

IV. Notes to the Consolidated Financial Statements

1. General information

1.1 Company profile

Zavarovalnica Triglav d.d. (hereinafter: »Zavarovalnica Triglav« or »the controlling company«) with its subsidiaries and associated companies form the Triglav Group (hereinafter: »the Group«).

Zavarovalnica Triglav is a public limited company, with its registered office at Miklošičeva 19 in Ljubljana, Slovenia. The controlling interest in Zavarovalnica Triglav is held by the Institute of Pension and Disability Insurance of Slovenia (Zavod za pokojninsko in invalidsko zavarovanje Slovenije, hereinafter: ZPIZ) and the Slovene Restitution Fund (Slovenska odškodninska družba, hereinafter: SOD), which participate with 34.47% and 28.07% of the share capital, respectively.

Insurance is the core business of the Group, including a wide range of life, property and health insurance, as well as reinsurance products. In addition, the Group provides a variety of asset management, servicing and other financial services.

On 29 March 2012, the Management Board approved the issuance of the consolidated financial statements. Zavarovalnica Triglav also prepared separate financial statements in accordance with IFRS. The consolidated financial statements are available at the headquarters of Zavarovalnica Triglav and on its website.

1.2 Management and supervisory bodies

Supervisory Board

The Supervisory Board monitors and supervises the management and performance of Zavarovalnica Triglav. According to the Articles and Memorandum of Association, the Supervisory Board has nine members (six representatives of shareholders and three representatives of employees). Members of the Supervisory Board are given a four-year mandate and can be re-elected without limitation. In 2011, the Supervisory Board had the following members:

- Borut Jamnik, shareholder representative (Chairman and member until 19 September 2011);
- Anton Ribnikar, shareholder representative (Chairman as of 17 October 2011);
- Uroš Slavinec, shareholder representative (Vice President);
- Igor Mihajlovič, shareholder representative;
- Aljoša Valentinčič, shareholder representative;
- Vladimir Uršič, shareholder representative;
- Branko Gorjan, employee representative;
- Peter Celar, employee representative;
- Boris Gabor, employee representative (member until 29 May 2011);
- Miran Krštinc, employee representative (member as of 30 May 2011).

The Supervisory Board members-shareholder representatives began their term of office on 7 April 2009 for a period of four years, to 7 April 2013. On 28 June 2010, the General Meeting of Shareholders appointed Vladimir Uršič a Supervisory Board member-shareholder representative in substitution with a term of office starting on the date of appointment and ending on 7 April 2013. On the basis of a letter of resignation as Chairman and member of the Supervisory Board of Zavarovalnica Triglav as of 19 September 2011, the term of office of Borut Jamnik was terminated on that date.

As the term of office of the Supervisory Board members-employee representatives Branko Gorjan, Peter Celar and Boris Gabor ended on 29 May 2011, at the meeting of the Worker's Council held on 8 April 2011, the following were elected members of the Supervisory Board as employee representatives: Peter Celar, Branko Gorjan and Miran Krštinc. The four-year term of office of the newly elected members-employee representatives commenced on 30 May 2011.

At the meeting on 17 October 2011, the Supervisory Board appointed Anton Ribnikar as its Chairman.

Management Board

The Management Board directs, represents and acts on behalf of Zavarovalnica Triglav, independently and on its own responsibility. In compliance with the Articles and Memorandum of Association, the Supervisory Board can appoint three to six members (the President and five members) to the Management Board. The President and members of the Management Board are appointed for a five-year term with the possibility of reappointment or early termination of office in the case of a serious breach of obligations. In 2011, the Management Board had the following composition:

- Matjaž Rakovec, President;
- Andrej Slapar, member;
- Igor Stebernak, member;
- Vladimir Mišo Čeplak, member, employee representative (until 30 September 2011);
- Marica Makoter, member, employee representative (as of 21 December 2011).

Vladimir Mišo Čeplak held office as member of the Management Board until 30 September 2011.

On 30 August 2011, the Supervisory Board appointed Marica Makoter to the Management Board as employee representative for a five-year term of office. On 21 December 2011 Marica Makoter was issued a decision by the Insurance Supervision Agency authorising her to take office as a member of the Management Board.

1.3 Employees

The table below shows the educational structure of employees and the average number of employees in Zavarovalnica Triglav in 2010 and 2011.

Level of education	31 December 2011	31 December 2010
Primary and Vocational (I-IV)	243	1,172
Secondary School (V)	2,711	1,966
Post-Secondary Education (VI)	596	554
Higher Education and University (VII)	1,399	1,443
Masters and Doctorate (VIII-IX)	115	112
TOTAL	5,064	5,247
Average number of employees in year	5,140	5,247

1.4 Statement of compliance

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union (hereinafter: »IFRS«).

1.5 Reporting basis

The consolidated financial statements have been prepared on the historical cost basis, except for the following items:

- derivative financial instruments, which are measured at fair value;
- financial assets measured at fair value through profit and loss;
- available-for-sale financial assets measured at fair value; and
- equity instruments in associates, which are accounted for using the equity method.

The methods used for measuring fair value are described in Section 2.8.

For the preparation of the statement of financial position, the Group classifies individual items into groups of assets and liabilities depending on their nature, listed in the order of their liquidity and/or maturity. In additional disclosures, the Group posts current and non-current assets as well as current and non-current liabilities as separate items, depending on whether they are expected to be paid or settled within 12 months of the balance sheet date (current) or after more than 12 months of the balance sheet date (non-current).

Financial assets and liabilities on the statement of financial position are offset only when the Group has a legal right to offset the amounts and intends either to settle them on a net basis, or to settle the asset and settle the liability simultaneously. Income and expenses on the income statement are offset only if so provided by the standards, explained in the notes or required by the accounting policies of the Group.

The consolidated annual report is adopted by the Management Board and approved by the Supervisory Board. In the event the Supervisory Board fails to approve the report, it is discussed by the General Meeting of Shareholders. The distribution of profits is discussed separately for each company of the Group by the General Meeting of Shareholders.

1.6 Basis for consolidation

The entities in which the Group directly or indirectly holds more than half of the voting rights or otherwise has the power to exercise control over their

operations (subsidiaries) have been fully consolidated. The subsidiaries are consolidated from the date on which effective control was transferred to the Group and are no longer consolidated from the date that such control ceases. The changes in the equity share of the controlling company which do not cause a loss of control are accounted for as equity transactions. The difference between the amount for which the non-controlling interests are adjusted and the fair value of paid or received consideration is recognised directly in equity and allocated to shareholders of the controlling company. In the case of a loss of control over the subsidiary, assets (including goodwill) and liabilities are derecognised by their carrying value as at the date of loss of control and the carrying amount of non-controlling interest is derecognised.

All intercompany transactions, balances and any income and expenses arising from intra-group transactions have been eliminated in the process of consolidation.

The subsidiaries' accounting policies are predominantly the same as the accounting policies of Zavarovalnica Triglav. Where necessary, the accounting policies for subsidiaries have been changed in order to ensure consistency with the policies adopted by the Group. In the consolidated statement of financial position, non-controlling interests are disclosed separately from the equity of the controlling company. Net profit / loss attributable to minority interests is disclosed separately in the statement of changes in equity and in the income statement.

In 2011 the following changes occurred in the ownership structure of the Group:

Capital increase in Lovćen Osiguranje a.d., Podgorica

In 2010 Zavarovalnica Triglav raised additional capital in the amount of EUR 6,500,000 by issuing 125,000 new shares, which were entered into the Court Register in 2011. Zavarovalnica Triglav's stake in this company consequently increased from 91.84% to 94.95%.

Capital increase in Triglav Osiguranje a.d.o., Belgrade

Triglav Osiguranje, Belgrade raised capital by issuing 312,000 shares at the nominal value of RSD 700 each, totalling RSD 218,400,000 or EUR 2,173,134. This share capital increase raised Zavarovalnica Triglav's stake in said company from 94.49% to 96.08%.

Recapitalisation of Triglav Osiguranje d.d. Zagreb

In 2010 Triglav Osiguranje raised additional capital in the amount of HRK 51,410,000 or EUR 6,974,630 by issuing 20,564 shares of HRK 2,500 each, which were entered into the Court Register in 2011. Additional share capital increase was carried out in 2011 with the issue of 6,818 shares at the nominal value of HRK 2,200, totalling HRK 14,999,600 or EUR 2,002,002. All shares were purchased by Zavarovalnica Triglav, which increased its stake in the said company from 99.59% to 99.76%.

Acquisition of shares in Triglav Osiguranje a.d., Banja Luka

Zavarovalnica Triglav acquired 4 shares of Triglav Osiguranje a.d., Banja Luka in the total amount of EUR 4,090, thus becoming the 100% owner of the company.

Acquisition of shares of Triglav Osiguruvanje a.d., Skopje

Zavarovalnica Triglav purchased 1,820 ordinary registered shares from stock option beneficiaries at a price of MKD 26,232.44 per share, amounting to

MKD 47,743,060.80 or EUR 776,613, thus increasing its equity stake in that subsidiary from 70.36% to 73.38%.

Capital increase in Triglav INT, holdinška družba d.d., Ljubljana

With the aim of making the management of the Triglav Group more effective, Zavarovalnica Triglav transferred its shareholdings in subsidiaries outside Slovenia to Triglav INT d.d., which was then recapitalised with an in-kind contribution of EUR 88,548,008. The value of the financial investment arising from capital increase by in-kind contribution was initially determined by the book value of the in-kind contribution. The book value of the in-kind contribution as at the date of investment is the disclosed value of the assets in Zavarovalnica Triglav's financial statements as at that date.

The share capital increase of Triglav INT d.d. was carried out by issuing 88,548,008 ordinary registered par value freely transferable shares. The issue value per share is EUR 1.00. After the recapitalisation Zavarovalnica Triglav remained the 100% owner of the company.

The table below shows the book value of financial assets transferred to Triglav INT as in-kind contribution:

	in EUR
	Book value
Triglav Osiguranje, Zagreb	22,984,995
Triglav Osiguranje, Beograd	14,450,828
Triglav Osiguranje, Sarajevo	7,859,517
Triglav Osiguranje, Banja Luka	1,516,747
Triglav Osiguruvanje, Skopje	14,445,081
Lovćen Osiguranje, Podgorica	18,799,329
Triglav Pojišt'ovna, Brno	8,491,511
TOTAL	88,548,008

The fair value of the above financial investments ranges between EUR 92.3 million and EUR 108.8 million. For the description of valuation models see Section 3.5.

The squeeze-out of minor shareholders of Triglav Naložbe d.d., Ljubljana

Zavarovalnica Triglav squeezed out the minority shareholders of Triglav Naložbe d. d. by acquiring 2,512,210 shares of the company in the total amount of EUR 3,965,624. As at 31 December 2011 the company was 100% owned by Zavarovalnica Triglav.

The squeeze-out of minor shareholders of Grad Podvin d.d., Ljubljana

Zavarovalnica Triglav »squeezed out« the minority shareholders of Grad Podvin d.d. by acquiring 4,071 shares of the company in the total amount of EUR 1,628. As at 31 December 2011 the company was 100% owned by Zavarovalnica Triglav.

Acquisition of shares of Gradis IPGI d.d., Ljubljana

Zavarovalnica Triglav acquired 13,571 ordinary registered shares of Gradis IPGI d.d. in the amount of EUR 1,503,847.00 from Triglav nepremičnine d.d., and thus increased its stake from 49.88% to 56.95%.

Capital increase in As Triglav d.d., Ljubljana

Zavarovalnica Triglav increased share capital of As Triglav by EUR 34,900.00, and remained the 100% owner of the company.

Capital increase in Triglav Penzijski fondovi a.d., Belgrade

Share capital was increased with the issue of 3,000 ordinary shares with

a nominal value of RSD 1,000.00, totalling RSD 3,000,000.00 or EUR 29,410.90. The recapitalisation increased Zavarovalnica Triglav's stake in the said company from 70.00% to 70.44%. The shares were entered into the Central Securities Register in Belgrade on 18 January 2012.

Liquidation or winding up of PHS Center Štemarje d.o.o. in a simplified procedure

Center Štemarje d.o.o., 100% owned by Zavarovalnica Triglav, was deleted from the Companies Register on 28 March 2011. On the day of the liquidation all assets and liabilities of the company were transferred to Zavarovalnica Triglav. Net assets totalled EUR 942,917, which was EUR 14,932 above the book value of the investment in the said company.

Liquidation or winding up of THP Krona d.o.o. in a simplified procedure

THP Krona d.o.o., 100% owned by Zavarovalnica Triglav, was deleted from the Companies Register on 1 April 2011. On the day of liquidation, total assets and liabilities of the company were transferred to Zavarovalnica Triglav. Net assets amounted to EUR 506,658, which was EUR 117,449 above the book value of the investment in said company.

Other changes in the Triglav Group

As at 31 December 2010, the equity stake of Zavarovalnica Triglav in Abanka Vipava d.d. (Abanka) was 25.61%. In line with IAS 28 - Investments in Associates and Joint Ventures, this financial investment was posted as an investment in an associated company in 2010, since the attached voting rights gave Zavarovalnica Triglav significant influence in Abanka.

As at 31 December 2011 Zavarovalnica Triglav still had the same stake as at 31 December 2010. On 20 January 2011 Zavarovalnica Triglav received a decision from the Securities Market Agency on the suspension of its voting rights in Abanka.

Due to this decision and the consequent loss of significant influence in the company, in 2011 the financial investment in Abanka was excluded from financial assets in associates and recognised as a financial asset available for sale. The same applies to other items in income statement and the statement of financial position related to Abanka.

Other changes in the Triglav Group refer to indirect subsidiaries. These changes were as follows:

- Triglav Osiguranje a.d., Banja Luka established Triglav Auto d.o.o, Banja Luka, for motor vehicle roadworthiness testing services (100% owned);
- Lovćen Osiguranje Podgorica a.d. established Lovćen životna osiguranja a.d., Podgorica, of which it is the 100% owner. The life insurance portfolio was transferred to the company.
- Triglav naložbe d.d. acquired 2 subsidiaries through the sale of its financial investment in Intercement d.o.o.: Salnal d.d. and Sianal d.d.
- Triglav nepremičnine d.d. bought Pista d.o.o., Belgrade, and became its 100% owner.

Using the full consolidation method, the said companies are consolidated in the financial statements and listed under numbers 1 to 30. The companies listed under numbers 31 to 34 are not consolidated using the full consolidation method, as they are not of material importance to the Group. The companies listed under numbers 35 and 36 were excluded from consolidation in 2011.

in EUR									
Company	Address	Tax rate (In %)	Activity	Equity stake (in %)		Share of voting rights (in %)		Value of equity as at 31 December	
				2011	2010	2011	2010	2011	2010
1 Pozavarovalnica Triglav RE d.d., Ljubljana	Miklošičeva 19, Ljubljana, Slovenia	20	Reinsurance	87.00	87.00	87.00	87.00	36,116,708	36,039,556
2 Triglav, Zdravstvena zavarovalnica d.d., Koper	Pristaniška 10, Koper, Slovenia	20	Insurance	99.51	99.51	99.51	99.51	6,808,987	5,507,322
3 Triglav Osiguranje d.d., Zagreb	Antuna Heinza 4, Zagreb, Croatia	20	Insurance	99.76	99.59	99.76	99.59	17,097,723	15,721,394
4 Triglav Osiguranje d.d., Sarajevo	Dolina br. 2, Sarajevo, Bosnia and Herzegovina	5	Insurance	68.94	68.94	78.71	78.71	16,574,222	18,066,605
5 Triglav Pojišt'ovna a.s., Brno	Novobranska 1, Brno, Czech Republic	20	Insurance	100.00	100.00	100.00	100.00	8,447,011	8,692,989
6 Lovćen Osiguranje a.d., Podgorica	Slobode 13a, Podgorica, Montenegro	9	Insurance	94.95	91.84	94.95	91.84	8,158,696	7,039,417
7 Lovćen životna osiguranja a.d., Podgorica	Novaka Miloševa br.6, Podgorica, Montenegro	9	Insurance	94.95	91.84	94.95	91.84	1,422,414	1,280,000
8 Triglav Osiguranje a.d.o., Beograd	Kralja Petra 28, Belgrade, Serbia	10	Insurance	96.08	94.49	96.08	94.49	6,666,570	5,781,112
9 Triglav penzijski fondovi a.d., Beograd	Kralja Petra 45, Belgrade, Serbia	10	Fund management	98.93	99.10	98.93	99.10	997,486	1,071,279
10 Triglav Osiguranje a.d., Banja Luka	Trg srpskih junaka 4, Banja Luka, Bosnia and Herzegovina	10	Insurance	100.00	99.86	100.00	99.86	1,891,605	2,842,293
11 Triglav Osiguruvanje a.d., Skopje	Gradski zid, blok br. 8, Skopje, Makedonija	10	Insurance	73.38	70.36	73.38	70.36	7,955,520	8,501,502
12 Triglav Skladi, družba za upravljanje d.o.o., Ljubljana	Slovenska 54, Ljubljana, Slovenia	20	Asset management	96.43	67.50	96.43	96.43	25,161,392	26,692,554
13 AS Triglav d.o.o., Ljubljana	Verovškova 60b, Ljubljana, Slovenia	20	Maintenance and repair of motor vehicles	100.00	100.00	100.00	100.00	34,971	-2,999
14 TRI-PRO d.o.o., Domžale	Ljubljanska 86, Domžale, Slovenia	20	Insurance agency	100.00	100.00	100.00	100.00	388,194	383,436
15 Triglav INT, holdinška družba d.d., Ljubljana	Miklošičeva 19, Ljubljana, Slovenia	20	Holding company	100.00	100.00	100.00	100.00	85,747,502	47,114
16 Triglav Nepremičnine d.d., Ljubljana	Verovškova 60c, Ljubljana, Slovenia	20	Real estate management	100.00	100.00	100.00	100.00	750,445	723,095
17 TRIGLAV Naložbe, finančna družba d.d., Ljubljana	Slovenska 54, Ljubljana, Slovenia	20	Holding company	100.00	92.42	100.00	92.42	43,405,649	39,139,812
18 Slovenijales d.d., Ljubljana	Dunajska 22, Ljubljana, Slovenia	20	Retail trade	61.74	61.74	61.74	61.74	36,430,767	36,803,865
19 Golf Arboretum d.o.o., Volčji Potok	Volčji potok 3a, Radomlje, Slovenia	20	Sport facilities management	80.10	74.02	80.10	74.02	823,955	837,433
20 Gradis IPGI d.d., Ljubljana	Industrijska 2, Ljubljana, Slovenia	20	Construction	85.66	83.48	85.66	83.48	-2,851,473	-2,486,622
21 Slovenijales trgovina d.o.o., Ljubljana	Plemljeva 8, 1210 Ljubljana, Slovenia	20	Retail trade	61.74	61.74	61.74	61.74	8,826,709	655,832
22 TRI-PRO BH d.o.o., Sarajevo	Topal Osman Paše 30, Sarajevo, Bosnia and Herzegovina	10	Insurance agency	89.57	89.57	89.57	89.57	-138,311	-138,500
23 Autocentar BH d.o.o., Sarajevo	Topal Osman Paše BB, Sarajevo, Bosnia and Herzegovina	5	Car retailer	78.71	68.94	78.71	78.71	1,334,775	1,281,514
24 Unis automobili i dijelovi d.o.o., Sarajevo	M. EF. Pandže Br.13, Sarajevo, Bosnia and Herzegovina	5	Car retailer	64.42	64.42	64.42	64.42	1,135,607	689,414
25 Sarajevostan d.d., Sarajevo	Kolodvorska 12, Sarajevo, Bosnia and Herzegovina	5	Real estate management	49.80	38.43	49.80	43.88	3,269,718	3,201,653
26 Lovćen Auto a.d.o., Nikšić	Bul. 13. jula b.b., Nikšić, Montenegro	9	Maintenance and repair of motor vehicles	94.95	91.84	94.95	91.84	231,041	1,026,538
27 Triglav Auto d.o.o., Banja Luka	Trg srpskih junaka 4, Banja Luka, Bosnia and Herzegovina	10	Maintenance and repair of motor vehicles	100.00	-	100.00	-	1,023	-
28 Salnal d.d., Deskle	Anhovo 1, 5210 Deskle, Slovenia	20	Real estate management	100.00	-	100.00	-	21,064,603	-
29 Sianal d.o.o., Ljubljana	Slovenska 54, Ljubljana, Slovenia	20	Real estate management	100.00	-	100.00	-	558,122	-
30 Pista d.o.o., Beograd	Ul.Milutina Milankovića 7a, Belgrade, Serbia	10	Real estate management	100.00	-	100.00	-	4,838,588	-
31 PROF-IN d.o.o., Sarajevo	M.P.Sokolovića 15, Sarajevo, Bosnia and Herzegovina	5	Fund management	60.31	42.21	60.31	60.31	1,984,213	1,426,440
32 Polara Invest d.d., Banja Luka	Veselina Masleše 1, Banja Luka, Bosnia and Herzegovina	5	Asset management	75.47	68.08	75.47	68.08	1,389,660	1,147,359
33 Zdravstveni center morje d.o.o., Koper	Ljubljanska 6/a, Koper, Slovenia	20	Health services	69.50	69.50	69.50	69.50	30,606	54,980
34 Hotel Grad Podvin d.d., Radovljica	Mošnje 1, Radovljica, Slovenia	20	Tourism	100.00	98.98	100.00	98.98	1,531,493	1,180,586
35 Poslovno hotelsko stanovanjski center Štemarje d.o.o., Škofja loka	Kapucinski trg 9, Škofja Loka, Slovenia	20	Real estate management	-	97.27	-	97.27	-	948,740
36 Turistično hotelsko podjetje KRONA d.o.o., Škofja loka	Mestni trg 32, Škofja Loka, Slovenia	20	Real estate management	-	97.27	-	97.27	-	509,874