

### 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 2017

and

Opinion of the Supervisory Board of Zavarovalnica Triglav d.d. on the Annual Internal Audit Report by the Internal Audit Department of Zavarovalnica Triglav d.d. for 2017

In 2017, the Supervisory Board of Zavarovalnica Triglav responsibly supervised the operations of Zavarovalnica Triglav d.d. and the Triglav Group. It discussed the various aspects of their business and development, and on that basis adopted appropriate resolutions and followed up their implementation. Individual issues were first discussed within the framework of the Supervisory Board's committees. On the basis of their findings and proposals and careful assessment, the Supervisory Board passed appropriate resolutions. In 2017, most Supervisory Board members began a new term of office, but appropriate continuity of the membership and the induction of new Supervisory Board members enabled fast and quality performance of duties even in the Supervisory Board's changed composition.

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 Article 69 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 2017 (hereinafter: the Report) and its Opinion on the Annual Internal Audit Report for 2017.

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 2017 and on the verification of the Audited Annual Report of the Triglav Group and Zavarovalnica Triglav d.d. for 2017 (hereinafter: Annual Report), which includes the reports by the chief actuarial officers for non-life and life insurance categories for 2017.

The Opinion of the Supervisory Board on the work of the Internal Audit Department in 2017 and the Annual Internal Audit Report by the Internal Audit Department of Zavarovalnica Triglav d.d. for 2017 are also integral parts of the Report.

#### 3.2 General Information

##### The Supervisory Board and its committees in 2017

The composition of the Supervisory Board in 2017 is described in [→ *Section 5. Corporate Governance Statement (Supervisory Board in 2017)*] in the business report of the Annual Report. In 2017, the Supervisory Board held nine sessions and had four committees: the Audit Committee, the Appointment and Remuneration

Committee, the Strategy Committee and the Nomination Committee. The composition of the Supervisory Board committees in 2017 as well as the significant duties and competences of individual committees are described in [→ *Section 5. Corporate Governance Statement (Composition of Supervisory Board committees and their activities in 2017)*] in the business report of the Annual Report.

##### The Audit Committee

In 2017, the Audit Committee held nine meetings, at which it, among others:

- monitored and discussed financial reporting procedures and the external audit of the annual financial statements of the Triglav Group and Zavarovalnica Triglav;
- assessed the compilation of the Annual Report of the Triglav Group and Zavarovalnica Triglav d.d. for 2016;
- monitored and discussed the risk management systems, the functioning of internal controls, the Internal Audit Department's reports, recommendations, annual work plan for 2018 and guidelines for the 2019–2021 period, including the external quality assessment of the IAD. Furthermore, it discussed the amendments to the Zavarovalnica Triglav d.d.'s Internal Auditing Policy, the appointment of the Director of the Internal Audit Department and the policy of its remuneration;
- supervised and discussed the conclusion of agreements with audit firms and the independence of the certified auditor; approved the amendments to the Policy on the Supervision of Agreements Concluded with Audit Firms and
- discussed the annual report of the Compliance Office for 2016, risk reports, investments, the state of entries in the Land Register for the real property owned by the Triglav Group, the progress of individual IT development projects and submitted a proposal to the Supervisory Board regarding the appointment of a committee member – an independent accounting and audit expert.

The external expert Jure Vehovec provided his expertise and support to the work of the Audit Committee in relation to information technology issues. The Audit Committee conducted a performance self-assessment with the aim of ensuring continued improvement and quality of its work and adopted an action plan for the improvement of its performance.

##### Appointment and Remuneration Committee

The key activities of the Appointment and Remuneration Committee in 2017 included:

- drafting of assessment proposals or fit and proper assessments of the members or candidates for the members of the Management and Supervisory Boards and of the two bodies as a whole;
- discussion of the proposal of the President of the Management Board to appoint a Management Board member;
- discussion of the report on the development of key promising staff in Zavarovalnica Triglav d.d. in 2016, the proposal for giving the approval to the powers granted to the key function holders and the Diversity Policy;
- discussion of the methodology for the calculation of the performance factor and the factor on which the variable part of remuneration of the Management Board members depends.

The Committee held ten meetings in 2017.

#### Strategy Committee

The Strategy Commission, which held one meeting in 2017, devoted special attention to the realisation of strategic projects and starting points for the development of the business plan of the Triglav Group for 2018.

#### Nomination Committee

Since the four-year term of office of five Supervisory Board members, shareholder representatives, expired on 12 June 2017, on 18 November 2016 the Supervisory Board established a Supervisory Board Nomination Committee. The Committee held three meetings in 2016 and seven meetings in 2017, at which it carried out the required selection procedures for Supervisory Board member candidates and submitted a nomination proposal to the Supervisory Board. In addition to the statutory conditions and criteria set out in the Policy on Professional Competence and Adequacy of Management and Supervisory Board Members of Zavarovalnica Triglav d.d., recommendations arising from good practices were taken into account in drawing up a nomination proposal. The diversity of the candidates was taken into account in such a manner that all selected candidates collectively possess the relevant knowledge and experience relating to insurance and financial markets, the business strategy and business models, governance systems, financial and actuarial analyses, risk management, and the regulatory and legal environment in which Zavarovalnica Triglav operates. Diversity in terms of gender, age, education and internationality was also taken into account.

### 3.3 Operations of the Supervisory Board and the Scope of Supervision over the Company's Governance in 2017

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 2017 are based on the supervision of the Company's and the Group's operations performed by the Supervisory Board in 2017, 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 Slovene 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 2017 the Supervisory Board:

- adopted the Audited Annual Report of the Triglav Group and Zavarovalnica Triglav d.d. for 2016, the Report by 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 the Opinion of the Supervisory Board of Zavarovalnica Triglav d.d. on the Annual Internal Audit Report for 2016 by the Internal Audit Department of Zavarovalnica Triglav d.d.;
- adopted the business policy and the business plan of the Triglav Group for 2018;
- approved the Solvency and Financial Condition Report of Zavarovalnica Triglav and the Triglav Group as at 31 December 2016;
- discussed the Annual Internal Audit Report of the Internal Audit Department for 2016;
- approved the Internal Audit Department's work plan for 2018 and the guidelines of the Internal Audit Department for the 2019–2021 period;
- proposed to the General Meeting of Shareholders of Zavarovalnica Triglav d.d. to grant a discharge to the Management Board for its work in 2016 and to appoint five new Supervisory Board members. It approved the resolution of the General Meeting of Shareholders on the distribution of accumulated profits as at 31 December 2016;
- appointed Barbara Smolnikar as a Management Board member for a 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 risk management, capital management, outsourcing, internal auditing, and compliance.

**b) With regard to the supervision of the Company's conduct of business, in 2017 the Supervisory Board:**

- was briefed on the 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 Triglav Group Strategy;
- was briefed on the assessed performance indicators of the Company in each period, the implementation of the business plan and any measures taken;
- took note of the reports on risks and capital adequacy;
- oversaw the work of the Internal Audit Department and was briefed on the internal audit reports by the Internal Audit Department and the Annual Report of the Compliance Office for 2016;
- was briefed on the Letter to the Management following the audit of financial statements for 2016;
- took note of the Report of the Life Insurance Actuarial Function Holder in Zavarovalnica Triglav d.d. and the Report of the Non-Life Insurance Actuarial Function Holder in Zavarovalnica Triglav d.d.;
- was briefed on insurance products;
- took note of the report on the work of the Marketing Department and the report on key activities and projects of the Corporate Communications Department;
- was briefed on the self-assessment of Zavarovalnica Triglav d.d. under the EFQM model;
- discussed the reports of the Audit Committee, the Appointment and Remuneration Committee, the Strategy Committee and the Nomination Committee;
- was briefed on other information regarding Zavarovalnica Triglav d.d., the Triglav Group and its subsidiaries.

**c) Other major actions of the Supervisory Board in 2017:**

- The Supervisory Board approved the fit and proper assessments of the candidates for the Management and Supervisory Board members and of the two bodies as a whole.

- The Supervisory Board adopted the Diversity Policy.
- The Supervisory Board discussed and approved the proposals of the Appointment and Remuneration Committee with regard to employment agreements of Management Board members.
- The Supervisory Board approved the establishment of a special purpose entity for the management of alternative investments and the acquisition or sale of equity stakes of Zavarovalnica Triglav d.d., when the approval of the Supervisory Board for the decisions of the Management Board is required in accordance with the Rules of Procedure of the Supervisory Board.
- The Supervisory Board approved the powers granted to the key function holders, the appointment of the Director of the Internal Audit Department and the policy of its remuneration as well as, based on the proposal of the Audit Committee, appointed Simon Kolenc, an independent accounting and audit expert, an Audit Committee member.
- The Supervisory Board 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 5.5 Management and Supervisory Bodies and their Remuneration in the Accounting report of the Annual Report*] and in [→ *Section 5.3.3.2 The Supervisory Board in 2017 in the business report of the Annual Report*]), mostly included the costs of translation of material for Supervisory Board's sessions and the meetings of its committees, the costs of interpreting at sessions and the rental costs of interpretation equipment, training costs of the members of the Supervisory Board and its committees, and the outsourced IT services for the Audit Committee. In 2017, these costs amounted to EUR 108 thousand.

### 3.4 Performance Self-Assessment

The Supervisory Board's committees drafted resolutions to be adopted by the Supervisory Board and carried out other tasks within the scope of their powers. The committee chairs regularly reported on their work at the 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 in accordance with the Slovene Corporate Governance Code, which the Company published on its website. All members of the Supervisory Board and the external member of the Audit Committee (an independent accounting and audit expert) are independent. In the event of a conflict of interest, which in 2017 was identified in relation to two members of the Supervisory Board in separate matters and was not relevant, both members took the necessary action, made an appropriate disclosure, excluded themselves from the discussion and abstained from the vote on the matter in which they might be affected by the conflict of interest.

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. The documents provided as material for the Supervisory Board's sessions are of good quality and information is accurate, relevant, reliable, comparable and exhaustive. 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.

The fit and proper criteria as set out in the Policy on Professional Competence and Adequacy of Management and Supervisory Board Members of Zavarovalnica Triglav d.d. apply to both the Supervisory Board as a collective body and to its members as individuals. The fit and proper assessment is made by the Supervisory Board or the Appointment and Remuneration Committee before the appointment, periodically, extraordinarily or after the appointment of an individual Supervisory Board member. The Supervisory Board as a collective body was assessed as fit and proper, taking into account the adequate range of qualifications, skills and experience in view of the circumstances and requirements under which the Company operates.

The Supervisory Board regularly carries out the self-assessment procedure. Based on the findings of the self-assessment, it adopts an action plan containing a series of proposals and measures aimed at improving its future performance. The implementation of the action plan is monitored on an ongoing basis. By implementing the self-assessment procedures, the quality of work of the Supervisory Board is improved, which is reflected in a higher quality of supervision of the operations and the areas material for the Company and the Group.

The Supervisory Board is of the opinion that its composition in 2017 was proportionate to the size, business activities and set objectives of the Company and the Triglav Group, 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 2017 were successful.**

### 3.5 Opinion on the Annual Internal Audit Report for 2017

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 2017 was submitted to the Supervisory Board, which took note of it at its session on 29 March 2018. The report contains an overview of the implementation of the Internal Audit Department's planned activities in 2017 and a summary of material audit findings, including an assessment of the adequacy and effectiveness of the internal control and risk management systems in the audited areas, the 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.

The Internal Audit Department conducted the planned internal audits in the Company and other companies of the Triglav Group and presented its internal audit findings to the relevant persons in charge and made recommendations for improving the internal control and risk management systems. On the basis of the performed internal audits and the follow-up of implementation of the recommendations, the Internal Audit Department assessed that risk management and the internal control system of the audited areas within the Company and at the Group level were overall appropriate and were constantly improving. The Internal Audit Department also engaged in advisory activities, followed up on the implementation of recommendations made by external auditors, and carried out tasks related to quality assurance and improvement of the Internal Audit Department and the internal audit departments of other Group members. The Internal Audit Department reported on the implementation of its work plan, 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.

**On the basis of the submitted Annual Internal Audit Report of the Internal Audit Department of Zavarovalnica Triglav d.d. for 2017 and the monitoring of the work of the Internal Audit Department in 2017, the Supervisory Board is of the opinion that the Internal Audit Department operated in line with its work plan**

for 2017, which was adopted by the Management Board with the approval of the Supervisory Board, and the expectations of the Supervisory Board and that its work contributed 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 2017.

### 3.6 Findings of the Supervisory Board Regarding the Operations of Zavarovalnica Triglav d.d. in 2017

On the basis of its monitoring and supervision of the Company's performance in 2017 and its examination and verification of the Annual Report of the Triglav Group and Zavarovalnica Triglav d.d. for 2017, the Supervisory Board hereby establishes that the Company performed well and firmly adhered to its strategic objectives.

Insurance subsidiaries of the Triglav Group generated insurance, co-insurance and reinsurance premiums of EUR 999.9 million in 2017 (index 107), of which EUR 622.0 million (index 105), was earned by the parent company. Premium growth was recorded in all insurance segments.

The Group generated consolidated profit before tax of EUR 84.4 million and consolidated net profit of EUR 69.7 million, thereby surpassing the planned business results. Net profit of the parent company amounted to EUR 62.5 million. Compared to the preceding year, lower profit was primarily affected by the higher claims paid and a slightly lower return on financial investments. Gross claims paid of the Triglav Group totalled EUR 642.2 million, which was 6% more over 2016, whilst those of the parent company amounted to EUR 411.3 million (index 105).

Total consolidated gross operating expenses of the Triglav Group decreased by 1% to EUR 274.0 million nominally, while those of the parent company grew by 2% to EUR 167.7 million.

The Triglav Group further strengthened its capital position in 2017. The Group's total equity capital amounted to EUR 756.6 million as at the 2017 year-end, up by 2% compared to the year before. Return on equity was 9.3%.

The Triglav Group's financial stability, high capital adequacy and high profitability in 2017 were again confirmed by the two renowned rating agencies S&P Global Ratings and A.M. Best by assigning an »A« rating to the Group with a stable medium-term outlook.

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

- Report of the Non-Life Insurance Actuarial Function Holder for 2017,
- Report of the Life Insurance Actuarial Function Holder for 2017,
- Annual Internal Audit Report of the Internal Audit Department for 2017.

The Supervisory Board has no objection to the aforementioned reports.

### 3.7 Annual Report

On 9 March 2018, the Management Board submitted the Audited Annual Report of the Triglav Group and Zavarovalnica Triglav d.d. for 2017 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 2017 was audited by the audit firm Ernst & Young Revizija, poslovno svetovanje d.o.o., Ljubljana, which on 9 March 2018 issued a positive opinion on the stand-alone and consolidated financial statements in the Annual Report of the Triglav Group and Zavarovalnica Triglav d.d. for 2017. In their report as an independent auditor, they took a stance on key audit issues regarding the assessments which are the basis for the calculation of insurance technical provisions, deferred acquisition costs and the liability adequacy test (LAT) 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 applicable legislation and other regulations.

The certified 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 pre-audit and the final 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 2017, 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. The Supervisory Board is of the opinion that the Corporate Governance Statement, which is included in the Annual Report, is appropriate and has no objections to it.

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 2017, their profit or loss, comprehensive income and cash flows for the year then ended, in accordance with the International Financial Reporting Standards as endorsed 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 2017.**

### 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 2017, 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 58,085,121.96 as at 31 December 2017, shall be distributed as follows:

- a part of the accumulated profits in the amount EUR 56,837,870.00 shall be distributed 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 13 June 2018. On 14 June 2018, the Company shall ensure funds for the payment of all dividends on the account of KDD – Centralno klirinška depotna družba d.d., intended to execute the corporate action of paying out dividends to the shareholders in accordance with the common European standards for corporate actions;
- the distribution of the remaining accumulated profits of EUR 1,247,251.96 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 2017.

Ljubljana, 29 March 2018

**Igor Stebernak,**  
Chairman of the Supervisory Board