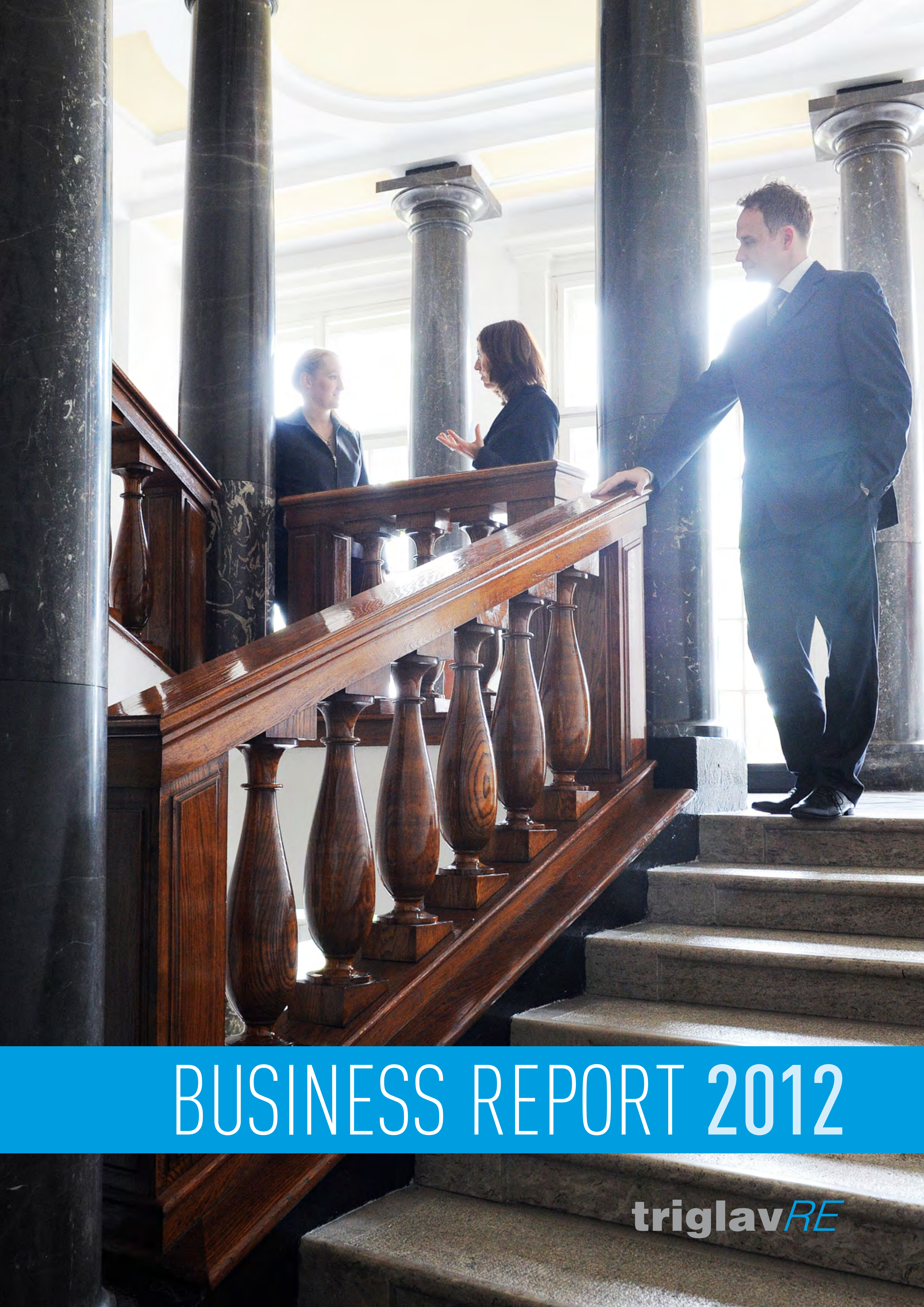

BUSINESS REPORT 2012

triglavRE

BUSINESS REPORT 2012

triglavRE

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1. OPERATING PERFORMANCE AND EVENTS IN 2012

1.1. Business highlights

in EUR

	YEAR 2012	YEAR 2011	INDEX
Gross reinsurance premium written	116,352,810	121,931,838	95
Gross claims paid	53,408,612	55,572,858	96
Gross operating expenses*	2,716,969	2,724,451	100
Technical provisions	144,420,922	111,444,385	130
Equity	46,589,339	36,088,970	129
Net profit	5,837,929	2,962,396	197
Number of employees at year-end	41	37	111

*Gross operating expenses by functional groups

1.2. Significant events in 2012

JANUARY

On 17 January 2012, Standard & Poor's Rating Services renewed the credit rating of Triglav Re to "A", but with a negative long-term outlook.

APRIL

On 18 April 2012, on the 23rd meeting of the Supervisory Board of Triglav Re, Gregor Stražar, M.Sc. was appointed the President of the Management Board. The term of office of the President of the Management Board shall be 5 years and began on 19 April 2012. On 18 April 2012, the term of office of the former President, Mr Gojko Kavčič, had expired.

MAY

Zavarovalnica Triglav d.d. has purchased the shares of Triglav Re, and on 15 May 2012, when the transfer of shares was entered in the register of the Central Securities Clearing Corporation (KDD, Ljubljana), Zavarovalnica Triglav d.d. (hereinafter Triglav Insurance) has become the 100% owner of Triglav Re.

AUGUST

Standard & Poor's Rating Services downgraded a long-term rating of Triglav Re by one notch to "A-". The reason for downgrading was the drop in the national credit rating of Slovenia which was a reflection of the general fiscal situation and economy in Slovenia.

NOVEMBER

On 6 November 2012, S&P issued a warning about the potential negative change in the credit rating of the Republic of Slovenia. As a direct consequence, on 7 November 2012, S&P issued a warning about the potential negative change in the credit rating of Triglav Re.

1.3. Significant events after year-end 2012

On 13 February 2013, Standard & Poor's downgraded the long-term rating of Triglav Re by one notch from "A-" to "BBB +", removed the warning about a possible downgrade and issued a positive medium-term outlook which means that S&P may raise the rating of Triglav Re, if it continues to operate with the strong capital position and stable operating results.

The reason for downgrading was the drop in the national credit rating of the Republic of Slovenia to "A-" issued by S&P on 12 February 2013. According to its methodology, S&P has assessed the reduced state's ability to provide emergency assistance to the Triglav Group in which the state has a majority stake, if Triglav Group requires it.

1.4. Address by the President of the Management Board

In 2012, our company Triglav Re achieved a good result despite unfavorable macro-economic environment. Primarily, the strategy of selective risk assumption formed a good basis for ending the business year with the profit before tax of EUR 7.26 million and net profit of EUR 5.84 million which represents a 14.1 percent return on equity. Profit compared to the previous year almost doubled, partly as a result of lower frequency of natural catastrophes in the world, but primarily as the result of a strict selection of business. Combined ratio of 93.9% which improved by 4.4 % compared to 2011 proves higher profitability of the business.

In 2012, economic activity throughout Europe remained weak and in the course of the year it decelerated further. According to the IMF Report, the drop in economic growth in Slovenia was estimated at 2.2% in 2012 and the inflation rate increased by the same percentage. According to the estimations of the Slovenian Institute of Microeconomic Analysis and Development (UMAR), the state budget deficit amounted to 3.1% of GDP and compared to the previous year it decreased by 27.5%, and the registered unemployment rate increased to approximately 11.9%. The consequences of these unfavorable trends are shown in a negative impact on the overall economic environment and climate in Slovenia. At the end of the year, we have also witnessed the downgrade of the credit rating of the Republic of Slovenia and subsequently of our company as well.

Loss events arising from the natural catastrophes in 2012 passed more favorably than in the years 2010 and 2011. In 2012, however, we recorded a surprisingly high number of large-scale losses associated with the individual risks, but these loss events did not have a significant impact on the financial results of Triglav Re due to appropriate retrocession protection. Net return from investments amounted to EUR 3.3 million, which represents a 26% increase compared to 2011, and had a positive impact on the final results of Triglav Re.

Despite the fact that we have continued to strengthen our company, the new rating by Standard and Poor's does unfortunately not reflect this. However, our rating is considered as a direct consequence of the downgrade in national rating of the Republic of Slovenia. In the last report of the credit rating agency, a positive signal can be traced that reflects our financial strengthening as the medium-term estimate of our company as well as the Triglav Group is positive.

Given that reinsurance business is primarily a deal of the capital and highly qualified staff, we are happy to note that in 2012 we have hired four new people and thus strengthened our company.

From its establishment until today, Triglav Re has successfully grown, and after obtaining the credit rating, it has established itself as a reliable reinsurance company in the foreign markets. After the successful management of Mr. Gojko Kavčič, whom I sincerely thank for his contribution to the development of Triglav Re, my first priority is to maintain the status and reputation of the company both in domestic and international reinsurance market, as well as within the Triglav Group, and to build further on the effective development. Today, we can see that our core business is built on a sound basis, and that the company is developing in the right direction. In the pursuit of profitability and qualitative risk management, we will continue to ensure the safety of our existing and future partners. The goals, especially in terms of rather tense operating conditions are not easy to achieve, but I believe that together with our highly educated and qualified staff we will manage to lead the company towards new success. I would like to take this opportunity to thank all the employees of Triglav Re for the constructive cooperation, their efforts, loyalty and successful work.

President of the Management Board of Triglav Re d.d.
Gregor Stražar

2. REPORT BY THE SUPERVISORY BOARD ON THE EXAMINATION OF THE ANNUAL REPORT OF TRIGLAV RE FOR 2012

The Supervisory Board of Triglav Re closely monitored the performance of the Company throughout the year. The members supervised the management of the Company, verified the implementation of the long-term objectives, submitted their recommendations and decided on the agreement to important issues. The meetings were held on the regular basis and the Management Board of Triglav Re kept the Supervisory Board updated on the progress of new developments and business changes.

The Supervisory Board was acting within its powers provided by the legal instruments, Articles of Association and Rules on Procedure of the Supervisory Board, and in accordance with the directions of the corporative management of Zavarovalnica Triglav d.d. as the parent company of the Triglav Group.

Based on the provisions of the Companies Act and the Insurance Act, the Supervisory Board reviewed the Annual Report of Triglav Re for the year 2012 and in this regard, gave the report. The Supervisory Board was also informed on the opinion of the certified actuary, which is an integral part of this report. Furthermore, the Supervisory Board discussed and approved the Annual report on internal audit of the Reinsurance Company Triglav Re, Ltd.

2.1. Formal Aspect

2.1.1. Annual Report

The Supervisory Board of Triglav Re reviewed the formal aspects relating to the Annual report of the Company for 2012.

Supervisory Board stated that the Annual Report for the financial year 2012 was produced within the statutory time limit. Based on the assurance of the Management Board, the auditors (Ernst & Young, Ltd.) and the appointed certified actuary Milan Stjepanović, M.Sc., the Supervisory Board stated that the report includes all elements prescribed by the Companies Act, Insurance Act and other corresponding acts.

The annual report shall include:
- Accounting report: financial statements (balance sheet, income statement, statement of equity changes and statement of cash flows) and notes to financial statements;
- Management report.

The annual report shall be accompanied by:
- Auditor's report,
- Opinion of the certified actuary.

All minimum components prescribed by the law are contained in the annual report.

The company has formed the technical provisions and other provisions from the profit. The accuracy and adequacy of technical provisions were approved by the certified actuary and auditor.

The auditor Ernst & Young based on the decision of the General Meeting on the appointment of the auditor for the 2012 financial year carried out the audit of the balance sheet as at 31 December 2012, of income statement, statement of changes in equity, statement of cash flows for the year then ended, and of the summary of the important accounting policies and other explanatory notes. On this basis, Ernst & Young issued auditor's report on 29 March 2012.

In accordance with the requirements of the Insurance Act, Milan Stjepanović, the certified actuary of Triglav Re, actuarially verified the Company's operations for 2012. On 25 March 2013, the Report of the approved certified actuary and Opinion of the approved certified actuary to the Annual Report Re 2012 were issued.

In accordance with the provisions of the Companies Act, Paragraph 3, Article 272 and the Insurance Act, Article 158, the Management Board of Triglav Re submitted the Annual report including Auditor's report and Opinion of the approved actuary in the review to the Supervisory Board.

2.1.2. Proposal for the distribution of profit as at 31 December 2012

Supervisory Board reviewed in the formal aspect the proposal of the Management Board relating to the distribution of profit as at 31 December 2012.

Supervisory Board agrees with the proposal of the Management Board on the distribution of profits and will make the motion to the Assembly to adopt the resolution on the distribution of profit as at 31 December 2012.

2.2. Substantive aspects

The Supervisory Board of Triglav Re consisted of three members and remained unchanged in 2012. Andrej Slapar was the President, Aleksandra Vuković Kačar his deputy, and Nadja Pivk acted as a member. In 2012, they held eight meetings of which two were correspondent.

2.2.1. Method and scope of examination of the Company's management

Meetings of the Supervisory Board

The Supervisory Board performed its supervisory function primarily at the Supervisory Board meetings.

Activities of the Supervisory Board

Supervising the Company's management and monitoring the business operations, the Supervisory Board adopted the following major decisions and conclusions:

- approved the audited Annual Report of Triglav Re for the year 2011, made proposal for the distribution of profit and proposed the appointment of the auditor for the year 2012 to the General Meeting;
- took note of the Management Report of Triglav Re for the period from 1 January 2011 to 31 December 2011, and regularly reviewed the quarterly financial reports for the year 2012;
- took note of the Auditor's report dated 29 March 2012, the Report of the certified actuary to the Annual report for 2011, Auditor's addition to the Annual Report of Triglav Re for 2011 and of the Letter to the Management on the findings of the audit of financial statements for the year 2011;
- approved the Annual Report on Internal Audit in 2011, and monitored quarterly reports on internal audit in 2012;
- adopted a medium-term plan for the internal audit of Triglav Re for the period from 2012 to 2014, and annual internal audit plan of Triglav Re for the year 2012;
- took note of the Report of the certified actuary as at 31 December 2011, and the Report on diversification of insurance covers;
- took note of quarterly reports on the management of liquidity, solvency, capital adequacy and coverage of technical provisions with investments.

The Supervisory Board has formed an Audit Committee which performed its duties in accordance with the Companies Act, Article 280.

Opinion on the Annual report of the Internal Audit Service

At its meeting of 20 March 2013, the Supervisory Board discussed and approved the Annual Report on Internal Audit in 2012, which was prepared by the internal auditor on the basis of the performed operations in 2012. The Supervisory Board considers that the internal audit service of Triglav Re carried out its activities in accordance with the adopted Internal Audit Programme.

Reporting of the Management Board

Based on the reports of the Management Board, the Supervisory Board believes that the Management of Triglav Re appropriately monitored and supervised the Company's management and operations. The cooperation with the Management Board is considered as appropriate and in accordance with the law.

2.3. Auditor's Report

In accordance with the responsibility under the law and the Articles of Association, Supervisory Board took note of the Auditor's report whereby the auditors ensure that the financial statements for 2012 in all respects show a true and fair picture of the financial position of Triglav Re and are prepared in accordance with the International Financial Reporting Standards.

2.4. The opinion of the certified actuary

In accordance with the responsibility under the law and the Articles of Association, Supervisory Board took note of the opinion of the approved certified actuary. He confirmed that the amount of earned premium by Triglav Re in 2012 and the level of technical provisions which were formed as of 31 December 2012 are suitable and that to the reasonable actuarial expectations they ensure the continuous fulfilment of all the obligations from the reinsurance contracts. Furthermore, he confirmed that the cover assets exceed the amount of technical provisions and that assets are invested and dispersed in accordance with the regulations. The actuary also found that Triglav Re meets all the regulatory requirements on capital adequacy. In his report, he presented the position on Company's operations in 2012 to the Supervisory Board.

2.5. Comments of the Supervisory Board to the Annual Report for 2012

The Supervisory Board had no objections to the Annual Report for 2012, which would have retained the adoption of decision to approve the Annual Report of Triglav Re.

2.6. Approval of the Annual Report for 2012

The Supervisory Board approved the Annual Report for the year 2012 within the prescribed period, that is, before the expiry of one month from the submission of the Annual report for 2012 to the Supervisory Board. The Management Board submitted the Annual Report on 10 May 2013.

Ljubljana, 27 May 2013

President of the Supervisory Board of Triglav Re d.d.
Andrej Slapar

ERNST & YOUNG

This is a translation of the original report in Slovene language

INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of Pozavarovalnica Triglav Re, d.d., Ljubljana, which comprise the balance sheet as at December 31, 2012, and the income statement, statement of comprehensive income, statement of changes in shareholders' equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory information.

The financial statements as of 31 December 2012 were audited by another auditor, on 10 May 2012, issued an unqualified opinion.

Management's Responsibility for the Financial Statements
Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards as adopted by the European Union and with the requirements of the Slovenian Companies Act related to the preparation of the financial statements, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility
Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion
In our opinion, the financial statements present fairly, in all material respects, the financial position of Pozavarovalnica Triglav Re,d.d., Ljubljana, as of December 31, 2012, and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union and with the requirements of the Slovenian Companies Act related to the preparation of the financial statements.

Report on Other Legal and Regulatory Requirements

Management is also responsible for preparing the business report in accordance with the Slovenian Companies Act. Our responsibility is to assess whether the business report is consistent with the audited financial statements. Our work regarding the business report is performed in accordance with ISA 720, and restricted to assessing whether the business report is consistent with the financial statements and does not include reviewing other information originated from non-audited financial records.

The business report is consistent with the audited financial statements.

Ljubljana, March 29, 2013

Janez Uranič
Director
Ernst & Young d.o.o.
Dunajska 111, Ljubljana

ERNST & YOUNG
Revizija, poslovno svetovanje d.o.o., Ljubljana

Primož Kovačič
Certified Auditor

3. COMPANY PROFILE

3.1. Profile of Triglav Re, Reinsurance Company Ltd.

Company name:	**Triglav Re, Reinsurance Company Ltd.**
Short name:	Triglav Re, Ltd.
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
Chairman of the Management Board:	Gregor Stražar, MBA (Econ)
Chairman 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 financial year 2000 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 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. In 2012, Standard & Poor's downgraded the credit rating to "A-" as a consequence of the downgrading of the national credit rating of the Republic of Slovenia. On 6 November 2012, Standard and Poor's issued a warning about the potential negative change in the credit rating of the Republic of Slovenia. As a direct result, on 7 November 2012, Standard and Poor's also issued a warning about the potential negative change in the credit rating of Triglav Re. On 13 February 2013, Standard & Poor's actually downgraded the long-term credit rating "A-" of Triglav Re by one notch to "BBB +", removed the warning about a possible downgrade of credit rating, and issued a positive medium-term outlook.

3.2.2. Anticipated development of Triglav Re in 2013

Despite the dire economic conditions over the last few years, Triglav Re expects a favourable future development. One of the goals of the Company in 2013 is to improve the current S&P rating, and in addition, the Company also intends to acquire a credit rating evaluation from the AM Best Company. Namely, the credit rating "A-" issued by S&P enables the access to the reinsurance markets, which have historically conditioned the cooperation with the disposition of the appropriate level of credit ratings, either due to the requirements of the local insurance market regulator or due to the internal rules of the ceding companies.

In accordance with the business plan for 2013, Triglav Re will, along with the realisation of its reinsurance programme within the Triglav Group both in Slovenia and abroad, continue to increase the reinsurance business with the ceding companies outside the Group. As in the past, the growth will be based on the 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 2012:

Triglav, Zdravstvena zavarovalnica, d.d., Koper, Slovenia
Triglav Osiguranje, d.d., Zagreb, Croatia,
Triglav Osiguranje, d.d., Sarajevo, Bosnia and Herzegovina,
Triglav Osiguranje, a.d., Banja Luka, Bosnia in Herzegovina,
Triglav Osiguranje, a.d.o., Novi Beograd, Serbia,
Triglav Pojišťovna, a.s., Brno, Czech Republik,
Lovćen Osiguranje, a.d., Podgorica, Montenegro,
Triglav Osiguruvanje a.d., Skopje, Macedonia,
Triglav Naložbe, finančna družba, d.d., Ljubljana, Slovenia,
Triglav Penzijski fondovi, a.d., Beograd, Serbia,
TRI - PRO, d.o.o., Domžale, Slovenia,
AS Triglav-servis in trgovina, d.o.o., Ljubljana, Slovenia,
Triglav nepremičnine, upravljanje in svetovanje, d.d., Ljubljana, Slovenia,
Triglav Skladi, družba za upravljanje, d.o.o., Ljubljana, Slovenia
Slovenijales, d.d., Ljubljana, Slovenia,
Gradis IPGI, d.d., Ljubljana, Slovenia.
Triglav INT, d.d., holdinška družba

3.4. Shareholder's equity and shareholders of Triglav Re

As at 31 December 2012, the total equity of Triglav Re amounted to EUR 46,589,339. The share capital 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 the corresponding amount in share capital.

On 18 April 2012, the General Meeting of Triglav Re adopted a decision to transfer the shares of minority shareholders to Zavarovalnica Triglav d.d. as the principal shareholder against the payment of an appropriate financial compensation. On 15 May 2012, when the transfer of shares was registered, Zavarovalnica Triglav d.d. became the 100 percent owner of Triglav Re.

	Stake (in %)	Number of shares
Zavarovalnica Triglav d.d.	100.00	15,000
TOTAL	**100.00**	**15,000**

3.5. Credit rating of the Company

On 17 January 2012, Standard & Poor's Rating Services affirmed the credit rating of Triglav Re which remained "A", but with a negative long-term outlook. In August, S&P lowered the long-term credit rating of Triglav Re by one notch to "A-" as a consequence of the downgrade of the national credit rating of the Republic of Slovenia, which is a reflection of the general fiscal situation and national economy in Slovenia. On 7 November 2012, S&P issued a warning about the potential negative change in the credit rating of Triglav Re. On 13 February 2013, Standard & Poor's actually downgraded the long-term credit rating "A-" of Triglav Re by one notch to "BBB +", removed the warning about a possible downgrade of credit rating, and issued a positive medium-term outlook.

4. GENERAL ECONOMIC ENVIRONMENT IN 2012

4.1. Economic environment in 2012 [1]

The ongoing economic and financial crisis in 2012 strongly reflected not only in Slovenia but also in some foreign reinsurance markets of Triglav Re. The situation in the Eurozone at a slow and uncertain resolution of the debt crisis worsened and thus, the economy ended the year in a recession. In Slovenia, the tense financing conditions of the companies have continued, the unfavourable conditions also influenced the labor market and also construction and bank markets. However, European financial and stock markets situation has slightly improved.

In Slovenia, the consumer prices in 2012 increased more than in the eurozone. The main reasons for the higher inflation rate are higher energy prices and higher prices for food and services. The tax changes in excise duties on certain products and partly an increase in environmental taxes added a significant part to inflation.

In 2012, the level of working population was gradually decreasing. The largest decline in employment was recorded in the construction industry, as well as in the field of market activities. The registered unemployment rate, however, rose by only 0.1 percentage points to 11.9 percent. According to the IMF Report for 2012 issued in October, the unemployment rate in Slovenia amounted to 8.8 percent, while the unemployment forecast for 2013 expects that the rate will reach even 9.0 percent.

Price and cost competitiveness of the Slovenian economy has improved in 2012, but was still among the lowest in the euro area. At the end of 2012, the decrease in loans to domestic non-banking sectors further strengthened, and the net repayment of foreign liabilities of domestic banks was continued. In 2012, the domestic non-banking sectors have delevered by EUR 1.2 billion, i.e. by almost 60% more compared to the previous year. The volume of bad debts of banks amounted to EUR 6.8 billion in November 2012, but their share despite the increase in number has not increased, as the quality of banks' assets increased due to the inflow of government deposits.

AUTUMN ECONOMIC OUTLOOK FOR 2012, 2013 AND 2014

	Real GDP Growth			Consumer Price Index			Unemployment		
	2012	2013	2014	2012	2013	2014	2012	2013	2014
Advanced Economies	1.3	1.5	2.3	1.9	1.6	1.8	8.0	8.1	7.8
Euro Area	-0.4	0.2	1.2	2.3	1.6	1.4	11.2	11.5	11.2
Great Britain	-0.4	1.1	2.2	2.7	1.9	1.7	8.1	8.1	7.9
Sweden	1.2	2.2	2.5	1.4	2.0	2.0	7.5	7.7	7.0
Slovenia	**-2.2**	**-0.4**	**1.7**	**2.2**	**1.5**	**1.9**	**8.8**	**9.0**	**8.7**
Israel	2.9	3.2	3.6	1.7	2.1	2.0	7.0	7.0	6.5
Korea	2.7	3.6	4.0	2.2	2.7	3.0	3.3	3.3	3.3
Japan	2.2	1.2	1.1	0.0	-0.2	2.1	4.5	4.4	4.5
USA	2.2	2.1	2.9	2.0	1.8	1.8	8.2	8.1	7.7

Source: IMF, World economic outlook, October 2012

1 The macroeconomic platform is based on the "World Economic Outlook Database", issued by the International Monetary Fund (IMF) in October 2012.

Uncertain economic conditions represent a challenge for the insurers and reinsurers. In risk management, it is necessary to consider a variety of scenarios, and some of them could have severe consequences on the insurance business. Based on the foregoing, it is estimated that the macroeconomic environment in the coming year for the Company's business will continue to be adverse and harsh. The developed world is on the edge of stagnation, the European debt crisis is still a burning issue, the activities in emerging markets are slowly declining. In the eurozone, a modest and uncertain growth of 0.2% is projected for 2013 by international institutions. In addition to the continuing negative economic growth, Slovenia remains at risk of international financial assistance.

4.2. Capital Markets

Slovenian Stock Exchange Index SBITOP grew by 7.8 percent in 2012. Due to an increase in the stock price, market capitalization of stocks rose slightly, but inspite of this, the market liquidity went down. The state has focused on structural reforms, preparing the plan for establishing the so called "bad bank" or a special company to which bad debts of banks would be transferred in exchange for bonds with the state guarantee. The Slovenian National Holding Company was also planned to be formed and the sale of shares of certain Slovenian companies (Telecom, Petrol, Triglav Insurance) is expected. The political crisis in Slovenia affected the attitude of foreign financial markets toward Slovenia. Trading in Slovenian bonds was stable and their yield is around 5.0 percent. Moreover, Ljubljana Stock Exchange was strongly influenced by the political crisis, since domestic investors have increasingly sold the shares of state companies. The alarm on the domestic stock market was caused by the continual political instability and the possibility of early elections, which could jeopardize the necessary structural reforms.

Somewhat worse macroeconomic data came also from Europe, which at the end of 2012 partly reflected in the stock market since the growth of rates stagnated. The EU economy is still shrinking and the unemployment rate in November reached the historically highest level of 11.8 percent. The index of manufacturing activities in the euro zone fell in December to 47.2 which actually shows the economic contraction. In November, German exports dropped by 3.4 percent on the annual basis, which was not expected, and plans relating to German own industrial production did not reach the expectations and fell well behind. Inflation in the euro zone increased more than expected, and at the year-end stood at 2.3 percent on an annual basis. General figures for the EU are not positive, growth is slowing down, and therefore the increased volatility is expected in the coming period. On the other hand, there are also some positive predictions, as the measures by the European Central Bank (ECB) have significantly diminished the uncertainty and pessimism about the collapse of the euro and consequently the collapse of the euro area. This is reflected in a better mood of consumers, which in the end may also lead to the recovery of the European economy. The ECB kept the reference interest rate at a historically low level, which is 0.75 percent.

Global stock prices caused a positive surprise up to the third quarter of 2012. In 2012, Dow Jones and DAX, for example, with a 10.0 percent or a 23.0 percent increase in value reached a remarkable return, which according to the analysts can be considered as a consequence of an increase in global liquidity. Caution in predicting future conditions is not superfluous since the growth of the global economy is slowing down, over-indebtedness of some developed countries of the world is not solved quickly enough and the confidence of investors is still very low.

4.3. Insurance Market

In 2012, trends of the previous year related to insurance industry have continued. The European share in the global insurance market was slightly but continuously weakened. According to the latest official figures from Swiss Re (update published in January 2013), Europe collected almost 36 percent of the total premium volume in 2011, or 2.5 percentage points less than the previous year. North and South America collected in 2011 almost 33 percent of the global volume, or 6.6 percent more than the previous year. Asia has again strengthened its position, and its share increased by 1.3 percentage points to 28 percent (written premium grew by 9.5 percent). Africa and Oceania also slightly increased their role and collected together nearly 4 percent of the global insurance premium volume. The Slovenian insurance market with 0.06 percent of the total world market was ranked 52nd on the world insurance scale for 2011 (in 2010 also 0.06 percent). Premium volume per capita in Slovenia was ranked 29th on a worldwide scale (two places higher than the previous year) and 25th in insurance penetration, i.e. premium as a percentage of GDP (the same as in 2010).

4.4. Insurance Business in Slovenia

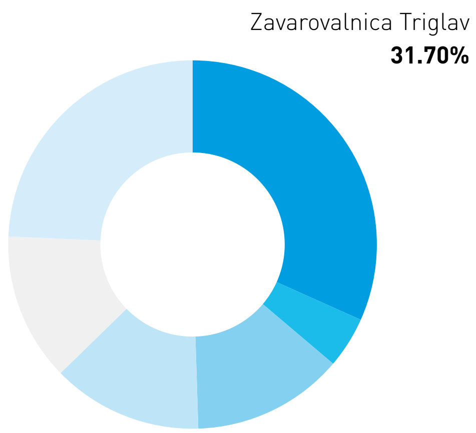
In 2012, sixteen (16) domestic insurance companies and three (3) foreign branches were operating in the Slovenian insurance market. In total, they wrote EUR 2.036 billion in premiums which is slightly less than a year earlier (index 99.2). Among 18 commercial insurance companies, there were ten (10) composite and eight (8) specialized companies (e.g. in life, health or property insurance).

All insurance companies collected premiums amounting to EUR 2.034 billion, of which 72 percent in non-life (property) and the rest in life insurance. Non-life insurance premiums remained at the previous year's level (index 100.2), while life insurance premium recorded a decline (index 96.7). The given data does not include insurance business which was written in Slovenia directly by insurance companies from EU Member States. Their share is rising, but according to our estimation is still negligible.

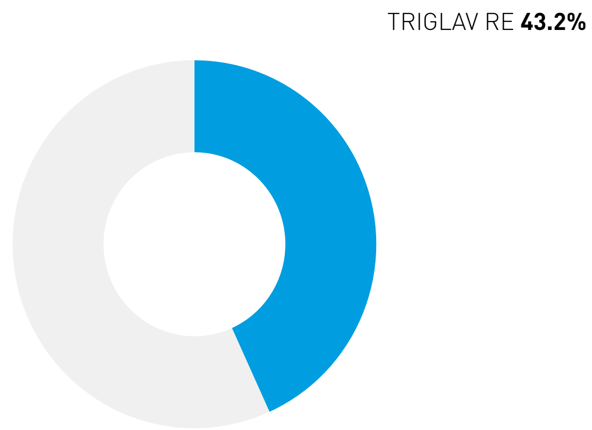
Four largest insurance companies controlled 71.3 percent of the traditional insurance market (71.8 percent in 2011). Zavarovalnica Triglav d.d. with a 31.7 percent market share continued to hold the leading market position, while Vzajemna zdravstvena zavarovalnica, d.v.z. (Mutual Health Insurance Company, d.v.z.) has climbed to the second place. Insurance companies with majority foreign capital (Generali, Merkur, Grawe, Wiener Städtische, Allianz, Victoria-Volksbanken (Ergo Branch), Ergo Life Insurance, Arag) collected the premium volume of EUR 206.8 million and increased their market share from 9.9 percent in 2011 to 10.2 percent in 2012.

In the life insurance market, Triglav reached the share of 33.3 percent, while in non-life insurance market of 31.1 percent. As at 31 December 2012, the market share of Triglav Re amounted to 43.2 percent and compared to the previous year decreased by 3.3 percentage points.

MARKET SHARES OF INSURANCE COMPANIES IN THE SLOVENE MARKET IN 2012



MARKET SHARES OF REINSURANCE COMPANIES IN THE SLOVENE MARKET IN 2012



5. RISK MANAGEMENT

This chapter gives a general description of risk management in Triglav Re, while detailed analysis of diferent risks management is presented in the Accounting part of the Annual report, Chapter 13.

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 Management Board 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 Management Board of Triglav Re to identify, assess and manage the risks.

In 2012, 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 2012 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 a part of the credit rating assignment and review process.

The Company is making the necessary preparations to introduce a new method of the capital adequacy calculation to meet the requirements of Solvency II emphasising the importance of the sound risk management and internal control. In 2012, the Company used the standard formula of Solvency II to calculate the 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.

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 him by one of the major credit rating agencies.

5.6. 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 the adjustment of internal organisation, delimitation of responsibilities and the gradual computerisation of business processes; and the 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.

5.7. 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 the Item 13.4.

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.

6. FINANCIAL RESULT

In 2012, Triglav Re generated profit in the amount of EUR 5,837,929 which primarily resulted from favourable claims developments.

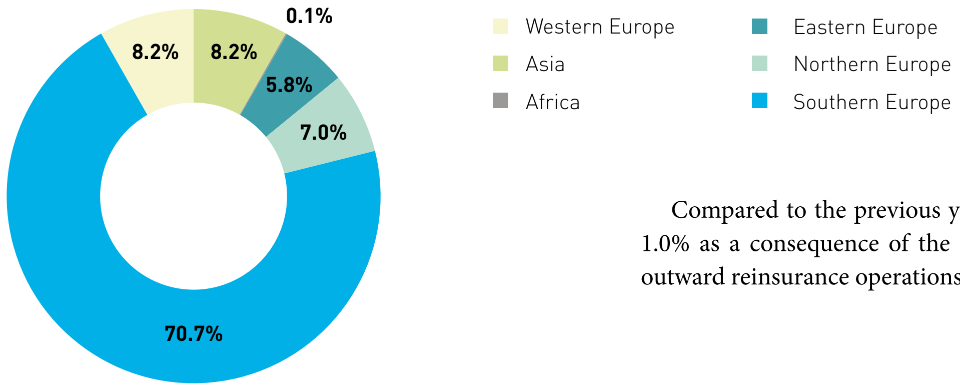
6.1. Reinsurance Premiums

In 2012, the gross reinsurance premium amounted to EUR 116,352,810 and decreased by 4.6% compared to 2011, primarly due to lower gross reinsurance premium volume from contracts with the parent company Triglav.

in EUR

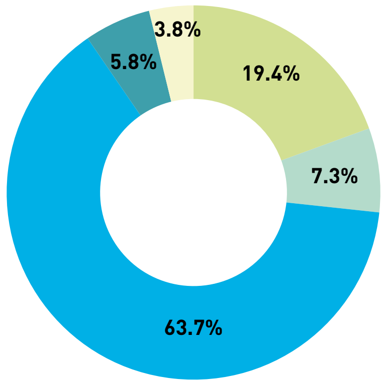
	YEAR 2012	YEAR 2011	INDEX	PLAN 2012	INDEX TO PLAN
GROSS PREMIUM	116,352,810	121,931,838	95.4	121,702,101	95.6
NET PREMIUM	63,575,648	64,188,409	99.0	64,656,687	98.3

DIVISION OF GROSS REINSURANCE PREMIUMS BY REGIONS

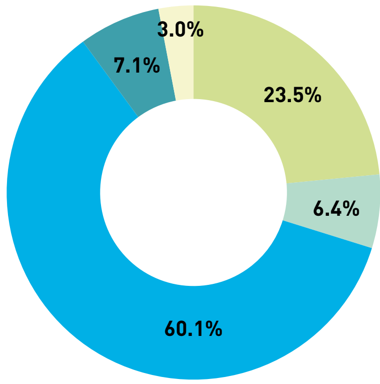


Compared to the previous year, net premiums fell by 1.0% as a consequence of the reduction in inward and outward reinsurance operations in 2012.

STRUCTURE OF GROSS REINSURANCE PREMIUM IN 2012



STRUCTURE OF NET REINSURANCE PREMIUM IN 2012



Property reinsurance
Motor reinsurance
Marine and Aviation reinsurance
Other liability reinsurance
Other reinsurance

The largest portion in the structure of gross reinsurance premium is represented by non-life (property) reinsurance. In 2012, it decreased by 0.7 percentage points compared to 2011; the share of motor reinsurance also decreased by 0.5 percentage points. On the other hand, the portion of ship and aircraft reinsurance increased by 0.7 percentage points in 2012, and of other reinsurance lines by 0.5 percentage points. Observing the net reinsurance premiums, the portion of non-life reinsurance increased by 2.7 percentage points and of other reinsurance lines by 0.2 percentage points, while the portion of motor reinsurance fell by 1.7 percentage, of ship and aircraft reinsurance by 0.4 percentage points and other liability reinsurance lines by 0.8 percententage points.

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 64,412,949 in 2012 and increased by 1.7 percentage compared to 2011.

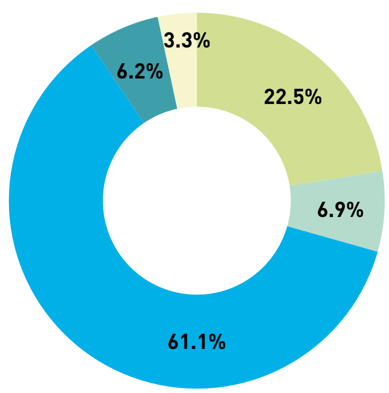
6.2. Reinsurance claims

With regard to the preceding year, gross claims fell by 3.9 percent in 2012 and amounted to EUR 53,408,612. The decrease in claims is primarly the consequence of a low number of catastrophic weather events, particularly in Slovenia as well as in the world. In 2012, gross claims were 18.7 percent below the planned level, while net claims were by 1.9 percent below the planned value.

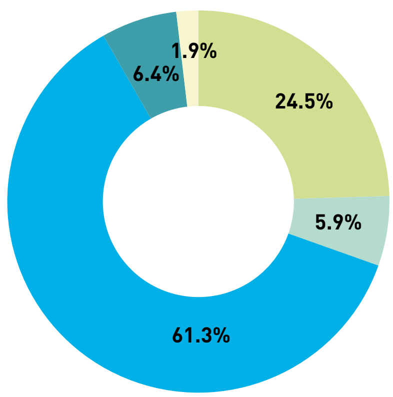
in EUR

	YEAR 2012	YEAR 2011	INDEX	PLAN 2012	INDEX TO PLAN
GROSS CLAIMS	53,408,612	55,572,858	96.1	65,666,146	81.3
NET CLAIMS	38,987,846	36,965,276	105.5	39,733,556	98.1

STRUCTURE OF GROSS REINSURANCE CLAIMS IN 2012



STRUCTURE OF NET REINSURANCE CLAIMS IN 2012



- Property reinsurance
- Motor reinsurance
- Marine and Aviation reinsurance
- Other liability reinsurance
- Other reinsurance

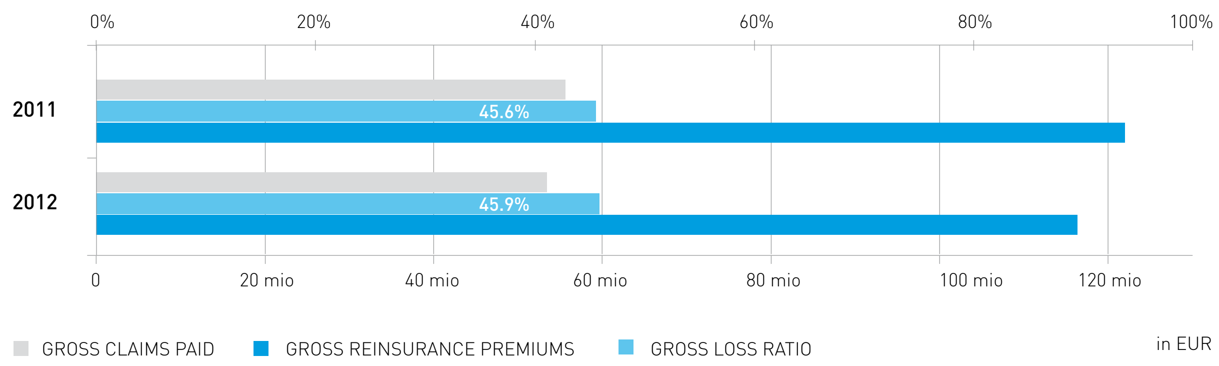
Note: Gross reinsurance claims by lines of business are presented in the Appendix on performance indicators.

In 2012, the majority of gross claims were related to the property and motor reinsurance. Compared to 2011, the highest increase in gross claims was recorded in ship and aircraft reinsurance with 2.2 percentage points, while in the motor reinsurance fell by 2.7 percentage points. The structure of net claims in 2012 is similar, and the majority of net claims (61.3 percent) also refers to non-life/property reinsurance and 24.5 percent to motor reinsurance.

In 2012, 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 43,015,384 and were by 5.5 percent lower than net claims incurred in 2011.

6.3. Gross Loss Ratio

In 2012, the gross loss ratio representing the relation between gross claims incurred and gross premiums increased by 0.3 percentage points primarly due to the lower gross premiums in 2012 compared to 2011.



6.4. Commission income and expenses

In 2012, commission income amounted to EUR 9,622,924 and fell by 12.4 percent compared to the preceding year. On the other hand, commission expenses also decreased by 2.6 percent and amounted to EUR 23,800,859 so that the net commission expenses totalled EUR 14,177,936 in 2012.

6.5. Financial income and expenses

As at 31 December 2012, financial assets amounted to EUR 122,496,350 and increased by 14.6 percent which means by EUR 15,582,769 in comparison to the preceding year.

STRUCTURE OF TRIGLAV RE FINANCIAL ASSETS

in EUR

	31. 12. 2012	2012	31. 12. 2011	2011	INDEX
Shares and other variable yield securities	1,105,566	1%	1,270,555	1%	87.0
Debt securities and other fixed yield securities	110,391,132	90%	85,296,537	80%	129.4
Shares in investment funds	1,625,983	1%	1,633,637	2%	99.5
Bank deposits	5,176,688	4%	14,988,235	14%	34.5
Derivatives	1,103	0%	0	0%	-
Other financial investments	10,000	0%	10,000	0%	100.0
Reinsurers' investments from reinsurance contracts	4,185,878	3%	3,714,618	3%	112.7
TOTAL FINANCIAL INVESTMENTS	**122,496,350**	**100%**	**106,913,581**	**100%**	**114.6**

As at 31 December 2012, Triglav Re disclosed the following state of investments, classified by maturity:

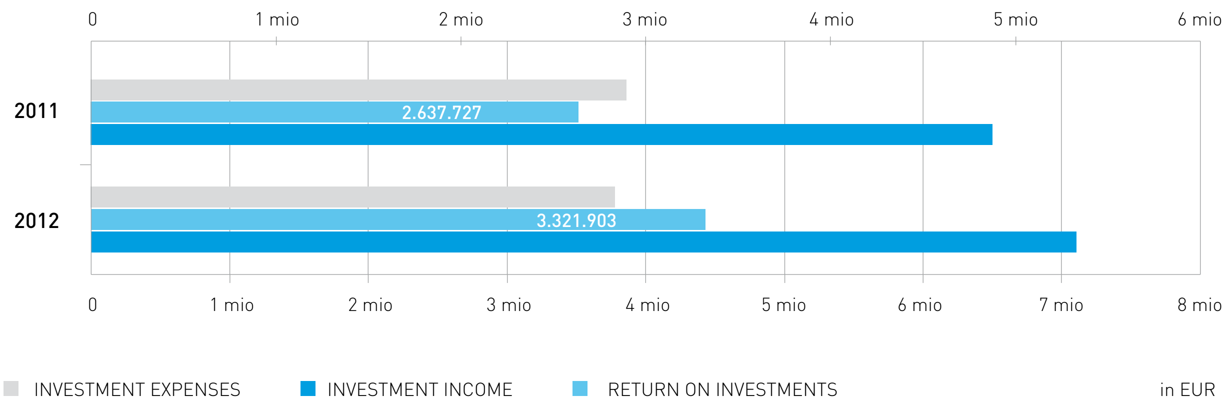
- long-term financial investments in the amount of EUR 107,557,354;
- short-term financial investments in the amount of EUR 9,057,385;
- financial investments in member companies of the Triglav Group in the amount of EUR 1,695,733;
- retained premiums with cedants, which Triglav Re holds from reinsurance contracts, in the amount of EUR 4,185,878.

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

The structure of different investment types remained very similar to that of the previous year. The share of debt securities significantly increased particularly due to deposits with banks; the share of investment funds fell by 1.0 percentage point, while the amount of shares and investments under the reinsurance contracts remained at the level of the previous year.

The carrying value of return on the entire investment portfolio reached 2.9 percent in 2012, compared to 2.5 percent in the preceding year.

FINANCIAL INCOME, EXPENSES AND RATE OF RETURN ON INVESTMENTS



In 2012, financial income amounted to EUR 7,102,907 and financial expenses to EUR 3,781,005, while total return on investments resulted in EUR 3,321,903 which is 26% more than in 2011.

Triglav Re's investment policy in 2012 was conservative, and taking into account 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 2013, the Company will constantly monitor the precarious financial situation and will correspondingly invest funds in less risky and yet reasonably profitable investments.

6.6. Operating expenses

Gross operating expenses in 2012 increased by only 0.4 percent compared to the previous year. Depreciation expenses decreased by 9.4 percent compared to 2011, primarily due to the unrealized purchase of hardware and software. Labour costs also decreased by 1.3 percent mainly as a result of not hiring or later hired new staff. Other operating expenses increased by 5.4 percent. Costs of asset management for the year 2012 amounted to EUR 278,587 (in 2011 to EUR 257,979) and are recognized in the income statement under financial expenses.

in EUR

	YEAR 2012	YEAR 2011	INDEX
Depreciation of operating assets	76,168	84,028	90.6
Labour costs (staff expenses)	2,025,823	2,052,158	98.7
Costs of services provided by individuals not engaged in business activity, including contributions	1,335	0	-
Other operating costs and expenses	892,230	846,245	105.4
TOTAL OPERATING EXPENSES	**2,995,556**	**2,982,431**	**100.4**

6.7. Financial result ratios

	YEAR 2012	YEAR 2011
Rate of retention	54.6%	52.6%
Share of net operating expenses in gross premium	2.6%	2.4%
Loss ratio	67.3%	72.2%
Expense ratio	26.6%	26.1%
Combined ratio	93.9%	98.3%

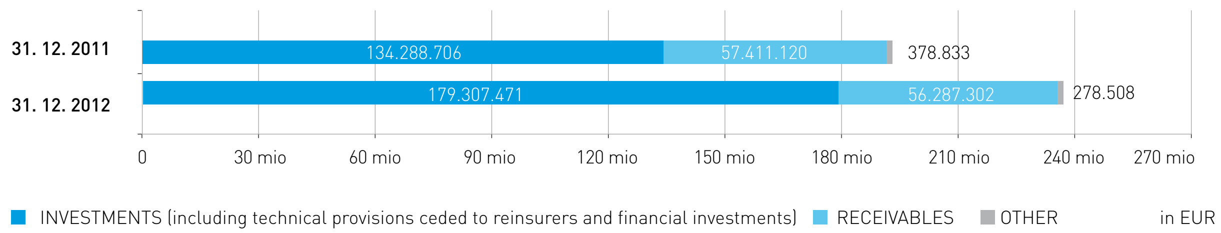
7. FINANCIAL POSITION

As at 31 December 2012, the balance sheet total of Triglav Re amounted to EUR 235,873,281 and increased by 22.8 percent compared to 31 December 2011.

7.1. Assets

As at 31 December 2012, the financial assets which constitute 76.0 percent of total assets, increased by 33.5 percent compared to 31 December 2011, whereas receivables, accounting for 23.9 percent of total assets, fell by 2.0 percent. Furthermore, intangible fixed assets and other assets also recorded a decrease in 2012.

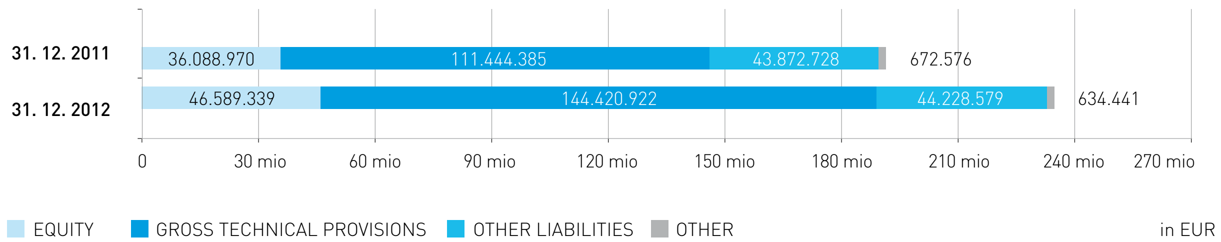
STRUCTURE OF ASSETS



7.2. Liabilities

The largest portion of liabilities constitutes gross technical provisions, reaching as much as 61.2 percent. As at 31 December 2012, the total equity of Triglav Re amounted to EUR 46,589,339 and increased by 29.1 percent in comparison to 31 December 2011. A substantial portion of liabilities (18.8 percent) is represented by other liabilities, which as at 31 December 2012 amounted to EUR 44,228,579 and are mainly related to liabilities from the reinsurance business.

STRUCTURE OF LIABILITIES



7.3. Indicators of financial position

	YEAR 2012	YEAR 2011
Capital in total liabilities	19.8%	18.8%
Return on equity	14.1%	8.2%
Share of gross technical provisions in total liabilities	61.2%	58.0%
Share of financial assets in total assets	51.9%	55.7%
Capital surplus	22,727,173	19,715,066

8. SIGNIFICANT EVENTS AFTER THE BALANCE SHEET DATE, TRANSPARENCY OF FINANCIAL RELATIONS AND INDICATORS CALCULATED BY THE METHODOLOGY OF SLOVENIAN INSURANCE SUPERVISORY AGENCY

8.1. Significant events after year-end

On 13 February 2013, the credit rating agency Standard & Poor's downgraded the long-term rating of the Triglav Group, which also relates to Triglav Insurance and Triglav Re, by one notch from "A-" to "BBB +", removed the warning about a possible reduction of credit rating, and issued a positive medium-term outlook.

9. FINANCIAL STATEMENTS

9.1. Statement of financial position

in EUR

	Note	BALANCE AS AT 31. 12. 2012	BALANCE AS AT 31. 12. 2011
ASSETS		**235,873,281**	**192,078,660**
Intangible assets	15.1	27,675	57,544
Property, plant and equipment	15.2	167,357	213,218
Deferred tax assets	15.3	0	990,725
Financial investments:	15.4	122,496,350	106,913,581
- loans and deposits		14,272,042	24,498,578
- available for sale		106,936,495	80,392,999
- recognized at fair value		1,287,813	2,022,004
Reinsurers' share of technical provisions	15.5	56,811,121	27,375,125
Receivables	15.6	56,287,302	56,420,395
- receivables from reinsurance and co-insurance		56,227,823	56,018,113
- current tax assets		0	371,352
- other receivables		59,480	30,930
Other assets		68,124	77,645
Cash and cash equivalents		15,353	30,426
EQUITY AND LIABILITIES		**235,873,281**	**192,078,660**
Equity	15.7	46,589,339	36,088,970
- share capital		4,950,000	4,950,000
- share premium		1,146,704	1,146,704
- reserves from profit		2,700,578	2,575,190
- fair value reserve		2,912,392	-1,750,048
- retained earnings		29,167,124	26,333,795
- net profit for the year		5,712,541	2,833,329
Technical provisions	15.8	144,420,922	111,444,385
- unearned premiums		23,947,338	24,373,121
- provisions for outstanding claims		119,801,751	86,749,736
- other technical provisions		671,832	321,529
Other provisions		122,648	119,772
Deferred tax liabilities	15.3	158,164	0
Operating liabilities	15.10	44,070,416	43,872,728
- liabilities from reinsurance and co-insurance		43,705,350	43,872,728
- current tax liabilities		365,066	0
Other liabilities	15.10	511,793	552,803

Notes to financial statements are an integral part of the financial statements and shall be read in conjuction with them.

9.2. Income statement

in EUR

	Note	YEAR 2012	YEAR 2011
NET PREMIUMS EARNED	16.1	**64,412,949**	**63,309,963**
- gross reinsurance premiums written		116,352,810	121,931,838
- premiums written ceded for retrocession		-52,777,161	-57,743,429
- change in unearned premiums		837,300	-878,446
TOTAL INCOME FROM FINANCIAL ASSETS	16.2	**7,102,907**	**6,500,113**
OTHER REINSURANCE INCOME	16.3	**9,622,924**	**10,990,672**
- commission income		9,622,924	10,990,672
OTHER INCOME		**24,407**	**1,288**
NET CLAIMS INCURRED	16.4	**-43,015,383**	**-45,505,082**
- gross claims paid		-53,408,612	-55,572,858
- retrocessionaires' share of claims paid		14,420,766	18,607,582
- change in provision for outstanding claims		-4,027,538	-8,539,807
CHANGE IN OTHER TECHNICAL PROVISIONS		**-345,636**	**-158,996**
EXPENSES FOR BONUSES AND REBATES		**-4,667**	**-3,381**
OPERATING EXPENSES	16.5	**-2,716,969**	**-2,724,451**
- insurance acquisition costs		-995,124	-1,069,202
- other operating expenses		-1,721,846	-1,655,249
EXPENSES FROM FINANCIAL ASSETS AND LIABILITIES	16.2	**-3,781,005**	**-3,862,386**
- impairment of financial assets other than recognized at fair value through profit or loss		-298,223	-924,796
- interest expenses		0	-572,230
- losses on disposal of investments		-1,708,446	-498,310
- other financial expenses		-1,774,336	-1,867,050
OTHER REINSURANCE EXPENSES		**-24,035,413**	**-24,735,112**
- commission expenses	16.3.	-23,800,859	-24,437,779
- other expenses		-234,554	-297,333
OTHER EXPENSES		**-1,901**	**-72,934**
PROFIT BEFORE TAX		**7,262,212**	**3,739,695**
TAX EXPENSE	16.6	**-1,424,283**	**-777,299**
NET PROFIT FOR THE PERIOD		**5,837,929**	**2,962,396**

Basic net earnings per share	389 euro/share	197 euro/share
Diluted net earnings per share	389 euro/share	197 euro/share

Notes to financial statements are an integral part of the financial statements and shall be read in conjuction with them

9.3. Statement of comprehensive income

in EUR

	Note	YEAR 2012	YEAR 2011
Net profit/loss for the year after tax		**5,837,929**	**2,962,396**
Other comprehensive income after tax		**4,662,440**	**-2,714,982**
Net gains/losses from the remeasurement of available-for-sale financial assets		5,613,903	-3,393,727
- gains/losses recognized in fair value reserve		3,877,044	-4,085,923
- transfer of gains/losses from fair value reserve to profit or loss		1,736,859	692,196
Tax on other comprehensive income	16.6.	-951,463	678,745
Comprehensive income for the year after tax		**10,500,369**	**247,414**

Basic net earnings per share	389 euro/share	197 euro/share
Diluted net earnings per share	389 euro/share	197 euro/share

Notes to financial statements are an integral part of the financial statements and shall be read in conjuction with them.

9.4. Statement of cash flows

in EUR

	YEAR 2012	YEAR 2011
CASH FLOW FROM OPERATING ACTIVITIES		
Income statement items	**9,729,931**	**10,965,144**
Net written premium for the period	63,575,649	64,188,409
Investment income (excluding financial income), arising from:	5,834,823	4,931,414
- technical provisions	5,561,588	4,516,173
- other sources	273,235	415,241
Other operating income (excluding revaluation and provisions reductions) and financial income from operating receivables	24,407	1,288
Net claims for the period	-38,987,846	-36,965,276
Bonuses and rebates paid	-4,667	-3,381
Net operating expenses excluding depreciation charges and accrued insurance acquisition expenses	-16,825,820	-16,094,797
Investment expenses (excluding amortization and fin. expenses) financed from:	-2,467,603	-3,855,118
- technical sources	-1,669,223	-3,658,844
- other sources	-798,379	-196,274
Other operating expenses excluding depreciation charge (except for revaluation and without increasing provisions)	-234,554	-297,333
Income tax and other taxes excluded from operating expenses	-1,184,459	-940,062
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	**1,453,305**	**-4,146,670**
- opening less closing reinsurance receivables	-209,709	1,602,070
- opening less closing other receivables from (re)insurance operations		0
- opening less closing other receivables and assets	342,801	-370,124
- opening less closing deferred tax assets	990,725	-841,509
- closing less opening reinsurance liabilities	-167,379	-3,483,123
- closing less opening other operating liabilities	338,703	-1,053,984
- Movements in other liabilities (excluding unearned premiums)		0
- closing less opening deferred tax liabilities	158,164	0
Net cash from operating activities	**11,183,236**	**6,818,474**
CASH FLOW FROM INVESTING ACTIVITIES		
Cash inflows from investing activities	212,823,271	129,335,760
Interest received from investing activities	4,524,882	681,645
- investments financed from technical provisions	4,304,760	681,645
- other investments	220,122	0
Cash inflow from profit sharing related to investing activities	36,047	33,826
- investments financed from technical provisions	31,401	25,028
- other investments	4,646	8,798
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:	8,980	23,503
- technical provisions	0	0
- other sources	8,980	23,503
Proceeds from disposal of long-term financial investments, financed from:	71,462,362	27,725,385
- technical provisions	69,890,765	27,725,385
- other sources	1,571,597	0
Proceeds from disposal of short-term financial investments, financed from:	136,791,001	100,871,401
- technical provisions	136,791,001	100,871,401
- 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	**-224,021,581**	**-136,039,970**
Payments for acquisition of intangible assets	0	0
Payments for acquisition of property, plant and equipment items financed from:	-23,778	-68,672
- technical provisions	0	0
- other sources	-23,778	-68,672
Payments for acquisition of non-current investments, financed from:	-86,281,908	-33,139,578
- technical provisions	-85,115,331	-33,139,578
- other sources	-1,166,577	
Payments for acquisition of current investments, financed from:	-137,715,895	-102,831,697
- technical provisions	-137,715,895	-102,831,697
- other sources		
Payments for acquisition of investments in subsidiaries and associated companies, financed from:	0	-23
- technical provisions	0	0
- other sources	0	-23
Net cash from investing activities	**-11,198,309**	**-6,704,210**

CASH FLOW FROM FINANCING ACTIVITIES		
Cash outflows from financing activities	**0**	**-198,000**
Dividends and other shares in profit	0	-198,000
Net cash from financing activities	**0**	**-198,000**
Closing balance of cash and cash equivalents	**15,353**	**30,426**
x) Net cash for the period	**-15,073**	**-83,736**
y) Opening balance of cash and cash equivalents	**30,426**	**114,162**

Notes to financial statements are an integral part of the financial statements and shall be read in conjuction with them.

9.5. Statement of changes in equity

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 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**	**26,333,795**	**2,833,328**	**36,088,971**
Opening balance 1 January 2012	**4,950,000**	**1,146,704**	**519,762**	**1,435,467**	**619,961**	**-1,750,049**	**26,333,795**	**2,833,328**	**36,088,971**
Comprehensive income for the year after tax						**4,662,441**		**5,837,929**	**10,500,370**
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									0
Net profit allocation to reserves from profit				125,388				-125,388	0
Covering of losses from previous years									0
Creation and use of reserves for credit risk and catastrophe losses									0
Other							2,833,328	-2,833,328	0
Closing balance 31 December 2012	**4,950,000**	**1,146,704**	**519,762**	**1,560,855**	**619,961**	**2,912,392**	**29,167,124**	**5,712,541**	**46,589,339**

Notes to financial statements are an integral part of the financial statements and shall be read in conjuction with them.

10. NOTES TO FINANCIAL STATEMENTS

10.1. 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 sole and ultimate shareholder 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.

10.2. Basis of preparation

10.2.1. Statement of compliance

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU, the Companies Act and Insurance Act. The 2012 financial statements were authorised for issue by the Management Board of Triglav Re on 29 March 2013.

The audited 2012 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 owner of Triglav Re is allowed to subsequently change the financial statements of Triglav Re.

The financial statements of Triglav Re constitute separate financial statements.

10.2.2. 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.

10.2.3. Basis for measurement

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

10.2.4. 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 the Item 10.5)

10.2.5. New standards and interpretations, which are not effective yet

The accounting policies, used in the preparation of the financial statements are consistent with those of the annual financial statements for the year ended 31 December 2011, except for new and amended standards and interpretations effective as of 1 January 2012 and are presented below.

New standards and interpretations

IFRS 1 – *First-time Adoption of International Financial Reporting Standards: Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters*

The amendment provides guidance on how an entity can resume presenting IFRS financial statements when its functional currency ceases to be subject to severe hyperinflation.

A further amendment is the removal of the legacy of fixed dates in IFRS 1 relating to derecognition and day one gain or loss transactions have also been removed. The amendments are effective in the EU for periods beginning on or after 1 January 2013. The amendment has no impact on the Company's financial position or performance.

IFRS 7 – *Financial Instruments: Disclosures – Transfer of Financial Assets*

The amendments are effective for periods beginning on or after 1 July 2011 and were issued to improve the disclosure requirements relating to the transfer of financial assets. Amendments require disclosures for transfers of financial assets that are derecognised in their entirety, as well as those that are not, to enable the user of the financial statements to understand the relationship with those assets that have not been derecognised and their associated liabilities. The amendment requires retrospective application. The amendment affects disclosures only and has no impact on the Company's financial position or performance.

Standards and interpretations issued but not yet effective and not early adopted

The Company has not early adopted any standard or interpretation issued but not yet effective. The Company intends to adopt these standards, if applicable, when they become effective.

The following new and amended standards will be applied in future periods as required by IFRSs and the European Union:

IFRS 7 – *Financial Instruments: Disclosures – Offsetting Financial Assets and Financial Liabilities (amended)*

The amendment is effective for annual periods beginning on or after 1 January 2013. The amendment introduces common disclosure requirements. These disclosures would provide users with information that is useful in evaluating the effect or potential effect of netting arrangements on an entity's financial position. The amendments to IFRS 7 are to be retrospectively applied.

IFRS 10 – *Consolidated Financial Statements*

This standard replaces the part of IAS 27 *Consolidated and Separate Financial Statements* which refers to consolidated financial statements. It also addresses the issues raised in SIC-12 Consolidation – Special Purpose Entities. The standard is applicable in the EU for periods beginning on or after 1 January 2014. IFRS 10 establishes a single control model that applies to all entities. This will require management to exercise significant judgment to determine which entities are controlled, and therefore are required to be consolidated by a parent. The standard also changes the definition of control.

IFRS 11 – *Joint Arrangements*

This standard replaces IAS 31 *Interest in Joint Ventures* and SIC 13 Jointly-controlled entities – non-monetary contributions by venturers. The new standard addresses only two forms of joint arrangements (joint operations and joint ventures), where there is joint control. IFRS 11 uses the principle of control in IFRS 10. In addition, IFRS 11 removes the option to account for jointly-controlled entities using proportionate consolidation, leaving only the option to use the equity method. The standard is effective in the EU for periods beginning on or after 1 January 2014.

IFRS 12 – *Disclosure of Interests in Other Entities*

This standard is effective in the EU for periods beginning on or after 1 January 2014 and includes disclosure requirements that were previously in IAS 27 *Consolidated and Separate Financial Statements* related to consolidated financial statements, as well as all of the disclosures that were previously included in IAS 28 *Investments in Associates* and IAS 31 *Interest in Joint Ventures*. A number of new disclosures are also required, especially regarding judgments made to determine whether an entity controls another entity.

IFRS 13 – *Fair Value Measurement*

The new standard is applicable for periods beginning on or after 1 January 2013. IFRS 13 does not change when an entity is required to use fair value, but rather provides guidance on how to measure the fair value of financial and non-financial assets and liabilities when required or permitted by IFRSs.

IAS 1 – *Presentation of Financial Statements: Presentation of Items in Other Comprehensive Income*

The amendments to IAS 1 change the grouping of items presented in other comprehensive income. Items that could be reclassified to profit or loss at a future point in time would be presented separately from items which will never be reclassified. The amendments are effective for periods beginning on or after 1 July 2012.

IAS 12 – *Deferred Tax (amended)*

The amendment is effective in the EU for annual periods beginning on or after 1 January 2013. This amendment concerns the determination of deferred tax on investment property measured at fair value and also incorporates SIC-21 *Income Taxes – Recovery of Revalued Non-Depreciable Assets* into IAS 12 for non-depreciable assets measured using the revaluation model in IAS 16. The aim of this amendment is to include a) a rebuttable presumption that deferred tax on investment property measured using the fair value model in IAS 40 should be determined on the basis that its carrying amount will be recovered through sale and b) a requirement that deferred tax on non-depreciable assets, measured using the revaluation model in IAS 16, should always be measured on a sale basis.

IAS 19 – *Employee Benefits (amended)*

In June 2011, the International Accounting Standards Board (the "the IASB") issued numerous amendments to IAS 19. The key amendment refers to the removal of the corridor mechanism for recognising changes in the value of defined benefit plans. This means all changes in the value of defined benefit plans will be recognised as they occur depending on the type of change either in profit or loss or in other comprehensive income. The amendments are effective for periods beginning on or after 1 January 2013.

IAS 27 – *Separate Financial Statements (revised)*

This revised standard was issued in May 2011 as a result of the new standards IFRS 10, IFRS 11 and IFRS 12. IAS 27 contains accounting and disclosure requirements for investments in subsidiaries, joint ventures and associates when an entity prepares separate financial statements. The standard is effective in the EU for periods beginning on or after 1 January 2014.

IAS 28 – *Investments in Associates and Joint Ventures (revised)*

This revised standard was issued in May 2011 as a result of the new standards IFRS 10, IFRS 11 and IFRS 12. IAS 28 prescribes the accounting for investments in associates and sets out the requirements for the application of the equity method when accounting for investments in associates and joint ventures. This revised standard is effective in the EU for periods beginning on or after 1 January 2014.

IAS 32 – *Financial Instruments: Presentation (amended) – Offsetting Financial Assets and Financial Liabilities*

The amendment is effective for annual periods beginning on or after 1 January 2014. This amendment clarifies the meaning of 'currently has a legally enforceable right to set-off' and also clarifies the application of the IAS 32 offsetting criteria to settlement systems (such as central clearing house systems) which apply gross settlement mechanisms that are not simultaneous. The amendments to IAS 32 are to be retrospectively applied. Earlier application is permitted. However, if an entity chooses to early adopt, it must disclose that fact and also make the disclosures required by the IFRS 7 – *Offsetting Financial Assets and Financial Liabilities* amendments.

In compliance with the requirements of IFRSs and subject to the endorsement by the European Union, the Company will have to apply in future periods the following amended and revised standards and interpretations:

IFRS 1 – *First-time Adoption of International Financial Reporting Standards: Government loans (Amendment)*

The amendment is effective for annual periods beginning on or after 1 January 2013. This amendment sets out how a first-time adopter would account for a government loan with a below-market rate of interest when they transition to IFRSs. This amendment provides the same relief to first-time adopters as is granted to existing preparers of IFRS financial statements when applying IAS 20 *Accounting for Government Grants and Disclosure of Government Assistance*. The Company is in the process of assessing the impact of the amendment on the financial position or performance of the Group.

IFRS 9 – *Financial Instruments*

The Standard replaces IAS 39. IFRS 9 *Financial Instruments* was published in November 2009 and contained requirements for financial assets. Requirements for financial liabilities were added to IFRS 9 in October 2010. Most of the requirements for financial liabilities were carried forward unchanged from IAS 39. However, some changes were made to the fair value option for financial liabilities. In December 2011, the IASB amended IFRS 9 to require application for annual periods beginning on or after 1 January 2015 and to not require the restatement of comparative-period financial statements upon initial application.

Phase II of IFRS 9, relating to impairment, has been in the process of re-deliberations from January 2011.

In September 2012, the IASB issued a review draft on general hedge accounting requirements (Phase III of IFRS 9) which will be added to IFRS 9 *Financial Instruments*.

IFRS 10 – *Consolidated Financial Statements: Investment Entities (amendment)*

In October 2012, IASB issued an amendment to IFRS 10 Consolidated Financial Statements to provide an exception to the consolidation requirements for entities that meet the definition of an investment entity. The exception to consolidation requires investment entities to account for subsidiaries at fair value through profit or loss in accordance with IFRS 9 *Financial Instruments*. An entity must meet all three elements of the definition and consider whether it has four typical characteristics, in order to qualify as an investment entity. There is one exception to this requirement not to consolidated subsidiaries for investment entities. If an investment entity has a subsidiary that provides investment-related services (e.g. investment management services) to the entity or third parties, then the investment entity must consolidated its subsidiary. The amendment applies for annual periods beginning on or after 1 January 2014. Retrospective application is required.

IFRS 12 – *Disclosure of Interests in Other Entities: Investment Entities (amendment)*
In addition to the amendments to IFRS 10 Consolidated Financial Statements, IFRS 12 *Disclosure of Interests in Other Entities* has also been amended to require additional disclosures for investment entities. The amendment applies for annual periods beginning on or after 1 January 2014.

IAS 27 – *Separate Financial Statements: Investment Entities (amendment)*
In addition to the amendments to IFRS 10 Consolidated Financial Statements, IAS 27 Separate Financial Statements has also been amended to define the accounting for and disclosure of subsidiaries of investment entities in the separate financial statements of an investment entity. The amendment applies for annual periods beginning on or after 1 January 2014.

Transition Guidance (Amendments to IFRS 10, IFRS 11 and IFRS 12)

The guidance is effective for annual periods beginning on or after 1 January 2013. The IASB issued amendments to IFRS 10 *Consolidated Financial Statements*, IFRS 11 *Joint Arrangements* and IFRS 12 *Disclosure of Interests in Other Entities*. The amendments change the transition guidance to provide further relief from full retrospective application. The date of initial application in IFRS 10 is defined as 'the beginning of the annual reporting period in which IFRS 10 is applied for the first time'. The assessment of whether control exists is made at 'the date of initial application' rather than at the beginning of the comparative period. If the control assessment is different between IFRS 10 and IAS 27/SIC-12, retrospective adjustments should be determined. However, if the control assessment is the same, no retrospective application is required. If more than one comparative period is presented, additional relief is given to require only one period to be restated. For the same reasons IASB has also amended IFRS 11 *Joint Arrangements* and IFRS 12 *Disclosure of Interests in Other Entities* to provide transition relief.

The Company is reviewing the impact of standards and interpretations which are not yet mandatory and have not yet been endorsed by the EU and, for the time being, has not assessed the impact of new pronouncements on its financial statements. The Company will apply new standards and interpretations in accordance with their requirements, if endorsed by the EU.

Improvements to IFRS

In May 2012, the IASB issued its annual improvements to IFRSs which included improvements of some of the existing standards. The effective date for the amendments is for annual periods beginning on or after 1 January 2012, but the amendments have not been endorsed yet by the EU.

IFRS 1 – First-time Adoption of International Financial Reporting Standards*: Repeated application of IFRS 1*
This amendment clarifies that an entity that stopped applying IFRS in the past and chooses, or is required, to apply IFRS again, has the option to re-apply IFRS 1. If IFRS 1 is not re-applied, an entity must retrospectively restate its financial statements as if it had never stopped applying IFRS (according to IAS 8).

IFRS 1 – First-time Adoption of International Financial Reporting Standards*: Borrowing costs*
Upon transition to IFRS, an entity will be allowed to retain its previously capitalised borrowing costs, without adjustment. After transition, borrowing costs are recognised in accordance with IAS 23 Borrowing costs.

IAS 1 – Presentation of Financial Statements*: Clarification of the requirements for comparative information*
The amendment clarifies the difference between voluntary additional comparative information and the minimum required comparative information (this is generally the previous period information). If an entity chooses to voluntarily provide comparative information beyond the minimum required comparative period, it must include comparative information also in the related notes to the financial statements.
Also, the amendment requires entities to present a third balance sheet (the opening balance sheet) (a) when an entity changes its accounting policies; or (b) makes retrospective restatements or makes reclassifications which have a material effect on the balance sheet. In such cases the entity is not required to provide supporting notes for the opening balance sheet.

IAS 16 – *Property, plant and equipment: Classification of servicing equipment*
The amendment clarifies that major spare parts and servicing equipment that meet the definition of property, plant and equipment are not inventory.

IAS 32 – *Financial instruments: Presentation: Tax effect of distributions to holders of equity instruments*

The amendment removes existing income tax requirements from IAS 32 and requires entities to apply the requirements in IAS 12 Income taxes to any income tax arising from distributions to equity holders.

IAS 34 – *Interim financial reporting: Interim financial reporting and segment information for total assets and liabilities*
This amendment aligns the disclosure requirements for total segment assets with total segment liabilities in interim financial statements. It also ensures that interim disclosures are aligned with annual disclosures in IFRS 8 Operating segments.

The Company is reviewing the impact of the improvements to IFRS which are not yet mandatory and have not yet been endorsed by the EU and, for the time being, has not assessed the impact of new pronouncements on its financial statements. The Company will apply the improvements to IFRS in accordance with their requirements, if endorsed by the EU.

10.3. Significant accounting policies

Triglav Re must be presumed to be carrying on its business as a going concern.
This report is a summarized version of the Annual report of Triglav Re, d.d. for the year 2012, published in the Slovene language. Referring to the full report, it highlights information assessed by Management as significant and important.

10.3.1. 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.

10.3.2. 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.

10.3.3. 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.

10.3.4. Trade and other liabilities

Recognition and measurement

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

10.3.5. Cash and cash equivalents

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

10.3.6. 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 years of pensionable service of men and women are in agreement with the Pension and Disability Insurance Act, Official Gazette of the Republic of Slovenia, No. 96/2012.
   - 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.

10.3.7. 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.

10.3.8. 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 the Item 10.3.6 (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.

10.3.9. Equity

Share equity

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.

Reserves

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.

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 in 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.

10.3.10. Income

Net income from 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 the capital gains recognition is disclosed in the Item 10.3.3 under "Gains and losses".

10.3.11. 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.

10.3.12. Classification of contracts

A reinsurance contract is a contract under which 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.

10.3.13. Liabilities from reinsurance contracts

Non-life insurance provisions

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 provisions

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 provisions

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, tontines, 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.

10.3.14. 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.

10.3.15. 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 the Item 10.7.

10.4. Change in accounting policies

Triglav Re did not change any accounting policies in 2012.

10.5. Accounting estimates and judgements

These disclosures supplement the commentary on financial risk management (Item 13.4.) and reinsurance risk management (Item 13.1.).

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.

10.5.1. 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 under the Item 10.3.3. 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 the Item 13.1, while reinsurance contract provisions are analysed in the Item 13.2.

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.

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.

10.5.2. 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 (Item 10.3.3.). 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 (Item 10.3.3). 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.

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

10.6.1. 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 2012, Triglav Re continued to estimate the incurred but not reported claims (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.

10.6.2. Life reinsurance

Since Triglav Re has not assumed for reinsurance any risks so far 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.

10.7. Liability adequacy test (LAT)

10.7.1. 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.

10.7.2. 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.

10.8. Sensitivity of present value of future liabilities to change in significant variables

10.8.1. 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. Liabilities under the court related claims 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.

10.8.2. 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 the 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 the 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.

10.9. Reinsurance contracts with material effect on future cash flow uncertainty

10.9.1. Non-life reinsurance

Triglav Re offers all types of non-life reinsurance: different property reinsurance covers, liability, ship, aviation, transport and accident covers. Contracts may be concluded for a fixed term of one year or on a continuous basis, with either party having the option to cancel a contract 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 other lines of liability reinsurance covers as described below.

Motor reinsurance

The motor reinsurance portfolio comprises both motor third party liability and motor hull (casco) 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 the insured parties (Green Card system).

Property damage (e.g. on a vehicle) is generally reported and settled within a short period from 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: General Third Party Liability (GTPL), Product Liability (including extended PLI), Product Recall, different Professional Liability covers including Directors and Officers Liability (D&O), Medical Malpractice.

10.9.2. Life reinsurance

Triglav Re sets up no mathematical provisions for life reinsurance, because there is none of the following classes of business in its portfolio: 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.

11. DISCLOSURES TO THE STATEMENT OF FINANCIAL POSITION

11.1. Intangible assets

in EUR

	SOFTWARE	TOTAL
COST		
Balance at 1 January 2011	**431,352**	**431,352**
- Additions	0	0
- Disposals	0	0
- Other	0	0
Balance at 31 December 2011	**431,352**	**431,352**
- Additions	0	0
- Disposals	0	0
Balance at 31 December 2012	**431,352**	**431,352**
ACCUMULATED AMORTISATION		
Balance at 1 January 2011	**334,977**	**334,977**
- Increase	38,830	38,830
- Disposals	0	0
Balance at 31 December 2011	**373,807**	**373,807**
- Increase	29,869	29,869
- Disposals	0	0
Balance at 31 December 2012	**403,676**	**403,676**
CARRYING AMOUNT		
Balance at 31 December 2011	**57,544**	**57,544**
Balance at 31 December 2012	**27,675**	**27,675**

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. The Company still uses the intangible assets that have already been completely written off.

11.2. Property, plant and equipment

in EUR

	Motor vehicles	Equipment and furniture	TOTAL
COST			
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**
- Acquisitions	0	29,327	29,327
- Disposals	-27,455	-22,764	-50,219
- Other	0	-18,014	-18,014
Balance at 31 December 2012	**217,692**	**215,100**	**432,792**
ACCUMULATED DEPRECIATION			
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**
- Increase	38,365	18,810	57,175
- Disposals	-27,455	-22,764	-50,219
Balance at 31 December 2012	**75,173**	**190,262**	**265,435**
CARRYING AMOUNT			
Balance at 31 December 2011	**180,884**	**32,335**	**213,219**
Balance at 31 December 2012	**142,519**	**24,838**	**167,357**

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. The Company still uses property, plant and equipment that have already been completely written off.

11.3. Deferred tax assets and liabilities

in EUR

	YEAR 2011	Changes	YEAR 2012
DEFERRED TAX ASSETS			
Recognized in profit or loss	553,213	-197,426	355,788
Recognized in equity	437,512	-437,512	0
BALANCE at 31 December	**990,725**	**-634,938**	**355,788**
DEFERRED TAX LIABILITIES			
Recognized in profit or loss	0		0
Recognized in equity	0	513,952	513,952
BALANCE at 31 December	**0**	**513,952**	**513,952**
OFFSET OF ASSETS/LIABILITIES			
DEFERRED TAX ASSETS	**990,725**	**0**	
DEFERRED TAX LIABILITIES	**0**	**1,148,890**	**158,164**

In 2012, Triglav Re reduced the receivables for deferred tax assets for non-deductible investment impairments, since in 2012 they were formed in the amount of EUR 351,867 (in 2011 of EUR 547,068) and for the provisions for jubilee and termination benefits in the amount of EUR 3,921 (in 2011of EUR 6,146). In 2012, Triglav Re set up deferred tax liability for the revaluation surplus in investments in the amount of EUR 513,952 (in 2011: EUR 437,512). Deferred tax assets and liabilities are calculated according to the tax rate of 15.0%. If the tax rate remained on the level of 20.0% as it was in 2011, the deferred tax liabilities would amount to EUR 210,269, and profit after tax would be higher for EUR 118,596 due to the influence of deferred taxes.

11.4. Financial assets

in EUR

	YEAR 2012	YEAR 2011
Available for sale	106,936,495	80,392,999
At fair value through profit or loss	1,287,813	2,022,004
Loans and receivables	14,272,042	24,498,578
TOTAL	**122,496,350**	**106,913,581**

in EUR

YEAR 2012	Available for sale	At fair value through profit or loss	Loans and receivables	TOTAL
Equity securities	**1,105,566**	**0**	**0**	**1,105,566**
- listed	1,064,796	0	0	1,064,796
- unlisted	40,770	0	0	40,770
Debt securities	**104,204,946**	**1,286,710**	**4,899,476**	**110,391,132**
- government securities	62,943,709	244,696	2,692,044	65,880,450
- corporate securities	41,261,237	1,042,014	2,207,432	44,510,682
Investment funds	**1,625,983**	**0**	**0**	**1,625,983**
- open-end	384,249	0	0	384,249
- closed-end	1,241,735	0	0	1,241,735

Loans and receivables	**0**	**0**	**9,362,566**	**9,362,566**
- bank deposits	0	0	5,176,688	5,176,688
- financial investments arising from reinsurance contracts with cedants	0	0	4,185,878	4,185,878
Derivative financial instruments	**0**	**1,103**	**0**	**1,103**
Other investments	**0**	**0**	**10,000**	**10,000**
TOTAL	**106,936,495**	**1,287,813**	**14,272,042**	**122,496,350**

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**	**5,785,725**	**85,296,537**
- government securities	46,473,224	0	0	46,473,224
- corporate securities	31,015,584	2,022,004	5,785,725	38,823,313
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**	**18,702,853**	**18,702,853**
- bank deposits	0	0	14,988,235	14,988,235
- 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**

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

In compliance with the accounting policy described in the Item 10.3.3, the amount of EUR 298,223 (2011: EUR 924,796) was transferred from the provision for change in fair value into the income statement due to the impairment of financial assets.

The carrying amount represents the 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, and in 2012 two securities were disposed of. The carrying value of these reclassified assets that were in 2009 transferred from the available-for-sale category into the loans and receivables category amounted on 1 July 2008, when the reclassification was made, in total to EUR 7,211,989; and at 31 December 2012, the value amounted to EUR 551,391. Their carrying value represented the fair value of the assets at the date of their reclassification. The fair value of these securities as at 31 December 2012 amounted to EUR 546,792. The revaluation surplus of the reclassified assets amounted to negative EUR 85,828 as at the reclassification date, i.e. 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 2012.

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.

in EUR

YEAR 2012	LEVEL 1	LEVEL 2	LEVEL 3	TOTAL
- Available for sale	100,909,289	5,867,819	159,387	106,936,495
- Recognized at fair value	245,799	1,042,014		1,287,813
TOTAL	**101,155,088**	**6,909,833**	**159,387**	**108,224,308**

YEAR 2011	LEVEL 1	LEVEL 2	LEVEL 3	TOTAL
- Available for sale	80,213,589	0	179,410	80,392,999
- Recognized at fair value	0	2,022,004	0	2,022,004
TOTAL	**80,213,589**	**2,022,004**	**179,410**	**82,415,002**

The table below shows the movement of investments classified under the Level 3. In 2012, a reclassification of one equity security from the Level 1 to the Level 3 was effected. At the date of reporting, three investments into equity securities were classified in the Level 3, one of which represents only one in the amount of EUR 23. A peer analysis was used for the investment price in the Level 3. On the basis of the sensitivity analyses, an expected resolution of the uncertainty was calculated, showing that the value of the first investment might decrease by EUR 14,058 under a pessimistic scenario, or increase by EUR 54,360 under an optimistic scenario. The value of the second investment can decrease by EUR 5,164. Two investments in the government bonds of the Republic of Slovenia were reclassified from the Level 1 in 2011 to the Level 2 in 2012. As at the year end, the total value of both amounts to EUR 4,224,508. Due to the low market liquidity are assessed according to the model.

in EUR

YEAR 2012	Level 3 Available for sale
Opening balance 1 January 2012	**179,410**
Total profit/loss	-138,618
- income statement	-229,477
- comprehensive income	90,859
Acquisitions	0
Disposals	0
Reclassification from level 3 to other levels	
Reclassification from other levels to level 3	118,594
Closing balance at 31 December 2012	**159,387**

11.5. Reinsurers' share in technical provisions

in EUR

	YEAR 2012	YEAR 2011
Share in unearned premiums reserve	9,820,526	9,409,007
Share in reported but not settled claims provision	44,109,494	15,328,401
Share in claims incurred but not reported provision	2,881,102	2,637,718
TOTAL	56,811,121	27,375,125

Changes in reinsurers' shares are presented in the Item 11.8. 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. Triglav Re impaired no such amounts in 2012.

11.6. Receivables

in EUR

	YEAR 2012	YEAR 2011
Receivables from reinsurance and coinsurance	56,227,823	56,018,113
Current tax assets	0	371,352
Other receivables	59,480	30,930
TOTAL	56,287,302	56,420,395

Triglav Re assesses the need for the impairment of receivables on the basis of a separate estimates of the financial position and solvency of debtors from which the receivable is due. Triglav Re impaired no receivables in 2012.

In 2012 in contrast to 2011, the Company did not record current tax assets but current tax liabilities (Item 11.10).

11.7. Equity

in EUR

	YEAR 2012	YEAR 2011
Share capital	4,950,000	4,950,000
Share premium	1,146,704	1,146,704
Reserves from profit	2,700,578	2,575,190
Revaluation surplus	2,912,392	-1,750,048
Retained earnings	29,167,124	26,333,795
Net profit for the year	5,712,541	2,833,329
TOTAL	46,589,339	36,088,970

11.7.1. 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 2012. All shares have been fully paid. The ownership structure is presented in the Item 3.1 of the Management report.

In 2012 no dividends were paid out. 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 2012.

In line with applicable legislation, Triglav Re calculates its capital adequacy quarterly. Throughout 2012, the Company complied with the capital adequacy requirements (Item 13.3)

11.7.2. Change in fair value reserve

in EUR

	YEAR 2012	YEAR 2011
BALANCE AT 1 JANUARY 2012	-1,750,048	964,934
Increase/decrease due to revaluation	3,877,044	-4,085,923
Transfer to profit or loss due to impairment	298,223	924,796
Increase/decrease due to disposals	1,438,636	-232,599
Tax	-951,463	678,745
BALANCE AT 31 DECEMBER 2012	2,912,392	-1,750,048

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 2012, the amount of EUR 298,223 (in 2011 of EUR 924,796) 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 the profit or loss in the amount of EUR 1,438,636.

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.

11.7.3. Share premium

in EUR

	YEAR 2012	YEAR 2011
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

11.7.4. Other reserves from profit

in EUR

	YEAR 2012	YEAR 2011
Legal reserves	261,598	261,598
Statutory reserves	258,164	258,164
Credit risk equalization reserves	1,560,855	1,435,467
Other reserves from profit	619,961	619,961
TOTAL	2,700,578	2,575,190

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.

11.7.5. 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 2012, the earnings per share amount to EUR 389 (in 2011 to EUR 197). 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 (the same as in 2011). 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. 2012	31 Dec. 2011
Net profit or loss for the period	**5,837,929**	**2,962,396**
Retained earning(+)/loss from previous period(-)	**29,167,124**	**26,333,795**
- Profit/loss for the period according to effective standards	29,167,124	26,333,795
Increase in reserves from profit by decision of Management Board	125,388	129,067
- Increase in credit risk reserve	125,388	129,067
Accumulated profit appropriated by the Shareholders' Meeting	**34,879,665**	**29,167,124**
- Distribution to shareholders	0	0
- Carried forward to the following period	0	29,167,124

The Shareholders' Meeting of Triglav Re will decide on the allocation of the accumulated profit of 2012.

11.8. Liabilities from reinsurance contracts

in EUR

	Gross amount	Reinsurers' share	Net amount
PROVISIONS FOR UNEARNED PREMIUMS			
Balance at 1 January 2011	**20,297,228**	**6,211,561**	**14,085,668**
Increase in 2011	4,075,893	3,197,447	878,446
Use in 2011			
Release in 2011			
Balance at 31 December 2011	**24,373,121**	**9,409,007**	**14,964,113**
Increase in 2012		411,518	
Use in 2012	-425,782		-837,300
Release in 2012			
Balance at 31 December 2012	**23,947,338**	**9,820,526**	**14,126,813**
PROVISION FOR CLAIMS REPORTED BUT NOT SETTLED			
Balance at 1 January 2011	**42,232,038**	**17,146,272**	**25,085,766**
Increase in 2011	3,791,608		5,609,480
Use in 2011		-1,817,872	
Release in 2011			
Balance at 31 December 2011	46,023,646	15,328,400	30,695,245
Increase in 2012	32,141,317	28,781,094	3,360,223
Use in 2012			
Release in 2012			
Balance at 31 December 2012	**78,164,962**	**44,109,494**	**34,055,468**
PROVISION FOR CLAIMS INCURRED BUT NOT REPORTED			
Balance at 1 January 2011	**40,646,644**	**5,488,598**	**35,158,046**
Increase in 2011	79,446		2,930,326
Use in 2011		-2,850,880	
Release in 2011			
Balance at 31 December 2011	**40,726,090**	**2,637,718**	**38,088,372**
Increase in 2012	910,699	243,384	667,315
Use in 2012			
Release in 2012			
Balance at 31 December 2012	**41,636,789**	**2,881,102**	**38,755,687**
OTHER PROVISIONS			
Balance at 1 January 2011	**159,152**	**0**	**159,152**
Increase in 2011	162,377	0	162,377
Use in 2011			
Release in 2011			
Balance at 31 December 2011	**321,529**	**0**	**321,529**
Increase in 2012	350,303	0	350,303
Use in 2012			
Release in 2012			
Balance at 31 December 2012	**671,832**	**0**	**671,832**

Retrocessionaires' shares in provisions for reinsurance contracts are presented in the Item 11.5.

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 changes (positive or negative) in individual provisions and not as an increase or decrease of each item separately.

11.8.1. Development of reinsurance claims settled

Shown below is the development of claims settled since the development of claims reported by policyholders is not directly presented by Triglav Re as a reinsurance company. In the table below the adequacy of gross and net provisions for 2012 is also shown. 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 claims outstanding provisions 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, provisions for unearned premiums are 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 2012 for the past five years.

GROSS PROVISIONS FOR CLAIMS AND UNEARNED PREMIUMS

in EUR

	YEAR 2007	YEAR 2008	YEAR 2009	YEAR 2010	YEAR 2011	YEAR 2012
Originally assessed	67,942,654	93,728,316	90,871,016	103,175,910	111,122,856	143,749,089
Reassessed after 1 year	69,067,871	87,558,641	87,737,266	103,672,331	112,761,493	
Reassessed after 2 years	57,954,011	85,348,906	83,675,284	97,304,488		
Reassessed after 3 years	58,971,287	85,559,352	83,153,998			
Reassessed after 4 years	58,923,164	87,257,116				
Reassessed after 5 years	60,227,559					
CUMULATIVE EXCESS	**7,715,095**	**6,471,200**	**7,717,018**	**5,871,422**	**-1,638,637**	

CUMULATIVE GROSS CLAIMS PAID

in EUR

	YEAR 2007	YEAR 2008	YEAR 2009	YEAR 2010	YEAR 2011	YEAR 2012
1 year later	28,432,591	48,342,004	39,954,883	44,587,174	44,065,502	
2 years later	36,414,993	58,423,279	52,826,077	60,566,674		
3 years later	40,689,007	64,478,271	60,361,367			
4 years later	43,462,999	69,627,166				
5 years later	46,934,690					

NET PROVISIONS FOR CLAIMS AND UNEARNED PREMIUMS

in EUR

	YEAR 2007	YEAR 2008	YEAR 2009	YEAR 2010	YEAR 2011	YEAR 2012
Originally assessed	48,125,438	61,061,735	64,497,195	74,329,479	83,747,731	86,937,968
Reassessed after 1 year	47,829,673	55,229,598	61,638,190	72,159,962	74,356,154	
Reassessed after 2 years	38,053,396	50,924,060	55,371,175	64,033,880		
Reassessed after 3 years	36,424,173	48,988,444	52,543,289			
Reassessed after 4 years	35,582,965	48,553,156				
Reassessed after 5 years	35,367,889					
CUMULATIVE EXCESS	**12,757,549**	**12,508,579**	**11,953,906**	**10,295,599**	**9,391,577**	

CUMULATIVE PAID NET CLAIMS

in EUR

	YEAR 2007	YEAR 2008	YEAR 2009	YEAR 2010	YEAR 2011	YEAR 2012
1 year later	20,388,598	28,538,723	28,165,911	31,308,735	33,523,129	
2 years later	25,269,705	34,978,772	36,152,982	41,368,853		
3 years later	27,368,767	37,764,562	39,202,785			
4 years later	28,751,788	39,701,832				
5 years later	29,866,006					

The tables above show the adequacy test of gross and net provisions for the Company's reinsurance contracts, including unearned premiums. Namely, the assessed liabilities of reinsurance companies are normally arranged by underwriting years and, thus, also comprise liabilities to be settled with the unearned premiums. The upper triangle in the table shows the originally assessed provisions 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 9.4 million in 2012.

11.9. Other provisions

in EUR

	1 January 2012	Use	Formation	Release	31 December 2012
Provision for unutilized leave	58,316		12,051		70,367
Provision for long-service awards	10,878	-2,201	4,536		13,213
Provision for retirement benefits	50,578			-11,510	39,068
Total	**119,772**	**-2,201**	**16,587**	**-11,510**	**122,648**
	1 January 2012	**Use**	**Formation**	**Release**	**31 December 2012**
Provision for unutilized leave	0		58,316		58,316
Provision for long-service awards	9,495	-1,274	2,657		10,878
Provision for retirement benefits	49,889		689		50,578
Total	**59,384**	**-1,274**	**61,663**	**0**	**119,772**

11.10. Operating and other liabilities

in EUR

	YEAR 2012	YEAR 2011
Reinsurance contract liabilities	**43,705,350**	**43,872,728**
- of which liabilities to associates	12,068,155	11,873,742
Corporate income tax liability	**365,066**	**0**
Other liabilities	**511,794**	**552,803**
Provisions for bonuses to employees	166,840	208,388
Liabilities for salaries	135,990	130,180
Other liabilities and accrued expenses	208,964	214,235
- of which liabilities to associates	66,311	67,512
TOTAL	**44,582,209**	**44,425,531**

Liabilities from reinsurance contract are of short-term 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 2012, the sum of all due liabilities from current operations amounted to EUR 11,723,914. By 5 March 2013, Triglav Re has settled all due liabilities from inward business in the amount of EUR 3,316,474. The remaining amount of unpaid liabilities refers to liabilities for which the reinsurance contracts provide that they shall be paid only after our cedants have paid their liabilities to our Company. Another category of unpaid due liabilities are those that shall, upon payment, be offset against the Company's receivables toward partners, but by the date of the statement of the financial position the partner has not yet settled the balance. This is the reason why Triglav Re still has both outstanding receivables from and outstanding liabilities to individual partners recorded at the date of the statement of financial position.

12. DISCLOSURES TO THE INCOME STATEMENT

12.1. Net reinsurance premium income

in EUR

	YEAR 2012	YEAR 2011
Gross reinsurance premiums written	116,352,810	121,931,838
Reinsurance premiums ceded to retrocessionaires	-52,777,161	-57,743,429
Change in the gross provision for unearned premiums	425,782	-4,075,893
Retrocessionaires' share of change in the provision for unearned premiums	411,518	3,197,447
TOTAL	**64,412,949**	**63,309,963**

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

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

in EUR

YEAR 2012	Gross re-insurance premiums	Gross premiums written	Gross claims paid	Gross claim expenses	Insurance acqui-sition costs and other operating expenses
Accident insurance	3,018,881	3,270,834	1,717,504	1,609,222	70,494
Health insurance	281,143	281,143	254,974	316,326	6,565
Land motor vehicle insurance	12,832,907	13,054,030	5,854,843	5,596,041	299,663
Railway rolling stock insurance	515,792	522,279	0	-560,006	12,044
Aircraft insurance	2,301,205	2,062,914	60,359	52,399	53,736
Ships insurance	1,915,945	1,921,501	1,206,972	1,581,611	44,739
Goods in transit insurance	3,281,758	3,250,348	1,750,222	1,909,786	76,633
Fire and natural forces insurance	45,502,810	44,385,887	18,482,231	28,630,016	1,062,542
Insurance of other damage to property	26,206,810	27,497,761	13,188,091	15,794,253	611,959
Liability insurance for motor vehicles	9,780,742	10,036,405	6,145,065	9,152,193	228,391
Liability insurance for aircraft	788,563	679,835	657,218	5,268,513	18,414
Liability insurance for ships	166,917	165,569	19,297	53,980	3,898

General liability insurance	3,399,431	3,175,543	1,317,153	12,847,133	79,381
Credit insurance	2,712,889	2,801,031	1,149,518	1,865,425	63,349
Suretyship insurance	807,231	778,943	249,684	213,490	18,850
Miscellaneous financial loss insurance	1,899,084	1,955,733	970,303	1,754,604	44,346
Legal expense insurance	47,653	49,128	-19	100	1,113
Assistance insurance	469,720	471,617	305,059	289,678	10,969
Life insurance	423,327	418,090	80,138	85,863	9,885
TOTAL	**116,352,810**	**116,778,592**	**53,408,612**	**86,460,627**	**2,716,969**

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**

PROFIT/LOSS FROM RETROCEDED PREMIUMS, COMMISSIONS AND CLAIMS

in EUR

	YEAR 2012	YEAR 2011
Reinsurance premiums ceded to retrocession	52,777,161	57,743,429
Retrocessionaires' share in the change in provisions for unearned premiums	-411,518	-3,197,447
RETROCEDED PREMIUMS EARNED	52,365,643	54,545,982
Retrocessionaires' share of claims paid	14,420,766	18,607,582
Change in retroceded provisions for claims recorded but not settled	28,781,094	-1,817,872
Change in retroceded provisions for claims incurred but not reported	243,384	-2,850,880
RETROCEDED EXPENSES FOR CLAIMS	43,445,244	13,938,830
Commission income	9,622,924	10,990,672
PROFIT/LOSS FROM RETROCESSION	**-702,524**	**29,616,480**

12.2. Income and expenses from financial assets

12.2.1. Income from financial assets

in EUR

	YEAR 2012	YEAR 2011
Interest income	4,016,275	4,350,041
- available-for-sale financial assets	3,230,217	3,421,497
- financial assets recognized at fair value through profit or loss	89,442	91,203
- loans and receivables	696,616	837,341
Dividend income	36,047	33,825
- available-for-sale financial assets	36,047	33,825
Income from change in fair value	138,435	0
- financial assets recognized at fair value though profit or loss	138,435	0
Realized gains	956,282	544,517
- available-for-sale financial assets	956,282	568,169
- financial assets recognized at fair value through profit or loss	0	-23,652
- loans and receivables	0	0
Other financial income	1,955,868	1,571,731
TOTAL	**7,102,907**	**6,500,113**

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 956,282 (in 2011 of EUR 568,169). Other income from financial activities mainly consists of foreign exchange gains from investments, of operating receivables in the amount of EUR 1,268,084 (in 2011 of EUR 1,568,699) and income from derecognition of impairment of financial assets related to Greek bonds in the amount of EUR 687,784.

12.2.2. Expenses from financial assets

in EUR

	YEAR 2012	YEAR 2011
Interest expense	0	572,230
- financial assets available for sale	0	563,478
- financial assets at fair value through profit or loss	0	8,752
Expenses from fair value change	239,846	0
- financial assets at fair value through profit or loss	239,846	0
Losses from disposal of financial assets	1,468,600	498,310
- financial assets available for sale	1,103,943	394,312
- financial assets at fair value through profit or loss	0	103,998
- loans and depozits	364,657	0
Impairment of financial assets	298,223	924,796
- financial assets available for sale	298,223	924,796
Other financial expenses	1,774,335	1,867,050
TOTAL	**3,781,005**	**3,862,386**

In compliance with its accounting policy, Triglav Re impaired financial assets for the amount of EUR 298,233 (in 2011 of EUR 924,796). Other financial expenses in the amount of EUR 1,774,335 (in 2011 of EUR 1,867,050), which account for the highest amount among expenses from financial assets, include foreign exchange losses in the amount of EUR 1,306,318 (2011 of EUR 1,467,680), other financial expenses in the amount of EUR 189,431 (in 2011 of EUR 141,390.45), and operating expenses related to assets management in the amount of EUR 278,587 (in 2011 of EUR 257,979). In 2011, the interest expenses included paid interests for the purchased debt securities, but in 2012 the Company adjusted entring into accounts (book-keepnig methods) so that the amounts of paid interests of purchased debt securities are now included in interests income.

NET INCOME / EXPENSES FROM FINANCIAL ASSETS

In 2012, interest income of impaired assests, classified as available for sale, amounted to EUR 8,066 (in 2011 to EUR 40,959) relating to a Greek government bond which was in March 2012 replaced by the new securities and they are classified in the Group "At fair value through profit or loss". All other impaired securities are represented by equity investments.

in EUR

	Assets available for sale	Loans and receivables	Financial assets at fair value through profit or loss	Derivative financial instruments	Total
YEAR 2012					
Interest income	3,230,217	696,616	89,442		4,016,275
Income from dividends and shares	36,047	0	0	0	36,047
Income from fair value change	0	0	138,435	0	138,435
Realized gains	956,282	0	0	0	956,282
Other financial income	1,955,868	0	0	0	1,955,868
TOTAL INCOME	**6,178,414**	**696,616**	**227,877**	**0**	**7,102,907**
Interest expense	0	0	0	0	0
Expenses from fair value change	0	0	239,846	0	239,846
Realized losses	1,103,943	364,657	0	0	1,468,600
Impairment losses	298,223	0	0	0	298,223
Other financial expenses	1,774,335	0	0	0	1,774,335
TOTAL EXPENSE	**3,176,501**	**364,657**	**239,846**	**0**	**3,781,005**
TOTAL NET INCOME/EXPENSE	**3,001,913**	**331,959**	**-11,969**	**0**	**3,321,902**
YEAR 2011					
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/EXPENSES	**1,845,586**	**837,341**	**-32,293**	**-12,906**	**2,637,727**

12.3. Commission income and expenses

in EUR

	YEAR 2012	YEAR 2011
Commission income	9,622,924	10,990,672
Commission paid	23,800,859	24,437,779
DIFFERENCE	**-14,177,935**	**-13,447,106**

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.

12.4. Net claims incurred

in EUR

	YEAR 2012	YEAR 2011
Gross claims paid	53,408,612	55,572,858
Retrocessionaires' share in claims incurred	14,420,766	18,607,582
Change in provisions for gross claims recorded but not settled	32,141,317	3,791,608
Change in retroceded provisions for claims recorded but not settled	-28,781,094	1,817,872
Change in provisions for gross claims incurred but not recorded	910,699	79,446
Change in retroceded provisions for claims incurred but not recorded	-243,384	2,850,880
TOTAL	**43,015,384**	**45,505,082**

12.5. Operating expenses

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

in EUR

YEAR 2012	Insurance acquisition costs	Assets management costs	Other operating expenses	TOTAL
Depreciation and amortisation charge	25,303	7,084	43,782	76,168
Staff expenses	672,978	188,402	1,164,443	2,025,823
- gross salaries	520,001	145,575	899,748	1,565,324
- social security and pension insurance costs	87,031	24,365	150,588	261,984
- other labour costs	65,947	18,462	114,106	198,515
Costs of services provided by individuals not engaged in business activity	444	124	768	1,335
Other operating expenses	296,399	82,977	512,854	892,230
TOTAL	**995,124**	**278,587**	**1,721,846**	**2,995,556**

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**

Triglav Re discloses costs and expenses in the Income Statement by functional groups.

Asset management costs for 2012 amount to EUR 278,587 (in 2011 to EUR 257,979) and are recorded under financial expenses in the Income Statement.

in EUR

	YEAR 2012	YEAR 2011
Expenses spent on audit and advisory fees	**130,096**	**54,160**
- audit of annual report	27,000	26,400
- other audit services	3,600	7,140
- tax advisory services	0	576
- other non-audit services	99,496	20,044

12.6. Income tax expenses

in EUR

	YEAR 2012	YEAR 2011
Current income tax expense	1,226,858	940,062
Deferred income tax expense	197,426	-162,763
TOTAL	**1,424,284**	**777,299**

Deferred income tax expense in the amount of EUR 197,426 increased the total tax expense in the Income Statement, while in 2011 deferred income tax expense decreased the total tax expense by EUR 162,763 . Deferred income tax expense contains the deferred tax assets for termination and jubilee benefits provisions in the amount of EUR 2,225 (in 2011 of EUR 207) and deferred tax assets due to impairment of investments in the amount of EUR 195,201 (in 2011 of EUR 162,556). Deferred taxes in 2012 increased the total tax expense shown in the income statement, while in the past year they decreased the total tax expense. Income tax is calculated at the tax rate of 18 %, while the deferred income tax expense calculation is using the rate of 15 %. Due to the impact of deferred taxes, the effective rate shown in the below table is rather high compared to 2011 taking into account the reduction in nominal tax rate in 2012.

RECONCILIATION OF ACCOUNTING PROFIT FOR THE PERIOD TO INCOME TAX EXPENSE

in EUR

	YEAR 2012	YEAR 2011
Accounting profit for the period before income taxes	7,262,212	3,739,695
Income tax at the rate of 18%	**1,307,198**	**747,939**
Differences:		
Non-deductible expenses	62,978	210,118
Tax exempt income	-131,325	-6,765
Income that increases taxable base	324	338
Tax reliefs	-12,318	-11,568
Changes in temporary differences	197,426	-162,763
Deferred tax expenses arising from the write-down of a previously recognised deferred tax asset	0	0
TOTAL	**1,424,284**	**777,299**
Effective tax rate	**19.6%**	**20.8%**

In 2012, Triglav Re recoreded income tax assets arising from the corporate income taxation in the amount of EUR 365,066 (in 2011, tax liability amounted to EUR 371,352)

The table below shows the tax effect on individual components of comprehensive income.

in EUR

	Before tax	Tax	Net amount 2012	Before tax	Tax	Net amount 2011
Net gains/losses from the remeasurement of available-for-sale financial assets	5,613,903	-951,463	4,662,440	-3,393,727	678,745	-2,714,982
Comprehensive income for the year	**5,613,903**	**-951,463**	**4,662,440**	**-3,393,727**	**678,745**	**-2,714,982**

12.7. Related parties

The sole (100%) shareholder of Triglav Re is Zavarovalnica Triglav d.d. with a holding of 87 percent of the Company's share capital at the year end. Triglav Re has an immediate related party relationship with its ultimate parent (its sole 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 2012:
- the major business concluded between Zavarovalnica Triglav d.d. and Triglav Re is a reinsurance contract for 2012, 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;
- 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 concluded on market terms and are not secured; the same applies to transactions between related companies and Triglav Re.

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

in EUR

YEAR 2012	Zavarovalnica Triglav	Triglav osiguranje Zagreb	Triglav BH osiguranja	Triglav pojištovna	Lovčen životna Osiguranja	Triglav Lovčen Osiguranje	Vardar Osiguruvanje	Triglav Osig., Banja Luka
Premiums earned	62,877,903	1,930,471	17,696	6,086,004	54,497	1,584,186	1,777,269	154,593
Commission expenses	10,628,992	259,996	0	1,306,003	3,512	370,667	279,553	35,843
Claims paid	20,513,875	698,966	0	4,843,801	12,165	588,647	14,842	1,778
Change in unearned premiums	531,751	29,815	0	-12,857	0	-78,489	-8,164	-10,312
Change in the provision for claims outstanding	-21,320,628	-1,866,301	0	-5,653,232	0	-28,237	-83,756	-659
Rental costs	138,861	0	0	0	0	0	0	0
Asset management costs	188,540	0	0	0	0	0	0	0
Costs of property, accident and pension insurance premiums	100,179	0	0	0	0	0	0	0
Receivables from reinsurance premiums	14,524,268	320,497	0	1,463,894	11,988	1,327,372	67,309	100,918
Commission liabilities to insurers	2,315,667	33,965	0	248,154	339	303,973	14,276	25,301
Liabilitiers to insurers for shares in claims	6,945,327	188,099	0	1,435,810	12,165	532,729	10,572	1,778
Other current liabilities	66,311	0	0	0	0	0	0	0

in EUR

YEAR 2011	Zavarovalnica Triglav	Triglav osiguranje Zagreb	Triglav BH osiguranja	Triglav pojištovne	Triglav Lovčen Re	Triglav Lovčen Osiguranje	Vardar Osiguruvanje	Triglav Osig., Banja Luka
Premiums 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	120,173	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

Legal transactions shown in the above table include VAT (value added tax) when it is charged.

In 2012, the Company purchased 1,652 lots of subordinated bond ZT02, and the value including the accrued interest amounted to EUR 1,695,710 at the year end. Triglav Re also owns one share of Triglav Kopaonik Osiguranje a.d. Beograd which majority owner is Zavarovalnica Triglav d.d.

Legal transactions that were concluded in 2012 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.

12.8. Statement of cash flows

Statement of cash flows is prepared using the indirect method, while in the investment part on the basis of the actual 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 2012	YEAR 2011
Profit/loss before tax	7,262,212	3,739,695
Depreciation/amortization	76,168	84,027
Change in receivables	133,092	1,231,946
Change in deferred tax assets	990,725	-841,509
Change in liabilities	1,336,016	3,544,377
Change in deferred tax liabilities	158,164	0
Income tax asset	1,226,858	-940,062
Net cash from operating activities	**11,183,236**	**6,818,474**

13. 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 uncontrolled 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 its own retention.

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 certain extent also 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.

13.1. Reinsurance risks management

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-proportional catastrophe cover.

The table below shows the amount of gross reinsurance premiums, the claims ratio and the combined ratio in 2012 and 2011. The combined ratio includes 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 2012 AND 2011

in EUR

	YEAR 2012			YEAR 2011		
	Gross premiums	**Loss ratio**	**Combined ratio**	**Gross premiums**	**Loss ratio**	**Combined ratio**
01: Accident insurance	3,018,881	49.2%	77.0%	3,626,296	53.3%	81.5%
02: Health insurance	281,143	112.5%	139.1%	375,497	94.3%	120.4%
03:Land motor vehicle insurance	12,832,907	42.9%	54.9%	13,749,559	45.5%	55.6%
04:Railway rolling stock insurance	515,792	-107.2%	-107.2%	552,584	100.7%	100.7%
05: Aircraft insurance	2,301,205	2.5%	13.2%	1,910,112	3.5%	18.5%
06: Ships insurance	1,915,945	82.3%	101.3%	1,573,511	78.1%	98.3%
07: Goods in transit insurance	3,281,758	58.8%	76.9%	3,563,388	48.1%	72.9%
08: Fire and natural forces insurance	45,502,810	64.5%	90.5%	42,159,852	52.5%	78.6%
09: Insurance of other damage to property	26,206,810	57.4%	77.2%	33,606,253	51.3%	72.4%
10: Liability insurance for motor vehicles	9,780,742	91.2%	105.1%	10,553,134	55.2%	69.6%
11: Liability insurance for aircraft	788,563	775.0%	782.5%	853,983	50.5%	58.1%
12: Liability insurance for ships	166,917	32.6%	53.6%	148,155	42.6%	64.1%
13: General liability insurance	3,399,431	404.6%	416.6%	3,008,356	-3.8%	8.7%
14: Credit insurance	2,712,889	66.6%	84.4%	2,569,181	15.3%	33.2%
15: Suretyship insurance	807,231	27.4%	51.4%	641,932	145.8%	173.1%
16: Miscellaneous financial loss insurance	1,899,084	89.7%	110.8%	2,228,285	95.0%	118.5%
17: Legal expense insurance	47,653	0.2%	24.3%	51,076	-0.0%	24.4%
18: Assistance insurance	469,720	61.4%	76.0%	440,814	61.2%	73.7%
19: Life insurance	423,327	20.5%	29.8%	319,870	36.6%	51.2%
TOTAL	**116,352,810**	**74.0%**	**94.4%**	**121,931,838**	**50.4%**	**71.2%**

It is estimated that the most substantial losses arises from natural catastrophes. The risks are controlled with the measurements of separate geographical accumulations and the assessment of probable maximum losses caused by a natural disaster. Based on the analysis of observations, Triglav Re buys retrocession cover for net claims in its own retention.

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, LOSS RATIO AND COMBINED RATIO FROM RETROCESSIONS IN 2012 AND 2011

in EUR

	YEAR 2012			YEAR 2011		
	Outward premiums	Loss ratio - retrocession	Combined ratio - retrocession	Outward premiums	Loss ratio - retrocession	Combined ratio - retrocession
01: Accident insurance	210,204	19.6%	34.6%	255,631	24.3%	38.5%
02: Health insurance	0	0.0%	0.0%	0	0.0%	0.0%
03: Land motor vehicle insurance	5,560,323	6.2%	11.5%	5,921,865	12.4%	16.8%
04:Railway rolling stock insurance	515,665	-107.2%	-107.2%	550,778	101.4%	101.4%
05: Aircraft insurance	2,171,772	2.2%	18.5%	1,763,244	-16.8%	1.0%
06: Ships insurance	36,486	-0.3%	4.2%	31,325	4.3%	4.3%
07: Goods in transit insurance	1,439,277	53.2%	61.2%	1,105,173	-0.4%	7.0%
08: Fire and natural forces insurance	24,270,589	49.9%	75.7%	21,589,116	23.1%	50.1%
09: Insurance of other damage to property	9,618,121	40.6%	55.5%	17,960,258	27.5%	49.3%
10: Liability insurance for motor vehicles	2,142,129	290.0%	299.1%	2,212,327	74.5%	80.8%
11: Liability insurance for aircraft	750,295	823.1%	833.3%	789,984	90.8%	99.9%
12: Liability insurance for ships	17,826	176.8%	181.3%	18,266	-0.0%	-0.0%
13: General liability insurance	2,000,735	684.0%	690.4%	1,709,543	-57.2%	-48.0%
14: Credit insurance	1,667,993	89.2%	110.6%	1,493,622	13.8%	33.7%
15: Suretyship insurance	363,474	18.1%	42.4%	321,580	111.0%	127.7%
16: Miscellaneous financial loss insurance	1,501,839	88.9%	115.2%	1,613,850	92.9%	124.0%
17: Legal expense insurance	0	0.0%	0.0%	0	0.0%	0.0%
18: Assistance insurance	95,042	1.1%	1.1%	87,930	54.2%	54.2%
19: Life insurance	415,392	18.6%	27.7%	318,936	36.7%	51.3%
TOTAL	**52,777,161**	**83.0%**	**101.3%**	**57,743,429**	**25.6%**	**45.7%**

13.2. 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 2012.

As at 31 December 2012, Triglav Re recorded the total balance of net technical provisions in the amount of EUR 87,609,801. Net technical provisions of Triglav Re on the last day of the 2012 financial year comprise the following types of provisions:

in EUR

	YEAR 2012	YEAR 2011
Net provision for unearned premium	14,126,813	14,964,113
Net provision for bonuses, rebates and cancellations	20,843	16,175
Net provision for outstanding claims	72,811,156	68,783,618
Provision for unexpired risks	650,990	305,354
TOTAL	**87,609,801**	**84,069,260**

In comparison to the balance as at 1 January 2012, net technical provisions increased by 4.2 percent and were in total covered by investments of assets backing liabilities at 31 December 2012. Due to the transition to the IFRS, equalisation provisions for credit insurance in the amount of EUR 1,560,855 have again been recognised in the statement of financial position (under the item Equity) in 2012, and are for that reason not separately disclosed under technical provisions.

13.3. 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 type of its reinsurance business.

The prescribed methodology for the computing of minimum capital requirement for 2012 remained the same as in 2011. The minimum capital for 2012 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 the 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 of claims for 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 shall never fall below the amount of EUR 3.2 million.

in EUR

	YEAR 2012	YEAR 2011	Index
Required solvency margin	13,745,673	13,745,673	100.0
Available solvency margin	36,472,846	33,460,739	109.0
Surplus of available solvency margin	22,727,173	19,715,066	115.3

As at 31 December 2012, the required minimum capital of Triglav Re amounted to EUR 13,745,673 (the same as in 2011), and the available capital to EUR 36,472,846 (in 2011, it amounted to EUR 33,460,739). The capital surplus over the required minimum capital is rather high (EUR 22,727,173 at 31 December 2012, and EUR 19,715,066 at 31 December 2011) and therefore, it can be stated that the risk of capital inadequacy is effectively minimised.

It is evident that the capital surplus has increased over the required minimum capital in 2012, predominantly due to the increased level of retained earnings from the previous years (by approximately EUR 2.8 million). The available capital exceeds the required minimum capital by more than 165 percent, which means that Triglav Re adequately manages the capital adequacy risk.

The Company complied with the requirements under the capital adequacy throughout the entire financial year.

Solvency II

In 2012, 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 calculated on the cut-off date 31 December 2011 have shown that non-life risk, which represents 56 percent of the total available capital, continue to be the highest risk to the Company. It is followed by the market risk (21 percent), default risk with 6 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 a part of the above mentioned risks constituting the basic solvency capital requirements (BSCR); however, it amounts to approximately 8 percent of the available capital. The results of the study have shown that, upon transition to the new solvency regime, Triglav Re will fulfil the capital adequacy requirements. Previous experience indicates that the height of the solvency share in a given year is rather volatile. In 2013, the Company will make a calculation of the solvency share as at 31 December 2012 according to the new technical specifications (LEVEL 2), where the individual risk modules (i.e. CAT modul) significantly modified compared to the existing methodology. Triglav Re will continue to carry out preparation activities for Solvency II, and plan and implement the activities for the optimisation of certain types of risks.

13.4. 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.

13.4.1. 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 table below shows the structure of non-discounted expected cash flows of assets and liabilities:

31/12/2012 in EUR

FINANCIAL ASSETS AND LIABILITIES TO REINSURERS	NOT DEFINED	LESS THAN 1 YEAR	1 TO 5 YEARS	5 TO 10 YEARS	MORE THAN 10 YEARS	TOTAL	Carrying amount
Total financial assets	2,741,549	38,397,532	37,501,059	43,722,401	15,736,517	138,099,058	122,496,350
Debt securities	0	28,933,437	37,501,059	43,722,401	15,735,414	125,892,311	110,391,132
- held to maturity	0	0	0	0	0	0	0
- at fair value through profit or loss	0	1,127,450	90,150	37,560	384,480	1,639,640	1,286,710
- available for sale	0	23,678,802	36,464,659	43,684,841	15,350,934	119,179,236	104,204,946
- loans and receivables	0	4,127,185	946,250	0	0	5,073,435	4,899,476
Equity securities	2,731,549	0	0	0	0	2,731,549	2,731,549
- at fair value through profit or loss	0	0	0	0	0	0	0
- available for sale	2,731,549	0	0	0	0	2,731,549	2,731,549
Derivative financial instruments	0	0	0	0	1,103	1,103	1,103
Loans and receivables	10,000	9,464,095	0	0	0	9,474,095	9,372,566
Amount of technical provisions ceded to reinsurers	0	28,546,422	20,258,624	7,375,572	630,502	56,811,121	56,811,121
Operating receivables	0	56,287,302	0	0	0	56,287,301	56,287,301
Cash and cash equivalents	0	15,353	0	0	0	15,353	15,353
TOTAL FINANCIAL ASSETS AND LIABILITIES TO REINSURERS	**2,741,549**	**123,246,609**	**57,759,683**	**51,097,973**	**16,367,019**	**251,212,833**	**235,610,125**

FINANCIAL LIABILITIES AND PROVISIONS	NOT DEFINED	LESS THAN 1 YEAR	1 TO 5 YEARS	5 TO 10 YEARS	MORE THAN 10 YEARS	TOTAL	Carrying amount
Technical provisions	0	86,149,153	39,662,731	14,605,115	4,003,922	144,420,922	144,420,922
Other provisions		72,103	13,737	4,895	31,912	122,648	122,648
Operating liabilities	0	44,070,416	0	0	0	44,070,416	44,070,416
Other liabilities	0	511,793	0	0	0	511,793	511,793
TOTAL FINANCIAL LIABILITIES AND PROVISIONS	**0**	**130,803,466**	**39,676,468**	**14,610,010**	**4,035,834**	**189,125,778**	**189,125,778**

31/12/2011 in EUR

FINANCIAL ASSETS AND LIABILITIES TO REINSURERS	NOT DEFINED	LESS THAN 1 YEAR	1 TO 5 YEARS	5 TO 10 YEARS	MORE THAN 10 YEARS	TOTAL	Carrying amount
Total financial assets	2,914,192	30,854,028	38,756,412	47,055,064	10,784,576	130,364,272	106,913,581
Debt securities	0	11,836,334	38,756,412	47,055,064	10,784,576	108,432,386	85,296,537
- held to maturity	0	0	0	0	0	0	0
- at fair value through profit or loss	0	102,141	1,227,885	1,012,377	1,517,900	3,860,303	2,022,004
- available for sale	0	7,682,511	36,320,935	45,465,239	8,599,687	98,068,372	77,488,808
- loans and receivables	0	4,051,682	1,207,592	577,448	666,989	6,503,711	5,785,725
Equity securities	2,904,192	0	0	0	0	2,904,192	2,904,192
- at fair value through profit or loss	0	0	0	0	0	0	0
- available for sale	2,904,192	0	0	0	0	2,904,192	2,904,192

Derivative financial instruments	0	0	0	0	0	0	0
Loans and receivables	10,000	19,017,694	0	0	0	19,027,694	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	27,375,125
Operating receivables	0	56,420,396	0	0	0	56,420,395	56,420,395
Cash and cash equivalents	0	30,426	0	0	0	30,426	30,426
TOTAL FINANCIAL ASSETS AND LIABILITIES TO REINSURERS	**2,914,192**	**98,615,220**	**49,027,122**	**51,860,594**	**11,773,091**	**214,190,218**	**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**	**Carrying amount**
Technical provisions	0	73,772,910	28,529,687	7,872,817	1,268,971	111,444,385	111,444,385
Other provisions		83,055	1,900	7,085	27,732	119,772	119,772
Operating liabilities	0	43,872,728	0	0	0	43,872,728	43,872,728
Other liabilities	0	552,803	0	0	0	552,803	552,803
TOTAL FINANCIAL LIABILITIES AND PROVISIONS	**0**	**118,281,496**	**28,531,587**	**7,879,902**	**1,296,703**	**155,989,688**	**155,989,688**

Finacial assets and liabilities are not discounted; they are estimated as the sum of expected future cash flows. Equalisation provisions amounting to EUR 1,560,855 are not disclosed under the 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 amount to EUR 145,981,777.

Triglav Re retains a partial mismatch of asset and liability maturities, and generates a part of the return from that mismatch. Current (short-term) liabilities are settled by the current income, and the possibility of selling some financial instruments also exists.

Five of debt securities are redeemable prior to maturity, and their total carrying amount at the date of reporting amounts to EUR 1,970,302 (in 2011 to EUR 4,451,467).

13.4.2. Market Risk

The investment portfolio of Triglav Re's portfolio is exposed to market variables on which the Company has no 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.

13.4.3. Interest rate risk

in EUR

	YEAR 2012	YEAR 2011
Debt securities	**110,391,132**	**85,296,537**
- Government securities	65,880,450	46,473,224
- Securities of financial institutions	9,979,601	14,030,389
- Corporate securities	33,489,067	22,770,919
- Compound securities	1,042,014	2,022,004
Derivative financial instruments	**1,103**	**20,907**
TOTAL EXPOSED ASSETS	**110,392,235**	**85,317,443**
TOTAL OTHER ASSETS	**12,104,115**	**21,596,138**
TOTAL ASSETS	**122,496,350**	**106,913,581**

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, however, all such contracts had been terminated by the end of the financial year.

The exposure of Triglav Re to market risk due to the 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 they are newly evaluated at different times or in differing amounts. In 2012, Triglav Re deposited cash at the interest rates ranging from 0.20 percent to 4.60 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 2012		YEAR 2011	
	+100bp	**-100bp**	**+100bp**	**-100bp**
Government securities	-2,052,345	2,052,345	-1,719,442	1,719,442
Securities of financial institutions	-442,432	442,432	-301,314	301,314
Corporate securities	-1,546,659	1,546,659	-1,031,764	1,031,764
Compound securities	-2,053	2,053	-66,900	66,900
Other	272	-272	0	0
TOTAL	**-4,043,217**	**4,043,217**	**-3,119,420**	**3,119,420**
Impact on equity	-4,030,283	4,030,283	-3,052,520	3,052,520
Impact on profit or loss	-12,934	12,934	-66,900	66,900

13.4.4. Share price risk

in EUR

	YEAR 2012	YEAR 2011
Equity securities and investment funds	**2,731,526**	**2,904,192**
Shares in EU	1,853,273	1,966,304
Shares in USA	0	0
Shares in Asia	0	0
Shares of emerging markets	0	0
Global shares*	878,253	937,888
TOTAL EXPOSED ASSETS	**2,731,526**	**2,904,192**
TOTAL OTHER ASSETS	**119,764,824**	**104,009,389**
TOTAL ASSETS	**122,496,350**	**106,913,581**

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 the share price risk:

in EUR

	YEAR 2012		YEAR 2011	
	+10%	**-10%**	**+10%**	**-10%**
Shares in EU	185,327	-185,327	196,628	-196,628
Shares in USA	0	0	0	0
Shares of emerging markets	0	0	0	0
Global shares *	87,825	-87,825	93,789	-93,789
TOTAL	**273,153**	**-273,153**	**290,417**	**-290,417**
Impact on equity	273,153	-273,153	290,417	-290,417
Impact on profit or loss	0	0	0	0

* Equity investments in the global diversification of investments

13.4.5. 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 2012 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:

in EUR

YEAR 2012	Financial investments	in %	Amount of provision ceded to reinsurers	in %
EUR	114,725,017	93.7%	56,030,238	98.6%
USD	6,504,929	5.3%	724,689	1.3%
RSD	39,991	0.0%	0	0.0%
BAM	137,752	0.1%	0	0.0%
CZK	0	0.0%	56,194	0.1%
OTHER	1,088,283	0.9%	0	0.0%
TOTAL	**122,495,972**	**100.0%**	**56,811,121**	**100.0%**

in 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%**

The currency structure of net technical provisions comprises all net technical provisions, including equalisation provisions.

in EUR

Currency	Net technical provisions 2012	in %	Net technical provisions 2011	in %
EUR	74,494,038	83.5%	71,782,184	84.0%
USD	4,502,290	5.0%	3,418,012	4.0%
KRW	2,270,059	2.5%	1,693,595	2.0%
JPY	678,945	0.8%	1,674,930	2.0%
DKK	603,705	0.7%	1,162,302	1.4%
Other	6,621,618	7.4%	5,773,706	6.8%
TOTAL	**89,170,656**	**100.0%**	**85,504,727**	**100.0%**
Technical provisions	87,609,801	98.2%	84,069,260	98.3%
Equalisation provision	1,560,855	1.8%	1,435,467	1.7%

13.4.6. Credit risk

in EUR

Class of assets	YEAR 2012	YEAR 2011
Equity securities	1,105,566	1,270,554
Debt securities	110,391,132	85,296,537
Investment funds	1,625,983	1,633,637
Loans and receivables	9,362,566	18,702,853
Derivatives	1,103	0
Receivables	56,287,302	56,420,395
TOTAL EXPOSED ASSETS	**178,773,652**	**163,323,976**

The credit risk is the risk that a contractual party to a financial instrument contract fails to fulfil its obligation and thus causes a financial loss to Triglav Re. Credit risk arises in connection with investments in equity securities, debt securities, loans and deposits and receivables.

Credit risk of debt securities portfolio (the carrying amounts of bonds are taken as the base value):

in EUR

CREDIT RATING	YEAR 2012	in %	YEAR 2011	in %
AAA	35,349,765	32%	8,037,095	9%
AA	1,950,020	2%	35,469,523	42%
A	35,947,932	33%	9,806,994	11%
BBB	24,183,092	22%	15,268,264	18%
BB	4,493,571	4%	3,009,701	4%
B	603,398	1%	908,869	1%
No rating	7,863,353	7%	12,796,091	15%
TOTAL	**110,391,132**	**100%**	**85,296,537**	**100%**

The table shows that Triglav Re also owns debt securities without their credit rating assessment, and they are mainly issued by the Slovenian financial and corporative sector.

The credit risk of loans and receivables which include bank deposits and Company's financial investments from reinsurance contracts with cedants:

in EUR

CREDIT RATING	YEAR 2012	in %	YEAR 2011	in %
AAA	18,817	0%	9,942	0%
AA	119,461	1%	2,856,808	15%
A	2,412,330	26%	1,586,062	8%
BBB	170,878	2%	3,051,077	16%
BB	4,558,196	49%	9,069,191	48%
No rating	2,082,885	22%	2,129,772	11%
TOTAL	**9,362,566**	**100%**	**18,702,853**	**100%**

MATURITY STRUCTURE OF RECEIVABLES:

in EUR

YEAR 2012	Not past due	Due up to 180 days	Due over 180 days	Total
Receivables from coinsurance and reinsurance	43,320,787	3,817,676	9,089,359	56,227,822
- receivables for premium from reinsurance assumed	37,306,078	2,604,714	8,464,462	48,375,254
- receivables for reinsurers' share in claims	3,521,120	1,190,719	591,959	5,303,798
- other receivables from coinsurance and reinsurance	2,493,589	22,243	32,938	2,548,770
Other receivables	59,480			59,480
TOTAL	**43,380,267**	**3,817,676**	**9,089,359**	**56,287,302**

in EUR

YEAR 2011	Not past due	Due up to 180 days	Due over 180 days	Total
Receivables from coinsurance and reinsurance	43,559,363	5,032,859	7,425,891	56,018,113
- receivables for premium from reinsurance assumed	37,534,104	3,764,440	6,752,235	48,050,778
- receivables for reinsurers' share in claims	3,338,062	1,183,868	631,270	5,153,200
- other receivables from coinsurance and reinsurance	2,687,197	84,551	42,386	2,814,135
Other receivables	30,930	0	0	30,930
TOTAL	**43,590,293**	**5,032,859**	**7,425,891**	**56,049,043**

Triglav Re manages its credit risk in accordance with the principle of diversification of investments. The highest total investment in a single financial organisation as at 31 December 2012 amounts to EUR 1,949,852. In the portfolio structure, Triglav Re substantionally increased the share of investments in foreign securities. At the year end, investments in foreign securities amounted to EUR 75,622,463. In the international markets, Triglav Re mainly invests in securities with an AAA rating. At the end of 2012, Triglav Re held investments from the PIIGS country issuers in the amount of EUR 4,911,762, of which government bonds accounted for EUR 94,222 and the rest were debt securities invested in the financial and corporate sectors.

Domestic securities are largely guaranteed by the Republic of Slovenia which at 31 December 2012 held an A3 rating from the Fitch rating agency. Investments in government securities of the Republic of Slovenia amounted to EUR 22,738,416 which constitutes 19 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 retrocession business 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, the 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 retrocessions, classified by the retrocedant's rating as at 31 December 2012, 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

Rating of Reinsurer by S&P	Year 2012	Year 2011
AAA	0	0
AA	992,253	209,204
A	559,943	948,661
BBB	4,888	297
BB	2,352	0
NR	158,541	53,398
TOTAL	**1,717,977**	**1,211,560**

13.5. Significant events after the reporting date

On 13 February 2013 the Standard & Poors downgraded the long-term credit rating of Triglav Re by one notch, i.e. from "A-" to "BBB+", removed the warning on possible downgrade and issued a positive mid-term outlook.

There were no other significant events after the reporting date, which could materially affect the financial statements of Triglav.

The table below shows the structure of retroceded claims provisions by the retrocedents credit rating as at 31 December 2012, compared to the preceding year:

in EUR

Rating of Reinsurer by S&P	Year 2012	Year 2011
AAA	0	0
AA	26,406,232	5,508,223
A	16,967,044	9,585,902
BBB	1,333,373	111,648
NR	2,283,946	2,760,346
TOTAL	**46,990,595**	**17,966,118**

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