2. General information

2.1. Profile of Zavarovalnica Triglav and Triglav Group

Zavarovalnica Triglav d.d. (hereinafter: Zavarovalnica Triglav or the controlling company) is a public limited company, with its registered office at Miklošičeva 19 in Ljubljana, Slovenia. The largest interests in Zavarovalnica Triglav is held by the Institute of Pension and Disability Insurance of Slovenia (Zavod za pokojninsko in invalidsko zavarovanje Slovenije) and the Slovenian Sovereign Holding (Slovenski državni holding), which participate with 34.47% and 28.09% of the share capital, respectively.

Zavarovalnica Triglav offers a broad range of life and non-life insurance, as well as ancillary insurance and pension fund services. In accordance with the Pension and Disability Insurance Act (ZPIZ-2), the Company also provides pension insurance and other ancillary services in relation to insurance and pension funds in the framework of life insurance.

In the life insurance segment, the following funds of assets for supplemental voluntary pension insurance operated in 2019:

- the group of assets, covering technical provisions for supplemental voluntary pension insurance PDPZ (registration no. 5063345032), includes three funds through which the lifecycle investment policy is implemented. All three funds serve to implement pension schemes of group supplemental voluntary pension insurance bearing the codes PN–ZT–01/15–9, PN–ZT–03/15–9, PN–ZT–05/15–9 as well as schemes of individual supplemental voluntary pension insurance bearing the codes PN–ZT–02/15–9, PN–ZT–04/15–9, PN–ZT–06/15–9. The PDPZ group of funds comprises the following three funds of assets, covering technical provisions:
  - fund Triglav PDPZ – zajamčeni (registration number 5063345029);
  - fund Triglav PDPZ – zmerni (registration number 5063345030);
  - fund Triglav PDPZ – drzni (registration number 5063345031);
- fund of assets, covering technical provisions for supplemental voluntary pesnion insurance during the payout period of pension annuities – rent 1 (registration number 5063345028);
- fund of assets, covering technical provisions for supplemental voluntary pesnion insurance during the payout period of pension annuities – rent 2 (registration number 5063345033);
- unit-linked life insurance contracts (registration number 5063345023).

Statements of financial position and income statements for funds posted separately are shown in [→ *Section 5.13*].

The manager of the Triglav PDPZ – zmerni and Triglav PDPZ – drzni funds is Triglav Skladi d.o.o. Zavarovalnica Triglav manages the other abovementioned funds. The custodian of all PDPZ guarantee funds is Abanka d.d.

Zavarovalnica Triglav is the controlling company of the Triglav Group. The structure of the Triglav Group is presented in detail in [→ *Section 2.10*]. The Triglav Group is the leading insurance/financial group in Slovenia and the Adria region and one of the leading groups in South-East Europe. Insurance is the core business of the Group, including asset management support activities and other services.

Both separate and consolidated financial statements are prepared.

2.2. 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 2019, the Supervisory Board had the following members:

Name	SB	AC	ACC	SC	Notes
Igor Stebernak	M				since 2 June 2016
	P				since 18 August 2016
			P		since 18 August 2016 until 12 June 2017 and since 21 June 2017
Andrej Andoljšek	M				since 13 June 2017
	DP				since 21 June 2017
				M	since 21 June 2017
Milan Tomaževič	M				since 13 June 2017
				P	since 21 June 2017
Žiga Škerjanec	M				since 13 June 2017
			M		since 21 June 2017
				M	since 21 June 2017
Nataša Damjanovič	M				since 13 June 2017
		M			since 21 June 2017
			M		since 21 June 2017
Mario Gobbo	M				since 12 June 2013
		P			since 1 July 2013 until 12 June 2017 and since 21 June 2017
Peter Celar	M				since 30 May 2011
				M	since 1 July 2013 until 12 June 2017 and since 21 June 2017
Boštjan Molan	M				since 31 May 2015
					since 20 August 2015 until 12 June 2017 and since 21 June 2017
Ivan Sotošek	M				since 31 May 2015
		M			since 20 August 2015 until 12 June 2017 and since 21 June 2017
Branko Gorjan	M			M	since 1 June 2019
Igor Zupan	M	M			since 27 September 2019
Simon Kolenc		M			since 19 August 2017
Boštjan Koler*					since 19 December 2019

Legend:

SB – Supervisory Board
AC – Audit Comittee
ACC – Appointments and Compensation Committee
SC – Strategy Committee
P – President
DP – Deputy President
M – Member
*Nomination Committee member

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 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 2019, the Management Board had the following composition:

- Andrej Slapar, President,
- Uroš Ivanc, member,
- Tadej Čoroli, member,
- Barbara Smolnikar, member,
- David Benedek, member
- Marica Makoter, member.

2.3. Statement of compliance

The separate financial statements and consolidated financial statements have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union (hereinafter: IFRS), the Companies Act (hereinafter: ZGD-1) and the Insurance Act (hereinafter: ZZavar-1).

2.4. Reporting basis

The financial statements have been prepared on a going concern basis and on the historical cost basis, except in the case of financial assets recognised at fair value through profit or loss and available-for-sale financial assets measured at fair value.

The accounting policies used are consistent with those of the financial statements for the comparable period, except for lease recognition for which the new accounting standard IFRS 16 Leases is used. The details of the new standard are explained in [→ *Section 5.11*].

The methods used for measuring fair value are described in [→ *Section 2.8.11*].

The preparation of financial statements in conformity with IFRS requires the use of certain accounting estimates and assumptions that affect the reported amounts of assets and liabilities as at the reporting date and the amount of income and expenses in the reporting period. Although these estimates are based on the management's best knowledge of current events and activities, actual results may differ from these estimates. The estimates and assumptions are regularly reviewed and their corrections are recognised in the period of change. The use of estimates and assumptions is presented in more detail in [→ *Section 2.9*].

For the preparation of the statement of financial position, individual items are classified into groups of assets and liabilities depending on their nature, listed in the order of their liquidity and/or maturity. In additional disclosures current and non-current assets as well as current and non-current liabilities are posted 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 from the balance sheet date (non-current).

Financial assets and liabilities on the statement of financial position are offset only when there exists a legal right to offset the amounts, and intend to either settle them on a net basis or to settle the asset and 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 Company.

The 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.

On 10 March 2020, the Management Board approved the Annual Report, which is available at the headquarters of Zavarovalnica Triglav and on its website.

2.5. Basis for consolidation

The consolidated financial statements of the Triglav Group include all companies directly or indirectly controlled by Zavarovalnica Triglav. Zavarovalnica Triglav controls a company if and only if it has all of the following elements:

- power over the company (directs the relevant activities that significantly affect the company's returns);
- exposure, or rights, to variable returns from its involvement with the company, and
- the ability to use its power over the company to affect the amount of its returns.

Subsidiaries are included in the consolidated financial statements under the full consolidation method from the acquisition date. In the process of full consolidation, the carrying amount of the financial investment by the controlling company in each subsidiary and the parent company's portion of equity of each subsidiary are offset (eliminated). Intragroup assets and liabilities as well as income and expenses relating to transactions between the entities of the Triglav Group are eliminated in full.

In case Zavarovalnica Triglav disposes of a subsidiary or loses control over it, such a subsidiary is deconsolidated from the date on which control ceases. All effects from the loss of control are recognised as profit or loss in the consolidated income statement.

The financial statements of Zavarovalnica Triglav and its subsidiaries used in the preparation of the consolidated financial statements all refer to the same reporting date.

All companies within the Triglav Group apply uniform accounting policies. If the accounting policies of a particular subsidiary differ from the accounting policies applied by the Group, appropriate adjustments are made to the financial statements of such subsidiary prior to the compilation of the consolidated financial statements to ensure compliance with the accounting policies of the Group.

In the consolidated financial statements, profit/loss and other comprehensive income are proportionately attributed also to non-controlling interests. If the equity stake of non-controlling interests changes, the carrying amounts of the controlling and non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiary. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received are recognised directly in equity and attributed to the owners of the parent company.

2.6. Foreign currency translation

Functional and presentation currency

Items included in the separate financial statements of each of the Group entities are measured using the currency of the primary economic environment in which the respective entity operates (functional currency). The financial statements are presented in euros, which is the presentation currency of the Group. In the financial statements, the amounts and disclosures are rounded to one euro.

Translation of business events and items

Transactions in foreign currencies are translated into the functional currency at the related exchange rate from the reference exchange rates of the European Central Bank, published by the Bank of Slovenia. Exchange-rate differences arising from the settlement of these transactions or from the translation of cash items are recognised in the Profit and Loss Account.

Foreign exchange differences arising from changes in the amortised cost of monetary items, denominated in foreign currency and classified as available-for-sale financial assets, are recognised in the income statement. Foreign exchange differences from non-monetary items, such as equity instruments classified as financial assets measured at fair value through profit or loss, are recognised in the income statement. Foreign exchange differences from non-monetary items, such as equity instruments classified as available for sale financial assets, are recognised in equity as fair value reserve together with the effects of the measurement at fair value under other comprehensive income.

Translation from the functional into the presentation currency

The financial statements of Group entities that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities are translated at the final exchange rate as at the balance sheet date,
- income, expenses and costs at the average exchange rate for the year,
- capital components are translated at a historical rate,
- all the resulting exchange rate differences are recognised in other comprehensive income.

Goodwill and adjustment of acquired assets of a subsidiary abroad to fair value are recognised in the same way as assets of a subsidiary abroad and translated into the presentation currency at the closing rate.

In the consolidated financial statements, exchange rate differences resulting from the translation of a net investment in a subsidiary abroad are recognised in the statement of comprehensive income. When the Group loses control over a subsidiary abroad, previously recognised exchange rate differences arising from the translation into the presentation currency are reclassified from other comprehensive income into the income statement as part of gain or loss from sale.

2.7. Risk management

Each company being aware of the risks to which it is exposed is essential to its security and financial stability. There are four major sets of financial risks in the Triglav Group: underwriting, market, credit and liquidity risks.

The following table summarises the aforementioned risks by nature of exposure, method of measurement and references to the relevant chapter in the Annual Report with additional information.

Risk type and reference	Nature of exposure	Method of measurement	Risk management
Underwriting risk Risk Management, [→ *Section 2.3*] and Accounting Report, [→ *Sections 2.9.2 and 2.9.4*]	Premium risk Provision risk Lapse risk Concentration risk Low-frequency and high-severity risks Life expense risk Mortality risk Premium and provision risks	Sensitivity analysis	Four key processes, in the context of which underwriting risks are identified, measured, monitored and managed: product development, underwriting, underwriting risk transfer and claim settlement.
Market risk Risk Management, [→ *Section 2.4*]	Interest rate risk Equity risk Property risk Spread risk Currency risk	Sensitivity analysis	Methods and processes with clearly defined powers and responsibilities used to promptly identify, measure, manage and monitor market risks.
Credit risk Risk Management, [→ *Section 2.5*]	Investments Reinsurance contracts Receivables from insurance operations	Maturity analysis Credit ratings	Expert analysis of the credit quality of partners, sufficient portfolio diversification, regular monitoring of credit ratings and management of exposures to partners with no credit rating, prudent assessment of the suitability of reinsurance partners with regard to their credit quality and diversification, and regular monitoring of exposures to them, monitoring of receivables below and over 90 days, separate monitoring of subrogation receivables including recovery efficiency.
Liquidity risk Risk Management, [→ *Section 2.6*]	The risk of inappropriate assets in terms of their nature, duration and liquidity compared to liabilities	Forecast of future cash flows	Planning of actual and potential net cash outflows, appropriate amount and composition of liquid investments, regular monitoring of the liquidity position at different time intervals, assuming normal and exceptional circumstances, the limit system.

2.8. Summary of significant accounting policies

The significant accounting policies used in the preparation of the financial statements are set out below.

2.8.1. Business combinations and goodwill

Business combinations are accounted for by using the acquisition method. The acquisition date is the date on which the acquirer obtains control of the acquiree. The acquired assets and liabilities measured at fair value are determined on the acquisition date. In each business combination, any non-controlling interest (NCI) is measured at NCI's proportionate share of net assets of the acquiree.

Goodwill arises from the acquisition of a subsidiary provided that the surplus of the aggregate of the consideration transferred (measured at fair value) exceeds the net amount of the acquired assets and liabilities of the subsidiary. If the difference is negative, the resulting gain is fully recognised in profit or loss. Contingent consideration at fair value is also included in consideration. After initial recognition, goodwill is measured at cost less any accumulated impairment losses. An impairment test is conducted annually for a cash-generating unit to which goodwill relates.

The accounting policies relating to goodwill impairment are described in [→ *Section 2.8.12*].

2.8.2. Intangible assets

Intangible assets are accounted for using the cost model. After initial recognition, an intangible asset is carried at its cost less any accumulated amortisation and any accumulated impairment loss.

Amortisation is calculated using the straight-line amortisation method.

	Annual amortisation rate
Software	20 %
Other economic rights	1-20 %

The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at the end of each business year. If the expected useful life of an asset differs from previous estimates, the amortisation period is adjusted accordingly.

Intangible assets with an indefinite useful life are not amortised, but are subject to impairment tests on an annual basis. These assets are impaired if their carrying amount exceeds their recoverable amount.

Deferred acquisition costs for non-life insurance contracts are also a part of intangible assets. Decrease or increase in deferred acquisition costs is recognised as a change in unearned premium provision in the income statement, within net premium income.

Deferred acquisition costs for life insurance contracts are considered in the calculation of mathematical provisions using the Zillmer method. A change in the deferred acquisition cost of life insurance contracts is recognised as a change in the mathematical provision.

Accounting policies regarding the impairment of intangible assets are described in [→ *Section 2.8.12*].

2.8.3. Property, plant and equipment

Property, plant and equipment are accounted for using the cost model. The cost of an item of property, plant and equipment comprises its purchase price and any other costs directly attributable to the conditions necessary for it to be capable of operating.

After initial recognition, an item of property, plant and equipment is carried at its cost less any accumulated depreciation and any accumulated impairment losses. Depreciation is calculated using the straight-line depreciation method. The depreciation rates given below have been used consistently through the years.

	Annual depreciation rate
Buildings	1.5 - 5.0 %
Transport vehicles	12.5 %
Computers and hardware	50 %
Office and other furniture	10 - 20 %
Other equipment	6.7 - 25.0 %

Depreciation of an asset being constructed begins when it is available for use. Depreciation of an asset ceases as at the date that the asset is derecognised.

The residual value and useful life of an asset are reviewed as at the reporting date and adjusted in the event expectations differ from previous estimates.

The gain or loss from the derecognition of property, plant and equipment is determined as the difference between the net disposal proceeds and the carrying amount of the item and is included in profit or loss when it is derecognised.

Maintenance and repair costs are recognised in the income statement as incurred. Further investments that increase future economic benefits increase the value of property, plant and equipment.

Accounting policies regarding the impairment of property, plant and equipment are described in [→ *Section 2.8.12*].

2.8.4. Investment property

Investment property is property (land and buildings) owned or leased to earn rentals. Property is classified as investment property if not used by the holder for performing its business activities or if only a minor part of the building is used for that purpose.

After initial recognition investment property is measured at historical cost, including costs for the purpose of acquiring the asset. Investment property is accounted for using the cost model. Investment property is depreciated and impaired using the same method as that used for property, plant and equipment described under [→ *Sections 2.8.2 and 2.8.3*].

Fair values for disclosure purposes are based on a valuation by an independent appraiser who holds a recognised and relevant professional qualification.

All income arising from investment property is rental income and is shown in the income statement under Other income. Expenses arising from investment property consist of the depreciation charges and maintenance costs of the investment property. In the income statement, they are disclosed under Other expenses.

Accounting policies regarding the impairment of investment property are described in [→ *Section 2.8.12*].

2.8.5. Leases

A contract contains a lease if it conveys the right to control the use of the identified asset for a period of time in exchange for consideration.

Leases in the case of lessee

An asset acquired under a lease is recognised as right-of-use assets and lease liabilities. Right-of-use assets do not include assets from short-term leases (up to 1 year) and low-value leases (individual lease amount is less than EUR 4,300). The value of an asset is recognised as present value of future lease payments. Leases are discounted using the rate determined at lease inception or the rate implicit in the lease. The calculation of right-of-use assets also takes into account any initial direct costs and an estimate of any removal and restoration costs.

The rate implicit in the lease is determined on the basis of the interest rate on risk-free government bonds and credit spread.

Right-of-use assets are measured by applying the cost model. The initial value of right-to-use assets is reduced over the life of the asset by depreciation, impairment losses and adjusted for remeasurement of the lease liability. Right-of-use assets are depreciated from the commencement date to the end of the lease term.

When measuring lease liabilities, after the commencement date of the lease, liabilities are increased by interest and decreased by lease payments. If the lease is modified, the amount of liability is remeasured or a separate lease is calculated.

The right-of-use assets and lease liabilities are disclosed in the statement of financial position as separate items.

Leases in the case of lessor

For leases where the Company is the lessor, investment property or equipment leases are classified as operating or finance lease. If the lease transfers to the lessee all material risks and rewards incidental to ownership of an underlying asset, the lease is classified as a finance lease. All other leases are classified as operating leases. A lessor recognises assets held under a finance lease as a receivable at an amount equal to the net investment in the lease. A lessor recognises financial income over the lease term of a finance lease based on a pattern reflecting a constant periodic rate of return on the net investment. For an operating lease, the value of the leased asset is increased by initial direct costs incurred in negotiating or arranging the operating lease, and lease income is recognised over the lease term.

2.8.6. Investments in subsidiaries

In separate financial statements, investments in equity instruments of subsidiaries (shares, stakes) are measured at cost. Investments in subsidiaries represent investments in the companies (investees) over which Zavarovalnica Triglav has controlling influence and where the following conditions are met:

- Zavarovalnica Triglav has power over the investee that arises either from the voting rights resulting from capital instruments or from other rights resulting from contractual agreements;
- Zavarovalnica Triglav is exposed to variable returns or has the right to variable returns from its involvement with the investee;
- Zavarovalnica Triglav has the ability to affect those returns through its power over the investee.

Initial recognition follows as soon as the shares or equity interest has been entered into the Court Register.

Increase in the share capital of subsidiaries with in-kind contributions solely owned by Zavarovalnica Triglav is initially measured at the carrying amount of the contributions in kind. The carrying amount of the contributions in kind as at the date of investment equals the value of assets invested as the in-kind contribution recorded in the financial statements of Zavarovalnica Triglav as at that date.

Accounting policies regarding the impairment of investments in subsidiaries are described in [→ *Section 2.8.12*].

Subsidiaries are included in the consolidated financial statements under the full consolidation method. The consolidation procedures are presented in detail in [→ *Section 2.5*].

2.8.7. Investments in associated companies

Investments in associates represent investments in the companies (investees) over which Zavarovalnica Triglav has significant influence arising from its power to participate in financial and operating policy decisions of an investee, but not joint control or control of those polices. In separate financial statements investments in equity instruments of associated companies (shares, stakes) are measured at fair value.

For associated companies with no quoted price on the stock exchange, internal models of valuating are used (listed comparable companies method, comparable transactions method, discounting of cash flows, contract value). The valuation assumptions applied are presented in greater detail in [→ *Section 2.9.5*]. The effects of the valuation at fair value are disclosed in other comprehensive income.

Associates of the Triglav Group are those companies in which the Company directly or indirectly holds between 20% and 50% of the voting rights and has a significant but not dominant influence. In the consolidated financial statements of the Triglav Group, investments in associates are accounted for using the equity method. The corresponding share of the profit or loss of an associate is recognised in the consolidated profit or loss. The associated effects included in other comprehensive income of an associate are recognised in the consolidated statement of comprehensive income.

Dividends are recognised in income statement once the right to payment is obtained. The dividends of associates are excluded in consolidated financial statements.

Accounting policies regarding the impairment of investments in associated companies are described in [→ *Section 2.8.12*].

2.8.8. Financial assets

Financial assets comprise financial investments, oparating and other reveivables, and cash and cash equivalents. The accounting policies for each of these assets are presented below.

2.8.8.1. Financial investments

Financial investments are classified into the following groups: financial investments at fair value through profit and loss, financial investments held to maturity, loans and deposits and available-for-sale financial investments. Their classification depends on the initial intent at the time of their purchase. Management decides on the classification of investments at the date of initial recognition.

At initial recognition financial investments are measured based on their fair value. Initially recognised values are increased by transaction costs that are directly attributable to the acquisition of the financial investments (allowances to agents, consultants, and brokers, fees paid to the stock exchange and other transfer related fees). The rule does not apply to financial investments classified as assets disclosed at their fair value through profit and loss, where these costs are recognised directly in the income statement at acquisition.

The trade date is used for the initial recognition of financial investments, except for loans and deposits, for which the settlement date is used.

Available-for-sale financial investments

Available-for-sale financial investments are those non-derivative financial investments that are classified as available for sale and not classified as loans and deposits, financial investments held to maturity, or financial investments recognised at fair value through profit and loss.

After initial recognition, financial investments classified as available for sale are measured at their fair value, without deducting transaction costs that may occur in their sale or other disposal. Financial instruments not listed on a stock exchange are measured at fair value on the basis of their prices in the latest transactions (official price offers by stock broking firms or banks for certain securities) or through a valuation model (discounting of expected cash flows). Details on valuation models are described in [→ *Section 5.1.2*]. Equity instruments not quoted in an active market and for which the fair value cannot be reliably measured are measured at cost.

Changes in fair value are recognised directly in other comprehensive income as an increase (gain) or decrease (loss) in the revaluation surplus, with the exception of investment impairments and foreign exchange differences regarding monetary items, such as debt securities recognised in the income statement.

When available-for-sale financial investments are derecognised, the accumulated losses or gains, previously recognised under other comprehensive income, are transferred to the income statement.

Held-to-maturity financial investments

Financial investments held to maturity are non-derivative financial investments with fixed or determinable payments and fixed maturities that Zavarovalnica Triglav definitely intends to hold and is able to hold to their maturity.

Financial investments held to maturity are measured at amortised cost reduced for impairment.

Financial investments at fair value through profit and loss

This category is divided into two groups: financial instruments held for trading and financial instruments measured at fair value through profit and loss.

A financial investments is classified as such if the underlying purpose of its acquisition was for resale within a short period of time, if it forms part of a portfolio of financial instruments aimed at short–term profit generation or if this classification was decided on by the management. Derivative financial instruments are always classified as financial instruments held for trading.

A financial investments designated at fair value through profit and loss is an investment:

- held in the Company's investment portfolios to cover liabilities arising from insurance contracts, relating to a change in the fair value of these investments (such a classification eliminates or reduces any mismatches that might arise from the measurement of investments and liabilities or the recognition of gains and losses arising from various contracts) or
- managed and its performance measured based on fair value in accordance with Zavarovalnica Triglav's investment policy.

After initial recognition, financial investments measured at fair value through profit or loss are measured at fair value on the basis of prices quoted in an active market.

Gains and losses arising from a change in fair value are recognised in the income statement.

The category of financial investments designated at fair value through profit and loss also includes financial investments that have an embedded unrelated derivative.

Loans and deposits

Loans and deposits are non-derivative financial investments with fixed or determinable payments not listed in an active market.

At initial recognition, loans and deposits are measured at cost and later at amortised cost using the effective interest method. The impairments of loans and deposits are recognised if there is objective evidence that the receivable will not be recovered in accordance with the contractual terms.

Derivative financial instruments

After initial recognition, derivatives are measured based on their fair value, with effects recognised in the income statement. The fair value is determined on the basis of the price quoted in an active market. If the price is not known, the fair value is determined by using another pricing model (discounting of expected cash flow; the Black–Scholes option pricing model). Derivatives include financial instruments used for protecting cash flows against interest rate risk as well as for protecting the cash flows of individual financial instruments and other items. All of the documented gains and losses due to changes in fair value are recognised in profit or loss through financial income or expenses.

2.8.8.2. Receivables from insurance operations

Receivables from insurance operations are recognised when insured persons are charged the premium. After initial recognition, receivables are measured at fair value reduced by the impairment allowance, so as to show their expected recoverable amount.

Subrogation receivables are recognised when the first instalment is paid by the debtor, after a receivable has been tested in court or based on an agreement made with the subrogation debtor. In credit insurance, subrogated receivables are recognised upon occurrence.

Accounting policies regarding the impairment of receivables are described in [→ *Section 2.8.12*].

2.8.8.3. Cash and cash equivalents

Cash includes cash in banks, cash in transit, cash in hand and cash equivalents such as call deposits.

2.8.9. Other assets

Other assets include inventories, short-term deferred expenses and accrued revenue.

At initial recognition inventories are measured at cost. The cost of inventory comprises all costs of purchase. The cost of inventories is assigned by using the first-in, first-out (FIFO) formula.

Short-term deferred expenses are amounts that will impact profit or loss in the following accounting periods. They are accrued in order to ensure their even impact on profit or loss, or to accrue prepaid expenses not yet incurred.

Accrued revenue refers to revenue earned in the current accounting period, but which will be collected in a subsequent period.

2.8.10. Non–current assets held for sale

Non-current assets held for sale are those non–financial assets whose value will be recovered through a sale transaction rather than their continued use. The condition for the classification into the category of non-current assets held for sale is fulfilled when the sale is highly probable and the asset is available for immediate sale in its present condition. The management is committed to the sales plan, which must be carried out within a period of one year from the classification of assets into this category.

These assets are measured at the lower of the carrying amount or fair value less costs to sell. The same applies to subsequent measurement of these assets. In such subsequent measurements, it is necessary to recognise impairment losses arising from initial or subsequent write-offs of assets to their fair value, less costs to sell or profits resulting from a subsequent increase in fair value less costs to sell, which may not exceed any accumulated impairment losses.

2.8.11. Fair value measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participant at the measurement date. A fair value measurement assumes that the asset or liability is exchanged in an orderly transaction under current market conditions in the principal (or most advantageous) market for the asset or liability.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

All financial assets are measured at fair value, except for loans and deposits and held-to-maturity financial assets which are disclosed at amortised cost in the financial statements, while their fair value is disclosed in disclosures in [→ *Section 3.7*]. The fair value of land and buildings used for insurance operations and of investment property is disclosed under [→ *Sections 3.2 and 3.3*] that of subordinated liabilities under [→ *Section 3.14*].

The fair value of financial instruments traded on organised financial markets is measured on the basis of their prices quoted as at the reporting date.

If there is no active market for a financial instrument, its fair value is measured by valuation techniques. In determining the fair value of financial assets, valuation techniques are applied, using the reference to the current fair value of another instrument that is substantially the same, discounted cash flow analysis and option pricing models. If there is a valuation technique commonly used by market participants for establishing instrument prices and if such a technique has yielded reliable estimates of prices used in actual market transactions, such a technique is applied. The applied estimates and assumptions involve certain risks as to their future realisation. With the aim of reducing this risk, the assumptions and estimates applied are verified by different methods (by comparing assumptions and estimates against the industry average, individual traded companies, etc.). Moreover, a sensitivity analysis of the following value drivers is applied in order to estimate the value range of an individual investment: net sales income, the EBITDA margin, financial intermediation margin, rate of return on the financial asset portfolio, operating expenses to total assets, cash flow growth over a forecast period and the discount rate. In the discounted cash flow method, future cash flows and discount rates are applied as estimated by the management, reflecting interest rates on comparable instruments.

If the fair value of financial instruments cannot be reliably measured, the financial instruments are measured at cost (paid or received amount) increased by expenses incurred in the underlying transaction.

For disclosure purposes, a price level hierarchy has been applied for all financial assets measured at fair value. It is determined with regard to the inputs in the valuation technique, which are used to measure fair value.

- Level 1 inputs: are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date. The quoted prices may be adjusted only exceptionally.
- Level 2 inputs: are quoted prices for similar assets or liabilities in active markets, quoted prices in markets that are not active and quoted prices that are observable.
- Level 3 inputs: are prices that do not meet the standards for Level 1 or Level 2. The share of unobservable inputs used in value measurement models is considerable. Unobservable inputs have to use the assumptions that market participants would use when pricing the asset or liability, including risk assumptions.

2.8.12. Impairment

Intangible assets and property, plant and equipment

The value of intangible assets and property, plant and equipment is tested as at the reporting date. It is determined whether there are any objective signs of impairment. If there are, the recoverable amount is assessed, which represents the higher of an asset's fair value less costs to sell and its value in use. The recoverable amount of intangible assets with an indefinite useful life and of intangible assets not yet put into use is measured on an annual basis, irrespective of any objective signs of impairment. If the recoverable amount exceeds the carrying value, the assets are not impaired.

For material assets, impairments are assessed on an individual basis. The impairment of the remaining assets is carried out at the level of cash-generating units.

The previously recognised impairment losses of property, plant and equipment and intangible assets are reversed only if their recoverable amount increases and if this increase can be objectively related to an event occurring after the previous impairment was recognised. An impairment loss of an asset is derecognised only up to the amount of the carrying amount that would have resulted after the depreciation charge, if in previous periods no impairment loss had been recognised.

Goodwill

The value of goodwill is tested as at the reporting date so as to ascertain if there are any objective signs of impairment. Impairment of goodwill is recognised for a cash generating unit, which represents an individual company. In the event there are objective signs of impairment, the recoverable amount is assessed, which represents the higher of an asset's fair value less costs to sell and its value in use. If the recoverable amount exceeds the carrying value, the goodwill is not impaired.

Goodwill impairment testing is carried out in compliance with IAS 36, while testing of valuation techniques is carried out in compliance with the International Valuation Standards (IVS). The testing and the estimation of potential impairment is carried out in accordance with the estimated recoverable amount. The basis for the explicit forecast period are the available plans of the management and assessors' estimates of market convergence towards more developed ones, taking into account the forecasted economic convergence of international financial institutions and other EU regulators. The discount rate is calculated by applying the CAPM method and surpluses for specific risks. Goodwill impairment tests are carried out on an annual basis.

Investment property

The value of investment property is estimated on an annual basis in order to determine whether there are any objective signs of impairment. In the event of any sign of impairment of investment property, the recoverable amount (the higher of an asset's fair value less costs to sell and its value in use) is assessed. If the carrying amount of investment property exceeds its recoverable amount, an impairment loss is recognised in the amount equalling the difference between the two.

Financial investments in subsidiaries and associates

In the stand-alone financial statement, financial investments in associates are accounted for at cost. Signs of the impairment of investments in subsidiaries are reviewed on quarterly basis. Underperformance of a subsidiary may represent a sign of possible impairment.

In the separate financial statement, financial investments in associates are accounted for at fair value. Impairment loss is calculated in the same as for available-for-sale financial assets. Details are given below.

Financial investments

On a quarterly basis or at least at the end of the reporting period, it is assessed whether there is objective evidence that a financial asset or group of financial assets is impaired. When such evidence exists, loss due to impairment needs to be determined.

An impairment loss on an available-for-sale financial asset is calculated on the basis of its fair value at the time. When there is objective evidence of impairment of an available-for-sale financial asset, the accumulated loss, initially recognised in other comprehensive income, is transferred to the income statement. For equity instruments, objective evidence of impairment includes statutory changes (bankruptcy, liquidation, etc.), a significant decrease in the fair value of a security or a long-term decrease in the fair value of a security. For debt instruments, objective evidence of impairment includes statutory changes (bankruptcy, liquidation, etc.), payment arrears or other significant negative events related to the creditworthiness of the issuer.

The reversal of the previously recognised impairment losses on equity instruments, classified as available-for-sale financial assets, is recognised in other comprehensive income.

The impairment loss of a financial asset measured at amortised cost is calculated as the difference between that asset's carrying amount and the present value of expected future cash flows, determined on the basis of the original effective interest rate.

A reversal of previously recognised impairment of financial assets measured at amortised cost and debt instruments classified as available for sale is recognised in the income statement. An impairment loss may be reversed, if such a reversal can be objectively related to an event occurring after the impairment was recognised.

Insurance receivables

The adequacy of the value disclosed is tested for each group of receivables. All insurance receivables are tested for impairment or impairment reversal at least at the end of the business year. Impairments are recorded as an adjustment of the value of receivables and are formed individually or collectively for receivables with similar credit risk. Credit risk is assessed based on the classification of receivables by maturity and the experience of previous years regarding the recovery of receivables with the same maturity. Impairment loss is recognised as an expense from insurance operations.

Reinsurers' share of technical provisions

Reinsurers' share of technical provisions (assets from reinsurance contracts) is tested for impairment on an annual basis. These assets are impaired only if there is objective evidence resulting from an event occurring after the initial recognition of the reinsurance asset showing that the amounts due from reinsurers in accordance with a contract may not be recovered and if the event has a reliably measurable effect on the amounts that will be recovered by Zavarovalnica Triglav from the reinsurer. An impairment loss of assets from reinsurance contracts is recognised in the income statement.

2.8.13. Equity

Share capital equals the nominal value of paid-up ordinary shares, denominated in euros. When Zavarovalnica Triglav or a subsidiary acquires shares of Zavarovalnica Triglav, their value is disclosed as a deduction from the Group's equity. The same amount is then allocated to treasury share reserves as required by the Companies Act (hereinafter: »ZGD-1«).

Share premium is formed from the paid-in capital surplus and other capital contributions in line with the Memorandum and Articles of Association. As part of the share premium, the impact of the acquisition of non-controlling shares is also recognised in the consolidated financial statements.

Reserves from profit are legal reserves, statutory and other reserves, treasury share reserves.

Legal reserves are formed and used in line with ZGD-1 and the local legislation of each subsidiary. Together with share premium, they have to amount to no less than 10% of the share capital. They represent tied capital set aside in order to protect creditors' interests.

Statutory reserves represent up to 20% of share capital of the parent company. Based on a decision by the Management Board, Zavarovalnica Triglav may allocate up to 5% of net profit to statutory reserves in any business year, decreased by any amounts used for covering losses brought forward and amounts allocated to legal reserves and reserves from profit. Statutory reserves may be used for covering loss after tax for the business year or loss brought forward, for treasury share reserves, for increasing share capital from authorised capital, as well as for dividend payment policy purposes.

According to ZGD-1, the Management Board of Zavarovalnica Triglav may allocate net profit for the current year to other profit reserves, i.e. up to one half of the net profit remaining after statutory allocations.

2.8.14. Subordinated liabilities

Subordinated liabilities refer to subordinated debt instruments which are, in accordance with the underlying agreements, to be paid last in the event of the issuer's bankruptcy or liquidation. Subordinated liabilities are measured at amortised cost.

2.8.15. Insurance–technical provisions

Unearned premium provisions

Unearned premium provisions are formed for the part of gross written premium that refers to the following business year(s). These are calculated separately for individual insurance contracts using the pro rata temporis method, except for insurance policies where insurance coverage changes during their term and where the expiry of insurance coverage is agreed to be more than one year after the insurance policy is taken out. Unearned premiums are calculated both for life and non-life insurance contracts.

Claims provisions

Claims provisions are formed for claims incurred but not settled until the reporting date. Claims provisions are formed for reported claims as well as for unreported and inadequately reported claims.

Provisions for claims reported are based on an inventory of claims. If a claim is settled as an annuity, the amount is reserved as a capitalised annuity, which Zavarovalnica Triglav calculates on the basis of Slovene mortality tables and a 1.0% interest rate. Other insurance subsidiaries use local mortality tables.

Provisions for incurred but not reported claims (IBNR) are calculated by means of »triangle« methods (a combination of Chain Ladder and Bornhuetter-Ferguson methods). The basis for calculation is a sample of past claims experience with appropriate allowance for future trends. For this purpose a several-year-long time series of settled claims is applied.

Additional provisions for incurred but not enough reported claims (IBNER) for annuity insurance are also formed in cases when the policyholder is a minor or a young person and the insurance company can reasonably expect that the policyholder will also submit a claim for loss of income at a certain age.

With the exception of annuities, provisions for outstanding claims are not discounted. The methods used and estimates made are reviewed at least on an quarterly basis.

Mathematical provisions

Mathematical provisions for life, annuity, pension and unit-linked products are calculated separately for each individual policy. For life, annuity and pension contracts in the pay-out period, a modified net premium prospective method is applied, taking into account insurance contract acquisition costs. For pension contracts in the saving period, where the nature of products makes the aforementioned method inappropriate, the retrospective net premium method is applied. The liabilities for unit-linked insurance contracts are evaluated for each insurance policy as the fair value of assets in the investment account decreased by capitalised future management charges on initial units (actuarial funding). For certain insurance products, additional provisions are formed for covering contractual risk payments.

All calculations allow for prudent actuarial assumption bases, the legislation in force and all liabilities to policyholders arising from contracts and the respective terms and conditions.

Mathematical provisions also contain components for discretionary benefits allocated to policyholders in the past, based on the terms and conditions of the underlying contracts.

A portion of fair value reserve of available-for-sale financial assets, which will be distributed among policyholders after maturity, is also included in mathematical provisions. The principle of shadow accounting is applied. In relation to available-for-sale financial instruments, all revaluation surpluses are accounted for in other comprehensive income upon recognition; on the balance sheet date, the transfer to mathematical provisions is made for the part that will go to the insurer upon realisation in line with the provisions of the insurance contract or internal regulations.

The applied assumptions and other parameters are presented in greater detail in [→ *Section 2.9.1*].

Other insurance-technical provision

Provisions for bonuses in non-life insurance are formed for the part of the premium that will be reimbursed to those beneficiaries who meet certain beneficiary criteria set out in insurance conditions (total loss ratio over the last three years, financial discipline in premium payment and total insurance premium). An annual analysis and preset criteria are used to calculate the amount of premium reimbursement.

Provisions for cancellations represent that part of unearned premiums which is expected to be reimbursed in the event of early cancellation and for which deferred acquisition costs have been formed.

Provisions for unexpired risk are formed for policies where, based on past experience, it is assumed that the amount of unearned premiums will not suffice for covering all future claims.

2.8.16. Classification of insurance and financial contracts

All products in the portfolios of the Group's subsidiaries are classified as insurance contracts since they all either bear significant insurance risk or their share of the insurance premium in the entire portfolio is insignificant. The significance is determined on the basis of additional payments upon the occurrence of a loss event. The significance of additional amounts is assessed by comparing the greatest difference between the value of the payment in the event of a loss event and the payment in other cases. The abovementioned difference must amount to at least 10 percent of the payment at the beginning of the insurance. Other contracts, including contracts on asset management and lease contracts, are not relevant for disclosure purposes.

2.8.17. Provisions for employee benefits

Employee benefits comprise provisions for jubilee and retirement benefits and unused leave. The calculation of these provisions is made by using the actuarial evaluation method, i.e. the method of the estimated relevance of units or the method including profit proportionally to the work carried out. In line with IAS 19, the calculation is based on the following actuarial assumptions:

- demographic variables (employee mortality and labour turnover),
- financial assumptions, such as:
  - the discount rate taking account of the yield of sovereign securities at the balance sheet date; and
  - future salary increases taking into account inflation, seniority, promotion and other relevant factors, such as supply and demand in the labour market.

Provisions for unused annual leave equal the amount of the total gross wage due for the period when leave was not taken. The amounts of provisions are undiscounted.

Changes in provisions for employee benefits due to payments and new provisions made are recognised in the income statement under operating expenses (labour costs). Revaluation of provisions from an increase or decrease in the present value of liabilities due to changes in actuarial items and experience adjustments is recognised as actuarial gains or losses in other comprehensive income, but only for provisions for retirement benefits.

2.8.18. Other financial liabilities

At initial recognition financial liabilities are measured at cost. Subsequently they are decreased by paid amounts and increased by accrued interest. In the financial statement financial liabilities are measured at amortised cost. Interest paid on loans taken is recognised as expense and accordingly accrued over the term of the underlying loan.

2.8.19. Operating liabilities and other liabilities

Operating liabilities and other liabilities are recognised in the statement of financial position when the contractual obligation results in the payment of the liability. Operating liabilities and other liabilities are disclosed at amortised cost.

2.8.20. Premium income

Net premium income is calculated on the basis of gross written premium and gross outward reinsurance premium, reduced by reinsurers' and retrocessionaires' share and adjusted depending on the change in gross provisions for unearned premiums taking into account the reinsurers' and retrocessionaires' share in provisions for unearned premiums. The invoiced premium serves as the basis for recognising gross written premium.

2.8.21. Income from financial investments

Income from financial investments arises from interest income, dividends, changes in fair value, capital gains and other financial income. In the income statement, interest income is carried at amortised cost using the effective interest rate, which does not apply to financial investments recognised at fair value through profit and loss. Income from dividends is recognised in the income statement once the right to the payment is obtained. Income from changes in fair value arises from the subsequent remeasurement of the fair value of financial investments recognised at fair value through profit and loss. Gains on disposal arise from the derecognition of financial investments other than those recognised at fair value through profit and loss. The difference between the carrying amount of a financial investments and its sales value represents a realised gain.

Income from financial investments includes net unrealised gains on unit–linked life insurance assets. The latter arise from changes in the fair value of unit-linked life insurance investments.

2.8.22. Other income from insurance operations

Other insurance income includes fee and commission income (asset management fees, reinsurance and other fees) and other income from insurance operations (green card sales, loss adjustment services, assistance services and other). Under this income, interest income from operating receivables is also disclosed. This income is recognised in the income statement when the service is provided or when an invoice is issued.

2.8.23. Other income

Other income includes investment property income, income from intangible assets and property, plant and equipment, as well as other income not directly related to insurance operations and sales income from non-insurance subsidiaries. Other income is recognised in the income statement when an invoice is issued.

2.8.24. Claims incurred

Net claims represent gross claims settled (claims incurred and claim handling costs), reduced by the reinsurers' share and subrogated receivables, and adjusted by the change in gross provisions for outstanding claims, taking into account the reinsurers' share of these provisions. Claim handling costs consist of external and internal costs of assessing the eligibility and amount of claims, including court fees and charges, expert fees and subrogation recovery expenses.

Gross claims are recognised in the income statement once they have been settled.

2.8.25. Operating expenses

Gross operating costs are recognised as original expenses by natural type of cost. In the income statement these costs are classified by function. Claim handling costs are a constituent part of claims incurred, asset management costs are a constituent part of investment expense, whilst insurance contract acquisition costs and other operating costs are separately disclosed in the statement. All operating costs are disclosed by natural type and function.

2.8.26. Expenses from financial assets and liabilities

Investment expenses consist of impairments of investments, losses on disposal of investments and other investment expenses. Other investment expenses include changes in the fair value of financial investments that represent the effect of subsequent measurement of the fair value of financial assets measured at fair value through profit or loss. Also included are net unrealised losses on unit-linked life insurance assets and foreign exchange differences.

2.8.27. Other insurance expenses

Other insurance expenses include management fees, losses arising from the impairment of receivables, fire protection tax, prevention expenses and other insurance-related expenses. Other insurance expenses are recognised in the income statement once a service is provided.

2.8.28. Other expenses

Other expenses include other expenses not directly related to insurance operations and operating expenses of non-insurance companies. Other expenses also include financing expenses, which include interest expenses from subordinated bonds, interest expenses from asset leases and other interest expenses from operating activities. Other expenses are recognised in the income statement when the service is provided.

2.8.29. Taxes

Tax expense for the year comprises current and deferred tax. Deferred tax is calculated for all temporary differences between the amounts of assets and liabilities used for taxation and their carrying amount. The impact of the recognition of deferred tax receivables or liabilities is disclosed as income or expense in the income statement, excluding taxes charged on a business event recognised under other comprehensive income.

In the Republic of Slovenia, current income tax is charged at a 19% tax rate and in other countries where subsidiaries operate at tax rates enacted by local tax laws (as shown in [→ *Section 2.10*]). The same applies to the calculation of deferred taxes.

In consolidation, temporary differences may be recognised, arising either from the difference between the official financial statements of a subsidiary and those adjusted for consolidation purposes, or from consolidation procedures.

2.9. Main assumptions

2.9.1. Parameters and assumptions in calculating life insurance provisions

Life and annuity insurance

For life and annuity insurance contract liabilities valuation, a modified prospective net premium method is applied by taking into account insurance acquisition costs, all of the contractual obligations and the previously allocated surplus. The insurance technical parameters used by the method are either the same as those used for calculating insurance premiums or corrected so as to reflect the subsequent circumstances which increase the value of liabilities. A correction to reflect the current circumstances applies to the annuity insurance products of Zavarovalnica Triglav, where the relevant liabilities are valued on the basis of rather conservative mortality tables and a prudently set lower interest rate. The relevant liabilities of Zavarovalnica Triglav are valued on the basis of rather conservative Slovenian mortality tables SIA65 from 2010 and an interest rate of 2.7% p.a. for the contracts containing a fixed interest rate guarantee of 2.75% or more.

The guaranteed technical interest rate used for valuation ranges between 0% p.a. and 5% p.a. The calculation takes into account insurance contract acquisition costs below 3.5% of the sum insured under life insurance policies.

Voluntary pension insurance

During the accumulation period, mathematical provisions are evaluated using the retrospective method. This method takes into account all of the premiums received up to the day of valuation, entrance charges, any sums paid out, the guaranteed interest rate and the additional allocated surplus made to individual accounts arising from profit sharing. During the pension annuity pay-out period, provisions are set aside on the basis of the current value of the expected future liabilities of the insurance company (the prospective net method).

Voluntary pension insurance is classified under insurance contracts as it contains discretionary participation features to receive a portion of profits of a guarantee fund; in addition, the majority of voluntary pension insurance contracts include factors for calculating the pension.

The insurance technical parameters used in the calculation are either the same as those used when underwriting a policy, or they are adapted to the circumstances expected in the pension annuity pay-out period in the event these circumstances are worse than those taken into account in the premium calculation. The guaranteed technical interest rate used for the valuation of liabilities during the premium payment period ranges between 0.75% p.a. and 2.7% p.a. For the purpose of valuing its liabilities during the pay–out period of pension annuities bearing an interest rate from 1.0% p.a. to 2.7% p.a. the Company applies Slovenian mortality tables SIA65 from 2010.

Supplementary voluntary pension insurance

During the accumulation period, mathematical provisions are evaluated using the retrospective method. The method takes into account all of the premiums received up to the day of valuation, entrance charges, any sums paid out, guaranteed interest rates and the additional allocated surplus made to individual accounts arising from extra returns on funds. During the pension annuity pay–out period, provisions are set aside on the basis of the current value of the expected future liabilities of the insurance company (the prospective net method).

The technical parameters used are either the same as those used when underwriting a policy or adjusted due to circumstances which will change later and increase the value of liabilities – primarily when valuing liabilities arising from pension annuity pay-outs. For the purpose of valuing its liabilities the Company applies Slovenian mortality tables SIA from 2010. During the annuity pay-out period, the insurance companies value their liabilities at an interest rate ranging from 1.0% to 2.7%.

Unit–linked insurance

The liabilities for unit-linked insurance contracts are evaluated for each insurance policy as the fair value of assets in the investment account decreased by capitalised future management charges on initial units (actuarial funding). For certain insurance products, additional provisions are formed to cover contractual risk payments under basic and additional policies and additional insurance-technical provisions are established to cater for credit risk.

2.9.2. The liability adequacy test (LAT) for life insurance

The purpose of LAT is to verify the adequacy of provisioning for life insurance. The test consists of comparing the amount of provisions with the best estimate of provisions, arrived at on the basis of the present value of the best estimate of the future expected contractual and other cash flows. The calculation is performed for each separate contract while the results are aggregated on the level of homogenous groups. The test is based on a unified methodology that determines, among others, the grouping of policies into homogenous groups, the choice of risk-free discount rates and the type of cash flows being modelled. The portfolio balance is tested as at the last day of the business year.

Insurance contracts are segmented into homogenous groups which feature similar risks and are kept within the same portfolio. As a rule, insurance contracts are grouped according to their insurance classes:

- traditional life insurance,
- unit-linked life insurance,
- supplemental voluntary pension insurance during the accumulation period,
- supplemental voluntary pension insurance during the pension annuity pay-out period.

The cash-generating unit or the insurance company are also considered a homogenous group. Any deficit is determined at the level of the individual insurance company. If the test shows that the liabilities are insufficient, the total amount of the difference is recognised as an increase in provisions and an expense in the income statement.

Parameters and assumptions applied to the LAT test for life insurance

Mortality, longevity and morbidity assumptions

Assumptions regarding mortality, longevity and morbidity rates are based on internal analysis of the company's life insurance portfolio, on the data of national statistical offices, the data of reinsurers and other sources.

Persistency

The model uses the probability of an early termination of the insurance contract or discontinuation of premium payments determined on the basis of the analysis of early terminations of life insurance contracts in the past years. The Group continuously monitors the persistency of insurance policies by duration and type of insurance, and adapts their assumptions accordingly.

Expenses

The calculation takes into account policy handling/maintenance expenses, claim handling expenses and asset management expenses, as defined on the basis of an analysis of the individual company's expenses in preceding years. Estimated future expenses are increased every year in line with the expected inflation rate.

Increasing insurance premiums

In the case of insurance policies for which the monthly premium directly or indirectly follows the increase in salaries, the increase is calculated in line with the expected inflation rate.

Expected returns and discount interest rates

In calculating the present value, (risk-free) interest rate term structure (yield curve) is used, which is determined based on yields of the relevant local government debt securities (bonds) denominated in the currency of policy entitlements as at the valuation date, with the latter adjusted to take into account future surplus yields of held-to-maturity investments:

- The yield curve of Slovene government debt securities denominated in euro as at 31 December 2019 was used for Zavarovalnica Triglav, d.d. The ten-year benchmark is 0.96% for life, annuity and voluntary pension insurance, and 0.37% for all other insurance.
- The yield curve of Slovene government debt securities denominated in euro as at 31 December 2019 was used for Triglav, pokojninska družba, d.d. The ten-year benchmark is 0.37%.
- The yield curve of Slovene government debt securities denominated in euro as at 31 December 2019 was used for Triglav Osiguranje, d.d., Sarajevo. The ten-year benchmark is 0.37%.
- The yield curve of Slovene government debt securities denominated in euro as at 31 December 2019 was used for Lovćen životna osiguranja, a.d., Podgorica. The ten-year benchmark is 0.37%.
- The yield curve of Croatian government debt securities denominated in euro and with the payment of obligations in Croatian kuna as at 31 December 2019 was used for Triglav Osiguranje, d.d., Zagreb. The ten-year benchmark is 1.26%.
- The yield curves of Serbian government debt securities denominated in euro (the ten-year benchmark is 1.80%) and Serbian dinar (the ten-year benchmark is 3.33%) as at 31 December 2019 were used for Triglav Osiguranje, a.d.o., Belgrade.
- The yield curve of Macedonian government debt securities denominated in Macedonian denar as at 31 December 2019 was used for Triglav Osiguruvanje Život, AD, Skopje. The ten-year benchmark is 2.25%.

Profit participation

The determination of the profit participation rate is at the discretion of each Group member and regulated by internal rules. The estimated future allocation of surpluses are in line with the expected performance, the previous profit allocation rates and the policyholders' reasonable expectations.

In the model, profit is allocated in an excess of the technical interests for with-profit policies. The allocation is determined on the basis of the mathematical provisions as at the end of the financial year.

Annuity factor guarantee

In the calculation, the liability adequacy test takes into account the annuity factor guarantee for those insurance policies where future mortality projections indicate that, until the retirement of an individual policyholder, the condition from insurance terms and conditions regarding the increase in life expectancy that enables the change in the guaranteed annuity factors will not be fulfilled. The calculation additionally takes into account that 55% of supplemental voluntary pension insurance policyholders and 85% of voluntary pension insurance policyholders will choose to purchase pension annuity under guaranteed annuity factors, with the remaining policyholders taking advantage of other options for the payment of assets.

Results of the liability adequacy test for life insurance

Based on the available data of the liability adequacy test the provisioning for life insurance confirms the sufficient amount of provisions formed for all insurance companies in the Group, except for the insurance company Triglav Osiguruvanje Život, a.d., Skopje and for the guarantee funds backing supplemental voluntary pension insurance during the period of annuity payments by Zavarovalnica Triglav, d.d.

The guarantee funds backing supplemental voluntary pension insurance during the period of annuity payments by Zavarovalnica Triglav, d.d., are showing a deficit of EUR 8,711,891 as at 31 December 2019. The insurance company has set aside sufficient insurance technical provisions to offset this deficit.

As at the reporting date, Triglav Osiguruvanje Život, a.d., Skopje recorded a deficit in the total amount of EUR 62,607. Zavarovalnica Triglav set aside sufficient insurance technical provisions to cover the deficit amount.

Sensitivity analysis of LAT test to parameter changes

The valuation of liabilities depends on variables such as mortality, lapse rate, operating costs and the estimated percentage of policyholders deciding to opt for a pension annuity. Parameters are sensitivity tested in order to assess the impact of changes to the above-mentioned variables on future liabilities, the level of provisions and net profit or loss for the year. The changes represent reasonable potential changes in the parameters which could significantly impact the performance of the company.

Individual sensitivity analyses always take into account the change of a selected parameter with all the remaining variables unchanged without accounting for the value of assets backing the liabilities.

The changes under consideration were:

- an increase in mortality rates by 10%,
- a decrease in longevity rates by 10%,
- an increase in lapse rates by 10%,
- a decrease in lapse rates by 10%,
- an increase in expenses by 10%.

The table below shows how the changes of individual parameters increase the provision deficit.

in EUR

Change in provisions due to changed parameters	Zavarovalnica Triglav	Triglav Osiguruvanje Život, Skopje
An increase in mortality rates by 10%	-1,380,138	3,658
A decrease in mortality rates by 10%	1,523,343	-3,669
An increase in lapse rates by 10%	0	-27,771
A decrease in lapse rates by 10%	0	29,404
An increase in expenses by 10%	409,975	40,860

For other Group entities LAT test shows the adequacy of formed provisions even with the changed parameters.

2.9.3. Parameters and assumptions in calculating non-life insurance provisions

The unearned premium for most insurance policies is calculated pro-rata temporis, assuming a uniform distribution of claims frequency during the term of insurance contracts. Insurance policies with a variable sum insured are the exception to this rule. These policies include credit insurance, since the insurance cover in such cases gradually decreases, and construction and erection insurance, where the insurance cover rises. For such type of insurance, the calculation of unearned premiums is based on the assumption of a constant claim frequency throughout the duration of the insurance contract and variable insurance cover.

In general, the claims provisions are calculated as the sum of total claims reported but not settled and incurred but not reported (IBNR) claims. The majority of provisions for incurred but not reported claims are calculated using the run-off triangle method. Previous experience shows that claims from mass loss events, such as hail, floods and storms, are reported with considerable delay. None of the standard actuarial methods for determining the amount of IBNR claims after mass loss events is suitable for calculating these claims. Such claims can represent a significant part of total incurred but not reported claims. In order to ensure an up-to-date calculation of the actual amount of claims after mass loss events, additional provisions for IBNR or insufficiently reported claims after mass loss events are formed.

Claims provisions also include provisions for annuities in the case of liability insurance. Provisions for these claims were calculated as a capitalised annuity value as at the cut-off date based on applicable mortality tables and an interest rate of 1.0%.

2.9.4. Liability adequacy test (LAT) for non-life insurance

The insurance companies of the Group form reserves for unexpired risks for those lines of business where the expected loss ratio exceeds 100%. Additional reserves for unexpired risks are calculated as a product of unearned premiums and the difference between the value of the loss ratio and 100%.

Additional tests are performed to check the adequacy of the unearned premiums and unexpired risk reserves. The amounts of future gross claims and gross claim handling costs are applied in these tests and compared with the amount of established provisions for unearned premiums reduced by deferred insurance acquisition costs.

The results of tests show that the level of unearned premiums reserves, together with the level of unexpired risk reserves, is sufficient. Additional provisions were not necessary to create.

Assumptions that would have a material impact are not used in the calculation of technical provisions, so a sensitivity analysis was not performed.

2.9.5. Parameters and assumptions applied in measuring the value of financial income from other investing activities

Valuation of investments in subsidiaries

Zavarovalnica Triglav recognises its subsidiary holdings in separate financial statements, measured at historical cost. The impairment recognition is based on IAS 36 which provides the recoverable amount of an asset or a cash-generating unit as the higher of the two items:

- its fair value less costs to sell; or
- its value in use.

The valuation was made in compliance with the International Valuation Standards.

When recognising an impairment, it is first ascertained whether there are any indications of impairment. In this exercise, indications from external sources of information (significant changes in the environment with an adverse effect on the entity, changes in market interest rates and return on investment of assets likely to affect the recoverable amount of assets, unexpected drops in market values of assets) and indications from internal sources of information (statutory changes, changes in the management and scope of operations, poorer performance of the company) are considered. In the event there are objective signs of impairment, the recoverable amount is assessed.

Indicator tests and impairment tests are carried out by external certified and internal business appraisers applying internal valuation models.

The valuation procedure includes at a minimum:

- general environment analysis of a company (macroeconomic and institutional);
- specific environment analysis (the insurance market and markets of other relevant activities)
- business model and business operations analysis;
- analysis of a company's competitive position in the insurance market;
- analysis of plan attainment in terms of planning adequacy and realisation potential;
- choice of suitable valuation methodology and methods in consideration of standards, purpose (accounting purposes) and scope of valuation (including insurance class);
- derivation and assessment of assumptions in accordance with the analysis;
- derivation of cost of capital based on market parameters (time value, all relevant risks);
- valuation;
- assumption sensitivity analysis of a valuation and relevance analysis of the resulting range of valuations.

The key assumptions and sources applied in valuation included:

- information on the environment acquired from the European Central Bank, statistical offices, International Monetary Fund (IMF), supervisory bodies and other regulators;
- profit/loss and financial position estimates for 2019 and business plans of individual companies for 2019 as approved by their supervisory bodies as well as strategic plans of individual companies for the next three year period, if available;
- documentation and information acquired from the management and other key persons for company valuation;
- professional assessments by internal departments of Zavarovalnica Triglav and subsidiaries of Triglav Group.

In 2019, the impairment indications of financial investments in all insurance and non-insurance subsidiaries and Triglav INT d.d., Ljubljana were tested. No impairment indications were identified.

Valuation of financial income from other investing activities

The valuation methods and the assumptions used for measuring the value of non-tradable financial assets are described under [→ *5.1.2 below*].

2.10. Composition and changes in the composition of the Triglav Group in 2019

Members of Triglav Group[105]

No.	COMPANY	ADDRESS	TAX RATE (in %)	ACTIVITY	EQUITY STAKE (in %)		SHARE OF VOTING RIGHTS (in %)		VALUE OF EQUITY AS AT 31 DECEMBER (in EUR)	
					2019	2018	2019	2018	2019	2018
1	Pozavarovalnica Triglav RE d.d.	Miklošičeva 19, Ljubljana, Slovenija	19	Reinsurance	100.00	100.00	100.00	100.00	82,868,431	79,455,791
2	Triglav, Zdravstvena zavarovalnica d.d.	Pristaniška 10, Koper, Slovenija	19	Insurance	100.00	100.00	100.00	100.00	34,970,059	31,627,112
3	Triglav Osiguranje d.d., Zagreb	Antuna Heinza 4, Zagreb, Hrvaška	18	Insurance	100.00	100.00	100.00	100.00	32,453,111	29,945,453
4	Triglav Osiguranje d.d., Sarajevo	Dolina 8, Sarajevo, BiH	10	Insurance	97.78	97.78	98.87	98.87	18,411,244	17,272,246
5	Lovćen Osiguranje a.d., Podgorica	Ulica Slobode 13a, Podgorica, Črna gora	9	Insurance	96.59	96.59	96.59	96.59	9,522,111	8,609,819
6	Lovćen životna osiguranja a.d., Podgorica	Ulica Marka Miljanova 29, Podgorica, Črna gora	9	Insurance	96.59	96.59	96.59	96.59	3,698,824	3,209,528
7	Triglav Osiguranje a.d.o., Beograd	Milutina Milankovića 7a, Novi Beograd, Srbija	15	Insurance	99.88	99.88	99.88	99.88	21,332,594	18,358,695
8	Triglav Osiguranje a.d., Banja Luka	Ulica Prvog krajiškog korpusa broj 29, Banja Luka, BiH	10	Insurance	100.00	100.00	100.00	100.00	2,570,137	3,727,010
9	Triglav Osiguruvanje a.d., Skopje	Bulevar 8-mi Septemvri 16, Skopje, Severna Makedonija	10	Insurance	80.45	80.35	80.35	80.35	14,767,267	14,383,011
10	Triglav Osiguruvanje Život a.d., Skopje	Bulevar sv. Kiril i Metodij 18, Skopje, Severna Makedonija	10	Insurance	96.09	96.07	96.09	96.07	4,704,091	4,941,556
11	Triglav penzisko društvo a.d., Skopje	Bulevar 8-mi septemvri broj 18, kat 2, 1000 Skopje, Severna Makedonija	10	Fund management	100.00	-	100.00	-	2,696,009	-
12	Triglav, pokojninska družba d.d.	Dunajska 22, Ljubljana, Slovenija	19	Fund management	100.00	100.00	100.00	100.00	18,320,294	17,070,762
13	Triglav INT d.d.	Dunajska 22, Ljubljana, Slovenija	19	Holding company	100.00	100.00	100.00	100.00	73,288,185	75,071,066
14	Triglav Skladi d.o.o.	Slovenska 54, Ljubljana, Slovenija	19	Fund management	67.50	67.50	100.00	100.00	56,342,387	46,144,535
15	Triglav Avtoservis d.o.o.	Verovškova 60b, Ljubljana, Slovenija	19	Maintenance and repair of motor vehicles	100.00	100.00	100.00	100.00	67,513	67,410
16	Triglav Svetovanje d.o.o.	Ljubljanska 86, Domžale, Slovenija	19	Insurance agency	100.00	100.00	100.00	100.00	484,259	578,638
17	Golf Arboretum d.o.o.	Volčji Potok 43g, Radomlje, Slovenija	19	Sport facilities management	-	80.73	-	80.73	-	316,314
18	Triglav Upravljanje nepremičnin d.d.	Dunajska 22, Ljubljana, Slovenija	19	Real estate management	100.00	100.00	100.00	100.00	36,314,117	35,397,601
19	Triglav Savjetovanje d.o.o., Sarajevo	Topal Osman Paše 30, Sarajevo,BiH	10	Insurance agency	98.91	98.91	98.91	98.91	81,402	94,662
20	Triglav Savjetovanje d.o.o., Zagreb	Sarajevska 60, Zagreb, Hrvaška	18	Insurance	100.00	100.00	100.00	100.00	-128,347	-281,333
21	Triglav Savetovanje d.o.o., Beograd	Zelengorska 1g, Beograd, Srbija	15	Insurance agency	99.94	99.94	99.94	99.94	18,804	8,443
22	Autocentar BH d.o.o.	Džemala Bjedića 165b, Sarajevo, BiH	10	Maintenance and repair of motor vehicles	97.78	97.78	98.87	98.87	1,908,677	1,793,419
23	Unis automobili i dijelovi d.o.o.	Mehmeda ef. Pandže 13, Sarajevo, BiH	10	Maintenance and repair of motor vehicles	-	97.78	-	98.87	-	135,536
24	Sarajevostan d.o.o.	Kolodvorska 12, Sarajevo, BiH	10	Real estate management	90.95	90.95	91.97	91.97	1,617,879	1,531,907
25	Lovćen Auto d.o.o., Podgorica	Novaka Miloševa 6/2, Podgorica, Črna gora	9	Maintenance and repair of motor vehicle	96.59	96.59	96.59	96.59	2,900,519	1,158,530
26	Triglav Auto d.o.o.	Trg srpskih junaka 4, Banja Luka, BiH	10	Maintenance and repair of motor vehicle	-	100.00	-	100.00	-	1,023
27	Triglav upravljanje nekretninama d.o.o., Zagreb	Ivana Lučića 2a, Zagreb, Hrvaška	18	Real estate management	100.00	100.00	100.00	100.00	1,529,368	3,189,395
28	Triglav upravljanje nekretninama d.o.o., Podgorica	Džordža Vašingtona 44, Podgorica, Črna gora	9	Real estate management	100.00	100.00	100.00	100.00	2,694,136	3,307,275
29	PROF-IN d.o.o.	Mehmed paše Sokolovića 15, Sarajevo, BiH	10	Fund management	62.54	62.54	62.54	62.54	4,095,459	3,604,502
30	Hotel Grad Podvin d.d.	Dunajska 20, Ljubljana, Slovenija	19	Tourism	100.00	100.00	100.00	100.00	310,860	546,091
31	Zavod Vse bo v redu	Miklošičeva 19, Ljubljana, Slovenija	19	Institute for corporate social responsibility	100.00	100.00	100.00	100.00	100,000	100,000

[105] The companies listed under numbers 1 to 28 have been included in the consolidated financial statements using the full consolidation method. The companies listed under numbers 29 to 31 have not been included using the full consolidation method, as they are not of importance to the Group. GRI GS 102-45

Summary financial information on subsidiaries

in EUR

	ASSETS		LIABILITIES		EQUITY		INCOME		NET PROFIT/LOSS	
COMPANY	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018
Pozavarovalnica Triglav Re d.d., Ljubljana	306,350,076	285,485,523	223,481,645	206,029,732	82,868,431	79,455,791	176,851,086	147,093,177	4,904,789	4,532,787
Triglav, Zdravstvena zavarovalnica d.d., Koper	69,867,321	59,416,391	34,897,262	27,789,279	34,970,059	31,627,112	178,852,499	145,928,444	2,931,501	1,324,192
Triglav Osiguranje d.d., Zagreb	167,551,455	149,791,109	135,098,344	119,845,656	32,453,111	29,945,453	79,074,756	64,655,378	329,012	875,819
Triglav Osiguranje d.d., Sarajevo	58,630,555	51,862,677	40,219,311	34,590,431	18,411,244	17,272,246	28,034,688	25,037,266	943,473	925,597
Lovćen Osiguranje a.d., Podgorica	52,374,715	50,332,908	42,852,604	41,723,089	9,522,111	8,609,819	39,220,482	35,362,033	643,877	412,726
Lovćen životna osiguranja a.d., Podgorica	7,525,804	7,042,710	3,826,980	3,833,182	3,698,824	3,209,528	3,959,804	2,563,680	362,095	417,927
Triglav Osiguranje a.d.o., Beograd	82,306,838	67,505,358	61,074,571	49,146,663	21,232,267	18,358,695	64,830,227	53,454,959	1,943,406	1,765,910
Triglav Osiguranje a.d., Banja Luka	11,902,070	11,717,746	9,344,399	7,990,736	2,557,671	3,727,010	6,463,781	6,205,975	-1,135,083	3,225
Triglav Osiguruvanje a.d., Skopje	41,371,349	37,658,712	26,628,173	23,275,701	14,743,176	14,383,011	25,349,063	24,755,663	303,453	540,769
Triglav Osiguruvanje Život a.d., Skopje	5,667,820	5,157,166	966,810	215,610	4,701,010	4,941,556	767,937	435,590	-243,581	-149,669
Triglav penzisko društvo a.d., Skopje	3,021,317	-	328,355	-	2,692,962	-	83,711	-	-313,293	-
Triglav, pokojninska družba d.d., Ljubljana	362,923,664	323,872,026	344,603,370	306,801,264	18,320,294	17,070,762	57,514,415	41,671,530	-281,655	212,669
Triglav INT d.d., Ljubljana	73,471,798	75,381,489	183,613	310,423	73,288,185	75,071,066	101,871	4,496,760	-1,769,877	2,320,200
Triglav Skladi d.o.o., Ljubljana	67,297,910	52,242,331	10,955,523	6,097,796	56,342,387	46,144,535	22,556,631	20,550,198	6,266,224	7,743,528
Triglav Avtoservis d.o.o., Ljubljana	653,290	445,658	585,777	378,248	67,513	67,410	2,434,587	2,241,741	3,909	2,146
Triglav Svetovanje d.o.o., Ljubljana	1,725,338	1,440,158	1,241,079	861,520	484,259	578,638	4,923,517	4,667,756	-92,041	21,768
Golf Arboretum d.o.o., Ljubljana	-	1,149,977	-	833,663	-	316,314	525,834	695,674	-5,136	-57,721
Triglav, Upravljanje nepremičnin d.d., Ljubljana	38,969,275	43,119,424	2,655,158	7,721,823	36,314,117	35,397,601	5,446,854	4,772,288	1,163,668	870,320
Triglav Savjetovanje d.o.o., Sarajevo	386,618	232,418	305,216	137,756	81,402	94,662	920,945	995,145	-13,260	26,509
Triglav Savjetovanje d.o.o., Zagreb	167,170	105,035	295,517	386,368	-128,347	-281,333	307,428	356,917	-130,690	-154,177
Triglav Savetovanje d.o.o., Beograd	110,378	82,871	85,207	74,428	25,171	8,443	554,684	379,870	-4,625	-36,243
Autocentar BH d.o.o., Sarajevo	2,959,310	2,677,522	1,050,633	884,103	1,908,677	1,793,419	1,574,966	1,565,719	37,498	126,823
Unis automobili i dijelovi d.o.o., Sarajevo	-	188,637	-	53,101	-	135,536	-	201,550	-	2,142
Sarajevostan d.o.o., Sarajevo	2,414,747	4,055,029	796,868	2,523,122	1,617,879	1,531,907	2,308,513	2,443,267	85,972	135,887
Lovćen Auto d.o.o., Podgorica	5,195,713	3,915,032	2,295,194	2,756,502	2,900,519	1,158,530	1,714,551	2,128,939	-658,011	-889,313
Triglav Auto d.o.o., Banja Luka	-	1,023	-	0	-	1,023	-	0	-	0
Triglav Upravljanje nekretninama d.o.o., Zagreb	1,535,688	3,330,251	6,320	140,856	1,529,368	3,189,395	55,105	54,445	-243,389	-80,896
Triglav Upravljanje nekretninama d.o.o., Podgorica	2,990,105	3,452,529	295,969	145,254	2,694,136	3,307,275	151,799	209,461	-613,139	7,991
PROF-IN d.o.o., Banja Luka	4,282,058	3,643,170	186,599	38,668	4,095,459	3,604,502	963,059	625,681	490,957	162,330
Hotel Grad Podvin d.d., Ljubljana	2,322,347	2,537,920	2,011,487	1,991,829	310,860	546,091	41,477	75,531	-235,231	-101,133
Zavod Vse bo v redu	128,020	143,507	28,020	43,507	100,000	100,000	26,700	55,001	-15,488	10,678

Non-controlling interests in the companies of the Triglav Group

in EUR

NO.	COMPANY	ADDRESS	NON-CONTROLLING INTEREST IN CAPITAL (in %) 2019	2018	VOTING RIGHTS OF NON-CONTROLLING INTERESTS (in %) 2019	2018	NET PROFIT OR LOSS ATTRIBUTABLE TO NON-CONTROLLING INTEREST HOLDERS 2019	2018	RETAINED EARNINGS ATTRIBUTABLE TO NON-CONTROLLING INTEREST HOLDERS 2019	2018
1	Triglav Osiguranje d.d., Sarajevo	Dolina 8, Sarajevo, Bosna in Hercegovina	2.22	2.22	1.13	1.13	20,582	19,418	240,897	240,001
2	Triglav Osiguranje a.d.o., Beograd	Milutina Milankovića 7a, Novi Beograd, Srbija	0.12	0.12	0.12	0.12	2,374	2,181	206,048	201,008
3	Triglav Osiguruvanje a.d., Skopje	Bulevar 8-mi Septemvri 16, Skopje, Republika Severna Makedonija	19.55	19.65	19.55	19.65	59,325	106,261	1,703,933	1,650,912
4	Lovćen Osiguranje a.d., Podgorica	Ulica Slobode 13a, Podgorica, Črna gora	3.41	3.41	3.41	3.41	103,796	53,289	444,022	331,073
5	Lovćen životna osiguranja a.d., Podgorica	Marka Miljanova 29/III, Podgorica, Črna gora	3.41	3.41	3.41	3.41	12,347	14,251	88,708	72,024
6	Golf Arboretum d.o.o., Volčji Potok	Volčji Potok 43g, Radomlje, Slovenija	-	19.27	-	19.27	-990	-11,123	-	58,827
7	Triglav Savjetovanje d.o.o., Sarajevo	Topal Osman Paše 30, Sarajevo, Bosna in Hercegovina	1.09	1.09	1.09	1.09	-144	288	-16,753	-16,609
8	Unis automobili i dijelovi d.o.o., Sarajevo	Mehmeda ef. Pandže 13, Sarajevo, Bosna in Hercegovina	-	2.22	-	1.13	-	48	-	-333,323
9	Autocentar BH d.o.o., Sarajevo	Džemala Bjedića 165b, Sarajevo, Bosna in Hercegovina	2.22	2.22	1.13	1.13	684	2,816	-145,082	163,530
10	Lovćen Auto d.o.o., Podgorica	Novaka Miloševa 6/2, Podgorica, Črna gora	3.41	3.41	3.41	3.41	-22,438	-30,326	-390,088	-367,651
11	Triglav Osiguruvanje Život a.d., Skopje	Bulevar sv. Kiril i Metodij 18, Skopje, Republika Severna Makedonija	3.91	3.93	3.91	3.93	-9,524	-5,882	-12,135	-2,135
12	Sarajevostan d.o.o., Sarajevo	Kolodvorska 12, Sarajevo, Bosna in Hercegovina	9.05	9.05	8.03	8.03	7,776	12,291	306,257	298,480
13	Triglav Savetovanje d.o.o., Beograd	Milutina Milankovića 7a, Novi Beograd, Srbija	0.06	0.06	0.06	0.06	-3	-21	-141	-137
	TOTAL						**173,785**	**163,491**	**2,425,665**	**2,295,999**

Material non-controlling interests

Presented below are the condensed balance sheet and comprehensive income for material non-controlling interests.

in EUR

	Triglav Osiguruvanje Skopje	
	31 December 2019	31 December 2018
CONDENSED BALANCE SHEET		
Current assets	6,280,101	5,921,431
Current liabilities	3,238,360	2,679,504
Net current assets/liabilities	**3,041,741**	**3,241,927**
Non-current assets	35,091,248	31,737,281
Non-current liabilities	23,389,813	20,596,197
Net non-current assets/liabilities	**11,701,435**	**11,141,084**
Net assets	**14,743,176**	**14,383,011**
	2019	**2018**
CONDENSED COMPREHENSIVE INCOME		
Net profit or loss for the year	303,453	540,769
Other comprehensive income	56,711	237,920
Total comprehensive income	**360,164**	**778,689**
Dividends from associates for the year	**0**	**0**
	2019	**2018**
CONDENSED CASH FLOW STATEMENT		
Cash flows from operating activities	847,503	-58,496
Cash flows from investing activities	-979,026	13,694
Cash flows from financing activities	0	0
Net change in cash flows	**-131,523**	**-44,802**

Changes occurred in the ownership structure of the Triglav Group in 2019

Acquisition of Alta SKLADI, družba za upravljanje d.d.

Triglav Skladi d.o.o., acquired a 100% equity stake in Alta Skladi, družba za upravljanje d.d. (hereinafter: Alta Skladi), thereby obtaining 100% of the voting rights and a controlling interest in said company. On 19 December 2019, Alta Skladi d.d., was stricken off the Companies Register due to its merger with the acquiring company Triglav Skladi d.o.o.

The activity of the acquiree is the provision of investment fund management services. The purpose of the acquisition was to obtain the right to manage their investment funds and to take advantage of the positive effects of the companies' merger and the integration of fund management.

The acquisition of Alta Skladi d.d., is treated as a business combination in the Group. In the consolidated financial statements, the said business combination was accounted for using the acquisition method. As at the acquisition date of 30 April 2019, all assets acquired and liabilities assumed of Alta Skladi were measured at fair value. The right of managing the fund was recognised in the net fair value of assets and is separately included in intangible assets as list of customers. The value in the amount of EUR 5,472,939 was determined based on the valuation using the excess earnings method.The 10-year useful life was taken into account. Deferred tax in the amount of EUR 1,039,858 was also calculated.

The consideration for the purchase of the company is EUR 22.5 million and consists of a fixed and variable amount. The variable part of consideration, which is contingent consideration, consists of a deferred payment of EUR 1,930,000 (for potential lawsuits, legal proceedings, breach of warranty or agreement mistakes). The deferred payment lasts for a maximum of 5 years + 60 days. The second portion of the variable amount totals maximum EUR 2.4 million and depends on net payments from the Flegma product. This value was assessed based on the data on net inflows from this product in the past and the present year using the discounted cash flow method. Contingent consideration is also recognised as a financial liability. As at 31 December 2019, the financial liability of contingent consideration amounted to EUR 3,527,000.

Total consideration exceeds the net asset value by EUR 10.4 million and is recognised as goodwill in the consolidated financial statements. Goodwill is the value of synergy effects arising from increased assets under management, greater market visibility and the synergy effects of pooling the fund managers' knowledge.

The assets acquired and liabilities assumed and the calculation of goodwill as at the acquisition date of 30 April 2019 are as follows:

in EUR

Recognised amounts	Fair value as at 30 April 2019
ASSETS ACQUIRED	**13,911,407**
Intangible assets	8,722,477
Property, plant and equipment	25,609
Financial investment	965,902
Operating receivables	583,545
Other receivables	426,717
Other assets	324,247
Cash and cash equivalents	2,862,910
LIABILITIES ASSUMED	**1,805,583**
Provisions for retirement benefits	23,128
Other provisions	292,322
Deferred tax liabilities	1,108,838
Operating liabilities	194,485
Current tax liabilities	36,534
Other liabilities	150,276
TOTAL IDENTIFIABLE NET ASSETS	**12,105,824**
CONSIDERATION	**22,519,136**
– fixed consideration	18,606,034
– contingent consideration:	3,913,102
– deferred consideration	1,930,000
– consideration for Flegma product	1,983,102
FINANCIAL LIABILITY for contingent consideration	**3,913,102**
GOODWILL	**10,413,312**

Goodwill adjustments are possible during the measurement period (within one year of the acquisition), but only because of a change in contingent consideration and any changes in the fair value of assets acquired and liabilities assumed that relate to the facts and circumstances existing as at the acquisition date. In the period from 1 July to 31 December 2019, the fair value of liabilities assumed was adjusted by EUR 14,362 and thus the amount of goodwill increased. The change was recognised following the audit of assets and liabilities.

Any changes in the fair value of financial liabilities of contingent consideration due to new information relating to changes in events after the acquisition date will be recognised in profit or loss.

From 1 May to 19 December 2019 (until striking off the register), Alta Skladi d.d., generated income of EUR 3,835,931 and net profit of EUR 1,192,198.

Purchase of shares of Triglav Osiguruvanje a.d., Skopje from non-controlling interest holders

Triglav INT d.d. acquired a 0.10% equity stake from the non-controlling interest holders of Triglav Osiguruvanje, a.d., Skopje, thereby becoming its 80.45% owner. The acquisition price of the equity stake amounted to MKD 888,940 or EUR 14,428. The acquisition of the non-controlling interest stake was recognised in the consolidated financial statements as an increase in share premium of EUR 614.

Capital increase of Lovćen Auto d.o.o.

Lovćen Osiguranje, a.d., increased its equity stake in its subsidiary Lovćen Auto d.o.o., in the amount of EUR 2,400,000, thus remaining a 100% owner of the said company.

Capital increase of Trigal d.o.o.

By paying in EUR 1,094,670, Zavarovalnica Triglav d.d., increased the share capital of its associate Trigal d.o.o., and thus maintained its 49.9% equity stake in the said company.

Capital increase of Triglav Savjetovanje d.o.o., Zagreb

In Q2 2019, Triglav Svetovanje d.o.o. and Triglav Osiguranje d.d., Zagreb increased the capital of their subsidiary Triglav Savjetovanje d.o.o., Zagreb in accordance with their proportional stakes. The capital increase was raised by in-cash contributions of HRK 2,100,000 or EUR 284 thousand, As a result, both companies maintained their stakes in said company, 51% and 49% respectively.

Establishment of Triglav penzisko društvo a.d., Skopje

On 27 March 2019, the pension company Triglav penzisko društvo, a.d., Skopje was established in North Macedonia. The total share capital of EUR 3 million was paid in by Zavarovalnica Triglav d.d., thereby becoming a 100% owner of the said company.

Capital increase of Triglav Savetovanje d.o.o., Belgrade

In Q3 2019, Triglav Svetovanje d.o.o. and Triglav Osiguranje d.d., Belgrade increased the capital of their subsidiary Triglav Savetovanje d.o.o., Belgrade in accordance with their proportional stakes. The capital increase was raised by in-cash contributions of RSD 2,500,000 or EUR 21 thousand. As a result, both companies maintained their stakes in the said company; 51% and 49% respectively.

Sale of ZIF Prof Plus d.d., Sarajevo

Triglav Skladi d.o.o. and Triglav, Upravljanje nepremičnin d.d. sold their equity stakes in ZIF Prof Plus d.d. of 11.72% and 10.37% respectively. As a result of selling the combined equity stake of 22.09%, a profit of EUR 560 thousand was generated at the Group level.

Sale of Golf Arboretum d.o.o., Ljubljana

Triglav, Upravljanje nepremičnin d.d. sold its equity stake of 80.73% in Golf Arboretum d.o.o. As a result, the Triglav Group generated a loss of EUR 563 thousand.

Liquidation of Triglav Auto d.o.o., Banja Luka

On 19 September 2019, Triglav Auto d.o.o., Banja Luka was liquidated. The liquidation had no effect on the consolidated financial statements of the Triglav Group.

Merger of Unis automobili i dijelovi d.o.o., Sarajevo

Unis automobili i dijelovi d.o.o. was merged with Autocentar BH d.o.o. The merger did not have an impact on the consolidated financial statements of the Triglav Group.

Sale of KRDU Building d.o.o. and LOMA CENTER d.o.o.

On 5 February 2019, Trigal d.o.o. and the fund TRIGAL AIF SICAV – RAIF S.C.A. Compartment 2, Regional Multi Asset Fund Compartment, Luxembourg, signed an agreement to sell KRDU Building d.o.o. and LOMA CENTER d.o.o. As a result, both companies are no longer considered associates of the Triglav Group. There was no effect of derecognition.

Establishment of ALFI PD, upravljanje alternativnih investicijskih skladov d.o.o.

Trigal d.o.o. and three other partners established ALFI PD d.o.o. on 3 September 2019. With the payment of EUR 40 thousand, Trigal became a 40% owner of said company.