banks	0	0	12,369,531	12,369,531
- financial investments under reinsurance contracts with cedants	0	0	3,102,985	3,102,985
Derivative financial instruments	0	20,907	0	20,907
Other investments	0	0	10,000	10,000
TOTAL	77,719,804	2,409,073	21,177,264	101,306,140

Financial assets at fair value through profit or loss were classified into the group when acquired.

In compliance with the accounting policy described in Item 9.3.3, the amount of EUR 924,796 was transferred from the provision for change in fair value into the income statement in 2011 (2010: EUR 170,704) due to the impairment of available-for-sale financial assets.

The carrying amount represents fair value at the balance sheet date of the available-for-sale financial assets and financial assets at fair value through profit or loss.

Loans and receivables comprise all debt securities reclassified into this category in 2008 in compliance with Articles 50E and 54 of IAS 39; in 2009 two further debt securities were classified into this category upon acquisition; in 2010 one debt security from this category was sold and one matured. In 2011 one security from this category matured. The carrying value of these reclassified assets that were transferred from the available-for-sale category into the loans and receivables category in 2009 amounted in total to EUR 7,211,989 on 1 July 2008 when the reclassification was made; at 31 December 2011 their value amounted to EUR 4,663,310. Their carrying value represented the fair value of those assets at the date of their reclassification. The fair value of these securities as at 31 December 2011 and for the comparative year has not been disclosed, because it was estimated that the published market price does not reflect the fair value of the securities, since there is no liquid market or the market is simply not existent, and it is therefore impossible to present their value or effect as at 31 December 2011. The revaluation surplus of the reclassified assets amounted to negative EUR 85,828 as at the reclassification date, i.e. on 1 July 2008. The effective interest rate for the reclassified assets was 4.91 percent on the reclassification date.

No reclassifications of securities in other groups were made in 2011.

In accordance with IFRS 7, Triglav Re discloses market price levels for assets classified as available for sale and assets recognised at fair value through profit or loss.

YEAR 2011	LEVEL 1	LEVEL 2	LEVEL 3	TOTAL
- Available for sale	80,213,589	0	179,387	80,392,976
- Recognized at fair value	0	2,022,004	0	2,022,004
TOTAL	80,213,589	2,022,004	179,387	82,414,979
YEAR 2010	LEVEL 1	LEVEL 2	LEVEL 3	TOTAL
- Available for sale	77,404,516	0	315,288	77,719,804
- Recognized at fair value	3,608	2,405,465	0	2,409,073
TOTAL	77,408,124	2,405,465	315,288	80,128,877

The table below shows the movement of investments classified under Level 3. In 2011, no reclassification from Level 3 to other levels or from other levels to Level 3 was effected. At the date of reporting, the same as in the previous year, one investment into equity security was classified as Level 3. Sensitivity analysis of the above-mentioned investment price involved the discount rate range of 12.52–13.52 percent and the normalised cash flow growth rate of 3.5–4.5 percent. On the basis of the sensitivity analyses, an expected resolution of the uncertainty was calculated, showing that the value of the assets might decrease by EUR 8,154 under a pessimistic scenario or increase by EUR 29,898 under an optimistic scenario.

v EUR

YEAR 2011	Level 3 Available for sale
Opening balance at 1 January 2011	315,288
Total profit/loss	-135,901
- in profit or loss	0
- in comprehensive income	-135,901
Acquisitions	0
Disposals	0
Reclassification from level 3 to other levels	0
Reclassification from other levels to level 3	0
Closing balance at 31 December 2011	179,387

10.5 Reinsurers' share of technical provisions

v EUR

	YEAR 2011	YEAR 2010
Share in unearned premiums reserve	9,409,007	6,211,561
Share in reported but not settled claims provision	15,328,401	17,146,272
Share in claims incurred but not reported provision	2,637,718	5,488,598
TOTAL	27,375,125	28,846,430

Changes in reinsurers' shares are presented in Item 10.8. Triglav Re assesses the need for the impairment of the reinsurers' share of technical provisions on the basis of separate estimates of the financial positions and solvency of the partners. In 2011 Triglav Re impaired no such amounts.

10.6 Receivables

in EUR

	YEAR 2011	YEAR 2010
Receivables from reinsurance and coinsurance	56,018,113	57,620,184
Current tax assets	371,352	0
Other receivables	30,930	34,458
TOTAL	56,420,395	57,654,642

Triglav Re assesses the need for the impairment of receivables on the basis of separate estimates of the financial position and solvency of debtors from which the receivable is due. Triglav Re impaired no receivables in 2011.

In contrast to 2010, when the Company recorded current tax liabilities, current tax assets are recorded in 2011.

Maturity structure of receivables is presented in Item 12.4.6.

10.7 Equity

in EUR

	YEAR 2011	YEAR 2010
Share capital	4,950,000	4,950,000
Share premium	1,146,704	1,146,704
Reserves from profit	2,575,190	2,446,123
Revaluation surplus	-1,750,048	964,934
Retained earnings	26,333,795	20,695,574
Net profit for the year	2,833,329	5,836,221
TOTAL	36,088,970	36,039,555

10.7.1 Share capital

The share capital of Triglav Re is denominated in euros. It is divided into 15,000 no-par value shares. No new shares were issued in 2011. All shares have been fully paid. The ownership structure is presented in Item 3.4 of the management report.

The dividend per share, paid out in 2011, amounted to 4 percent of the share capital of Triglav Re, i.e. EUR 13.20 (2010: EUR 8.35 per share). The total amount of dividends paid amounted to EUR 198,000. The resolution on the amount of dividends paid was passed by the Shareholders' Meeting of Triglav Re. The Shareholders' Meeting will also decide on the amount of dividends to be paid for the financial year 2011.

In line with applicable legislation, Triglav Re calculates its capital adequacy quarterly. Throughout 2011, the Company complied with the capital adequacy requirements (for details see Item 12.3)

10.7.2 Change in fair value reserve

in EUR

	YEAR 2011	YEAR 2010
BALANCE AT 1 JANUARY	964,934	2,154,562
Increase/decrease due to revaluation	-4,085,923	-1,295,864
Transfer to profit or loss due to impairment	924,796	170,704
increase/decrease due to disposals	-232,599	-361,876
Tax	678,745	297,407
BALANCE AT 31 DECEMBER	-1,750,048	964,934

Fair value reserve also includes the reserve arising from the change in fair value of available-for-sale financial assets measured at fair value. In 2011, EUR 924,796 (2010: EUR 170,704) was transferred from the fair value reserve to the income statement due to impairment of available-for-sale financial assets.

Gains and proceeds from available-for-sale financial assets are, upon the disposal of such assets, transferred from fair value reserve and recognised in profit or loss in the amount of EUR 232,599.

The effects of net gains from the re-measurement of available-for-sale financial assets, i.e. of fair value reserves, are disclosed in the statement of comprehensive income.

10.7.3 Share premium

in EUR

	YEAR 2011	YEAR 2010
Paid in share premium	543,044	543,044
Other paid-in capital under the Articles of Association	603,661	603,661
TOTAL	1,146,704	1,146,704

10.7.4 Other reserves from profit

in EUR

	YEAR 2011	YEAR 2010
Legal reserves	261,598	261,598
Statutory reserves	258,164	258,164
Credit risk equalization reserves	1,435,467	1,306,400
Other reserves from profit	619,961	619,961
TOTAL	2,575,190	2,446,123

In accordance with International Financial Reporting Standards as adopted by the EU, equalisation provisions are recorded in the financial statements under reserves in the item of equity. The Insurance Act, however, prescribes that equalisation reserves shall be part of technical provisions. This represents an inconsistency between the requirements of the Insurance Act and the International Financial Reporting Standards.

If the financial statements had been prepared in compliance with the requirements of the Insurance Act, net profit or loss before tax for 2011 would have been lower by EUR 129,067 (2010: EUR 147,870) and would have amounted to EUR 3,610,628 (2010: EUR 6,131,961). The amounts of credit insurance equalisation reserves recorded under equity would not have been a part of equity in the financial statements prepared in compliance with the requirements of the Insurance Act, but would have increased gross technical provisions for reinsurance contracts. These would have amounted to EUR 112,879,852 as at 31 December 2011 (31 December 2010: EUR 104,641,461), if they had included a credit risk equalisation provision.

10.7.5 Earnings per share

To calculate the earnings per share, earnings are computed as net profit for the year attributable to equity shareholders of Triglav Re. For 2011, the earnings per share amount to EUR 197 (2010: EUR 399). The number of ordinary shares is the weighted average number of ordinary shares outstanding during the year after deducting the number of ordinary treasury shares. The number of ordinary shares used for basic earnings per share was 15,000 (2010: 15,000). Given that there is no effect of options, convertible bonds or similar effect, the diluted earnings per share are the same as basic earnings per share.

ACCUMULATED PROFIT PRESENTED IN LINE WITH THE DECISION ISSUED BY THE INSURANCE SUPERVISION AGENCY

in EUR

	31, Dec, 2011	31, Dec, 2010
Net profit or loss for the period	2,962,396	5,984,091
Retained earning(+)/loss from previous period(-)	26,333,795	20,695,575
- Profit/loss for the period according to effective standards	26,333,795	20,695,575
Increase in reserves from profit by decision of management	129,067	147,871
- Increase in credit risk reserve	129,067	147,871
Accumulated profit appropriated by the Shareholders' Meeting	29,167,124	26,531,795
- Distribution to shareholders	0	198,000
- Carried forward to the following period	0	26,333,795

The Shareholders' Meeting of Triglav Re will decide on the appropriation of the accumulated profit of 2011.

10.8 Liabilities from reinsurance contracts

in EUR

	GROSS AMOUNT	REINSURERS' SHARE	NET AMOUNT
PROVISION FOR UNEARNED PREMIUMS			
Balance at 1 January 2010	19,888,205	6,372,859	13,515,346
Changes in 2010	409,023	-161,299	570,322
Balance at 31 December 2010	20,297,228	6,211,561	14,085,668
Changes in 2011	4,075,893	3,197,447	878,446
Balance at 31 December 2011	24,373,121	9,409,007	14,964,113
PROVISION FOR CLAIMS REPORTED BUT NOT SETTLED			
Balance at 1 January 2010	37,501,842	15,955,548	21,546,294
Changes in 2010	4,730,195	1,190,724	3,539,471
Balance at 31 December 2010	42,232,038	17,146,272	25,085,766
Changes in 2011	3,791,608	-1,817,872	5,609,480
Balance at 31 December 2011	46,023,646	15,328,400	30,695,245
PROVISION FOR CLAIMS INCURRED BUT NOT REPORTED			
Balance at 1 January 2010	33,480,969	4,045,413	29,435,555
Changes in 2010	7,165,675	1,443,184	5,722,491
Balance at 31 December 2010	40,646,644	5,488,598	35,158,046
Changes in 2011	79,446	-2,850,880	2,930,326
Balance at 31 December 2011	40,726,090	2,637,718	38,088,372
OTHER PROVISIONS			
Balance at 1 January 2010	232,502	0	232,502
Changes in 2010	-73,350	0	-73,350
Balance at 31 December 2010	159,152	0	159,152
Changes in 2011	162,377	0	162,377
Balance at 31 December 2011	321,529	0	321,529

Retrocessionaires' shares in provisions for reinsurance contracts are presented in Item 10.5 of this report.

Due to the specific nature of reinsurance business, the changes in provisions for unearned premiums, provisions for claims reported but not settled and provisions for claims incurred but not reported (IBNR) are disclosed as change (positive or negative) in separate provisions and not as increase or decrease of each item separately.

10.8.1 Development of reinsurance claims settled

Shown below is the development of claims settled because the development of claims reported by policyholders is not directly presented by Triglav Re as a reinsurance company. Also shown below is the adequacy of gross and net provisions for 2011. Originally assessed provisions shown in the tables below comprise claims reserve (including the IBNR provision) and unearned premiums. Considering the specifics of reinsurance business, the Company cannot base its actuarial estimate of provisions for claims outstanding on the triangle of claims settled prepared on an accident year basis, but rather prepares data on claims settled by underwriting year, and then, by applying appropriate actuarial techniques, estimates potential liabilities by underwriting year in the future. For this reason, provision for unearned premiums is also disclosed in this report.

The table below gives a survey, in the triangle format, of adequacy of gross and net provisions for claims as at 31 December 2011 for the past five years.

GROSS PROVISIONS FOR CLAIMS AND UNEARNED PREMIUMS

in EUR

	YEAR 2006	YEAR 2007	YEAR 2008	YEAR 2009	YEAR 2010	YEAR 2011
Originally assessed	47,327,069	67,942,654	93,728,316	90,871,016	103,175,910	111,122,856
Reassessed after 1 year	49,278,475	69,067,871	87,558,641	87,737,266	103,672,331	
Reassessed after 2 years	46,439,586	57,954,011	85,348,906	83,675,284		
Reassessed after 3 years	41,626,208	58,971,287	85,559,352			
Reassessed after 4 years	44,819,455	58,923,164				
Reassessed after 5 years	45,296,973					
CUMULATIVE EXCESS	2,030,096	9,019,491	8,168,964	7,195,733	-496,421	

CUMULATIVE GROSS CLAIMS PAID

in EUR

	YEAR 2006	YEAR 2007	YEAR 2008	YEAR 2009	YEAR 2010	YEAR 2011
1 year later	20,482,757	28,432,591	48,342,004	39,954,883	44,587,174	
2 years later	27,134,727	36,414,993	58,423,279	52,826,077		
3 years later	29,631,337	40,689,007	64,478,271			
4 years later	31,106,175	43,462,999				
5 years later	33,002,318					

NET PROVISIONS FOR CLAIMS AND UNEARNED PREMIUMS

v EUR

	YEAR 2006	YEAR 2007	YEAR 2008	YEAR 2009	YEAR 2010	YEAR 2011
Originally assessed	34,035,479	48,125,438	61,061,735	64,497,195	74,329,479	83,747,731
Reassessed after 1 year	34,167,393	47,829,673	55,229,598	61,638,190	72,159,962	
Reassessed after 2 years	30,380,732	38,053,396	50,924,060	55,371,175		
Reassessed after 3 years	27,043,999	36,424,173	48,988,444			
Reassessed after 4 years	26,387,320	35,582,965				
Reassessed after 5 years	25,946,491					
CUMULATIVE EXCESS	8,088,988	12,542,473	12,073,291	9,126,020	2,169,517	

CUMULATIVE PAID NET CLAIMS

in EUR

	YEAR 2006	YEAR 2007	YEAR 2008	YEAR 2009	YEAR 2010	YEAR 2011
1 year later	16,340,032	20,388,598	28,538,723	28,165,911	31,308,735	
2 years later	19,614,040	25,269,705	34,978,772	36,152,982		
3 years later	20,724,212	27,368,767	37,764,562			
4 years later	21,594,974	28,751,788				
5 years later	22,109,170					

The table above shows the adequacy test of gross and net provisions for the Company's reinsurance contracts, including unearned premiums; assessed liabilities of reinsurance companies are normally arranged by underwriting years and, thus, also include liabilities to be settled with the unearned premiums. The upper triangle in the table shows the originally assessed provision by financial year and its reassessment (up to five years later). The lower triangle in the table shows the amount of cumulative settled or paid claims. The cumulative excess in net provisions (computed by deducting the last known assessment of provision from the original assessment of provisions) amounted to EUR 2.2 million in 2011.

10.9 Operating and other liabilities

in EUR

	YEAR 2011	YEAR 2010
Reinsurance contract liabilities	43,872,728	47,355,851
- of which liabilities to associates	11,873,742	22,866,626
Corporate income tax liability	0	1,033,399
Other liabilities	552,803	572,142
Provisions for bonuses to employees	208,388	259,601
Liabilities for salaries	130,180	153,520
Other liabilities and accrued expenses	214,235	159,021
- of which liabilities to associates	67,512	44,906
TOTAL	44,425,531	48,961,392

Reinsurance contract liabilities are of a current nature. They include liabilities to insurance companies arising from reinsurance share in claims and commissions. Liabilities are stated at historical cost, which is equal to fair value. As at 31 December 2011, the sum of all due liabilities from current operations amounted to EUR 11,742,459. By 19 March 2011, Triglav Re has settled due liabilities in the amount of EUR 3,658,633.

The remaining amount of unpaid liabilities refers to liabilities for which the reinsurance contracts provide that they shall be paid only after Triglav Re's cedents have paid their liabilities to the Company.

Another category of unpaid due liabilities are those that shall, upon payment, be offset against the Company's receivables from partners, but by the date of the statement of the financial position the partner has not yet settled the balance. This is the reason Triglav Re still has both outstanding receivables from and outstanding liabilities to individual partners recorded at the date of the statement of financial position.

When all the humdrum of forestry machines stops, the Rain Forrest starts its afternoon rest. Because of irresponsible logging it loses 500.000 trees and 6 animal or plant species every hour. Nature knows what only few of us know - the value of a human is his **ability to accept responsibility.**

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DISCLOSURES TO THE INCOME STATEMENT

11.1 Net reinsurance premium income

in EUR

	YEAR 2011	YEAR 2010
Gross reinsurance premiums written	121,931,838	120,167,238
- premium from insurance companies for reinsurance assumed	77,137,982	72,882,781
- premium from reinsurance companies for reinsurance assumed	44,793,856	47,284,457
Reinsurance premiums ceded to retrocessionaires	-57,743,429	-52,401,840
Change in the gross provision for unearned premiums	-4,075,893	-409,023
Retrocessionaires' share of change in the provision for unearned premiums	3,197,447	-161,299
TOTAL	63,309,963	67,195,076

Analysis of reinsurance premiums, claims incurred and operating expenses by class of business

An analysis of gross reinsurance premiums written and gross claims settled by class of business is set out below.

in EUR

YEAR 2011	Gross reinsurance premiums	Gross premiums written	Gross claims paid	Gross claim expenses	Insurance acquisition costs and other operating expenses
Accident insurance	3,626,296	3,564,682	1,455,037	1,901,392	81,026
Health insurance	375,497	375,497	229,546	354,048	8,390
Land motor vehicle insurance	13,749,559	13,919,999	7,263,705	6,326,963	307,221
Railway rolling stock insurance	552,584	554,238	0	558,241	12,347
Aircraft insurance	1,910,112	1,782,675	288,330	62,053	42,680
Ships insurance	1,573,511	1,560,346	924,277	1,218,010	35,159
Goods in transit insurance	3,563,388	3,114,209	1,081,054	1,499,327	79,621
Fire and natural forces insurance	42,159,852	41,919,962	18,850,177	21,999,916	942,022
Insurance of other damage to property	33,606,253	29,840,207	12,905,483	15,295,405	750,900
Liability insurance for motor vehicles	10,553,134	11,071,638	6,706,109	6,109,227	235,800
Liability insurance for aircraft	853,983	819,499	299,059	413,960	19,081
Liability insurance for ships	148,155	146,389	45,452	62,302	3,310
General liability insurance	3,008,356	2,914,194	1,438,795	-111,255	67,219
Credit insurance	2,569,181	2,662,419	1,319,175	406,978	57,406
Suretyship insurance	641,932	602,714	490,473	878,781	14,343
Miscellaneous financial loss insurance	2,228,285	2,185,641	1,824,564	2,076,481	49,789
Legal expense insurance	51,076	51,857	-80	-16	1,141
Assistance insurance	440,814	449,195	334,951	274,787	9,850
Life insurance	319,870	320,584	116,749	117,312	7,147
TOTAL	121,931,838	117,855,946	55,572,858	59,443,912	2,724,451

in EUR

YEAR 2010	Gross reinsurance premiums	Gross premiums written	Gross claims paid	Gross claim expenses	Insurance acquisition costs and other operating expenses
Accident insurance	3,385,486	3,322,054	1,146,628	1,704,664	80,843
Health insurance	237,954	246,083	221,621	205,801	5,682
Land motor vehicle insurance	15,485,344	15,498,146	10,770,738	9,386,303	369,777
Railway rolling stock insurance	679,775	589,258	0	1,471	16,232
Aircraft insurance	1,826,800	2,379,049	900,073	490,539	43,622
Ships insurance	1,485,064	1,420,878	463,785	772,308	35,462
Goods in transit insurance	3,709,839	3,571,649	751,910	2,009,202	88,588
Fire and natural forces insurance	43,454,458	42,669,972	18,267,205	27,521,146	1,037,655
Insurance of other damage to property	28,479,749	28,078,099	17,641,410	20,573,971	680,072
Liability insurance for motor vehicles	12,184,376	12,664,614	6,605,767	6,349,797	290,952
Liability insurance for aircraft	979,307	1,065,067	663,949	416,807	23,385
Liability insurance for ships	178,987	157,610	29,368	76,549	4,274
General liability insurance	2,594,863	2,517,581	615,637	2,208,727	61,963
Credit insurance	2,449,720	2,366,050	829,523	1,656,917	58,497
Suretyship insurance	494,756	682,696	119,068	-251,092	11,814
Miscellaneous financial loss insurance	1,880,029	1,851,949	2,442,240	221,050	44,893
Legal expense insurance	54,909	56,713	115	-832	1,311
Assistance insurance	366,436	387,049	287,298	339,979	8,750
Life insurance	239,389	233,698	81,051	49,948	5,716
TOTAL	120,167,238	119,758,215	61,837,383	73,733,254	2,869,491

Profit/loss from retroceded premiums, commissions and claims

in EUR

	YEAR 2011	YEAR 2010
Reinsurance premiums ceded to retrocession	57,743,429	52,401,840
Retrocessionaires' share in the change in provisions for unearned premiums	-3,197,447	161,299
RETROCEDED PREMIUMS EARNED	54,545,982	52,563,139
Retrocessionaires' share of claims paid	18,607,582	26,847,035
Change in retroceded provisions for claims recorded but not settled	-1,817,872	1,190,724
Change in retroceded provisions for claims incurred but not recorded	-2,850,880	1,443,184
RETROCEDED EXPENSES FOR CLAIMS	13,938,830	29,480,943
Commission income	10,990,672	8,509,032
PROFIT/LOSS FROM RETROCESSION	29,616,480	14,573,164

11.2 Income and expenses from financial assets

11.2.1 Income from financial assets

in EUR

	YEAR 2011	YEAR 2010
Interest income	4,350,041	4,219,329
- available-for-sale financial assets	3,421,497	3,196,873
- financial assets recognized at fair value through profit or loss	91,203	157,243
- loans and receivables	837,341	865,213
Dividend income	33,825	50,333
- available-for-sale financial assets	33,825	50,333
Realized gains	544,517	1,443,100
- available-for-sale financial assets	568,169	1,405,746
- financial assets recognized at fair value through profit or loss	-23,652	30,221
- loans and receivables	0	7,133
Other financial income	1,571,731	1,008,779
TOTAL	6,500,113	6,721,541

Upon disposal of these financial assets, net realised gains from available-for-sale assets were transferred from the reserve for change in fair value under equity and recognised in profit or loss in the amount of EUR 568,169 (2010: EUR 1,405,746); other realised gains in the negative amount of EUR 23,652 (2010: EUR 30,221) relate to financial assets recognised at fair value through profit or loss. Other income from financial activities mainly consists of foreign exchange gains from investments and of operating receivables in the amount of EUR 1,568,699 (2010: EUR 1,002,357) and other income in the amount of EUR 3,032 (2010: EUR 6,422).

11.2.2 Expenses from financial assets

in EUR

	YEAR 2011	YEAR 2010
Interest expense	572,230	745,948
- financial assets available for sale	563,478	609,400
- financial assets at fair value through profit or loss	8,752	136,548
Losses from disposal of financial assets	498,310	521,191
- financial assets available for sale	394,312	52,618
- financial assets at fair value through profit or loss	103,998	468,573
Impairment of financial assets	924,796	170,704
- financial assets available for sale	924,796	170,704
Other financial expenses	1,867,050	1,422,646
TOTAL	3,862,386	2,860,490

In compliance with its accounting policy, Triglav Re impaired financial assets for the amount of EUR 924,796 (2010: EUR 170,704; see item 9.3.3), of which EUR 687,784 of impairments related to Greek bonds. Other financial expenses in the amount of EUR 1,867,050 (2010: EUR 1,422,646), which account for the highest amount among expenses from financial assets, include foreign exchange losses in the amount of EUR 1,467,680 (2010: EUR 1,083,349), other financial expenses in the amount of EUR 141,390 (2010: EUR 143,748), and operating expenses related to assets management in the amount of EUR 257,979 (2010: EUR 195,550).

NET INCOME/(EXPENSES) FROM FINANCIAL ASSETS

in EUR

YEAR 2011	Assets available for sale	Loans and receivables	Fin. assets at fair value through profit or loss	Derivative financial instruments	TOTAL
Interest income	3,421,497	837,341	89,682	1,521	4,350,041
Income from dividends and shares	33,825	0	0	0	33,825
Realized gains	568,169	0	-24,400	748	544,517
Other financial income	1,571,731	0	0	0	1,571,731
TOTAL INCOME	5,595,222	837,341	65,282	2,269	6,500,113
Interest expense	563,478	0	0	8,752	572,230
Realized losses	394,312	0	97,575	6,423	498,310
Impairment losses	924,796	0	0	0	924,796
Other financial expenses	1,867,050	0	0	0	1,867,050
TOTAL EXPENSE	3,749,636	0	97,575	15,175	3,862,386
TOTAL NET INCOME/EXPENSE	1,845,586	837,341	-32,293	-12,906	2,637,727
YEAR 2010					
Interest income	3,196,696	865,213	101,771	55,472	4,219,152
Income from dividends and shares	50,333	0	0	0	50,333
Realized gains	1,405,746	7,133	13,700	16,521	1,443,100
Other financial income	1,008,955	0	0	0	1,008,955
TOTAL INCOME	5,661,730	872,346	115,471	71,993	6,721,540
Interest expense	609,400	0	0	136,548	745,948
Realized losses	52,618	0	-124,227	592,800	521,191
Impairment losses	170,704	0	0	0	170,704
Other financial expenses	1,422,646	0	0	0	1,422,646
TOTAL EXPENSE	2,255,368	0	-124,227	729,348	2,860,489
TOTAL NET INCOME/EXPENSES	3,406,362	872,346	239,698	-657,355	3,861,051

In 2011, interest income of impaired assets, classified as available for sale, amounted to EUR 40,959, relating in full to a Greek government bond, whereas other impaired securities were equity investments.

11.3 Commission income and expenses

in EUR

	YEAR 2011	YEAR 2010
Commission income	10,990,672	8,509,032
Commission paid	24,437,779	24,671,840
DIFFERENCE	-13,447,106	-16,162,808

The reinsurance commission income is accounted for in connection with the outward reinsurance business (i.e. reinsurance business retroceded to other reinsurance companies) and represents the Company's income, while the reinsurance commission expense is accounted for in connection with the inwards reinsurance business (i.e. reinsurance business ceded to Triglav Re by cedents and retrocedants) and represents the Company's expense. The reinsurance commission expense exceeds the reinsurance commission income and, thus, has a negative impact on the result, i.e. it increases the Company's operating expenses.

11.4 Net claims incurred

in EUR

	YEAR 2011	YEAR 2010
Gross claims paid	55,572,858	61,837,383
Retrocessionaires' share of claims incurred	-18,607,582	-26,847,035
Change in provisions for gross claims recorded but not settled	3,791,608	4,730,195
Change in retroceded provisions for claims recorded but not settled	1,817,872	-1,190,724
Change in provisions for gross claims incurred but not recorded	79,446	7,165,675
Change in retroceded provisions for claims incurred but not recorded	2,850,880	-1,443,184
TOTAL	45,505,082	44,252,310

11.5 Operating expenses

The table below presents operating costs and expenses by their nature and by functional groups:

in EUR

YEAR 2011	INSURANCE ACQUISITION COSTS	ASSETS MANAGEMENT COSTS	OTHER OPERATING EXPENSES	TOTAL
Depreciation and amortisation charge	30,124	7,268	46,635	84,027
Staff expenses	735,698	177,511	1,138,947	2,052,156
- gross salaries	546,844	131,944	846,579	1,525,367
- social security and pension insurance costs	95,404	23,019	147,697	266,120
- other labour costs	93,450	22,548	144,671	260,669
Other operating expenses	303,379	73,200	469,667	846,246
TOTAL	1,069,201	257,979	1,655,249	2,982,429

in EUR

YEAR 2010	INSURANCE ACQUISITION COSTS	ASSETS MANAGEMENT COSTS	OTHER OPERATING EXPENSES	TOTAL
Depreciation and amortisation charge	41,692	6,327	51,153	99,173
Labour costs	883,295	134,049	1,083,738	2,101,081
- gross salaries	653,838	99,227	802,212	1,555,276
- social security and pension insurance costs	113,556	17,233	139,325	270,115
- other labour costs	115,900	17,589	142,201	275,690
Other operating expenses	363,556	55,173	446,057	864,786
TOTAL	1,288,543	195,551	1,580,948	3,065,041

Triglav Re presents costs and expenses in the income statement by functional groups.

Asset management costs for the year 2011 amount to EUR 257,979 (2010: EUR 195,551) and are recorded under financial expenses in the income statement.

In 2011, the cost of the annual report audit amounted to EUR 26,400 (2010: EUR 26,400), while other audit services were not performed (2010: EUR 7,140).

11.6 Income tax expenses

in EUR

	YEAR 2011	YEAR 2010
Current income tax expense	940,062	1,430,633
Deferred income tax expense	-162,763	98,358
TOTAL	777,299	1,528,992

Deferred income tax expense in the amount of EUR 162,763 decreased the total tax expense in the income statement, while in 2010 deferred income tax expense increased the total tax expense by EUR 98,358. Deferred income tax expense contains the deferred tax assets for termination and jubilee benefits provisions in the amount of EUR 207 (2010: EUR 545) and deferred tax assets due to impairment of investments in the amount of EUR 162,556 (2010: - EUR 97,814). Deferred taxes in 2011 decreased the total tax expense in the income statement, while in 2010 the total tax expense was increased by deferred taxes.

RECONCILIATION OF ACCOUNTING PROFIT FOR THE PERIOD TO INCOME TAX EXPENSE

in EUR

	YEAR 2011	YEAR 2010
Accounting profit for the period before income taxes	3,739,695	7,513,083
Income tax at the rate of 20%	747,939	1,502,617
Differences:		
Non-deductible expenses	210,118	-54,676
Tax exempt income	-6,765	-5,171
Income that increases taxable base	338	236
Tax reliefs	-11,568	-12,373
Changes in temporary differences	-162,763	98,358
Deferred tax expenses arising from the write-down of a previously recognised deferred tax asset	0	0
TOTAL	777,299	1,528,992
Effective tax rate	20,8%	20,4%

In 2011 Triglav Re recorded income tax assets arising from the corporate income taxation in the amount of EUR 371,352 (2010: tax liability in the amount of EUR 1,033,399).

11.7 Related parties

The key shareholder of Triglav Re is Zavarovalnica Triglav d.d. with a holding of 87 percent of the Company's share capital at year end. Triglav Re has an immediate related party relationship with its ultimate parent (its principal shareholder) and its subsidiaries; the Supervisory Board members, Management Board members and other executive management (together: key management personnel), in accordance with the definitions contained in International Accounting Standard 24 "Related Party Disclosures" (IAS 24).

Contracts concluded between Zavarovalnica Triglav d.d. and Triglav Re in 2011:

- the major business concluded between Zavarovalnica Triglav d.d. and Triglav Re is a reinsurance contract for 2011, which incorporates an overall specification of the reinsurance programme for Zavarovalnica Triglav d.d., both in respect of proportional and non-proportional reinsurance of the assumed non-life insurance and life assurance portfolios of Zavarovalnica Triglav d.d.;
- various facultative reinsurance contracts;
- accident insurance and pension insurance contracts for the employees of Triglav Re;
- liability insurance for the executive management of Triglav Re;
- a property insurance contract for electronic equipment owned by Triglav Re;
- motor insurance contracts (motor third-party liability and motor hull insurance) for motor vehicles owned by Triglav Re;

- management contract for assets backing liabilities and investments from own funds;
- a lease contract for business premises at Miklošičeva 19, including the lease of equipment and two car parking lots.

All business transactions between Triglav Re and its parent company are at arm's length and are not secured; the same applies to transactions between related parties and Triglav Re.

TRANSACTIONS OF TRIGLAV RE WITH THE PARENT COMPANY AND OTHER COMPANIES IN THE TRIGLAV GROUP

v EUR

YEAR 2011	Zavarovalnica Triglav	Triglav osiguranje Zagreb	Triglav BH osiguranja	Triglav pojištovne	Triglav Lovčen Re	Triglav Lovčen Osiguranje	Vardar Osiguruvanje	Krajina Kopaonik Osiguranje
Premiumd earned	69,319,400	2,469,125	15,809	5,236,963	0	1,682,405	1,719,170	123,502
Commission expenses	11,673,541	363,871	0	966,501	0	412,312	307,671	33,750
Claims paid	27,081,809	1,005,360	0	3,162,862	0	289,878	272,961	0
Change in unearned premiums	3,518,170	34,622	0	210,050	0	-164,447	16,084	-7,798
Change in the provision for claims outstanding	-4,789,517	-23,795	0	-131,351	0	-51,233	-242,976	226,097
Rental costs	134,316	0	0	0	0	0	0	0
Asset management costs	140,666	0	0	0	0	0	0	0
Costs of property, accident and pension insurance premiums	67,666	0	0	0	0	0	0	0
Receivables from reinsurance premiums	16,056,101	1,355,107	0	1,129,685	0	516,622	61,791	21,184
Commission liabilities to insurers	2,522,899	325,226	0	234,200	0	121,993	13,219	3,957
Liabilitiers to insurers for shares in claims	6,899,598	1,005,360	0	653,270	0	40,850	53,170	0
Other current liabilities	67,512	0	0	0	0	0	0	0

v EUR

YEAR 2010	Zavarovalnica Triglav	Triglav osiguranja	Triglav BH osiguranja	Triglav pojištovne	Triglav Lovčen Re	Triglav Lovčen Osiguranje	Vardar Osiguruvanje	Krajina Kopaonik Osiguranje
Earned premiums	65,904,860	1,719,121	15,271	5,167,849	0	1,939,619	1,371,898	131,611
Commission expense	10,174,831	172,617	0	1,490,665	0	433,139	130,109	21,087
Claims incurred	37,615,557	524,248	0	3,344,518	0	388,445	34,618	0
Change in unearned premiums	-352,229	-66,798	0	5,143	0	477,526	-248,565	2,710
Change in the provision for claims outstanding	703,906	98,184	0	296,131	0	31,594	235,046	0
Rental costs	131,515	0	0	0	0	0	0	0
Asset management costs	127,188	0	0	0	0	0	0	0
Costs of property, accident and pension insurance premiums	99,796	0	0	0	0	0	0	0
Receivables from reinsurance premiums	13,062,788	169,052	0	1,206,900	0	834,472	40,482	20,406
Commission liabilities	2,254,781	36,184	0	360,279	0	215,259	9,635	3,419
Liabilities for shares in claims	18,958,456	43,134	0	806,289	0	179,189	0	0
Other current liabilities	44,906	0	0	0	0	0	0	0

In October 2011 Triglav Re acquired, at the current market price, one share in Triglav Kopaonik Osiguranje a.d., Belgrade, which is majority-owned by Zavarovalnica Triglav d.d..

Legal transactions that were concluded in 2011 with other abovementioned related entities of the controlling company Zavarovalnica Triglav d.d. as the parent/controlling company were entered into for consideration; therefore, no direct decrease in the assets of Triglav Re was recorded. Triglav Re did not commit any act or omission that would in any way, directly or indirectly, have an impact on a decrease in assets or profit of Triglav Re.

11.8 Statement of cash flows

Cash flows from operating and investing activities have been prepared on the basis of data from the statement of financial position and adequately adjusted for non-cash flow items (impairments and changes in provisions for claims incurred and other provisions). Income and expenses regarding intangible assets and property, plant and equipment were computed on the basis of changes in their carrying amounts and adjusted for amortisation and depreciation, and increased or decreased for gains or losses upon disposal. Cash flows from financing activities are recorded on the basis of actual payments.

MATCHING OF CASH FLOWS FROM OPERATING ACTIVITIES

in EUR

	YEAR 2011	YEAR 2010
Profit/loss before tax	3,739,695	7,513,083
Depreciation/amortization	84,027	99,173
Change in receivables	1,231,946	-11,002,886
Change in deferred tax assets	-841,509	339,591
Change in liabilities	3,544,377	14,756,247
Income tax asset	-940,062	-1,430,633
NET CASH FROM OPERATING ACTIVITIES	6,818,474	10,274,575

People still believe in the legend about the sea that didn't want to be left behind the Earth, so it made a deal with the moon, that its depths give birth to first pearls like the moon dew. When pearl harvesters sink at noon, they forget about the legends because they know that **a pearl inside a shell has no value.**

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12

RISK MANAGEMENT

Triglav Re aims to implement a comprehensive risk management system as a key component of good management and effective yield management. Triglav Re is aware that risk constitutes an essential part of corporate and business planning and of the functioning of individual services. In addition, Triglav Re endeavours to implement the full Solvency II requirements; it has determined the ultimate acceptable level of risk and set up a system of risk assessment and management for the risks to which it is exposed. This can be achieved with better decision-making and a well-planned risk management including a system of controls; with the establishment, strengthening and replication of good business practices in respect of risk management; and with quality risk management, at the level of both Triglav Re and the Triglav Group, coordinated by the Risk Management Department of Zavarovalnica Triglav.

Triglav Re is exposed to risks arising from all lines of business, such as reinsurance risk (from reinsurance business), operational risk and financial risk. Being a dynamic entity, Triglav Re generates new risks that are to be controlled and managed. The Company aims to proactively identify, understand and manage risks arising from the operation of its divisions and services and associated with the Company's plans and strategy to advance well-thought-out and responsible risk exposure. Triglav Re does not support reckless risk exposure, but rather applies the table of retentions for any assumed insurance or reinsurance business, detailing the maximum limit of liability in any one category of risk that the Company covers by itself (own share).

Triglav Re defines the risk in its risk management policy as "the danger or probability that an act or event could have a negative or a positive impact on the Company's ability to attain its goals." Risk management is a carefully planned and systematic approach to the identification, assessment, management and control of risks. Risk management includes the assessment of measures applied by Triglav Re with a view to the management of identified risks, and the recommendation of actions to be implemented by the Company in order to efficiently manage these risks. Risk management may reduce the probability of a risk event occurring or limit its consequence with the implementation of control mechanisms.

Considering the current capital adequacy requirements (Solvency I), the main categories of risks are reinsurance risks, technical provision risk, financial risks, and (to a lesser extent) capital adequacy and solvency risks. Under Solvency II, however, according to the qualitative impact study (QIS), the main risks for Triglav Re are non-life insurance risks, i.e. in particular the premium and reserve risk, the market risk and the default risk.

12.1 Reinsurance risks

Reinsurance risks refer to the uncertainty of reinsurance events. These are the risks that reinsurance claims are higher than expected and/or that premiums earned are lower than expected.

Triglav Re concludes outwards reinsurance agreements (retrocession agreements) for a portion of the risks it reinsures in order to control its exposure to losses and to protect capital resources. The Company buys a combination of proportionate and non-proportionate retrocession agreements to reduce its exposure so as to comply with the amounts in the table of retentions. To hedge against the accumulation of a greater number of losses arising out of one occurrence (e.g. a natural disaster), the Company buys non-proportionate catastrophe cover.

The table below shows the amount of gross reinsurance premiums, the claims ratio and the combined ratio in 2011 and 2010. The combined ratio is comprised of the claims ratio and the expense ratio. In Triglav Re, the latter is calculated without operating expenses and, thus represents the share of commissions paid with regard to the actual premium or the premium earned.

GROSS REINSURANCE PREMIUM, CLAIMS RATIO AND COMBINED RATIO IN 2011 AND 2010

in EUR

	YEAR 2011			YEAR 2010		
	Gross premiums	Loss ratio	Combined ratio	Gross premiums	Loss ratio	Combined ratio
01: Accident insurance	3,626,296	53.3%	81.5%	3,385,486	51.3%	80.9%
02: Health insurance	375,497	94.3%	120.4%	237,954	83.6%	113.6%
03:Land motor vehicle insurance	13,749,559	45.5%	55.6%	15,485,344	60.6%	74.2%
04:Railway rolling stock insurance	552,584	100.7%	100.7%	679,775	0.2%	0.6%
05: Aircraft insurance	1,910,112	3.5%	18.5%	1,826,800	20.6%	27.9%
06: Ships insurance	1,573,511	78.1%	98.3%	1,485,064	54.4%	75.3%
07: Goods in transit insurance	3,563,388	48.1%	72.9%	3,709,839	56.3%	79.3%
08: Fire and natural forces insurance	42,159,852	52.5%	78.6%	43,454,458	64.5%	89.4%
09: Insurance of other damage to property	33,606,253	51.3%	72.4%	28,479,749	73.3%	94.8%
10: Liability insurance for motor vehicles	10,553,134	55.2%	69.6%	12,184,376	50.1%	66.2%
11: Liability insurance for aircraft	853,983	50.5%	58.1%	979,307	39.1%	49.9%
12: Liability insurance for ships	148,155	42.6%	64.1%	178,987	48.6%	72.9%
13: General liability insurance	3,008,356	-3.8%	8.7%	2,594,863	87.7%	103.6%
14: Credit insurance	2,569,181	15.3%	33.2%	2,449,720	70.0%	90.1%
15: Suretyship insurance	641,932	145.8%	173.1%	494,756	-36.8%	-20.1%
16: Miscellaneous financial loss insurance	2,228,285	95.0%	118.5%	1,880,029	11.9%	28.9%
17: Legal expense insurance	51,076	0.0%	24.4%	54,909	-1.5%	22.5%
18: Assistance insurance	440,814	61.2%	73.7%	366,436	87.8%	95.9%
19: Life insurance	319,870	36.6%	51.2%	239,389	21.4%	32.1%
TOTAL	121,931,838	50.4%	71.2%	120,167,238	61.6%	82.2%

It is estimated that the greatest likelihood of significant losses to Triglav Re arises from catastrophe events. The risks are controlled with the measurement of geographical accumulations and the assessment of probable maximum losses caused by a natural disaster. Based on the analysis of observations, Triglav Re buys retrocession reinsurance cover for net claims paid on net premium.

Retrocession

Triglav Re retrocedes a portion of its business through outward retrocession contracts in order to manage its reinsurance risks.

The risks retroceded to a reinsurer include the credit risk that occurs if the reinsurer fails to meet contractual obligations. Triglav Re monitors the financial conditions of reinsurers and, as a rule, enters into retrocession reinsurance contracts only with reinsurers rated at least A- in case of liability reinsurance, and with reinsurers rated BBB+ in case of other classes of reinsurance.

The table below shows the retroceded (outward) premium, claims ratio and combined ratio for outward business (retrocession). The fluctuation of these results in comparison to the preceding year neither increases nor decreases the Company's risk exposure because the differences are due to the changes in major or catastrophe claims that are retroceded to reinsurers. In the case of outward business, the combined ratio is the sum of the claims ratio and the expense ratio. In the case of Triglav Re, the latter is calculated as a share of commission income in relation to the actual retroceded (outward) premium.

OUTWARD REINSURANCE PREMIUM, CLAIMS RATIO AND COMBINED RATIO ARISING FROM RETROCESSION IN 2011 AND 2010

in EUR

	YEAR 2011			YEAR 2010		
	Outward premiums	Loss ratio - retrocession	Combined ratio - retrocession	Outward premiums	Loss ratio - retrocession	Combined ratio - retrocession
01: Accident insurance	255,631	24.3%	38.5%	237,777	25.0%	41.3%
02: Health insurance	0	0.0%	0.0%	0	0.0%	0.0%
03:Land motor vehicle insurance	5,921,865	12.4%	16.8%	6,842,836	54.9%	63.4%
04:Railway rolling stock insurance	550,778	101.4%	101.4%	659,506	0.0%	0.0%
05: Aircraft insurance	1,763,244	-16.8%	1.0%	1,323,886	32.4%	40.2%
06: Ships insurance	31,325	4.3%	4.3%	26,361	0.0%	0.6%
07: Goods in transit insurance	1,105,173	-0.4%	7.0%	757,382	2.5%	11.1%
08: Fire and natural forces insurance	21,589,116	23.1%	50.1%	21,171,731	41.0%	60.6%
09: Insurance of other damage to property	17,960,258	27.5%	49.3%	13,121,390	83.8%	102.1%
10: Liability insurance for motor vehicles	2,212,327	74.5%	80.8%	3,082,630	97.0%	108.9%
11: Liability insurance for aircraft	789,984	90.8%	99.9%	842,781	10.3%	21.1%
12: Liability insurance for ships	18,266	0.0%	0.0%	14,252	157.2%	157.2%
13: General liability insurance	1,709,543	-57.2%	-48.0%	1,282,812	137.5%	152.5%
14: Credit insurance	1,493,622	13.8%	33.7%	1,135,489	74.8%	95.7%
15: Suretyship insurance	321,580	111.0%	127.7%	287,709	-17.7%	-2.5%
16: Miscellaneous financial loss insurance	1,613,850	92.9%	124.0%	1,276,622	-4.8%	12.8%
17: Legal expense insurance	0	0.0%	0.0%	0	0.0%	0.0%
18: Assistance insurance	87,930	54.2%	54.2%	99,500	-30.8%	-30.8%
19: Life insurance	318,936	36.7%	51.3%	239,175	21.2%	31.9%
TOTAL	57,743,429	25.6%	45.7%	52,401,840	56.1%	72.3%

12.2 Technical provision risk

Technical provision risk is the risk that the provisions made for reinsurance contracts are lower than required. Triglav Re manages such risk with consistent compliance to all laws and regulations and resolutions regarding their liabilities from reinsurance contracts, and, in addition, by applying actuarial methods in annual provisioning for incurred but not reported claims (IBNR provision). Considering the specifics of reinsurance business, Triglav Re cannot base its actuarial estimate of provisions for claims outstanding on the triangle of claims settled prepared on the basis of occurrence, but rather prepares data on claims settled by contract years, and then, by applying appropriate actuarial techniques, estimates potential liabilities by contract years in the future. Provisions for claims outstanding are not discounted. The cumulative excess in provisions for all contract years is positive, which also proves that the risk of insufficient technical provisions was well managed in 2011.

As at 31 December 2011, Triglav Re recorded the total balance of net technical provisions in the amount of EUR 84,069,260. Net technical provisions of Triglav Re on the last day of the 2011 financial year comprise the following types of provisions:

in EUR

	YEAR 2011	YEAR 2010
Net provision for unearned premiums	14,964,113	14,085,668
Net provision for bonuses, rebates and cancellations	16,175	12,795
Net provision for claims outstanding	68,783,618	60,243,811
Provision for unexpired risks	305,354	146,358
TOTAL	84,069,260	74,488,631

In comparison to the balance of 1 January 2011, net technical provisions increased by 12.9 percent and were in total covered by investments of assets backing liabilities at 31 December 2011. Due to the transition to the IFRS, equalisation provisions for credit insurance in the amount of EUR 1,435,467 have again been recognised in the statement of financial position (under equity) in 2011, and are for that reason not separately disclosed under technical provisions.

12.3 Capital adequacy and solvency risk

Solvency I

In compliance with the Insurance Act and other implementing regulations, Triglav Re is obliged to ensure capital adequacy with regard to the volume and class of its reinsurance business.

The prescribed methodology for the computing of minimum capital requirement for 2011 remained the same as in 2010. The minimum capital for 2011 was calculated pursuant to Article 110, paragraph 12, and Article 112 of the Insurance Act, which provide that the sum of insurance premiums earned in the previous financial year up to a total amount of EUR 50 million shall be multiplied by 0.18, whilst the amount of insurance premiums exceeding EUR 50 million shall be multiplied by 0.16. In addition, the annual sum claims regarding payment of indemnities up to EUR 35 million shall be multiplied by 0.26, whilst the amount of such claims exceeding EUR 35 million shall be multiplied by 0.23. The Decision on the amendment of the amounts for the calculation of minimum capital and amounts of the guarantee fund for the insurance undertakings (Official Gazette of the Republic of Slovenia No. 9 of 2 February 2007) further prescribes that the guaranteed capital of reinsurance companies may never fall below the amount of EUR 3.2 million.

As at 31 December 2011, the required minimum capital of Triglav Re amounted to EUR 13,745,673 (in 2010, it amounted to EUR 11,177,073), and the available capital to EUR 33,460,739 (in 2010, it amounted to EUR 28,320,693). The capital surplus over the

required minimum capital is rather high (EUR 19,715,066 as at 31 December 2011 and EUR 17,143,620 as at 31 December 2010) and, therefore, it can be stated that the risk of capital inadequacy is effectively minimised.

It was determined that the capital surplus over the required minimum capital increased in 2011, predominantly due to the increased level of retained earnings from previous years (by about EUR 5.6 million). The available capital exceeds the required minimum capital by more than 169 percent, which means that Triglav Re adequately manages the capital adequacy risk.

Triglav Re was meeting the requirements of capital adequacy throughout the entire financial year.

Solvency II

In 2011, Triglav Re continued to actively participate in the preparations for the new solvency regime (SOLVENCY II), which will come into effect on 31 December 2013. The QIS 5 results for Triglav Re have shown that non-life risk, which amounts to 42 percent of total available capital, continues to be the highest risk to the Company. It is followed by market risk (15percent), default risk with 8 percent of available capital and health insurance risk amounting to 2 percent of available capital. Operational risk is valued according to a special module and is not part of the abovementioned risks constituting the basic solvency capital requirements (BSCR); however, it amounts to approximately 7 percent of the available capital. The results of the study have shown that, upon transition to the new solvency regime, Triglav Re will most likely increase both its available and minimum capital, but at the same time, the capital surplus above the minimum capital is expected to stay at approximately the same level as required under the Solvency I methodology. In 2012, Triglav Re will continue to carry out preparation activities for Solvency II, and to plan and implement the activities for the optimisation of certain types of risks.

12.4 Financial risk management

Transactions in financial instruments entail financial risks. These risks comprise market risk, credit risk (including reinsurance credit risk) and liquidity risk. Each of these financial risks is described below, together with a survey of activities by which Triglav Re manages these risks.

12.4.1 Liquidity risk management

Triglav Re actively manages its assets using an approach that balances quality, diversification, asset/liability matching, liquidity and investment return. The goal of the investment process is to optimise the after-tax, risk-adjusted investment income and risk-adjusted total return, whilst ensuring that the assets and liabilities are managed on a cash-flow and duration basis. Due attention is given to the compliance with the rules established by law.

Liquidity risk arises from the general funding of the Company's activities and from the management of its positions. It includes both the risk of being unable to fund assets at appropriate maturities and rates and the risk of being unable to liquidate an asset at a reasonable price and in an appropriate timeframe. The maturity structure of financial assets and liabilities is presented in the table below.

Triglav Re holds a portfolio of liquid assets as part of its liquidity risk management strategy, to ensure continuous operations and compliance with the legal requirements.

The liquidity position of Triglav Re is good and all statutory requirements for claims settlement in the financial year have been met in time.

Triglav Re weekly calculates its liquidity ratios and discloses them every month in its Report on Assets and Liabilities Management. The report is reviewed by the Risk Management Committee, and current measures are taken to provide for cover, liquidity, and capital adequacy, as appropriate.

The structure of assets by cash flow and the structure of liabilities by maturity are presented in the tables below:

31.12.2011 in EUR

FINANCIAL ASSETS	NOT DEFINED	LESS THAN 1 YEAR	1 TO 5 YEARS	5 TO 10 YEARS	MORE THAN 10 YEARS	TOTAL
Total financial assets	2,914,192	25,956,637	46,638,325	29,791,128	1,613,299	106,913,581
Debt securities	0	7,253,785	46,638,325	29,791,128	1,613,299	85,296,537
- held to maturity	0	0	0	0	0	0
- at fair value through profit or loss	0		1,585,014	4,317	432,673	2,022,004
- available for sale	0	3,331,566	43,996,500	29,291,314	869,428	77,488,808
- loans and receivables	0	3,922,219	1,056,811	495,497	311,198	5,785,725
Equity securities	2,904,192	0	0	0	0	2,904,192
- at fair value through profit or loss	0	0	0	0	0	0
- available for sale	2,904,192	0	0	0	0	2,904,192
Derivative financial instruments	0	0	0	0	0	0
Loans and receivables	10,000	18,702,852	0	0	0	18,712,852
Amount of technical provisions ceded to reinsurers	0	11,310,370	10,270,710	4,805,530	988,515	27,375,125
Operating receivables	0	56,420,396	0	0	0	56,420,395
Cash and cash equivalents	0	30,426	0	0	0	30,426
TOTAL FINANCIAL ASSETS	2,914,192	93,717,829	56,909,035	34,596,658	2,601,814	190,739,527

FINANCIAL LIABILITIES AND PROVISIONS	NOT DEFINED	LESS THAN 1 YEAR	1 TO 5 YEARS	5 TO 10 YEARS	MORE THAN 10 YEARS	TOTAL
Technical provisions	0	73,772,910	28,529,687	7,872,817	1,268,971	111,444,385
Other provisions		83,055	1,900	7,085	27,732	119,772
Operating liabilities	0	43,872,728	0	0	0	43,872,728
Other liabilities	0	552,803	0	0	0	552,803
TOTAL FINANCIAL LIABILITIES AND PROVISIONS	0	118,281,496	28,531,587	7,879,902	1,296,703	155,989,688

31.12.2010 in EUR

FINANCIAL ASSETS	NOT DEFINED	LESS THAN 1 YEAR	1 TO 5 YEARS	5 TO 10 YEARS	MORE THAN 10 YEARS	TOTAL
Total financial assets	5,540,045	11,354,499	38,661,127	42,764,421	2,986,048	101,306,141
Debt securities	0	748,470	33,773,734	42,764,421	2,986,048	80,272,673
- held to maturity	0	0	1,283,422	466,208	638,536	2,388,166
- at fair value through profit or loss	0	310,144	28,038,787	41,804,758	2,036,070	72,189,759
- available for sale	0	438,326	4,451,525	493,455	311,441	5,694,747
- loans and receivables	0	0	0	0	0	0
Equity securities	5,530,045	0	0	0	0	5,530,045
- at fair value through profit or loss	0	0	0	0	0	0
- available for sale	5,530,045	0	0	0	0	5,530,045
Derivative financial instruments	0	0	20,907	0	0	20,907
Loans and receivables	10,000	10,606,030	4,866,487	0	0	15,482,516
Amount of technical provisions ceded to reinsurers	0	13,996,883	12,079,515	2,697,635	72,398	28,846,430
Operating receivables	0	57,654,642	0	0	0	57,654,642
Cash and cash equivalents	0	114,162	0	0	0	114,162
TOTAL FINANCIAL ASSETS	5,540,045	83,120,186	50,740,642	45,462,057	3,058,445	187,921,375

FINANCIAL LIABILITIES AND PROVISIONS	NOT DEFINED	LESS THAN 1 YEAR	1 TO 5 YEARS	5 TO 10 YEARS	MORE THAN 10 YEARS	TOTAL
Technical provisions	0	70,889,329	26,868,352	5,399,201	178,180	103,335,061
Other provisions		26,438	1,817	4,517	26,611	59,384
Operating liabilities	0	48,389,251	0	0	0	48,389,251
Other liabilities	0	572,141	0	0	0	572,141
TOTAL FINANCIAL LIABILITIES AND PROVISIONS	0	119,877,159	26,870,169	5,403,719	204,791	152,355,838

The liabilities are not discounted; they are estimated as the sum of expected future cash flows. Equalisation provisions amounting to EUR 1,435,467 are not disclosed under technical provisions because in the statement of financial position they are not recorded under the item of liabilities from reinsurance contracts, but constitute a part of equity. Gross provisions for reinsurance contracts including the equalisation provisions would have amounted to EUR 112,879,852.

Triglav Re maintains a partial mismatch of asset and liability maturities, generating part of its returns on the basis of that mismatch. Current liabilities are settled out of current income; the possibility of disposing of some financial instruments also exists.

Nine debt securities are redeemable prior to maturity; their total carrying amount at the date of reporting amounts to EUR 4,451,467 (in 2010: EUR 2,908,985).

12.4.2 Market risk

The investment portfolio of Triglav Re's portfolio is exposed to market variables on which the Company has not influence. These market variables are market interest rates and the related prices of debt instruments, prices of equity securities and investment funds, foreign currency exchange rates, and other factors having direct or indirect impact on the valuation of investments in the portfolio.

Triglav Re actively manages its assets using an approach that balances quality, diversification, asset/liability matching, liquidity and investment return. The goal of the investment process is to optimise the after-tax, risk-adjusted investment income and risk-adjusted total return, whilst ensuring that the assets and liabilities are managed on a cash-flow and duration basis. Due attention is given to compliance with the legally binding rules.

12.4.3 Interest rate risk

in EUR

	YEAR 2011	YEAR 2010
Debt securities	85,296,537	80,272,673
- Government securities	46,473,224	45,970,213
- Securities of financial institutions	14,030,389	16,538,134
- Corporate securities	22,770,919	15,376,160
- Compound securities	2,022,004	2,388,166
Derivative financial instruments	20,907	20,907
TOTAL EXPOSED ASSETS	85,317,443	80,293,580
TOTAL OTHER ASSETS	21,596,138	21,012,561
TOTAL ASSETS	106,913,581	101,306,142

Interest rate risk is the risk that the value of an investment will fluctuate because of changes in market interest rates. Interest rate risk is defined as a sensitivity of the value of an investment to changes in market interest rates. The duration of the investment is the measure of risk. The interest rate risk is managed on a global level by strategic diversification of investments into fixed-return investments (debt securities), variable-return investments (shares and other investments) and provisions covered by such investments. Triglav Re partly balances its interest rate risk with derivative financial instruments, i.e. swap contracts; however, all such contracts had been terminated by the end of the financial year.

The exposure of Triglav Re to market risk due to changes in interest rates is concentrated in its investment portfolio presented in the table above. The operations of Triglav Re are exposed to the risk of interest rate fluctuation to the extent that interest-earning assets and interest-bearing liabilities mature or re-price at different times or in differing amounts. In 2011, Triglav Re deposited cash at interest rates ranging from 1.00 percent to 4.40 percent. The interest rate was subject to the amount and maturity of time deposits. All deposits carried a fixed interest rate.

Triglav Re is also exposed to the risk of changes in future cash flows arising from the changes in market interest rates. The Company does not have any debt obligations nor do interest rate changes influence the level of non-life provisions.

Triglav Re monitors this exposure through periodic reviews of its asset and liability positions. In addition, estimates of cash flows, as well as the impact of interest rate fluctuations relating to the investment portfolio and insurance reserves are modelled and reviewed regularly. The overall objective of these strategies is to limit net changes in the value of assets and liabilities arising from interest rate movements.

Sensitivity analysis of financial assets to interest risk

The sensitivity of financial assets to interest rates is expressed as an effect of parallel shift of the interest rate curve by +/- 100 base points on the fair value of all interest sensitive financial assets that are not valued by the amortised cost method, i.e. the debt instruments classified as available for sale and at fair value through profit or loss.

in EUR

	YEAR 2011		YEAR 2010	
	+100bp	-100bp	+100bp	-100bp
Government securities	-1,719,442	1,719,442	-2,259,805	2,259,805
Securities of financial institutions	-301,314	301,314	-478,763	478,763
Corporate securities	-1,031,764	1,031,764	-800,061	800,061
Compound securities	-66,900	66,900	-109,925	109,925
Other	0	0	-6,984	6,984
TOTAL	-3,119,420	3,119,420	-3,655,538	3,655,538
Impact on equity	-3,052,520	3,052,520	-3,538,629	3,538,629
Impact on profit or loss	-66,900	66,900	-116,909	116,909

12.4.4 Share price risk

in EUR

	YEAR 2011	YEAR 2010
Equity securities and investment funds	2,904,192	5,530,045
Shares in EU	1,966,304	2,581,766
Shares in USA	0	261,348
Shares in Asia	0	0
Shares of emerging markets	0	1,698,639
Global shares*	937,888	988,292
TOTAL EXPOSED ASSETS	2,904,192	5,530,045
TOTAL OTHER ASSETS	104,009,389	95,776,097
TOTAL ASSETS	106,913,581	101,306,141

The Company's portfolio of marketable equity securities carried in the balance sheet at fair value gives exposure to price risk. Price risk is the risk that the value of a financial instrument will fluctuate as a result of changes in market prices, whether those changes are caused by factors specific to the individual instrument or its issuer or factors affecting all instruments traded in the market.

The objective of Triglav Re is to earn competitive returns by investing in a diverse portfolio of high quality liquid securities. Portfolio characteristics are analysed regularly. The Company's holdings are diversified across industries, and concentrations in any one company or industry are limited by parameters established by senior management, as well as by statutory requirements.

Sensitivity analysis of financial assets to equity price risk:

in EUR

	YEAR 2011		YEAR 2010	
	+10%	-10%	+10%	-10%
Shares in EU	196,628	-196,628	258,177	-258,177
Shares in USA	0	0	26,135	-26,135
Shares of emerging markets	0	0	169,864	-169,864
Global shares *	93,789	-93,789	98,829	-98,829
TOTAL	290,417	-290,417	553,004	-553,004
Impact on equity	290,417	-290,417	553,004	-553,004
Impact on profit or loss	0	0	0	0

* Investments in equity dispersed all over the world

12.4.5 Foreign exchange risk

Business transactions in foreign currencies are translated to EUR at exchange rates of the Bank of Slovenia published on the NLB's web sites, effective on the date of settlement. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated to EUR at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortised cost in foreign currency translated at the exchange rate at the end of the period. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are translated to euros at the exchange rate on the date that the fair value was determined. Foreign currency differences arising on translation are recognised in profit or loss or in equity depending on the classification of separate non-monetary asset.

Foreign exchange risk is the risk that the value of a financial instrument will fluctuate because of changes in foreign exchange rates. Foreign currency exposure arises mainly from investment activities. Triglav Re manages foreign currency risk by trying to ensure the matching of investments and liabilities or technical provisions linked to foreign currency. The structure of investments as at 31 December 2011 reflects the matching of investments and liabilities within the statutory limitations. Due to the floating of foreign currency exchange rates, the Company is exposed to currency risk in both liabilities and receivables, particularly those arising from reinsurance abroad. Foreign currency exposure arising from receivables and liabilities is reduced by ensuring currency matching of receivables due from and liabilities due to the same partners.

The currency structure of invested financial assets presented below comprises all investments, including the financial investments of Triglav Re under reinsurance contracts with cedants:

v EUR

YEAR 2011	FINANCIAL INVESTMENTS	in %	AMOUNT OF PROVISION CEDED TO REINSURERS	in %
EUR	100,584,233	94.1%	25,490,187	93.1%
USD	5,314,893	5.0%	1,416,483	5.2%
RSD	100,749	0.1%	0	0.0%
BAM	77,758	0.1%	0	0.0%
CZK	0	0.0%	130,821	0.5%
OTHER	835,925	0.8%	337,634	1.2%
TOTAL	106,913,558	100.0%	27,375,125	100.0%

v EUR

YEAR 2010	FINANCIAL INVESTMENTS	in %	AMOUNT OF PROVISION CEDED TO REINSURERS	in %
EUR	96,986,798	95.7%	27,400,898	95.0%
USD	3,967,729	3.9%	1,093,312	3.8%
RSD	250,321	0.2%	0	0.0%
BAM	101,294	0.1%	0	0.0%
CZK	0	0.0%	172,371	0.6%
OTHER	0	0.0%	179,848	0.6%
TOTAL	101,306,142	100.0%	28,846,429	100.0%

Currency structure of net provisions comprises all technical provisions, including equalisation provisions.

in EUR

Currency	Net technical provisions 2011	in %	Net technical provisions 2010	in %
EUR	71,782,184	84.0%	65,809,428	86.8%
USD	3,418,012	4.0%	3,873,858	5.1%
KRW	1,693,595	2.0%	1,314,381	1.7%
JPY	1,674,930	2.0%	54,255	0.1%
DKK	1,162,302	1.4%	93,904	0.1%
Other	5,773,706	6.8%	4,649,205	6.1%
TOTAL	85,504,727	100.0%	75,795,031	100.0%
Technical provisions	84,069,260	98.3%	74,488,631	98.3%
Equalisation provision	1,435,467	1.7%	1,306,400	1.7%

12.4.6 Credit risk

in EUR

Class of asset	YEAR 2011	YEAR 2010
Equity securities	1,270,554	5,530,045
Debt securities	85,296,537	80,272,673
Investment funds	1,633,637	0
Loans and receivables	18,702,853	15,472,516
Derivative financial instruments	0	20,907
Receivables	56,420,395	57,654,642
TOTAL EXPOSED ASSETS	163,323,976	158,950,783

The credit risk is the risk that a party to a financial instrument contract will fail to discharge an obligation and cause Triglav Re to incur a financial loss. Credit risk arises in connection with investment in equity securities, debt securities, loans, and deposits and receivables.

Credit risk of debt securities portfolio:

in EUR

CREDIT RATING	YEAR 2011	in %	YEAR 2010	in %
AAA	8,037,095	9%	10,989,015	14%
AA	35,469,523	42%	36,867,455	46%
A	9,806,994	11%	8,836,498	11%
BBB	15,268,264	18%	9,241,986	12%
BB	3,009,701	4%	2,723,920	3%
B	908,869	1%	0	0%
No rating	12,796,091	15%	11,613,799	14%
TOTAL	85,296,537	100%	80,272,673	100%

In the above table, the carrying amounts of bonds are taken as the base value.

in EUR

YEAR 2011	NOT PAST DUE	DUE UP TO 180 DAYS	DUE OVER 180 DAYS	TOTAL
Receivables from coinsurance and reinsurance	25,873,330	4,351,803	6,652,491	36,877,624
- receivables for premium from reinsurance assumed	19,848,071	3,083,384	5,978,835	28,910,290
- receivables for reinsurers' share in claims	3,338,062	1,183,868	631,270	5,153,200
- other receivables from coinsurance and reinsurance	2,687,196	84,551	42,386	2,814,134
Other receivables	30,930	0	0	30,930
TOTAL	25,904,260	4,351,803	6,652,491	36,908,554

in EUR

YEAR 2010	NOT PAST DUE	DUE UP TO 180 DAYS	DUE OVER 180 DAYS	TOTAL
Receivables from coinsurance and reinsurance	45,993,238	6,962,765	4,664,180	57,620,183
- receivables for premium from reinsurance assumed	31,136,198	3,850,389	4,000,011	38,986,598
- receivables for reinsurers' share in claims	12,651,379	3,088,351	653,369	16,393,098
- other receivables from coinsurance and reinsurance	2,205,662	24,025	10,801	2,240,487
Current tax assets	0	0	0	0
Other receivables	12,063	22,396	0	34,458
TOTAL	46,005,301	6,985,161	4,664,180	57,654,642

Triglav Re manages its credit risk in accordance with the principle of diversification of investments. The greatest total investment in a single financial organisation as at 31 December 2011 amounts to EUR 4,927,849. Triglav Re increased the share of investments in foreign securities in its portfolio. At present, investments in foreign securities amount to EUR 40,766,474. In the international markets, Triglav Re mainly invests in securities with an AAA rating. At the end of 2011, Triglav Re held investments from the PIIGS country issuers (and Hungary) in the amount of EUR 4,693,662, of which government bonds accounted for EUR 814,468 and the rest were debt securities invested in the financial and corporate sectors.

Domestic securities are largely guaranteed by the Republic of Slovenia which, as at 31 December 2011, held an AA rating from the Moody's rating agency. Investments in government securities of the Republic of Slovenia constitute 29 percent of all financial assets of Triglav Re.

Receivables and liabilities are also subject to credit risk. The Company manages this risk by mutual offset of receivables and liabilities relating to the same reinsurer (offset of premium receivable and claims and commission payable in inwards reinsurance, and offset of claims and commission receivable and premium payable in outwards reinsurance).

The risks retroceded to a reinsurer include the credit risk that occurs if the reinsurer fails to meet contractual obligations. To mitigate the risk of reinsurance counterparties not paying amounts due, business and financial standards for reinsurer approval are established, incorporating ratings by major rating agencies and considering current market information. Triglav Re monitors the financial conditions of reinsurers and, as a rule, enters into retrocession reinsurance contracts only with reinsurers rated at least A- in the case of liability reinsurance, and with reinsurers rated BBB+ in the case of other classes of reinsurance.

The table below shows past due and offset receivables from retrocession, classified by the retrocedant's rating as at 31 December 2011, compared to the preceding year. From the credit risk perspective, the rating of the reinsurer, to whom the reinsurance business has been mediated, is important.

in EUR

Reinsurer's rating(S&P's)	YEAR 2011	YEAR 2010
AAA	0	-1,376
AA	209,204	736,800
A	948,661	2,459,201
BBB	297	198
NR	53,398	323,448
TOTAL	1,211,560	3,518,271

The table below shows the structure of retroceded provisions for outstanding claims classified by the retrocedant's rating as at 31 December 2011, compared to the preceding year.

in EUR

Reinsurer's rating(S&P's)	YEAR 2011	YEAR 2010
AAA	0	399,291
AA	5,508,223	7,132,109
A	9,585,902	11,878,114
BBB	111,648	160,639
NR	2,760,346	3,064,716
TOTAL	17,966,118	22,634,870

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