

3 Report of the Supervisory Board

- Report of the Supervisory Board of Zavarovalnica Triglav d.d. on the Verification of the Annual Report of the Triglav Group and Zavarovalnica Triglav d.d. for 2016 and
- Opinion of the Supervisory Board on the Annual Internal Audit Report by the Internal Audit Department of Zavarovalnica Triglav d.d. for 2016

The Supervisory Board of Zavarovalnica Triglav in 2016 responsibly supervised the operations of Zavarovalnica Triglav d.d. and the Triglav Group. It regularly discussed the various aspects of their business and on that basis adopted appropriate resolutions and followed up their implementation. Special attention was paid to the transition of operations of Zavarovalnica Triglav d.d. and the Triglav Group to the new Solvency II governance system, which came into effect in 2016 and drafting the Triglav Group Strategy for the 2017–2020 period. Individual issues were first discussed within the framework of the Supervisory Board's committees and on the basis of their findings and careful assessment the Supervisory Board passed appropriate resolutions. The Supervisory Board performed its work within the scope of its powers and competences set out by law, the Articles of Association and its own Rules of Procedure.

3.1 Introduction

Pursuant to Article 282 of the Companies Act and the Article 69 (1) of the Insurance Act, the Supervisory Board hereby presents its Report on the Verification of the Annual Report of the Triglav Group and Zavarovalnica Triglav d.d. for 2016 (hereinafter: the Report) and its Opinion on the Annual Internal Audit Report for 2016.

The findings are based on the supervision of the operations of Zavarovalnica Triglav d.d. (hereinafter: the Company, the controlling company or the parent company) in 2016 and on the verification of the Audited Annual Report of the Triglav Group and Zavarovalnica Triglav d.d. for 2016,

which includes the reports by the chief actuarial officers for non-life and life insurance categories for 2016.

The Opinion of the Supervisory Board on the work of the Internal Audit Department in 2016 and the Annual Internal Audit Report by the Internal Audit Department of Zavarovalnica Triglav are also integral parts of the Report.

3.2 General Information

Supervisory Board in 2016

In 2016, the Supervisory Board was made up of:

- the Supervisory Board members – the shareholder representatives:
 - Matej Runjak (member and Chairman until 31 May 2016 when due to resignation his term office was terminated), Igor Stebernak (member since 2 June 2016, Chairman since 18 August 2016), Gregor Kastelic (Vice Chairman), Mario Gobbo, Dubravko Štimac, Rajko Stanković and Matija Blažič;
- Supervisory Board members – the employee representatives:
 - Boštjan Molan, Peter Celar and Ivan Sotošek.

In 2016, the Supervisory Board held nine sessions and had four committees: the Audit Committee, the Appointments and Compensation Committee, the Strategy Committee and the Nominations Committee.

The Audit Committee

The members of the Audit Committee were as follows in 2016: Mario Gobbo (Chairman), Rajko Stanković, Ivan Sotošek and Barbara Nose (independent expert). The committee held eleven meetings. Since 21 April 2016, the Audit Committee in the area of IT auditing used the professional assistance provided by the outsourced expert Jure Vehovec.

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

- monitored and discussed financial reporting procedures, the functioning of internal controls, the Internal Audit Department's reports, recommendations and annual work programme, including the procedure for selecting an outsourced quality auditor of the Department, risk management systems and external audits of annual non-consolidated and consolidated financial statements;
- carried out the procedure for selecting a mandatory external auditor of the parent company, its subsidiaries and the Triglav Group, proposed to the Supervisory Board the appointment of an auditor of the Company's Annual Report for 2016, 2017 and 2018 and discussed the audit agreement with the certified auditor for 2016, 2017 and 2018;
- monitored the contracting of audit firms, the type and scope of non-auditing services provided by audit firms and the independence of the certified auditor; approved the Policy of Monitoring the Contracting of Statutory Auditors of the Triglav Group Aimed at Providing Their Independence;
- assessed the compilation of the Annual Report of the Triglav Group and Zavarovalnica Triglav d.d. for 2015;
- discussed the annual report of the Compliance Office for 2015 and its annual plan for 2017;
- discussed reports on risks, the up-to-date state of entries in the Land Register and the Real Property Register of the Triglav Group, investments, progress of major development and IT projects.

The Audit Committee conducted a performance self-assessment with the aim of ensuring continued improvement and quality of its work.

Appointments and Compensation Committee

In 2016, the members of the Appointments and Compensation Committee were as follows: Matej Runjak (member and Chairman until 31 May 2016), Igor Stebernak (member and Chairman from 18 August 2016) and Dubravko Štimac and Boštjan Molan its members. The Committee held nine meetings in 2016.

In accordance with its duties and competences set out in the Rules of Procedure of the Supervisory Board, the Policy on Professional Competence and Adequacy of Management and Supervisory Board Members of Zavarovalnica Triglav d.d., and in the Supervisory Board's resolutions:

- drafted assessment proposals on Professional Competence and Adequacy of Management and Supervisory Board Members of Zavarovalnica Triglav d.d. and the two bodies as a whole;
- discussed the proposal to appoint a Management Board member – employee representative;
- discussed the report on the development of Key Promising Staff in Zavarovalnica Triglav d.d.; and
- discussed the employment agreements of Management Board members and the methodology for calculation of the Triglav Group's performance factor and the calculated factor, on which the performance-related remuneration of the Management Board depends.

Strategy Committee

In 2016, the members of the Strategy Committee were as follows: Gregor Kastelic (Chairman), Mario Gobbo and Peter Celar. The Committee held one meeting in 2016.

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 primarily include monitoring the implementation of the Triglav Group Strategy, its formulation and any related opinions, drafting of resolutions for the Supervisory Board and ensuring their implementation. The Strategy Committee in particular focused on formulating the Triglav Group Strategy for the 2017–2020 period.

Nominations Committee

The Nominations Committee is an ad-hoc committee of the Supervisory Board, established to carry out a nomination procedure for members of the Supervisory Board – shareholder representatives. The Committee sets the selection criteria unless the Supervisory Board decides otherwise. It makes a list of the candidates for Supervisory Board members and asks the Appointments and Compensation Committee to draw up an assessment of their professional competence and adequacy. The Nominations Committee then submits to the Supervisory Board a nomination proposal for one or several candidates for members of the Supervisory Board, shareholder representatives, including a draft assessment of candidates for Supervisory Board members, shareholder representatives.

Due to the resignation of Matej Runjak, a Member and Chairman of the Supervisory Board, on 10 March 2016 the Supervisory Board established the Nominations Committee to carry out the nomination procedure for a Supervisory Board member – shareholder representative until 31 May 2016 and had the following composition: Gregor Kastelic, Chairman, Matej Runjak, Peter Celar its members and Mitja Svoljšak as external member. The Committee held three sessions. The Nominations Committee was established by the Supervisory Board also on 18 November 2016, as the four-year term of office of five Supervisory Board members – shareholder representatives will expire on 12 June 2017. The Nominations Committee was established for the period until their appointment but not later than 12 June 2017. Pursuant to a relevant resolution of the Supervisory Board candidates have to meet statutory requirements for serving on supervisory boards as members as well as the criteria set out in the Policy on Professional Competence and Adequacy of Management and Supervisory Board Members of Zavarovalnica Triglav d.d. The statutory selection criteria include the range of skills and experience as well as other circumstances such as gender, age and education. Along the education, personal competence and motivation, professional and strategic competences are of key importance. The Chairman of the Committee was Igor Stebernak and members were Gregor Kastelic, Peter Celar, Mitja Svoljšak and Milena Pervanje, the latter two external members. The Committee met three times in 2016.

3.3 Operations of the Supervisory Board and the Scope of Supervision over the Company's Governance in 2016

The description of the Supervisory Board's operations and the scope of monitoring and supervision over the governance of the Company and the Triglav Group in 2016 are based on the supervision of the Company's and the Group's operations performed by the Supervisory Board in 2016, acting within its powers.

The Supervisory Board's duty is to supervise how the Company conducts its business and to perform other tasks in accordance with the Companies Act, the Insurance Act, the Articles of Association, the Rules of Procedure of the Supervisory Board and the Corporate Governance Code. The methods and organisation of its work are set out by the Rules of Procedure of the Supervisory Board, which are published on the Company's website.

a) With regard to its core competences, in 2016 the Supervisory Board:

- adopted the Strategy of the Triglav Group for the 2017–2020 period;
- adopted the Business policy and the business plan of the Triglav Group for 2017;
- adopted the Audited Annual Report of the Triglav Group and Zavarovalnica Triglav d.d. for 2015, the Report by the Supervisory Board of Zavarovalnica Triglav d.d. on the Verification of the Annual Report of Zavarovalnica Triglav d.d. and the Triglav Group and Zavarovalnica Triglav d.d. for 2015 and the Opinion of the Supervisory Board of Zavarovalnica Triglav d.d. on the Annual Internal Audit Report for 2015 by the Internal Audit Department of Zavarovalnica Triglav d.d.;
- approved the Internal Audit Department's work plan for 2017 and the guidelines of the Internal Audit Department for the 2017–2019 period;
- discussed the Annual Internal Audit Report of the Internal Audit Department for 2015;

- proposed to the General Meeting of Shareholders of Zavarovalnica Triglav d.d. the external auditor for 2016, 2017, 2018; the granting of a discharge to the Management Board for its work in 2015 and the appointment of a new Supervisory Board member. It approved the resolution of the General Meeting of Shareholders on the distribution of accumulated profits as at 31 December 2015; approved the amendments to the Articles of Association and approved the amount of remuneration payable to Supervisory Board members;
 - reappointed Marica Makoter as Management Board member – employee representative for a new five-year term;
 - considered the findings of the Insurance Supervision Agency, Tax Authority and other supervisory bodies involved in supervision procedures as well as followed up procedures that resulted from the findings and requirements of the above stated;
 - adopted the amendments to the Management Board Rules; and
 - approved the amendments to the governance system and policy of Zavarovalnica Triglav d.d. as well as to the internal documents of the Company related to internal auditing, risk management and compliance.
- b) With regard to the supervision of the Company's conduct of business in 2016, the Supervisory Board:**
- was briefed on and approved reports on the performance of Zavarovalnica Triglav d.d., the Triglav Group and the subsidiaries of Zavarovalnica Triglav d.d.;
 - was briefed on the implementation of the Strategy of the Triglav Group;
 - was briefed on the assessed performance indicators of the Company in each period;
 - was briefed on reports on risks, capital adequacy, the matching of assets and liabilities in the guarantee fund and in assets backing liabilities and assessments of the sensitivity of assets in individual funds;
 - took note of the implementation of the Solvency II project;
 - oversaw the work of the Internal Audit Department and was briefed on internal audit reports by the Internal Audit Department and the Annual Report of the Compliance Office for 2015 and its work plan for 2017;
 - was briefed on the Letter to the Management following audit of financial statements for 2015;
 - took note on the insurance products;
 - was briefed on the report on the operations of the Marketing Department and the reports on key activities and projects of the Corporate Communication Department;
 - was briefed on the self-assessment of Zavarovalnica Triglav d.d. under the EFQM model;
 - discussed the reports of the Audit Committee, the Appointments and Compensation Committee and the Strategy Committee and the Nominations Committee;
 - was briefed on other information regarding Zavarovalnica Triglav d.d., the Triglav Group and its subsidiaries.
- c) Other major actions, requirements, recommendations and warnings of the Supervisory Board in 2016:**
- approved the assessments of the professional competence and adequacy of candidates for the Management and Supervisory Board and the two bodies as a whole;
 - approved the Capital Management Policy of Zavarovalnica Triglav d.d. and the Triglav Group, and the Risk Assumption and Management Policy of Zavarovalnica Triglav d.d. and the Triglav Group;
 - discussed and approved the proposals of the Appointments and Compensation Committee with regard to employment agreements of Management Board members;
 - discussed approved modifications concerning a recommended reform of the system for anonymous complaints and fraud detection;
 - took note of the activities for creating a special-purpose vehicle for managing alternative investments;

- upon the initiative of the Audit Committee approved to include an outsourced expert to assist the Audit Committee in IT audits;
- performed other activities related to the supervision or work of the Supervisory Board or its committees.

Operating costs of the Supervisory Board other than the remuneration paid to its members and committees (disclosed in the section Management and supervisory bodies and their remuneration in the Annual Report for 2016) mostly included the costs of translation of material for Supervisory Board's and committees sessions, costs of interpreting at sessions and the rental costs of interpretation equipment, costs of training of Supervisory Board's and committees members and outsourced IT services for the Audit Committee. In 2016, these costs amounted to EUR 95 thousand.

3.4 Performance Self-Assessment

The Supervisory Board's Committees drafted resolutions to be adopted by the Supervisory Board, followed up their implementation and carried out other tasks. The committee chairmen regularly reported on their work at sessions of the Supervisory Board, which discussed the adopted decisions, submitted recommendations and opinions and passed appropriate resolutions after due consideration.

All members were involved in the Supervisory Board's work. With their attendance at sessions and active participation in discussions and decision-making, they contributed to the effective discharge of the Supervisory Board's duties. The work of the Supervisory Board is well managed and supported, whilst the frequency of its sessions is adequate. The Rules of Procedure of the Supervisory Board include the rules regulating potential conflicts of interest. The Supervisory Board amended these rules by incorporating the relevant provisions of the Rules of Zavarovalnica Triglav d.d. on managing conflict of interest pertaining to the Supervisory Board and its members. The members of the Supervisory Board signed and submitted statements of independence and loyalty in accordance with the Corporate Governance Code, which the Company published on its website. To avoid conflicts of interest, already in 2009 the Supervisory Board adopted the recommendation that its members not sit on the supervisory and management

boards of other companies in the Triglav Group.

The Supervisory Board is of the opinion that its cooperation with the Management Board was adequate, in accordance with the applicable legislation and good practice. To its best knowledge, the Supervisory Board was informed of all events of material significance to the assessment of the situation and its consequences, and to the supervision of the Company's operations. Documents provided as material for Supervisory Board's session are of good quality. The Supervisory Board regularly followed the implementation of its resolutions. The Governance System and Policy of Zavarovalnica Triglav d.d. sets out the main corporate governance guidelines, taking into account the set long-term objectives and the defined role and functioning of the Supervisory Board and its committees.

In 2016, the professional competence and adequacy criteria set out in the Policy on Professional Competence and Adequacy of Management and Supervisory Board Members of Zavarovalnica Triglav d.d. started to apply to both the Supervisory Board as a collective body and to its members as individuals. Professional competence and adequacy are assessed before the appointment, periodically, extraordinarily or after the appointment of any individual member. The Supervisory Board as a collective body was assessed as professionally competent and adequate, taking into account the range of qualifications, skills and experience in view of the circumstance in which the Company operates.

The Supervisory Board implemented the action plan adopted in 2015 for the improvement of its performance based on the self-assessment of its work, as well as performed a self-assessment for 2016 with the help of an external contractor. Based on the findings of the self-assessment, it adopted an action plan containing a series of proposals and measures aimed at improving its future performance. The implementation of the action plan is monitored regularly.

The Supervisory Board is of the opinion that its composition in 2016 was proportionate to the Company's size, business activities and set objectives and that an appropriate level of independence or dependence of its members in the sense of the Corporate Governance Code is ensured, which allowed the Supervisory Board to make quality decisions.

In view of the above, the Supervisory Board is of the opinion that its work and the work of its committees in 2016 were successful.

3.5 Opinion of the Annual Internal Audit Report for 2016

In accordance with the third paragraph of Article 165 of the Insurance Act (ZZavar-1), the Annual Internal Audit Report of the Internal Audit Department of Zavarovalnica Triglav d.d. for 2016 was submitted to the Supervisory Board, containing a report on the implementation of the Internal Audit Department's Annual Plan (Programme) and a summary of material audit findings, including an assessment of the adequacy and effectiveness of internal control and risk management systems in audited areas, an assessment of the adequacy of the Internal Audit Department's funding and the statement of independence and impartiality of the Internal Audit Department and its employees and an assessment of its compliance with International Standards for the Professional Practice of Internal Auditing, submitted by the independent outsourced auditor.

On its session on 4 April 2017, the Supervisory Board took note of the Annual Internal Audit Report of the Internal Audit Department of Zavarovalnica Triglav d.d. for 2016. Based on the submitted Annual Internal Audit Report and on monitoring the work of the Internal Audit Department, the Supervisory Board finds that the Internal Audit Department performed its duties in accordance with the Annual Work Programme for 2016, adopted by the Management Board and approved by the Supervisory Board in accordance with its expectations. In 2016, the Internal Audit Department performed planned internal audits in the Company and other companies of the Triglav Group and other internal audit activities (informal consultations; follow-up of the implementation of recommendations given by internal and external auditors; reporting to the Management Board, the Supervisory Board and the Audit Committee; quality assurance and improvements in the Internal Audit Department; etc.). The Internal Audit Department presented its internal audit findings to the relevant persons in charge and made recommendations for improving the internal control and risk management systems. The Internal Audit Department reported on the implementation of its work programme, material audit findings and the implementation of recommendations on a

quarterly basis to the Audit Committee and on a semi-annual basis to the Supervisory Board.

In 2016, the Internal Audit Department continued with quality assurance and improvement activities related to its own functioning and that of the internal audit departments of the Triglav Group's subsidiaries. Within this framework, the Internal Audit Department produced a metrics of strategic operations of the Audit Department for the 2017–2020 period, continued with the further development of internal audit working methods used in the Triglav Group, provided professional training for its own employees, performed an internal quality assessment of its performance and provided assistance to internal audit departments of other Triglav Group companies when they performed internal quality assessments and had an independent outsourced auditor carry out an external quality assessment of the Department. The Supervisory Board expects the Internal Audit Department to continue with such activities in the future, with the aim of continually improving the quality of its work in both the Company and the Triglav Group.

In view of the above, the Supervisory Board is of the opinion that the Internal Audit Department operated in line with its Annual Work Programme for 2016 and that its work made an important contribution to the better functioning of the internal control system and improved risk management at both the Company and the Group level. The Supervisory Board has no objection to the Annual Internal Audit Report of the Internal Audit Department of Zavarovalnica Triglav d.d. for 2016.

3.6 Findings of the Supervisory Board Regarding the Operations of Zavarovalnica Triglav d.d. in 2016

On the basis of its monitoring and supervision of the Company's performance in 2016 and its examination and verification of the Annual Report of the Triglav Group and Zavarovalnica Triglav d.d. for 2016, the Supervisory Board hereby establishes that the Company performed well and firmly adhered to its strategic objectives.

The Triglav Group generated a net profit of EUR 82.3 million and recorded a return on equity of 11.4%. The parent company's net profit amounted to EUR 75.3 million. The main factor in good performance was the absence of mass loss events and the good results in the core insurance business, as indicated by the favourable combined ratios of 92.2% for the Triglav Group and 87.9% for the parent company, whereas the unfavourable situation in financial markets had a negative impact on the performance.

Insurance subsidiaries of the Triglav Group generated insurance and co-insurance premiums of EUR 936.0 million in 2016 (index 102), of which EUR 593.1 million (index 101), was earned by the parent company. Premium growth was recorded on all insurance markets, where the Group operates.

The Triglav Group recorded gross claims paid of EUR 606.0 million in 2016, which was 2% more than in 2015. Gross claims paid by the parent company amounted to EUR 391.2 million (index 100).

Total consolidated gross operating expenses of the Triglav Group decreased by 7% to EUR 277.1 million nominally, while those of the parent company grew by 2% to EUR 164.5 million.

The Triglav Group further strengthened its capital position in 2016. The Group's total equity capital amounted to EUR 744.3 million as at the 2016 year-end and was 6% higher than the year before.

The Triglav Group maintained its strong financial stability, high capital adequacy and high profitability, as confirmed by the two rating agencies S&P Global Ratings in A.M. Best, which upgraded the Group's rating from "A-" to "A" in 2016. Both ratings have a stable medium-term outlook.

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

- report from a chartered actuary for the non-life insurance category for 2016;
- report from a chartered actuary for the life insurance category for 2016;
- the Annual Internal Audit Report of the Internal Audit Department for 2016.

The Supervisory Board has no objection to the aforementioned reports.

3.7 Annual Report

On 14 March 2017, the Management Board submitted the audited Annual Report of the Triglav Group and Zavarovalnica Triglav d.d. for 2016 (hereinafter: the Annual Report) to the Supervisory Board.

The Supervisory Board hereby ascertains that the Annual Report was compiled within the legally prescribed period and submitted to the appointed auditor. The Annual Report of the Triglav Group and Zavarovalnica Triglav d.d. for 2016 was audited by the audit firm Ernst & Young Revizija, poslovno svetovanje d.o.o., Ljubljana, which on 14 March 2017 issued a positive opinion on the stand-alone and consolidated financial statements of the Annual Report of the Triglav Group and Zavarovalnica Triglav d.d. for 2016. In their report as an independent auditor they took stance on key audit issues regarding insurance technical provisions and expressed their opinion on other information contained in the Annual Report as to their consistency with the stand-alone and consolidated financial statements and their compliance with the primary and secondary legislation in force.

The certified auditor who signed the Annual Report attended the session of the Supervisory Board and the Audit Committee during the items when the Annual Report was discussed and provided the required additional explanations to the Audit Committee and the Supervisory Board. The Audit Committee discussed the Report after the preliminary audit, the annual audit and the Letter to the Management after the audit, which was also discussed by the Supervisory Board.

On the basis of a detailed verification, the Supervisory Board established that the Annual Report of the Triglav Group and Zavarovalnica Triglav d.d. for 2016, which was prepared by the Management Board and verified by a certified auditor, was compiled in a clear and transparent manner and that it was a true and fair view of the assets, liabilities, financial position and profit or loss of the Triglav Group and Zavarovalnica Triglav d.d.

In accordance with the aforementioned findings, the Supervisory Board expresses no objection to the positive opinion of the certified audit firm Ernst & Young Revizija, poslovno svetovanje d.o.o., Ljubljana, which found that in all material

respects, the consolidated and stand-alone financial statements presented a true and fair view of the financial position of the Triglav Group and Zavarovalnica Triglav d.d. as at 31 December 2016, their profit or loss, comprehensive income and cash flows for the year then ended, in accordance with the International Financial Reporting Standards as approved by the EU.

In view of the above, the Supervisory Board hereby approves the Audited Annual Report of the Triglav Group and Zavarovalnica Triglav d.d. for the Year Ended 31 December 2016.

3.8 Proposal for the Distribution of Accumulated Profits

The Supervisory Board examined the Management Board's proposal for the distribution of accumulated profits as at 31 December 2016, subject to a final decision by the General Meeting of Shareholders of Zavarovalnica Triglav d.d., and approved the following draft resolution on the distribution of accumulated profits proposed by the Management Board to the General Meeting of Shareholders:

"The accumulated profits, which amounted to EUR 82,421,880.73 as at 31 December 2016, shall be distributed as follows:

- a part of the accumulated profits in the amount EUR 56,837,870.00 shall be allocated for dividend payments. The gross dividend per share of EUR 2.50 shall be paid to the shareholders entered in the Shareholders' Register as at 15 June 2017. The dividends shall be paid on 16 June 2017;
- the distribution of the remaining accumulated profits of 25,584,010.73 EUR shall be decided on in subsequent years."

The Supervisory Board hereby proposes to the General Meeting of Shareholders to grant a discharge to the Management Board for its work in 2016.



Igor Stebernak,
Chairman of the Supervisory Board

Ljubljana, 4 April 2017