

2. Report of the Supervisory Board

Report of the Supervisory Board of Zavarovalnica Triglav on the Examination of the Annual Report of Zavarovalnica Triglav and the Triglav Group for 2011 and the Opinion of the Supervisory Board on the Annual Internal Audit Report for 2011 by the Internal Audit Department of Zavarovalnica Triglav

The Supervisory Board of Zavarovalnica Triglav in 2011 actively followed the operations of the Company and responsibly supervised its governance. It regularly took note of reports on various aspects of business and on their basis adopted appropriate measures and followed up their implementation. Individual issues were discussed in the framework of Supervisory Board's committees. Their findings served as a basis for resolutions and recommendations of the Supervisory Board itself.

The Supervisory Board acted within the scope of its competences and powers set out by law, the Articles and Memorandum of Association and the Rules of Procedure of the Supervisory Board.

2.1 Introduction

Pursuant to Article 282 of the Companies Act (ZGD-1, Official Gazette of the RS, no. 42/2006 et. seq.) and the fourth paragraph of Article 165 of the Insurance Act (ZZavar, Official Gazette of the RS, no. 13/2000 et. seq.), the Supervisory Board hereby presents the report on the examination of the Annual Report of Zavarovalnica Triglav and the Triglav Group for 2011 (hereinafter: the Report) and its opinion on the Annual Internal Audit Report for 2011.

The findings of the Supervisory Board are based on the supervision of the operations of Zavarovalnica Triglav (hereinafter: the Insurer and/or the Company) in 2011 and the examination of the Audited Annual Report of Zavarovalnica Triglav for 2011. According to Article 76 and pertaining to Article 159 of the Insurance Act, the reports and opinions by the chartered actuaries for non-life and life insurance classes are integral parts of the audited Annual Report of the Triglav Group for 2011.

The Report also includes the opinion of the Supervisory Board regarding the adequacy of the work of the Internal Audit Department in 2011.

2.2 General information

Supervisory Board in 2011

In 2011, the Supervisory Board was made up of the following members:

- Borut Jamnik, member and Chairman up to 19 September 2011, when his term of office was terminated following his resignation from the Supervisory Board;

- Anton Ribnikar, Chairman as of 17 October 2011, shareholder representative;
- Uroš Slavinec, Deputy Chairman, shareholder representative;
- dr. Aljoša Valentinčič, shareholder representative;
- Igor Mihajlovič, shareholder representative;
- Vladimir Uršič, shareholder representative;
- Branko Gorjan, employee representative;
- Peter Celar, employee representative;
- Boris Gabor, as of 29 May 2011, employee representative and
- Miran Krštinc, as of 30 May 2011, employee representative.

In 2011, the Supervisory Board held twelve sessions.

In the reporting year there were four committees of the Supervisory Board: the Audit Committee, required according to the legislation in force, the Appointments and Compensation Committee, Strategy Committee and the Nominations Committee.

Audit Committee

In 2011, the Audit Committee had the following composition: Uroš Slavinec, Chairman, and Aljoša Valentinčič, Branko Gorjan, Anton Ribnikar (until 17 October 2011), Vladimir Uršič (as of 17 October 2011) and Barbara Nose¹ members.

The duties and competences of the Audit Committee are set out in the Companies Act, the Rules of Procedure of the Supervisory Board and the Supervisory Board's resolutions. In 2011, the Audit Committee:

- monitored and discussed the financial reporting processes, internal control systems, reports and recommendations by the Internal Audit Department, risk management systems and the external audit of annual and non-consolidated and consolidated financial statements;
- helped identify the most important areas for audit by the Internal Audit Department and discussed the functioning of Internal Audit Departments in subsidiaries;
- proposed to the Supervisory Board the candidate for the auditor of the annual report of the Company for 2011;
- evaluated the drawing up of the non-consolidated and consolidated annual reports for 2010 and drafted the relevant proposal for the Supervisory Board; and

¹ Barbara Nose was appointed to the said committee of the Supervisory Board as an external independent expert, not a member of the Supervisory Board.

- regularly reported on its work at the sessions of the Supervisory Board; and
- carried out special tasks in accordance with guidelines and requirements of the Supervisory Board.

With the aim of continuing quality improvement the Audit Committee carried out a self-assessment of its work in 2011.

Compensation and Appointments Committee

In 2011, the Compensation and Appointments Committee had the following composition: Borut Jamnik (member and Chairman until 19 September 2011), Anton Ribnikar (member and Chairman until as of 17 October 2011), Igor Mihajlović, Boris Gabor (member until 29 May 2011), Miran Krštinc (member as of 20 June 2011) and Srečo Jadek². In the reporting year the committee had nine sessions.

The duties and competences of the Compensation and Appointments Committee are set out in the Rules of Procedure of the Supervisory Board and the Supervisory Board's resolutions. In 2011, the committee:

- on the basis of the Authentic Interpretation of Article 4 §3 Item 2 of the Act Regulating the Income of Managers of Companies owned by the Republic of Slovenia and Self-Governing Local Communities discussed draft annexes to the service agreements with the Management Board members and submitted its proposal to the Supervisory Board;
- discussed a draft agreement on the termination of office of Vladimir Mišo Čeplak as member of the Management Board and submitted its proposal to the Supervisory Board;
- discussed the proposed amount of annual bonus for business efficiency in 2011 to the Management Board;
- regularly reported on its work at the sessions of the Supervisory Board.

Strategy Committee

On 10 February 2011, the Supervisory Board established the Strategy Committee with the following composition: Borut Jamnik (member and Chairman until 19 September 2011), Anton Ribnikar (member and Chairman as of 17 October 2011), Igor Mihajlović and Peter Celar.

The duties and competences of the Strategy Committee are set out in the Rules of Procedure of the Supervisory Board and the Supervisory Board's resolutions. Its tasks include: monitoring of the Triglav Group Strategy implementation and any related opinions, drafting resolutions for the Supervisory Board and ensuring their implementation.

Nominations Committee

At its session on 17 October 2011, the Supervisory Board established a Supervisory Board Nominations Committee for a definitive period of time ending with the appointment of a new Supervisory Board member. The purpose of the committee was, upon the termination of the office of a Supervisory Board member following their resignation, to carry out a nomination procedure for the appointment of a new member and submit its proposal to the Supervisory Board.

The Nominations Committee had the following composition: Uroš Slavinec, Chairman, Miran Krštinc, employee representative, Tomaž Kuntarič and Vanessa Grmek, shareholder representatives and Eva Boštjančič, representative of the Accreditation Committee at the Capital Assets Management Agency. In the reporting year the committee had two sessions.

2.3 The Supervisory Board's operations in 2010 and the scope of its supervision of the Company's Governance

The operations of the Supervisory Board and the scope of its supervision of the Insurance Company's governance in 2011 are described on the basis of the supervision it carried out in 2011, in accordance with its competences.

The Supervisory Board is in charge of supervising the operations of the Insurance Company and other tasks in its competence in compliance with the Companies Act (ZGD-1), the Insurance Act (ZZavar), the Articles and Memorandum of Association of Zavarovalnica Triglav, the Rules of Procedure of the Supervisory Board and the Corporate Governance Code. The Rules of Procedure of the Supervisory Board, published on the website of the Company, stipulate its methods and organisation of work.

Within the scope of its competence it may examine securities held in custody, the petty cash book, accounting records and similar documents of the insurance company which contain facts that provide information about its business conduct. The Supervisory Board approves the Management Board's proposals regarding the business policy, financial budget, internal control system organisation and framework annual work programme of the Internal Audit Department and carries out other tasks pursuant to the legislation in force.

a) Within the scope of its principal competencies, in 2011 the Supervisory Board:

- adopted the Triglav Group Strategy for the 2011 – 2015 period;
- adopted the Business Policy and Business Plan of the Triglav Group for 2012;
- approved the Annual Audit Plan of the Internal Audit Department for 2012;
- adopted the Annual Report on Internal Audits in 2011 by the Internal Audit Department (IAD);
- adopted the audited Annual Report of Zavarovalnica Triglav for 2010 and the audited Annual Report of the Triglav Group for 2010, as well as the Supervisory Board's report on the examination of the Annual Report of Zavarovalnica Triglav and the Triglav Group for 2010 and its Opinion on the Annual Internal Audit Report for 2010 by the Internal Audit Department of Zavarovalnica Triglav;
- proposed to the General Meeting of Shareholders of Zavarovalnica

² Srečo Jadek was appointed to the said committee of the Supervisory Board as an external independent expert, not a member of the Supervisory Board.

Triglav the appointment of the auditors for 2011, the amount of payments to the Supervisory Board members and the granting of a discharge to the Management Board for the business year 2010; approved the draft resolutions of the General Meeting of Shareholders on the distribution of profits as at 31 December 2010, on share capital increase by capitalisation of reserves, on the amendments to the Articles and Memorandum of Association and on the agenda for the 35th General Meeting of Shareholders of the Company;

- amended the Articles and Memorandum of Association in accordance with the resolution of the General Meeting of Shareholders of 27 August 2007;
- adopted the amendments and supplements to the Management Board Articles;
- approved the amendments and supplements to the Governance Policy of Zavarovalnica Triglav;
- approved the Compliance Policy of Zavarovalnica Triglav;
- appointed Vladimir Mišo Čeplak to the Management Board member as employee representative, for a period from 1 June 2011 until the appointment of a new employee representative to the Management Board and by 30 September 2011 at the latest;
- appointed Marica Makoter to the Management Board as employee representative for a five-year term of office; and
- took note of the findings and requirements of the Insurance Supervision Agency, the Securities Market Agency and other supervisory bodies following their scrutiny of Zavarovalnica Triglav and the relevant procedures arising from such scrutiny findings and recommendations.

b) Regarding supervision of the Company's business conduct in 2011, the Supervisory Board:

- took note of reports on the operations of Zavarovalnica Triglav and members of the Triglav Group;
- took note of the Report on the Implementation of Strategy of the Triglav Group in 2010;
- took note of reports on capital adequacy, reports on the maturity structure of long-term business funds and assets backing liabilities and reports on estimated asset sensitivity which bear influence on capital adequacy;
- took note of the IAD's reports on internal audits;
- took note of the process of amending the Company Collective Agreement in relation to payment of annual leave pay;
- took note of the Rules of Zavarovalnica Triglav on the Prevention of Conflict of Interest and the Rules of Zavarovalnica Triglav on Financial Instruments;
- took note of developments in a dispute between Istrabenz and Zavarovalnica Triglav;
- took note of a report on the state of play regarding contracts with

outsourced brokers;

- took note of the Rules of the Subsidiary Management Committee of the Triglav Group;
- took note of the functioning of the IADs of subsidiaries;
- was informed about the establishment of audit committees in the Triglav Group;
- took note of a report on legal disputes of subsidiaries of Zavarovalnica Triglav;
- took note of the management of Zavarovalnica Triglav's equity holding in Abanka Vipava;
- took note of legal proceedings to recover receivables from the subsidiary Slovenijales;
- examined reports by the Audit Committee, the Compensation and Appointments Committee and the Nomination Committee and
- was informed about other issues regarding Zavarovalnica Triglav, its subsidiaries and the Triglav Group.

c) Within the scope of the Supervisory Board's competence, set out in its Rules of Procedure, to approve the decisions by the Management Board³ in 2011 it approved the participation of Zavarovalnica Triglav in the increase of the share capital of Triglav INT d.d., the acquisition of a 100% stake in Sava IP d.o.o., the increase of the existing stakes in Triglav Naložbe d.d. and Pozavarovalnica Triglav RE, d.d., the increase of the existing stake and the publication of a takeover bid for acquiring all shares of Slovenijales d.d. in accordance with the Takeover Act and the sale of holdings in two portfolio equity investments of Zavarovalnica Triglav.

d) Other major actions of the Supervisory Board in 2011 included

- discussed the entry of a strategic partner in Triglav INT d.d.;
- approved the entering into annexes to the service agreements with the Management Board members and an agreement on the termination of office of a Management Board member; and
- in accordance with the Management Board's employment agreements set the amount of annual bonus for business efficiency in 2010.

e) Major requests, recommendations and/or warnings of the Supervisory Board in 2011:

- request to the Management Board to periodically report on key performance indicators of the Company at each session of the Supervisory Board;
- recommendation to stipulate in the internal documents which regulate the operations of subsidiaries of the Triglav Group, primarily those of Triglav INT, ways of disposing with participations in subsidiaries so as to enable the Supervisory Board to keep the same control and decision-making powers on holdings in subsidiaries as at the time such stipulation is made;

³ In accordance with its Rules of Precedure, the Supervisory Board approves the decisions by the Management Board concerning the foundation of companies with share capital in Slovenia and abroad where the initial investment exceeds EUR 2,500,000, the acquisition or sale of shareholdings or participations in domestic or foreign companies in excess of EUR 2,500,000 per company over a period of one year, the issuing of debt securities and long-term borrowing from domestic or foreign banks above EUR 2,500,000 over a period of one year and the acquisition, sale of, or investment in real property where the sales price or investment value exceeds EUR 2,500,000 over a period of one year.

- request to be presented the Letter to the Management on Major Findings Following a Preliminary Audit of the Financial Statements of Zavarovalnica Triglav for 2010 and the relevant Response Report to the said letter;
- request to the IAD to perform individual internal audits or to obtain explanations;
- request to inform the Audit Committee and the Supervisory Board on findings regarding alleged irregularities in Triglav Osiguranje a.d., Belgrade, as well as in Triglav Zdravstvena zavarovalnica d.d. and its subsidiaries;
- request to the Management Board to report to the Supervisory Board on the operations of Osiguranje a.d., Belgrade.

2.4 Self-assessment

The Supervisory Board has four committees: the Audit Committee, the Compensation and Appointments Committee, the Strategy Committee and the Nomination Committee – the latter two established in 2011. At Supervisory Board sessions the Chairmen of the Audit Committee and the Compensation and Appointments Committee regularly reported on their work. The Supervisory Board discussed the decisions passed by the committees, their recommendations and opinions and based on careful consideration adopted appropriate resolutions.

The Supervisory Board involves in its work all of its members, whose attendance at sessions and active participation in discussions and in making decisions contribute to the effective implementation of the tasks within the competence of the Supervisory Board. The Rules of Procedure of the Supervisory Board include rules on conduct in the case of actual or potential conflict of interest. The members of the Supervisory Board signed the Statement of Independence and Loyalty, which was published on the website of the Company pursuant to the Corporate Governance Code. In order to avoid a conflict of interest, in 2009 the Supervisory Board followed a recommendation to its members to refrain from serving on other Supervisory and/or Management Boards of the Triglav Group member companies.

The Supervisory Board is of the opinion that its cooperation with the Management Board is appropriate and in compliance with the legislation and good practice. To the best of its knowledge, the Supervisory Board was informed about all of the events which are material and necessary for assessing the situation and consequences of the governance of the Company and for the supervision of its operations. The Supervisory Board regularly followed how its resolutions were being implemented. The Governance Policy of Zavarovalnica Triglav lays out the main guidelines for the governance of the Company and takes into account its long-term objectives, including the definition of the role and functioning of the Supervisory Board and its committees.

In view of the above, the Supervisory Board is of the opinion that its own work and the work of its two committees active in 2011 were successful.

The Supervisory Board is of the opinion that its composition is adequate in terms of the size, business and objectives of Zavarovalnica Triglav, that the (in)dependence of its members is also adequate according to the Corporate Governance Code and that its members have the appropriate expertise, experience and skills required for membership in supervisory boards, enabling the Supervisory Board to adopt decisions of good quality. In order to make a proposal for the General Meeting of Shareholders on appointing another member to the Supervisory Board to replace Borut Jamnik, following his irrevocable resignation which terminated his term of office on 19 September 2011, the Supervisory Board established the Nominations Committee. The latter carried out a nomination procedure for appointing a member to the Supervisory Board in replacement of a previous one and proposed Mr Jože Kaligaro to the Supervisory Board.

2.5 Opinion on the Annual Internal Audit Report for 2011

Pursuant to Article 165 §3 of the Insurance Act (ZZavar), the Annual Internal Audit Report for 2011 of the Internal Audit Department (hereinafter: the IAD) was submitted to the Supervisory Board, containing a report on the implementation of the Annual Work Programme of the IAD and a summary of material audit findings.

On the basis of the Annual Internal Audit Report for 2011, approved at its session held on 15 March 2011, the Supervisory Board hereby establishes that the Internal Audit Department carried out its duties in accordance with the IAD's Annual Work Programme for 2011, passed by the Management Board and approved by the Supervisory Board, as well as in accordance with the Management Board's decisions on extraordinary audits. In 2011, the IAD carried out the planned regular internal audits of the operations of Zavarovalnica Triglav and of the companies of the Triglav Group, carried out extraordinary internal audits of the operations of Zavarovalnica Triglav as well as realised its other internal auditing duties (advisory services, follow-up to the recommendations given by internal and external auditors, reporting to the Management and Supervisory Boards or Audit Committee, improving the quality of its own work and other activities). The IAD communicated to the officers in charge its findings and observations resulting from individual internal audits together with recommendations on improving the functioning of internal control systems and more appropriate risk management. On the implementation of its work programme and on recommendations the IAD reported quarterly to the Audit Committee and semi-annually to the Supervisory Board.

In 2011 the IAD continued with quality management and quality improvement activities. In this framework it provided for the adequate professional training of its employees, restructured all audit reports, continued developing work methods of the department, as well as continued transferring minimum internal auditing standards to Triglav Group members. With the aim of continually improving the quality of the IAD's work, the Supervisory Board expects the IAD to pursue such activities also in the future.

Based on the above ascertainties, the Supervisory Board is of the opinion that the Internal Audit Department operated in line with its Annual Work Programme for 2011 and with its work significantly contributed to the better functioning of internal control systems and to more appropriate risk management in the Company and the Triglav Group.

2.6 Findings of the Supervisory Board regarding the operations of Zavarovalnica Triglav in 2011

On the basis of the supervision of operations carried out in and the review and examination of the Annual Report for 2011, the Supervisory Board hereby establishes that despite the economic crisis and developments in the Slovene banking sector Zavarovalnica Triglav in 2011 operated at a profit.

Net profit of the Triglav Group in 2011 amounted to EUR 47.5 million, which was 78% more than in 2010. Compared to the same year, net profit of the mother company grew by 36% and reached EUR 43.8 million. Net return on equity of the Triglav Group was 9.6% or 4.2 percentage points more than booked in 2010. Profit growth was primarily achieved through good results in the core insurance business, as shown by the improved combined ratio: 90.1% at the level of the Group and 83.0% at the level of the parent company. Due to the negative effect of capital market trends on the value of certain investments of the Company, adequate impairments were made.

In the reporting year the insurance companies of the Triglav Group posted EUR 989.4 million of gross written premium, both insurance and co-insurance, with EUR 696.7 million accounted for by the controlling company. The economic and financial crisis, increasing unemployment and decreasing purchasing power contributed to underachievement in sales, as the demand for certain insurance products declined. An additional loss of premium was also due to portfolio selection and the intensive rehabilitation of poor technical results. The restructuring of the portfolio improved its quality, reduced the amounts of claims paid and negatively impacted premium growth.

On 21 November 2011, the credit rating agency Standard & Poor's confirmed Zavarovalnica Triglav and the Triglav Group the »A« long-term rating and financial strength rating. At the same time, the agency confirmed the same »A« rating of the daughter company Pozavarovalnica Triglav Re, which was first assigned in 2009. Thereby, the Triglav Group reached one of its key strategic objectives.

In 2011, the Supervisory Board was equally informed about the operations of the Company's subsidiaries.

The findings of the Supervisory Board are also based on the following:

- a positive opinion of a chartered actuary for non-life insurance business;
- a positive opinion of a chartered actuary for life insurance business; and
- the Annual Report on Internal Audits by the Internal Audit Department for 2011.

The Supervisory Board has no objections to the above reports.

2.7 Annual Report

The Management Board submitted to the Supervisory Board on 3 March 2012 the audited Annual Report of Zavarovalnica Triglav for 2011 and the audited Annual Report of the Triglav Group for 2011.

The Supervisory Board ascertained that the annual reports had been prepared within the legally prescribed period and submitted to the appointed auditor. The Annual Report of Zavarovalnica Triglav for 2011 was audited by the audit firm KPMG Slovenija, podjetje za revidiranje d.o.o., which on 29 March 2012 issued a positive opinion on the Annual Report of Zavarovalnica Triglav for 2011 and on the Annual Report of the Triglav Group for 2011.

In the course of the discussion of the annual reports of Zavarovalnica Triglav and the Triglav Group the auditor's Letter to the Management was presented to the Supervisory Board and the Audit Committee. The certified auditor who signed the annual reports attended the discussions of the Supervisory Board and the Audit Committee of the said annual reports and provided the required additional explanations.

The certified auditor ascertained that in all material aspects the financial statements for 2011 and the data used in accounting report disclosures were compiled in accordance with the financial standards in force in the countries in which subsidiaries operate and/or necessary adjustments were made to International Financial Reporting Standards. The auditing of financial statements for 2011 was characterised by certain changes in the organisation of the Group (transfer of subsidiary insurers abroad to Triglav INT, transfer of real property business from the Group to Slovenijales and Triglav nepremičnine, the introduction of new IT support for consolidation purposes) and developments in financial markets (financial assets' impairments).

On the basis of detailed examinations, the Supervisory Board established that the Annual Report of Zavarovalnica Triglav for 2011 and the Annual Report of the Triglav Group for 2011, as produced by the Management Board and audited by the chartered auditor, had been prepared in a clear and transparent manner and that they give a true and fair view of the assets, liabilities, financial standing and profit of Zavarovalnica Triglav and the Triglav Group.

Without expressing any reservations to their opinion, the chartered auditors of KPMG Slovenija, podjetje za revidiranje, d.o.o. pointed to the incompliance of the financial statements of Zavarovalnica Triglav and the Triglav Group with the stipulations of the Insurance Act. Zavarovalnica Triglav and the Triglav Group disclose equalisation provisions in their financial statements in accordance with International Financial Reporting Standards as adopted by the EU, i.e., under equity item of reserves. Had the financial statements been prepared in line with the stipulations of the Insurance Act, equalisation provisions would have decreased profits and would have been disclosed under insurance technical provisions.

In line with the above findings, the Supervisory Board expresses no objection to the positive opinion given by the chartered audit firm KPMG Slovenija, podjetje za revidiranje d.o.o., stating that the financial statements in all material aspects give a true and fair view of the financial standing of Zavarovalnica Triglav as at 31 December 2011, and of its profit and cash flow for the year then ended, in accordance with International Financial Reporting Standards as adopted by the EU.

The Supervisory Board expresses no objection to the positive opinion given by the chartered audit firm KPMG Slovenija, podjetje za revidiranje d.o.o., stating that the financial statements of the Triglav Group give a true and fair view of its financial standing as at 31 December 2011, and of its profit and cash flow for the year then ended, in accordance with International Financial Reporting Standards as adopted by the EU.

Based on its findings, the Supervisory Board hereby approves the audited Annual Report of Zavarovalnica Triglav for the Year Ended 31 December 2011 and the audited Annual Report of the Triglav Group for the Year Ended 31 December 2011.

2.8 Proposed distribution of accumulated profits

The Supervisory Board also studied the proposal for the distribution of accumulated profits as at 31 December 2011, subject to final approval by the General Meeting of Shareholders of Zavarovalnica Triglav, and gave its full consent to the following resolution on the distribution of accumulated profits proposed by the Management Board:

«Accumulated profits as at 31 December 2011 totalled EUR 93,322,070.68 and shall be distributed as follows:

- an amount of EUR 12,504,331.40 shall be paid out as dividend. Gross dividend per share of EUR 0.55 shall be paid to shareholders in the Shareholders Register for at least two days following the General Meeting of Shareholders. Dividends shall be paid out within 30 days of the day this resolution is passed;
- the distribution of the remaining amount of EUR 80,817,739.28 of profits shall be decided in the following years.»

The Supervisory Board hereby proposes to the General Meeting of Shareholders that it give a discharge to the Management Board for its operations in 2011.



Anton Ribnikar
Chairman of the Supervisory Board

In Ljubljana, 7 May 2012