Risk Management

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The Triglav Group and Zavarovalnica Triglav d.d.

Risk Management

- The Triglav Group continues to have a strong capital base and high liquidity. Its capital strength is confirmed by the level and structure of its capital.
- The established risk management processes and system ensure a controlled taking of risks and safe operations.
- The regulatory risk assessment method proved to be an appropriate method of measurement in the framework of the annual control.
- The Group shows appropriate resilience of capital adequacy to external effects, even in the case of stress scenarios.

The capital management process enables the Group to ensure adequate safety and profitability of its operations and a high degree of confidence of all stakeholders. The goal of this process is to make efficient use of the available capital to ensure a long-term and stable return on investment for the shareholders of Zavarovalnica Triglav based on the predefined criteria in the dividend policy and taking into account the interests of other stakeholders and regulatory restrictions.

The key conditions for the implementation of the above-mentioned objectives are comprehensive identification, measurement, monitoring and management of assumed and potential risks as well as an ongoing own risk and solvency assessment. Comprehensive risk management enables regular measurement and monitoring of the level, return on and use of economic capital. On this basis, the capital structure is optimised and business decisions are made.

The Group measures the risks and monitors capital adequacy using the methods which comply with the Solvency II standard formula, based on mark-to-market valuation. In parallel, an internal risk measurement methodology is used and developed by risk type, which is also used to test the appropriateness of the regulatory method. To ensure the long-term target capital adequacy, own risk assessment is regularly prepared so as to determine the current and future solvency requirements and to define the appropriate capital management measures. According to the own risk assessment for 2018, the capital adequacy of the Group remains at a high level despite the persisting difficult situation in the financial markets.

The Group continues to be well capitalised. Its capital strength is confirmed by its capital structure, which almost entirely consists of the highest-quality capital, composed of share capital and reconciliation reserve. A small portion of available capital includes subordinated liabilities. Compared to the previous year, the quality of available capital at the Group level remained mostly unchanged in 2018. The adequate capital and financial strength of the Group is reflected in the credit rating of the rating agencies S&P Global Ratings and A.M. Best, which again assigned the Triglav Group the long-term credit rating and financial strength rating of "A". Both credit ratings have a stable medium-term outlook. [→ *See also Section 6.6 of the Business Report.*]

In the beginning of 2018, the Triglav Group adjusted its capital management objectives and redefined its dividend policy. The target capital adequacy is thus set in the range between 200% and 250%. This change is based on a modified and more conservative calculation of the adjustment for the loss-absorbing capacity of deferred taxes.

The Group provides for adequate short-term and long-term liquidity by ensuring adequate liquidity of the subsidiaries, particularly Zavarovalnica Triglav, which has a strong liquidity. Exposure to liquidity risk primarily arises from the probability of occurrence of major CAT events, which is adequately managed with an efficient reinsurance programme, or from mass cancellation of life insurance policies. The latter is reduced by having well-established processes of monitoring liquidity ratios and by adjusting life insurance products to the market conditions.

Compared to the 2017 year-end, the risk profile of the Group remained largely unchanged. Changes in exposure primarily arise from changes in the investment portfolio and the increase in the volume of the insurance portfolio, particularly the non-life insurance portfolio. Due to the reduction in exposure to corporate bonds and equity investments, both the spread risk and the equity risk decreased, thereby reducing market risks compared to the year before. In the reporting year, the own risk and solvency assessment was carried out only once as there were no material changes in the risk profile during the year.

New emerging risks from the environment were continuously monitored and the Company actively responded to any potential threats described in detail at the end of [→ *Section 1*].

Zavarovalnica Triglav established a comprehensive and integrated risk management system at the Group level, which is regularly and continuously upgraded. Upgrades take place mostly in the areas of increased vulnerability.

Key risk management development activities at the Group level in 2018

- In the context of market risks, spread risk is treated as a material risk because of the Group's high exposure to debt investments. In the reporting year, several important upgrades were made in relation thereto, among them being the implementation of an automated internal measurement of these risks, which is adapted to the specifics of the Company. In addition, regular internal measurement of equity risks was established.
- In the context of credit risks, the Group's counterparty database was reviewed and unified among the Group members. Furthermore, a standardised method for assessing the creditworthiness of counterparties was defined, which will improve credit risk assessment.
- In accordance with the strategic guideline of partially investing in less liquid assets, liquidity risk measurement methods in the Company were upgraded.
- By incorporating experience gained, the operational risk management system was appropriately upgraded, including information technology risks and the business continuity management system, in which special emphasis was placed on cyber risk. Given that an increase in exposure to cyber risk was identified, stress scenarios were amended, additional risk measurement was implemented and new security mechanisms were set up, which will be regularly upgraded.
- In the establishment of minimum standards, particularly in the drafting of regular risk reports, the Company not only continued to cooperate with insurance undertakings but also aimed to improve the quality of data and the reporting system at the Group level. With the goal of improving the risk management culture, training workshops were held for Zavarovalnica Triglav's employees.

1. Risk Management System

The **comprehensive risk management system** is a fundamental part of the governance system in the Triglav Group, which ensures the achievement of the Group's strategic objectives. The risk management system of Zavarovalnica Triglav is clear, transparent and well-documented. By taking into account the principle of proportionality with the minimum standards, it is effectively transferred to the other Group members. It ensures timely identification of all material risks and a standardised set of procedures, which provides for the understanding of the consequences of realised potential risks. Furthermore, it includes the processes that enable effective management of individual risks or exposures.

The quality of the whole risk management system is closely connected to the **own risk and solvency assessment process**. Its main purpose is to prepare own risk assessments at the Group level, which define the impact on current or future capital requirements, and on the basis of these assessments to make decisions on risk retention or transfer, optimisation of capital management and improved setting of premium rates. Part of the process is the stability testing of the Group's capital adequacy based on the new risks from the environment by verifying the impact on the available capital using the selected scenarios. When assessing the impacts of an individual scenario, the measures to reduce them are defined so as to increase the readiness and upgrade the internal control system. All of this is the basis for making other strategic decisions. The risk management system is well incorporated into the operations of the Group. This means that risks are partly managed in the first line of defence, which allows a quality assessment of present and future risks.

1.1 Powers and responsibilities

As the key element of comprehensive risk management, the corporate governance system ensures that the risk profile is within the limits set in the Risk Appetite Statement.

The risk management system is designed based on the **"Three Lines of Defence" model**.

- The first line of defence consists of the business functions, which actively manage concrete business risks through their business decisions and which are primarily responsible for risk identification and underwriting.
- The second line of defence is composed of business functions and decision-making bodies, forming the risk management system, which includes exposure identification, measurement and monitoring as well as the exposure limit system.
- The third line of defence includes the internal audit function. This function executes regular adequacy and effectiveness reviews of the internal control environment and the risk management system in individual functional areas.

Even though the Management Board and the Supervisory Board are not directly part of the three lines of defence, they play a key role in the risk management system. They are the primary stakeholders serviced by the three lines of defence, who are also in charge of the operation of the three lines of defence system.

The decision-making bodies participating in the integrated corporate risk management process and the three lines of defence

Supervisory Board and Audit Committee

Management Board

First line of defence → Risk underwriting

Business functions at all levels

- Day-to-day management of specific business risks.
- Responsibility for risk identification and underwriting.

Second line of defence → Risk Management

It includes competent risk management committees, the risk management function, the actuarial function, the compliance function and other related areas

- Definition of the risk management system.
- Definition and execution of the identification, measurement and monitoring procedures and the exposure limit system.

Third line of defence → Independent control

Internal audit

- Performance of regular reviews of the effectiveness of the internal control environment and the risk management system.

The Supervisory Board of the Company gives consent to the Management Board with respect to the written rules of the risk management system at the highest level. Within the scope of its powers and responsibilities, it takes note of the reports of key functions. At its sessions, the Supervisory Board regularly monitors the risk profile and capital adequacy as well as the results of the own risk and solvency assessment. Furthermore, it gives the Management Board its approval to the Solvency and Financial Condition Report in the context of discussing the comprehensive risk report. The Supervisory Board appoints a working body, which provides expert assistance and support in the formulation of positions on risk management.

The Audit Committee of the Supervisory Board supervises the adequacy and effectiveness of the risk management system and monitors the comprehensive risk profile of the Company.

The Management Board of the Company defines the business objectives and the risk appetite and approves the risk management strategy and policies. It is responsible for ensuring the effectiveness of the risk management system. The Management Board approves policies and plans of individual key functions, it is regularly briefed on capital adequacy and approves the most important reports drafted by the key functions, including the Regular Supervisory Report and the Solvency and Financial Condition Report. Independently or within a committee, the Management Board not only actively participates in and directs the own risk and solvency assessment process but also ensures its compliance with and integration into the capital planning and management processes.

The business functions in Zavarovalnica Triglav and individual subsidiaries of the Triglav Group are responsible for risk underwriting and identification in their respective work area in accordance with the guidelines of the Management Board, as well as for the management of concrete risks within the allowed exposure limits.

The second line of defence includes the key functions of the risk management system – the risk management function, the non-life and life insurance actuarial functions, and the compliance function. The third line of defence includes the Internal Audit Department as one of the key functions. **The key functions in Zavarovalnica Triglav are organised as independent organisational units**, which carry out their duties and responsibilities independently from one another and from the other organisational units of the Company. All four key functions cooperate with one another and regularly exchange information necessary for their operation. The key function holders meet the fit and proper requirements in line with the applicable internal rules. In the risk management activities, the key functions proactively cooperate with the other control functions at the Group level.

The risk management function is responsible for the establishment and coordinated and continuous operation of the integrated risk management system in accordance with the guidelines of the Management Board. Furthermore, it is in charge of monitoring the general risk profile, developing risk measurement methodologies and risk valuation models, performing the underlying risk analyses, reporting on risk exposures, and performing capital adequacy valuation using the regulatory method and other capital models. In accordance with the guidelines of the Management Board, the risk management function also performs own risk and solvency assessment, prepares disclosures on risks and the solvency and financial condition for publication, as well as reports to regulatory bodies.

The compliance function assesses compliance risks of the Company's operations with the applicable regulations and any other commitments and informs the Management and Supervisory Boards thereof. Furthermore, the compliance function assesses the potential impact of legislative and other changes in the legal environment on the operations, advises on coordination, as well as assesses the adequacy and effectiveness of the procedures and measures to adapt the Company's operations to these changes. The compliance function also plays a major role in ensuring fair and transparent practices.

The actuarial function primarily coordinates and calculates the insurance technical provisions:

- to ensure the appropriateness of the methods and models used as well as the assumptions made in the calculation of insurance technical provisions;
- to assess the appropriateness, sufficiency and quality of the data required for the calculation of insurance technical provisions;
- to verify the appropriateness of the overall underwriting risk policy.

In addition, it expresses an opinion whether the amount of the premium of individual products is sufficient to cover all the liabilities arising from these insurance contracts, as well as checks the adequacy of reinsurance. Furthermore, the actuarial function actively participates in the introduction and implementation of the risk management system, particularly in the development, application and monitoring of the appropriateness of capital requirement calculation models and in conducting own risk and solvency assessment. In the context of the second line of defence, the main task of the actuarial function holders is to regularly monitor the implementation of the actuarial function and to inform the Supervisory Board and the Management Board of any major findings.

The internal audit function performs an ongoing and comprehensive control over the operations of the Company. This is achieved by assessing the adequacy and effectiveness of the Company's governance, risk management and control procedures in an impartial, systematic and methodical manner and by making recommendations for their improvement. Apart from that, the internal audit function provides advice in agreement with the Management Board and the management of functional areas, cooperates with external auditors and other supervisory bodies, monitors the implementation of internal and external auditors' recommendations, participates in the performance of internal audits in other Group members, maintains the quality and provides for continuous development of internal auditing. The internal audit function periodically reports on its work and findings to the Management Board, the Audit Committee and the Supervisory Board. In their work, internal auditors must be impartial and must avoid any conflict of interest. Furthermore, they are not allowed to perform any development and operational tasks that could cause a conflict of interest and weaken their objectivity, nor do they decide on activities in the areas subject to internal auditing.

All key functions are in charge of not only transferring the know-how and best practices to the Group members but also of ensuring coordinated operations within the Group members.

In the Group members, the risk management system is established based on the principles of the controlling company, which are defined in the Minimum Standards, taking into account the size, complexity and business profile of a particular subsidiary. Risk management within the Group is primarily performed at the level of individual subsidiaries and secondarily at the Group level. The management bodies of subsidiaries and their appointed responsible persons are responsible for setting up and ensuring the operation of the risk management system at the level of individual subsidiaries. The Risk Management Department is in charge of drawing up and transferring the minimum standards for risk assessment. The Strategic Planning and Controlling Department and the Legal Office are responsible for the implementation of the governance system of the Group's subsidiaries; moreover, by setting minimum standards, they are establishing and maintaining an effective and transparent governance system of the Triglav Group. Particularly important are effective communication and quality exchange of data and information (time availability, methodological consistency, accounting verifiability, integrity).

The second line of defence of the risk management system includes **the committees appointed by the Management Board**. They have an advisory role or are granted certain decision-making rights by the Management Board. The purpose of these committees is to provide support to the Management Board in regular monitoring, coordination and information about risk management. The competences and powers of the committees are defined in the respective rules of procedure approved by the Management Board.

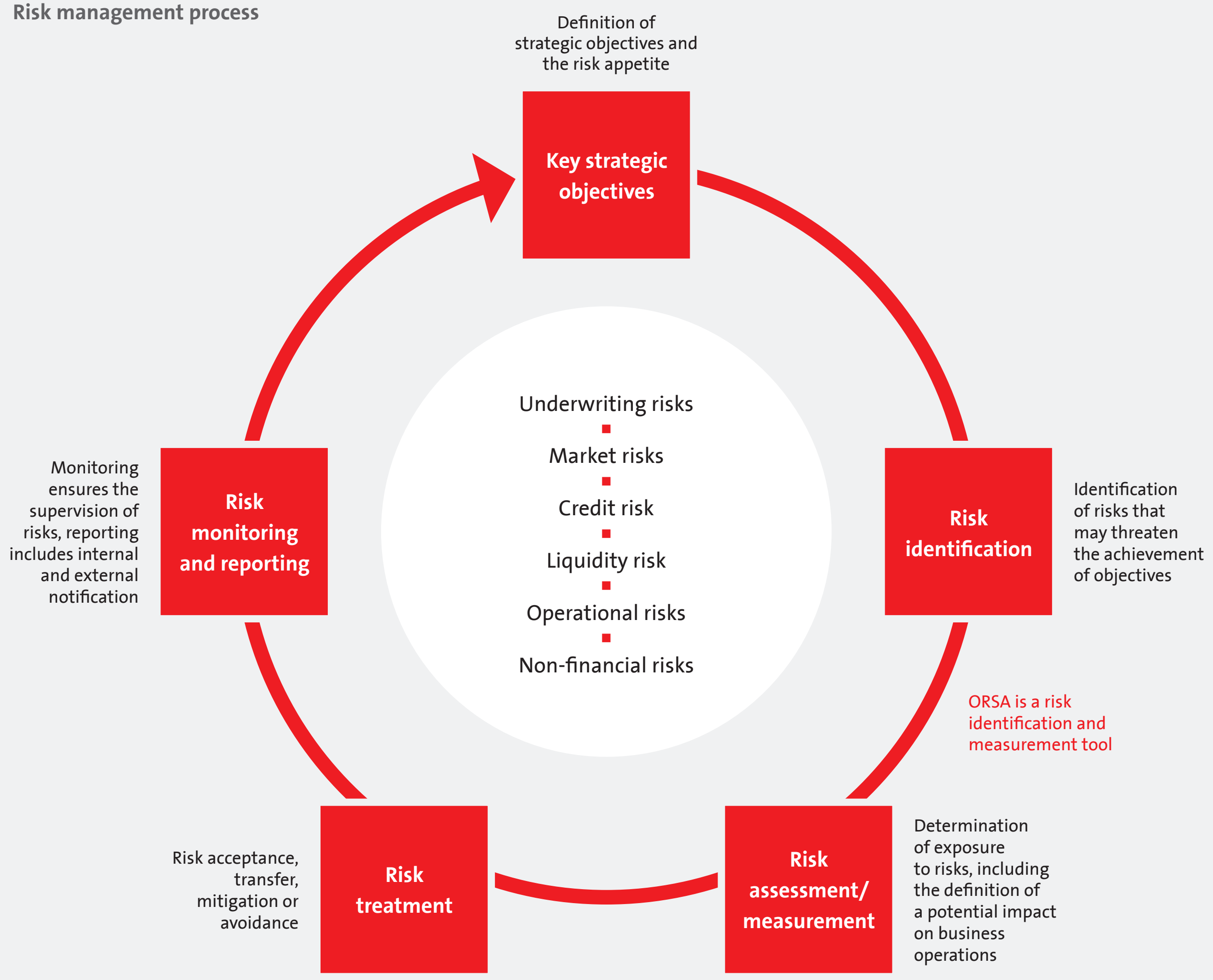
The risk management system includes the following committees at the level of Zavarovalnica Triglav and the Triglav Group:

- **The Risk Management Committee** manages all material risks for the Company or the Group, while also being responsible for strategic or non-financial risks.
- **The Assets and Liabilities Committee** is responsible for market risks, including credit risks arising from investments, life insurance risks and liquidity risks.
- **The Non-Life Insurance Committee** is in charge of non-life underwriting and credit risks, including the risks related to the transfer of exposures to reinsurers.
- **The Operational Risk Committee** is in charge of operational risks, including the risks arising from outsourcing (but excluding project-related risks).
- **The Non-Life and Life Insurance Product Forums** are responsible for the development of new insurance products, including any risks related thereto.
- **The Project Steering Committee** deals with the project-related risks and reports on any material risks to other competent committees.

1.2 Risk management framework

The risk management system incorporates all areas, with an emphasis on those that materially affect the operations and the set business objectives. It is very important to build an appropriate culture in the Company, especially in relation to knowledge, cooperation and open communication about risks; the Management Board and the management bodies of individual Group members play the key role in this.

Risk management process



The main building blocks of comprehensive risk management in the Company are the Triglav Group Strategy and the Business Plan of Zavarovalnica Triglav. In the process of setting the guidelines and objectives for the strategic period, the risks that the Company is consciously willing to take in order to achieve these objectives are defined. In addition, the key indicators are defined, based on which the target (appetite) and maximum (tolerance) exposure values are set. Firstly, on the basis of the set strategic objectives, the possible events that could have a material impact on the achievement of objectives are identified once a year in the own risk and solvency assessment process (ORSA). Secondly, the impact of these events on the Company's operations is assessed and, if necessary, risk management measures are defined.

The identified events are the risks which the Company appropriately classifies, assesses and analyses, particularly in terms of impact and probability of occurrence. The analysis serves as the basis for the Management Board to make decisions on the risk management method, which depends on the ratio between the actual exposure (the risk profile) and the values laid down in the risk appetite (acceptance, transfer, mitigation or avoidance). All the risks are regularly monitored and controlled, which includes regular reporting to both external and internal stakeholders.

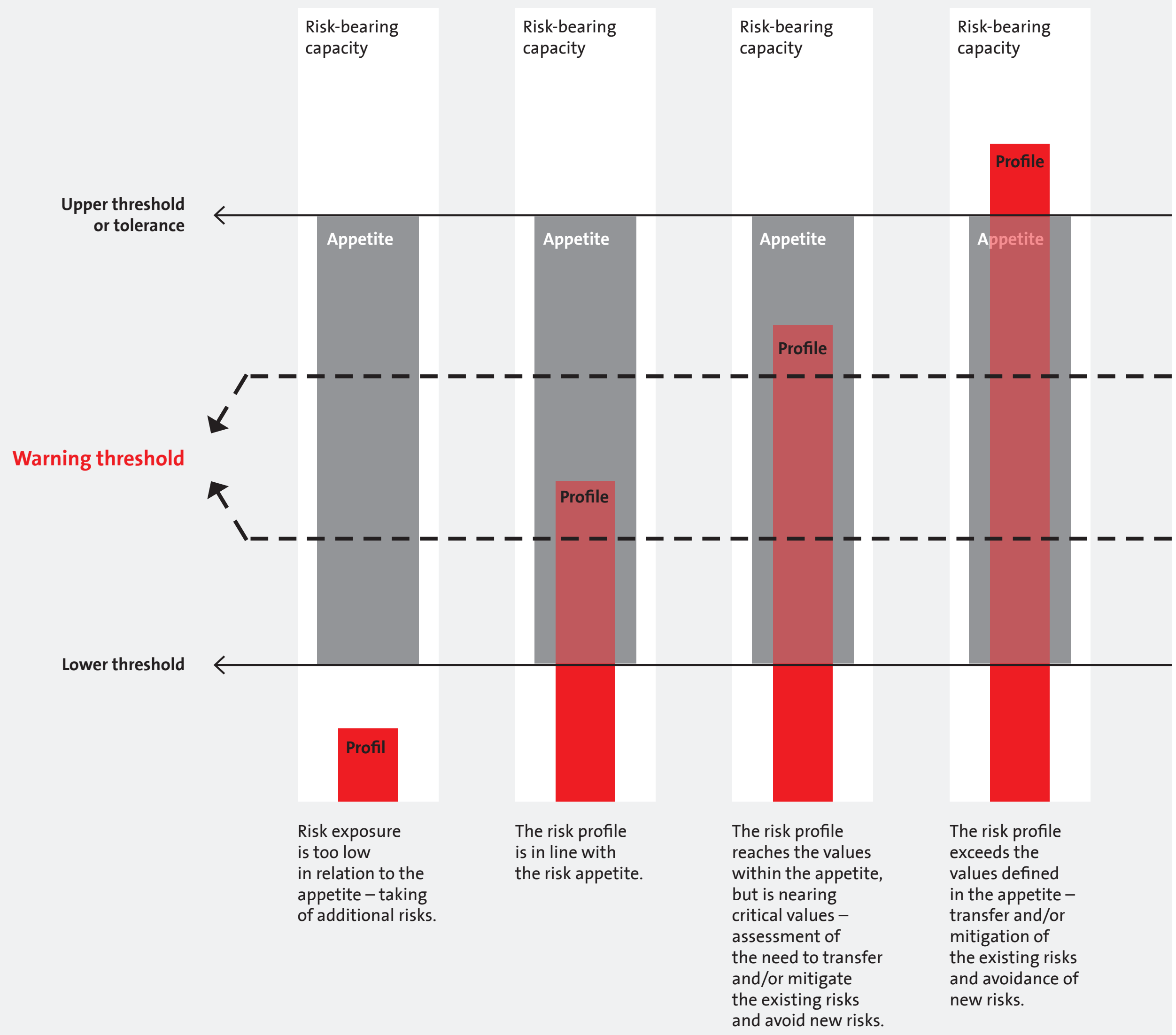
The risk appetite determines the key indicators for material risks and their target and limit values. The Company has zero tolerance for all types of risks which it does not want to assume in the course of its operations.

The key indicators also include the solvency ratio. Its target range and tolerance are consistent with the dividend policy and defined in the internal document regulating capital management in both the Company and the Group. Maintaining capital adequacy within the target range is an ongoing process, which requires regular review of business decisions in terms of profitability and the risks assumed.

The Risk Management Department regularly monitors the matching of the risk profile (the actual exposure to risks) and the risk appetite and briefs the Management Board by drafting regular risk reports.

The selection of the approach depends on the ratio between the risk profile and the values laid down in the risk appetite as shown in the following figure.

The basis for deciding on the risk management approach



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The risk exposure monitoring mechanisms enable the Company not only to detect and identify any negative trends but also to take appropriate measures. Operationally, risks are identified at several levels. At the level of the functional areas, risks are identified with the established processes of notifying the key functions about the transactions with increased risks, while at the aggregate level risks are identified by regularly monitoring the concentration of exposure and the increased volatility where the exposure of the Group is greater. Material detected or identified risks are included in the own risk and solvency assessment process.

Risks are regularly measured and monitored using various methods:

- **Regulatory method:** This method is based on risk measurement in accordance with the Solvency II standard formula and includes the explanation of substantial changes in the period.
- **Internal methods:** Through internal risk measurement, own calculations of the defined key risk indicators are regularly performed, thereby assessing the risk level of a particular risk type. In addition, the limits are defined in order to limit the underwriting of risks. These limits are used in the ordinary course of operations.
- **S&P risk assessment method:** Capital adequacy is also calculated by using the methodology of the S&P rating agency.

At least once a year, in the context of the own risk and solvency assessment process, an analysis is performed to assess the appropriateness of the regulatory method. The results of the internal risk measurement method are also taken into account in the final assessment of appropriateness.

Internal reporting enables the Management Board and the Supervisory Board to be regularly briefed on exposure to risks by individual risk type and the overall exposure at the level of the Company and the Group. The risk report, which is prepared on a quarterly basis, is a documented result of regular risk measurement and monitoring, as it covers all key risk indicators, including the trends, limits and recommendations of the Risk Management Department.

The Company regularly documents any deficiencies identified within the risk management system, including proposals for improvements, as well as prepares measures and recommendations for its upgrade.

1.3 Capital management

At any given time, the Triglav Group has sufficient capital, which allows it to assume a specific, measurable quantity of acceptable risks. Capital is the first criterion for assessing the solvency of the Group. The primary goal of capital management is to guarantee a sufficient and suitable capital adequacy level on both a consolidated and an individual basis. In setting the level of acceptable risk, generation of appropriate profit for owners has to be ensured. The goal of capital management is to guarantee the safety and profitability of operations as well as a long-term and stable return on investment by paying out dividends based on the predefined criteria in the dividend policy.

In the beginning of 2018, the Group adjusted its capital management objectives and consequently redefined its dividend policy; [→ *see Section 6.4 of the Business Report for further details*]. The target capital adequacy is thus set in the range between 200% and 250%. The reason for the change is the modified and more conservative calculation of the adjustment for the loss-absorbing capacity of deferred taxes.

In previous years and throughout 2018, the Group was adequately capitalised, safe and profitable. It was assessed that the Group had an adequate capital level also as at 31 December 2018.

The capital management strategic objectives and the dividend policy criteria are shown in the figure below.

Strategic objectives of capital management and the dividend policy

> 250%	Surplus capital adequacy	Possibility of a more aggressive growth of business volume, assessment of potential changes in the business strategy
200–250%	**Target capital adequacy**	Regular performance of risk management activities
150–200%	Sub-optimum level of capital adequacy	Analyzing possible medium and long-term measures to improve capital adequacy and emphasized monitoring of risks
130–150%	Warning level of capital adequacy	Implementation of measures to improve capital adequacy
< 130%	Insufficient capital adequacy	

As required by the applicable legislation, the amount of available capital is regularly measured to make sure it is in line with the regulatory capital requirements, both at the level of individual insurance subsidiaries and at the Group level.

At the Group level, Zavarovalnica Triglav maintains a surplus of available capital in excess of the capital requirements for its core business and for covering potential losses. This surplus provides protection against losses due to unforeseen adverse events and volatile capital requirements. In addition to current capital adequacy levels, the Company plans and assesses future capital and capital adequacy levels. This allows it to detect any influences from the environment affecting capital adequacy and to ensure optimum capital allocation.

Capital adequacy is an essential part of the credit rating. Decisions concerning capital management are supported by the results of the capital models, based on which the credit ratings are assigned. The Group's capital adequacy model is assessed by the credit rating agencies S&P Global Ratings and A.M. Best. The credit rating is discussed in greater detail in [→ *Section 6.6 of the Business Report*].

1.4 Risk types

The most important risk types are described below, whereas the risk management methods and exposure to a specific risk type are described in greater detail in [→ *Section 2*].

The basis for defining the risk appetite is identification of the risks to which the Company is exposed in the course of its operations. The risk identification process is ongoing. It involves all functional areas in accordance with their respective powers and responsibilities. Its purpose is to ensure the inclusion of all material risk types in the risk management system, to set up the risk exposure measurement process and to achieve uniform risk management and understanding at all management levels. In its operations, the Company assumes the following risks:

- **Underwriting risk** is the risk of loss or of adverse change in the value of insurance liabilities due to inadequate pricing and provisioning assumptions taken into account in the calculation of insurance technical provisions. Every type of insurance has its own specific risks, which the Company duly identifies and manages. In the context of direct insurance operations, the Company is predominantly faced with traditional underwriting risks, which are divided into premium risk, provision risk, catastrophe risk and lapse risk. Within underwriting risks (including reinsurance risks), non-life underwriting risks (including health insurance) and life underwriting risks are treated separately.
- **Market risk** is the risk of loss or of adverse changes in the financial situation, resulting from fluctuations in the level and the volatility of market prices of assets, liabilities and financial instruments. It includes interest rate risk, equity risk, property risk, spread risk and market concentration risk.
- **Liquidity risk** is the risk of loss that may occur if the Company or the subsidiaries of the Group are not able to meet all past-due obligations or are forced to provide the required funding at costs significantly higher than normal. Liquidity risk is also the risk of limited access to the funding needed to meet the payment obligations from insurance and other contracts. Normally, it materialises in the form of the inability to liquidate financial assets without having to make the sale at a substantial discount compared to the current market price.
- **Credit risk** is the risk of loss or of adverse changes in the financial situation, resulting from fluctuations in the credit position of counterparties and potential debtors, to which an insurance undertaking is exposed in the form of counterparty default risk and concentration risk.
- **Operational risk** is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. It includes information technology risk, legal risk, compliance risk, conduct risk, model risk, project risk and outsourcing risk. Apart from that, this risk type includes information security risks and within them cyber risk, which are monitored by the Company as a separate subtype due to their importance.
- The **non-financial risks** include strategic risk, reputational risk, capital risk and the Group risks:
  - *Strategic risk* is the risk of loss due to adverse business decisions, improper implementation of adopted strategic decisions and insufficient responsiveness to changes in the business environment (including legal and regulatory risks).
  - *Reputational risk* is the risk of loss arising from lost income from future or existing operations of the Company or the Group, resulting from a negative image held by its clients, business partners, employees, shareholders and investors and/or competent or supervisory bodies and the other interested public.
  - *Capital risk* is the risk of loss due to inadequate capital structure with regard to the business volume and method or problems encountered when acquiring fresh capital, especially in the case of unfavourable operating conditions or the need for a rapid capital increase.
  - *The Group risks* arise from the business model of the Company, which is the parent undertaking or a group of related parties. They include the risks that might threaten the achievement of strategic objectives due to an ineffective governance system of the Group and insufficient understanding of the business environment in which its companies operate, e.g. changed circumstances relating to environmental, social, employee, bribery and anti-corruption matters. The Company's risk profile can also be influenced by the transactions between the associated companies and the high complexity of concentration risk management.

In addition to the above-described identified risks, the Group also pays particular attention to emerging risks. These are risks which may develop or which already exist and that are difficult to quantify and may have a significant impact on business. They cannot be predicted based on past experience as there is often no data from which to predict either the frequency or the severity.

The potential risks are monitored very closely and the risk management system is appropriately upgraded.

2. Disclosures and Risk Management

Presented below is the Group's exposure to all material risks of the Triglav Group.

The quantitative presentation of risk exposure is primarily based on accounting data. Risk exposure from the economic aspect will be presented in greater detail in the Solvency and Financial Condition Report, which is prepared separately for the parent company and the Triglav Group.

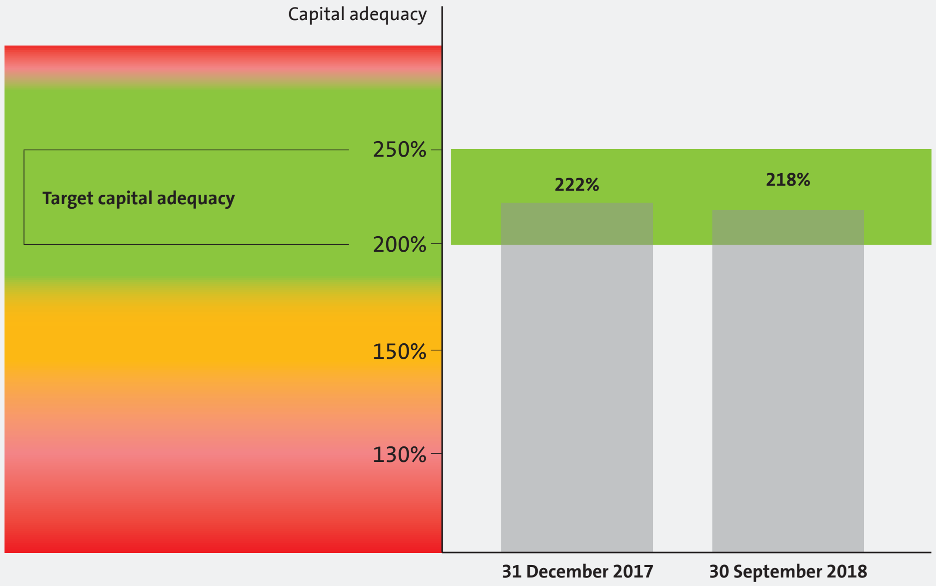
The risk profile of the Group and risk assessments of individual risk segments are based on the economic aspect by using the regulatory method, which was adjusted to the internal specificities and assessed as appropriate for risk measurement in the context of the own risk and solvency assessment process. The assessment of each individual risk as at 30 September 2018 takes into account all material information if they affect the risk profile and the trends forecast until the end of the year.

2.1 Capital and capital adequacy management

Capital management enables the Group to optimise its operations, adopt appropriate business decisions and maintain its competitive advantages. Capital management is centralised at the Group level. Through capital concentration in the parent company, active capital management and allocation is ensured in line with the strategic objectives and the interests of a broad range of stakeholders.

According to the latest available estimates, the level of available capital at the Group level, taking into account the dividends, significantly exceeded the estimated risk level presented in the table as a capital requirement. The solvency ratio as at 31 December 2017 is presented in more detail in the Solvency and Financial Position Report of the Company and the Group for 2017. The solvency ratio as at 30 September 2018 was calculated in the context of own risk and solvency assessment and is within the set strategic objectives.

Risk appetite and actual capital adequacy of the Group



	Triglav Group		Zavarovalnica Triglav	
	30 Sept. 2018*	31 Dec. 2017	30 Sept. 2018*	31 Dec. 2017
Available capital (in million EUR)	858	878	868	887
Capital requirement (in million EUR)	393	395	307	322
Solvency ratio (in %)	**218**	**222**	**283**	**275**

* The column shows the unaudited, quarterly best estimates of available capital, capital requirements and the solvency ratio as at 30 September 2018 calculated in the context of own risk and solvency assessment, taking into account the planned dividends for 2018.

2.2 Risk profile

In the table below, the risk profile of Zavarovalnica Triglav and the Triglav Group shows their exposure to all material risk types .

Risk dashboard of Zavarovalnica Triglav and the Triglav Group as at 31 December 2018

Risks	Risk assessment	Risk trend	Note
Capital adequacy			Sound performance at an acceptable level of risks increases the available funds which are eligible to cover them. Capital adequacy thus remains within the target range both in the Company and the Group.
Underwriting risks			The Group maintains premium growth and achieves the target values of indicators in strategic markets. Combined ratios are within the target values defined in the risk appetite. The risk of low interest rates is still relevant as it hinders profitability of insurance.
Market risks			Market risks decreased as a result of appropriate investment portfolio management. The risk of increased credit spreads remains in the forefront, which can lead to a decrease of the debt portfolio value but does not affect the estimate of insurance technical provisions.
Liquidity risk			Indicators show a high short-term liquidity of the Company. The medium-term liquidity slightly decreased in non-life insurance, whereas in life insurance it remained at the level of the previous year.
Credit risks			The Company comprehensively reviewed its counterparty records and established a uniform method of assigning credit ratings to the Group's partners, thereby ensuring quality credit risk monitoring and assessment. Risks slightly increased but remain within the defined limits.
Operational risks			In the context of operational risks, the Company is most exposed to compliance risk (and within it to regulatory risk) and cyber risks. In accordance with the action plan, the upgrading of cyber risk management and information security indicators is under way. Constant upgrading of data control, cyber resilience and the risk management system for the protection of critical business processes and IT will be needed.
Non-financial and strategic risks			On the basis of media placement analyses and internal analyses, no significant changes were identified, which confirms that the Company maintains a good reputation and successfully adapts to new challenges. The already low unemployment rate will continue to decline, which will make finding appropriately qualified staff that more difficult, particularly in the sectors where labour shortage has already been identified, and cause pressure on raising salaries.

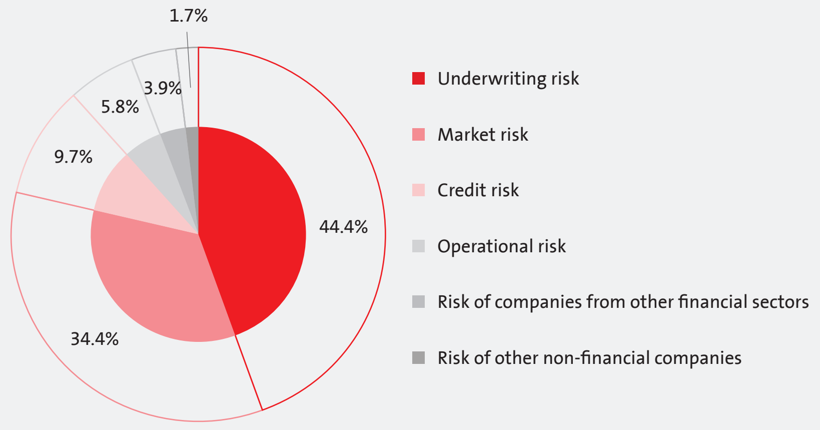
* An overall assessment of the main risk types was made on the basis of discussed quarterly risk reports and the scope of adopted and approved methodologies.

i) the colour scale of assessed risks: high medium low

ii) risk trend: downward stable upward

The level of underwritten risks is in line with the guidelines defined in the risk appetite. The Group is most exposed to market and underwriting risks, followed by credit and operational risks. Within the Group, Zavarovalnica Triglav assumes the bulk of the risks.

Risk profile assessment of the Triglav Group as at 31 December 2018



2.3 Underwriting risks

Underwriting risk is the risk of loss or of adverse change in the value of insurance liabilities, due to inadequate pricing and provisioning assumptions taken into account in the calculation of insurance technical provisions.

The Group assumes underwriting risks when performing insurance transactions. An appropriate underwriting risk management, consisting of a system of procedures and separation of duties and powers, enables the Group to achieve the target level (appetite) of the risks which it is willing to accept for the implementation of its business and strategic objectives, while maintaining the size and quality of the portfolio that provides for stable and safe operations as well as generates adequate returns.

Insurance operations consists of four key processes, through which underwriting risks are identified, measured, monitored and managed: product development, underwriting, underwriting risk transfer and claim settlement.

- The risk appetite limits are taken into account already in **product development** by setting the premium amount and the general underwriting criteria using actuarial techniques. At this stage, the Group defines the underwriting risks which it is prepared to accept, which it wishes to avoid, which have to be mitigated and which will be transferred to reinsurance.
- The next key process is **underwriting**, where an insurance product is appropriately tailored to the person or property insured in such a way as to minimise the potential for abuse, adverse selection and moral hazard.

- The third key process is intended for a comprehensive approach to **transferring (excess) underwriting risks** to a reinsurer or capital markets. The main mechanism for the transfer of underwriting risks is reinsurance. The annual planned reinsurance programme includes the calculation of own shares by individual insurance class and the maximum coverage table prepared on this basis, as well as procedures and criteria for determining the maximum possible loss with regard to individual insurance perils.
- The last key process in underwriting risk management is **claim settlement**, in which the Company pays out the claims it is obligated to pay to the insured in exchange for received insurance premium. In the claim settlement process, the Company monitors whether the amount of an insurance claim is within reasonable expectations, and in the case of derogations, it responds by taking appropriate action in all four key processes, e.g. by changing products or underwriting, by taking into account changes in insurance technical provisions, or by changing reinsurance.

Underwriting risks are divided into:
- **non-life insurance** underwriting risks and
- **life insurance** underwriting risks.

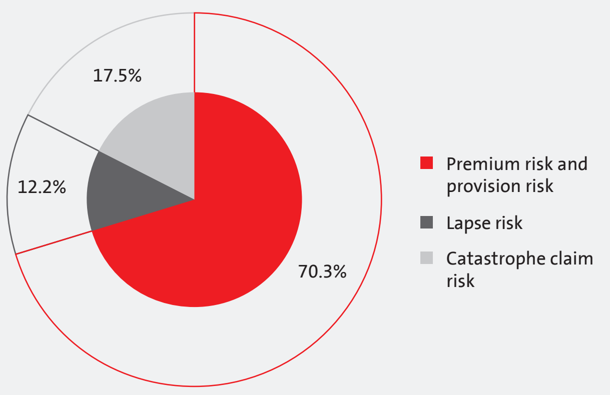
Consolidated gross written premium from insurance and co-insurance contracts of the Triglav Group by non-life and life insurance segment is presented in detail in [→ *Section 7.5 Gross written premium from insurance and co-insurance contracts of the Business Report*].

2.3.1 Non-life insurance underwriting risks

When concluding non-life insurance policies, the insurance and reinsurance subsidiaries of the Group underwrite premium risk, provision risk, lapse risk and catastrophe risk. Under the standard formula, these risks depend on the exposure of individual insurance segments and the variability of the rates of these exposures.

The Group is most exposed to premium and provision risks, followed by catastrophe risk and lapse risk. Within the Group, Zavarovalnica Triglav underwrites the bulk of the non-life underwriting risks, while Triglav, Zdravstvena zavarovalnica underwrites the majority of health underwriting risks. The level of underwritten risks is in line with the defined risk appetite limits.

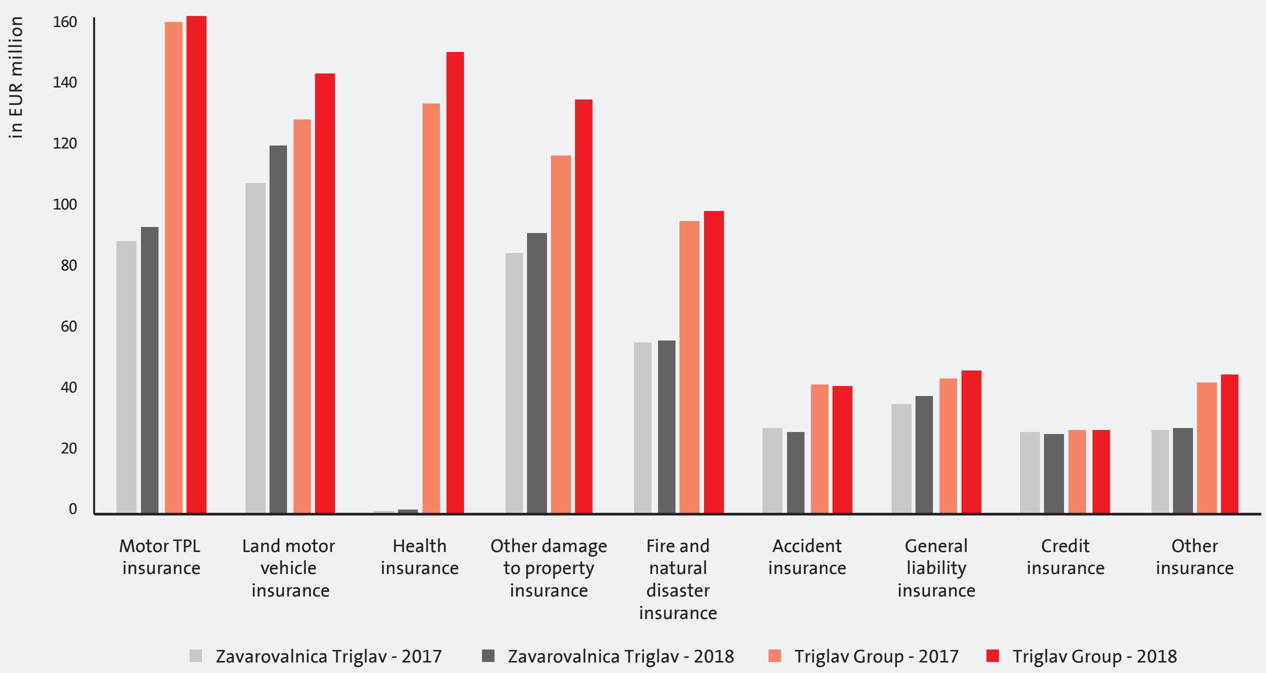
Risk assessment* for the Triglav Group by non-life underwriting risk type including health underwriting risks as at 31 December 2018



* Shows the risk profile under the regulatory method. Includes non-life insurance and additional accident insurance taken out with life insurance, but non-life insurance annuities are excluded.

Premium risk is the risk that the written premium will be insufficient to meet all obligations arising from the conclusion of an insurance contract, not taking into account major or catastrophe losses. The risk depends on premium earned and the annual variability of loss ratios, which is determined for each insurance segment using the standard formula. Greater the variability, greater the risk. Since premium risk also depends on the range of various insurance segments in the portfolio, the Group pursues a balanced diversification of the portfolio in different insurance segments.

Gross written premium from insurance and co-insurance contracts by insurance segment



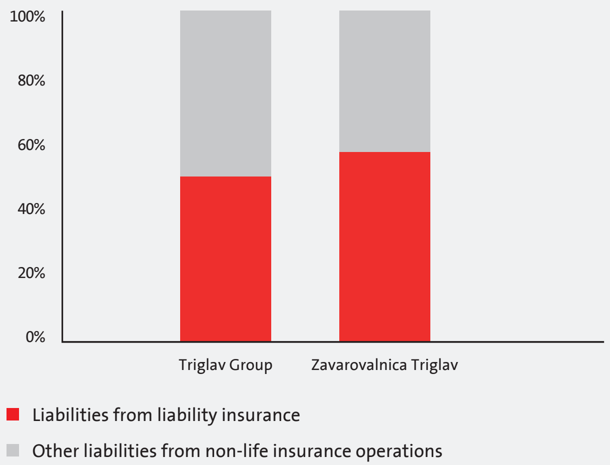
At the level of insurance and reinsurance subsidiaries of the Group, premium risk is regularly monitored through combined ratios, which measure the adequacy of written premium in relation to actual claims and costs arising from concluded insurance contracts. The combined ratios of the Group and the Company for the last three years are presented in [→ *Section 8.1 and Section 8.2 of the Business Report*] respectively. Based on actuarial estimates of the movement of the amount of benefits, expenses, combined ratios and the market situation, premium rates for non-life insurance are high enough, therefore premium risk management is appropriate.

Provision risk is the risk that the actual claims paid will deviate from the expected. Insurance technical provisions for solvency purposes represent the best estimate of expected claims paid from the existing non-life and health insurance contracts, taking into account the time value of money. If the claims paid are higher than the formed provisions, the Group will generate a loss from the existing obligations in the amount of such a surplus. However, if the future utilization of claims paid is lower than expected, the Group will generate profit. Provision risk therefore represents potential loss from provisions for claims already incurred (statistically) in an extreme 200-year event and, in accordance with the standard formula for each insurance segment, depends on the best estimate of net claims provision and its annual variability.

The appropriateness of provisions for individual insurance classes [→ *see Section 2.6 of the Accounting Report*] is verified by regularly performing the liability adequacy test based on the balance as at the last day of the business year and by regularly calculating insurance technical provisions for solvency purposes. According to actuarial estimates of future claims, insurance technical provisions, both for financial reporting and solvency purposes, were adequate as at the 2018 year-end [→ *see Sections 2.6.3 and 3.14 in the Accounting Report for more information*], therefore provision risk management is appropriate.

The provision risk is also influenced by the maturity of liabilities, which represents the average duration of claim settlements for which provisions were made. With respect to liability insurance, more than half of the claims are settled after one year, while in other insurance segments more than half of the claims are paid within one year. As a general rule, provisions with long maturity are relatively riskier in the long term than short-term provisions, whereas in the period of one year they are normally less risky.

Ratio between liabilities from liability insurance and other insurance as at 31 December 2018



The share of long-term provisions of the Group is lower than the comparable share of the Company, primarily due to the significant impact of short-term health insurance of Triglav, Zdravstvena zavarovalnica.

After one year, it is expected that approximately a quarter of provisions for long-term liabilities and three quarters of provisions for short-term liabilities relating to non-life insurance will be released, including health insurance. Long-term provisions are released at a slower pace, which is why they are more stable than short-term provisions in a one-year period.

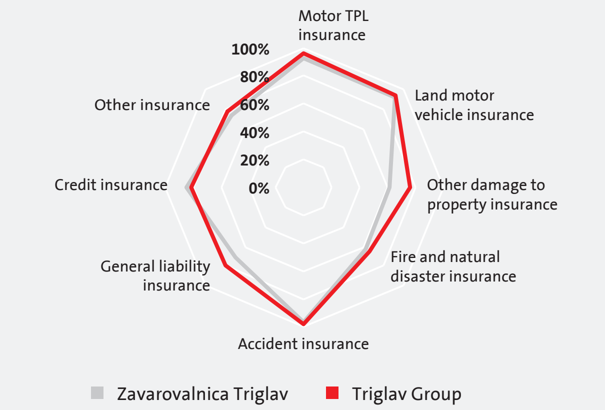
Lapse risk is the risk that the lapse rates of concluded non-life insurance contracts will be higher than the expected lapse rates. Because the term of non-life insurance policies is mostly one year (short-term) and because even in the case of multi-year insurance policies the Company cannot unilaterally terminate an insurance policy, except in the case of non-payment of premium, in practice this risk is lower than in life insurance policies. Nevertheless, the lapse risk assessment under the standard formula is conservative, as it is equal to the maximum potential loss upon immediate termination of 40% of insurance policies.

Non-life underwriting risk concentration

Concentration risk is the consequence of the clustering of insurance operations in a geographic area, sector or industry, or individual insured perils. It may also arise as s result of correlation between individual insurance classes. In such a case, even a single loss event may have a material impact on the Company's ability to settle its obligations. Concentration risk is managed with appropriate reinsurance contracts. The Group aims to have appropriate procedures in place at all times for minimising the probability of loss occurrence arising from underwriting risk concentration and for minimising the incurred loss.

A large loss can occur in the case of substantial individual claims, such as a fire of an industry building, or a high number of claims caused simultaneously, e.g. in the event of an earthquake. The fire and natural disaster insurance portfolio includes the largest number of individual large perils, which is also exposed to natural disasters perils. Reinsurance cover is therefore most needed in this segment.

Net written premium share in relation to gross written premium as at 31 December 2018



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With regard to regulating the reinsurance coverage in the Triglav Group, Pozavarovalnica Triglav Re plays an important role as it assumes the underwriting risks based on reinsurance contracts concluded with individual subsidiaries of the Group. Pozavarovalnica Triglav Re concludes outward reinsurance contracts for a portion of the risks it reinsures in order to better control its exposure and to protect its own assets, while indirectly protecting the assets of the insurance entities of the Group.

Low-frequency and high-severity risks

Special attention is paid to consequences of natural disasters such as earthquakes, storms, hail, floods and frost. When we are assessing the potential loss of catastrophe events, we take into consideration the results of various models and then use them to determine the reinsurance coverage. The reinsurance programme includes different types of reinsurance coverage, which depend on the nature of insured perils and insurance segments.

The Triglav Group's maximal retention amounts to EUR 5 million per peril, with the exception of nuclear perils, where retention is EUR 10 million per natural disaster and EUR 5 million per other aggregate perils occurring after the event. With regard to nuclear perils with an even lower frequency, the maximum exposure of the Group amounts to EUR 13.8 million. The year 2018 was prevailed by four major weather disasters [→ *See Section 7.2 of the Business Report for more information*].

Another contingent loss event could arise from the nuclear peril, which Zavarovalnica Triglav has assumed from the Slovenian Nuclear Pool. It is characterised by an extremely low frequency, as no loss event has been reported in 25 years, and by a low or null correlation with other contingent liabilities that would arise in relation to such an event.

Assumed capacity of nuclear perils for 2017 and 2018

	Assumed capacity in EUR	
	2018	2017
Zavarovalnica Triglav	10,000,000	10,000,000
Pozavarovalnica Triglav Re	2,984,400	2,520,000
Triglav Osiguranje, Zagreb	850,000	850,000
TOTAL PER EVENT	**13,834,400**	**13,370,000**

The reinsurance coverage for retention in the case of catastrophe events is designed as excess of loss reinsurance with four layers and has been activated twice since 2010. The protection against increased occurrence of natural disasters is also arranged for the Group. Past events have shown that the reinsurance programme is suitable.

The greatest risk among low-frequency and high-severity risks of the Group is an earthquake in Ljubljana. It is covered with quota share reinsurance, while retention is additionally protected with excess-of-loss reinsurance for catastrophe events. In the context of an insurance scenario, the Company tested the effect of a 200-year and 1000-year earthquake in Ljubljana, which represents the maximum concentration of exposure for this risk. In addition to the payment of damages from insurance operations, this scenario includes all other operating effects on the business, such as increased claim handling expenses and business continuity costs. Furthermore, the scenario includes the calculation of the effect of a fall in the value of Slovene government debt securities due to the adverse economic situation in Slovenia and the effect of changes in the volume of insurance business. Having an adequate reinsurance coverage, the Company and Group would successfully survive the severe earthquake event. In the case of a 200-year earthquake, the estimated impact under the scenario would amount to EUR 108 million for the Company or EUR 125 million for the Group, while in the case of a 1000-year earthquake, the estimated impact would be EUR 148 million for the Company or EUR 176 million for the Group. These crisis scenarios showed a strong resilience of both the Company and the Group.

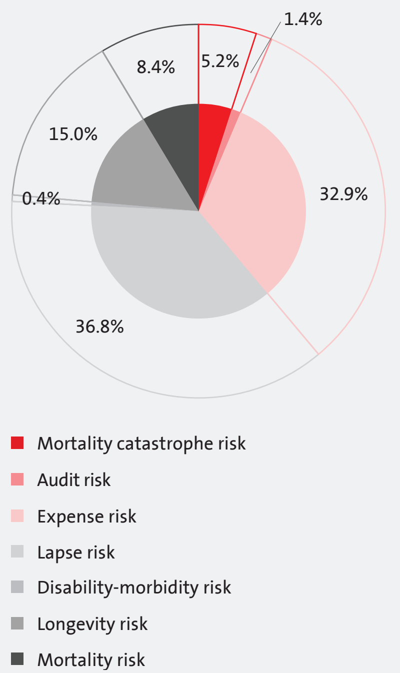
The estimated amount of non-life underwriting risk including health insurance risk accounts for 23% of the Group's available capital.

2.3.2 Life insurance underwriting risks

The life insurance portfolio includes traditional, unit-linked and pension insurance policies. Pension insurance also includes supplemental voluntary pension insurance provided by the Company in the context of the second pillar of the pension system. Additional insurance can be added to unit-linked and traditional insurance policies. **Life insurance underwriting risks** are all underwriting risks arising from life insurance underwriting processes and from maintaining the life insurance portfolio. The Group underwrites mortality risk, longevity risk, morbidity risk, permanent total incapacity for work risk, disability risk, accidental death risk, critical illness or injury risk, medical expense risk, daily benefit risk, second medical opinion risk, etc.

Life underwriting risks account for around 10% of total non-diversifiable risks in the Group. The level of underwritten risks is in line with the defined risk appetite. The Group is most exposed to life expense risk and lapse risk. Within the Group, Zavarovalnica Triglav underwrites the bulk of life underwriting risks. Gross written insurance, co-insurance and reinsurance premiums in 2018 by insurance subsidiary of the Group is presented in [→ *Section 7.5 of the Business Report*].

Risk assessment* for the Triglav Group by life underwriting risk type as at 31 December 2018



* Shows the risk profile under the regulatory method of risk measurement. Includes life insurance and non-life insurance annuities, but additional accidental insurance taken out with life insurance is excluded.

Lapse risk (early policy termination is requested by the policyholder) is linked to life insurance policies. It is the difference between the future realised and expected surrenders, capitalisation and any other changes to policies. The types of impact on this risk are similar to those on mortality risk. Lapse risk may arise from changes in the general economic environment, which affect policyholders' behaviour, and in any other sources leading to an incorrect estimate.

Life expense risk is the risk that the future actual life insurance expenses will differ from the expected. This risk is reflected in inadequately calculated premium, insufficient insurance technical provisions and in the difference between the actual and expected result. Expense risk may be a consequence of miscalculations and incorrect allocation of actual expenses (the inadequacy of the cost model) and incorrectly estimated level, trend or volatility of expenses.

Mortality risk is the risk that the actual future mortality rate will be different than expected, which affects the adequacy of:
- the amount of calculated premium,
- the level of insurance technical provisions,
- the amount and type of risk transfer (reinsurance, co-insurance) and
- the difference between the actual and the expected result of the Company.

Mortality risk can arise from:
- inappropriate risk assessment in the underwriting process (mainly arising from information asymmetry between the policyholder and the Company);
- incorrectly estimated level, trend or volatility of future mortality rates for a particular homogeneous risk group (e.g. the lack of empirical data);
- catastrophe events that affect mortality (e.g. a pandemic), as well as other sources leading to an incorrect estimate.

Moreover, mortality risk includes **longevity risk**, which is closely monitored primarily in annuity and pension insurance.

As in the case of mortality risk, similar also applies to the other abovementioned underwriting risks covered by life insurance policies.

Adequate risk equalisation, which is the basic principle on which the insurance industry functions, is achieved through sufficiently large homogeneous risk groups, which constitute the entire portfolio of the above risks. An important prerequisite for adequate equalisation is efficient and correct classification of risks in underwriting, based on which a specific risk is assessed and classified into an appropriate group. Also considered in underwriting are the new findings, know-how and procedures of reinsurers who assume a portion of risks.

Premium risk and provision risk are managed in the context of the actuarial cycle, where deviations of the actual effects compared to the estimated are periodically checked. In the event any deviations outside the set parameters are detected, appropriate action is taken, e.g. adapting the design or parameters of an insurance product, appropriately adjusting the parameters for the calculation of insurance technical provisions, etc.

The adequacy of provisions is regularly tested using the liability adequacy test (LAT) and calculating the "realistic provisions" set based on the present value of the best estimate of future expected contractual and other cash flows. The test is performed at least once a year based on the balance as at the last day of the business year [→ *see Section 2.6 of the Accounting Report*]. The test results for 2018 show that an adequate level of insurance technical provisions for life insurance was formed at the level of both the Group and individual subsidiaries, with the exception of an identified shortfall in the guarantee fund backing supplemental voluntary pension insurance, for which additional other insurance technical provisions were created.

A part of life insurance risk management is the transfer of a corresponding portion of risks to reinsurers under the adopted reinsurance programme, which is also part of regular checks in the context of the actuarial cycle.

Traditional life and pension insurance policies with a savings component and a guaranteed interest rate are exposed to asset-liability mismatch risk, where the assets are insufficient to cover the described liabilities. Similar risks due to a special guarantee for the return arise from the supplementary voluntary pension insurance (SVPI) policies during the saving period. These risks are described in detail among market risks in [→ *Section 2.4.6 of this Report*].

Contractual financial options and guarantees are embedded in a number of policies, therefore the risks related thereto are assessed in the context of regular portfolio valuation. Among them is the guaranteed interest rate risk, which occurs in the products with a savings component. The guaranteed interest rate is set at the time of concluding an insurance policy and remains valid for the entire policy term. The risk arises when the actual rates of return on investment, which cover the benefits under such policies, are lower than the guaranteed interest rate. This risk is reduced by achieving the maximum possible matching of assets and liabilities arising from these policies. A secondary measure is to create additional provisions, especially in relation to the liabilities in the older portion of the portfolio. The fund of assets backing technical reserves of life insurance, with mathematical provisions in the amount of EUR 756 million, includes the majority of the Company's liabilities with a guaranteed fixed interest rate. In order to achieve a guaranteed return on the life insurance portfolio in the before-mentioned fund, it is necessary to maintain at least 2.5% return on assets, which is below the realised investment return of the Fund achieved in 2018, i.e. 2.9% [→ *see Section 15.11 of the Business Report for more information*].

This risk group also includes the guaranteed annuity rate risk, which arises from the annuity rates set at the time of concluding certain older pension insurance policies, i.e. in the savings phase. The policyholder will be entitled to them at the end of the savings period and the transition to the payout period when they will receive life annuity, which will then be calculated based on the saved assets and by applying the aforementioned fixed rates. This guarantee exposes the Company also to longevity risk (in addition to the abovementioned interest rate risk). This risk is not transferred to reinsurers, instead additional provisions are formed if necessary.

The most important type of a contractual financial option is the possibility to suspend the payment of premium and transform the policy into a paid-up policy or to surrender the policy. The fulfilment of this risk depends on the policyholders' actions, and therefore it is more difficult to manage. The Company reduces this risk by designing the products that meet the clients' needs and by carefully managing the existing portfolio.

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Concentration of life insurance underwriting risks

The concentration of life insurance underwriting risks is assessed as low, because the **life insurance** risk portfolio is well dispersed by all relevant criteria and due to the fact that most policies originate from geographically dispersed retail sale. Any risk concentration in the portfolio is reduced by transferring a portion of the risks to reinsurers based on the reinsurance programme. The risk sum insured in the event of death is less than EUR 60,000 for 82.4% of the whole life insurance portfolio and less than EUR 35,000 for 99.9% for the other life insurance portfolio. For additional accidental death insurance, the sum insured is lower than EUR 50,000 and accounts for 98.3% of the respective portfolio, while for additional disability insurance the sum insured is less than EUR 100,000 for 98.2% of the respective portfolio. Both sums insured represent the stipulated retention in line with the reinsurance contract for most insurance policies.

The estimated amount of life underwriting risk accounts for 6% of the Group's available capital.

2.4 Market risks

Asset management is a strategic activity and a significant part of the Group's business. In this way, insurance and other obligations and capital requirements are covered while ensuring an appropriate return. The Group is exposed to market risks, which mostly arise from exposure to different asset classes.

For the purpose of market risk management, methods and processes with clearly defined powers and responsibilities were established so as to promptly identify, measure, treat and monitor market risks. The market risk management system enables quality analyses and reporting on market risks, as well as preparing and implementing measures aimed at preventing the reduction of surplus of assets over liabilities due to changes in financial markets, including the real property market.

In its market risk appetite, the Group defined the level of unexpected losses, which is still acceptable in relation to its strategic objectives and capital strength. On this basis, the limit system specifies the target investment portfolio structure and maximum acceptable exposure to counterparties.

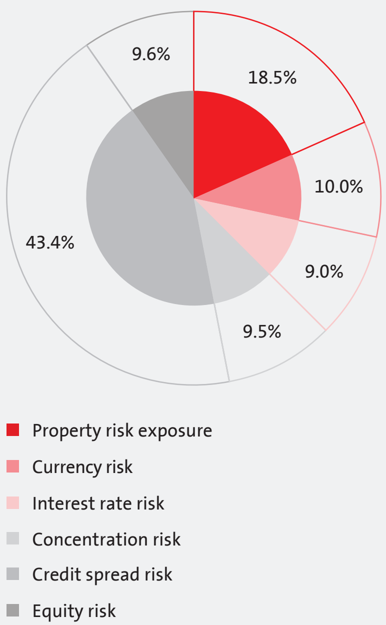
Apart from an appropriately diversified investment portfolio and regular asset-liability matching, the Group uses derivatives as a risk reduction technique.

The Group is exposed to the following market risk types:

- interest rate risk,
- equity risk,
- property risk,
- spread risk,
- currency risk.

Market risks consist of nearly 34% of non-diversified risks of the Group. Based on the investment structure [→ *see Section 7.9 of the Business Report*], the Group is most exposed to debt securities, followed by equity securities and investment property. The highest market risk for the Group is spread risk, followed by property risk, whilst currency risk, equity risk, concentration risk and interest rate risk are smaller risks, all at the same level.

Market risk assessment for the Triglav Group by market risk type as at 31 December 2018



2.4.1 Concentration risk

The largest share of the Group's assets is accounted for by debt securities. They are divided approximately equally into government and corporate bonds, while the latter are further equally divided into financial and non-financial sector bonds.

The Group continuously monitors exposure by issuer or group of related issuers of securities as well as compliance with the limit system for exposure to issuers, which ensures adequate diversification. The limit system is based on the regulatory method with the limit values, which are defined based on the issuer credit rating. The highest exposure to a particular issuer is represented by the Republic of Slovenia.

The estimated amount of concentration risk accounts for 3% of the Group's available capital.

2.4.2 Spread risk

Debt securities account for over 73% of total investments of the Group. Their value also depends on the level and volatility of credit spreads. Half of these investments is associated with exposure to government securities, followed by exposure to the corporate sector, accounting for more than 24% of investments in debt securities.

Credit risk exposure resulting from debt securities is limited by the investment policy aimed at investing in high-quality securities. In its investment portfolio, the Group is exposed to investments with outstanding credit quality. Over 44% of investments in debt securities bear at least the "A" credit rating. The bulk or good 80% of the portfolio is accounted for by debt securities of issuers having an investment grade credit rating of at least "BBB".

The structure of debt securities is presented in detail in [→ *Section 7.9 of the Business Report*]. The investment structure in terms of credit rating is presented in [→ *Section 2.5 Credit risk*].

The estimated amount of spread risk accounts for 13% of the Group's available capital.

2.4.3 Equity risk

Equity investments, excluding unit-linked life insurance contract investments, account for approximately 6% of the Group's investment portfolio. The majority of exposure to equity risk arises from exposure of the parent company.

The Group manages equity risk in its portfolio through exposure limits as well as through geographical and sectoral diversification. In addition, due to different levels of development of capital markets and local statutory limitations, the investment policy is adapted to individual markets.

The table below shows the geographical diversification of equity investments, including unit-linked life insurance investments. Most equity investments are globally diversified, followed by shares issued by issuers in the European Union. Unit-linked life insurance contract investments account for the bulk of globally diversified equity investments.

	Triglav Group		Zavarovalnica Triglav	
	31 Dec. 2018	31 Dec. 2017	31 Dec. 2018	31 Dec. 2017
Equities in the EU	161,266,048	198,466,682	89,846,079	116,161,531
Equities in the USA	15,275,648	10,800,877	4,126,014	2,985,278
Equities in Asia*	5,433,915	6,020,532	5,166,857	5,845,250
Equities in emerging markets	18,276,513	23,948,525	9,782,475	14,588,535
Global equities**	316,680,199	381,880,388	293,373,122	355,080,954
TOTAL	**516,932,323**	**621,117,004**	**402,294,547**	**494,661,549**

* Equity investments in developed Asian countries (Japan, Hong Kong)
** Globally diversified equity investments

The sensitivity analysis of the change in prices of equity investments and its impact on comprehensive income or profit or loss of the Group showed that a 10% increase in the market price of equities in the portfolio would have a positive impact on both the equity and profit of the Group in the amount of EUR 10.8 million and EUR 40.9 million, respectively. In contrast, a 10% drop in market prices of equity investments would reduce the equity and profit of the Group by EUR 10.6 million and EUR 41.1 million, respectively. The assessment of impact on profit or loss shown in the table below is significantly lower in real terms because the presented analysis also includes unit-linked insurance contract investments.

The estimated amount of equity risk accounts for 3% of the Group's available capital.

	Triglav Group				Zavarovalnica Triglav			
	31 Dec. 2018		31 Dec. 2017		31 Dec. 2018		31 Dec. 2017	
	10%	–10 %	10%	–10 %	10%	–10 %	10%	–10 %
Equities in the EU	16,126,605	-16,126,605	19,846,668	-19,846,668	8,984,608	-8,984,608	11,616,153	-11,616,153
Equities in the USA	1,527,565	-1,527,565	1,080,088	-1,080,088	412,601	-412,601	298,528	-298,528
Equities in Asia*	543,392	-543,392	602,053	-602,053	516,686	-516,686	584,525	-584,525
Equities in emerging markets	1,827,651	-1,827,651	2,394,853	-2,394,853	978,248	-978,248	1,458,853	-1,458,853
Global equities**	31,668,020	-31,668,020	38,188,039	-38,188,039	29,337,312	-29,337,312	35,508,095	-35,508,095
Total	**51,693,232**	**-51,693,232**	**62,111,700**	**-62,111,700**	**40,229,455**	**-40,229,455**	**49,466,155**	**-49,466,155**
Impact on equity	10,791,200	-10,573,220	16,999,209	-14,956,900	7,533,983	-7,316,003	12,350,262	-10,307,953
Impact on profit or loss***	40,902,033	-41,120,013	45,112,492	-47,154,801	32,695,472	-32,913,452	37,115,893	-39,158,202

* Equity investments in developed Asian countries (Japan, Hong Kong)
** Globally diversified equity investments
*** Presented is the impact of changes in assets that does not include the impact of liabilities, which results from a change in the price of equity securities, classified as "available for sale" due to revaluation adjustment.

2.4.4 Property risk

The property risk of the Group arises from the real properties for own use and investment properties owned by the Group. Total exposure amounts to EUR 203.1 million. In the financial investment portfolio, investment properties account for almost a half of the real property portfolio. Real property of the Group is primarily located in Slovenia.

	Triglav Group		Zavarovalnica Triglav	
	31 Dec. 2018	31 Dec. 2017	31 Dec. 2018	31 Dec. 2017
Investment property	89,840,454	94,007,483	45,270,540	48,214,401
Real property for own use*	113,296,053	98,302,376	67,986,100	60,295,362
Total	**203,136,507**	**192,309,859**	**113,256,640**	**108,509,763**

* Investment property is disclosed at cost in the financial statements. The fair value of investment property is presented in [→ *Section 3.2 of the Accounting Report*], where other land and buildings for the direct performance of the insurance activity are deducted, which are otherwise included in "property, plant and equipment". Fair value is determined using the valuation techniques. Valuation of real property based on the existing methodology is performed by an authorised valuer.

The estimated amount of property risk accounts for 6% of the Group's available capital.

2.4.5 Currency risk

The Group is exposed to currency risk to a lesser extent, as the currency structures of assets and liabilities almost fully match. The table below also includes unit-linked life insurance assets and liabilities.

Financial assets in euros account for 93.6% of total financial assets of the Group. Exposure to an individual currency does not account for more than 2.1% of total financial assets.

The Triglav Group as at 31 Dec. 2018	EUR	HRK	USD	OTHER	Total
Financial investments	**2,812,631,458**	**61,682,057**	**35,978,834**	**95,392,304**	**3,005,684,653**
Debt securities	2,231,378,456	31,848,557	22,722,806	63,118,525	2,349,068,344
Equity securities	491,997,326	8,836,834	11,025,699	5,072,465	516,932,324
Derivatives	1,936,813	0	0	0	1,936,813
Loans and receivables	87,318,863	20,996,666	2,230,329	27,201,314	137,747,172
Reinsurers' share of insurance technical provisions	**143,648,182**	**0**	**681,999**	**9,596,482**	**153,926,663**
Total	**2,956,279,640**	**61,682,057**	**36,660,833**	**104,988,786**	**3,159,611,316**

The Triglav Group as at 31 Dec. 2017	EUR	HRK	USD	OTHER	Total
Financial investments	**2,874,211,591**	**37,409,196**	**34,372,129**	**92,093,825**	**3,038,086,741**
Debt securities	2,191,085,082	25,726,083	25,297,118	61,738,920	2,303,847,203
Equity securities	599,010,517	9,305,737	7,198,100	5,602,650	621,117,004
Derivatives	2,600,657	0	0	0	2,600,657
Loans and receivables	81,515,335	2,377,376	1,876,911	24,752,255	110,521,877
Reinsurers' share of insurance technical provisions	**73,978,633**	**0**	**546,611**	**9,290,332**	**83,815,576**
Total	**2,948,190,224**	**37,409,196**	**34,918,740**	**101,384,157**	**3,121,902,317**

The estimated amount of currency risk accounts for 3% of the Group's available capital.

2.4.6 Interest rate risk

The Group is exposed to interest rate risk in the event of mismatch of asset and liability cash flows. In the financial statements, the interest rate sensitivity of assets is presented, whereas in the Solvency and Financial Condition Report the interest rate sensitivity of assets and liabilities in terms of economic impact is described in greater detail.

In accounting terms, the Group is exposed to interest rate risk on the assets side, specifically debt securities classified as "measured at fair value through profit or loss" and "available-for-sale financial assets" and derivatives. A change in the market interest rate has an impact on the level of insurance technical provisions only in relation to the impact of revaluation adjustment of debt securities classified as "available-for-sale".

The share of debt securities in the total portfolio is shown in [→ *Section 3.6 of the Accounting Report*]. The carrying amounts of debt securities as the most important interest rate-sensitive financial investments by various types of breakdown for the Triglav Group and Zavarovalnica Triglav are presented in [→ *Section 7.9 of the Business Report*]. The table below additionally includes unit-linked life insurance contract investments.

The asset sensitivity analysis of the change in interest rate and its impact on comprehensive income or profit or loss of the Group showed that a decrease of 100 basis points would have a positive impact on both the equity and profit of the Group in the amount of EUR 64.9 million and EUR 9.8 million, respectively. In contrast, if the interest rate were 100 basis points higher, the equity and profit of the Group would be lower by EUR 60.8 million and EUR 9.9 million, respectively. The positive and negative changes in interest rates have the strongest impact on debt securities issued by goverments, which account for the bulk of the Group's or the Company's investments portfolio.

For the actual net effect of changes in interest rates, it would be necessary to reasonably take into account the effects of insurance technical provisions, which are not included in the above analysis. In the event of a drop in current interest rates, the need to increase insurance technical provisions can be determined by performing the LAT, which means that a positive impact of the decline would slightly decrease. In contrast, in the event of a rise in current interest rates, part of the surplus generated by debt securities (classified as "available for sale") causes additional liabilities from revaluation, thereby increasing insurance technical provisions.

The Company monitors the duration gap[101] of interest-sensitive items on the basis of market valuation, excluding unit-linked life insurance contract investments and investments from the supplemental voluntary pension insurance segment. The duration gap of the Company is low and stands at –0.9 year (the duration of assets is 5.6 years and the duration of liabilities is 9.4 years). The duration gap of assets and liabilities for the life insurance portfolio is –1.8 year and 0.5 year for the non-life insurance portfolio.

The estimated amount of interest rate risk accounts for 3% of the Group's available capital.

	Triglav Group				Zavarovalnica Triglav			
	31 Dec. 2018		31 Dec. 2017		31 Dec. 2018		31 Dec. 2017	
	+100 bp	–100 bp	+100 bp	–100 bp	+100 bp	–100 bp	+100 bp	–100 bp
Debt securities issued by countries	-39,666,447	42,312,069	-37,481,679	39,914,410	-26,320,170	28,195,793	-25,229,170	27,030,116
Debt securities issued by financial institutions	-15,926,109	16,824,328	-18,096,971	19,284,015	-14,076,794	14,889,685	-15,950,721	17,027,274
Debt securities issued by companies	-20,810,196	21,982,569	-24,941,285	26,527,927	-17,190,694	18,307,706	-20,878,156	22,378,895
Compound securities	-942,401	982,350	-1,404,774	1,479,613	-942,401	982,350	-1,404,774	1,479,613
Other	5,515,871	-6,111,478	9,632,028	-10,643,994	5,515,871	-6,111,478	9,632,028	-10,643,994
Total	**-71,829,282**	**75,989,838**	**-72,292,681**	**76,561,971**	**-53,014,189**	**56,264,055**	**-53,830,793**	**57,271,905**
Impact on comprehensive income	-60,778,196	64,866,298	-65,660,303	70,376,918	-49,798,827	53,102,350	-54,651,033	58,555,833
Impact on profit or loss*	-9,871,145	9,817,540	-6,144,822	5,681,233	-3,215,363	3,161,705	820,240	-1,283,928

* Presented is the impact of changes in assets that does not include the impact of liabilities, which results from an increase in the price of debt securities, classified as "available for sale" due to revaluation adjustment.

[101] In addition to the duration of assets and liabilities, the duration gap also takes into account the value of assets and liabilities.

Disclosures and Risk Management

2.5 Credit risk

Credit risk of the Company is defined as the risk of loss or of adverse changes in the financial situation of the Company and/or the Group, resulting from fluctuations in the credit position of counterparties and potential debtors, to which an insurance undertaking is exposed in the form of counterparty default risk and concentration risk.

Concentration risk in the context of credit risk is the risk of loss arising from overexposure to an individual counterparty, a group of related parties and parties connected by common risk factors such as credit ratings or a geographical area or regions.

The Company and the Group assume credit risk of:
- investments at which the risk of downgrade or insolvency of counterparties exists; furthermore, the Group monitors at least those exposures to a debtor, country or sector that are large enough to pose a threat to the solvency or financial position of the Group;
- reinsurance contracts where the risk of inability to pay out claims or the risk of downgrade of a reinsurer due to a loss event (it also includes concentration risk, which is a result of exposure to an average credit rating of a reinsurance group); furthermore, the Group monitors at least those exposures that are large enough to pose a threat to the solvency or financial position of the Group;
- receivables from insurance operations, which at the time of their existence represent expected premium payments.

	Exposure of the Group to credit risk by partner type		Exposure of the Company to credit risk by partner type	
	31 Dec. 2018	31 Dec. 2017	31 Dec. 2018	31 Dec. 2017
Financial investments	81,746,849	111,232,626	59,189,324	90,458,522
Reinsurance	98,238,506	94,183,891	91,140,148	88,760,095
Receivables	36,573,280	30,933,477	15,273,807	10,514,894
Total	**216,558,635**	**236,349,994**	**165,603,279**	**189,733,511**

Through financial investments, the Company and the Group are exposed to counterparties via cash, short-term deposits and derivatives. The exposure of the Company and the Group to reinsurance is measured by insurance technical provisions ceded to reinsurers, including receivables from reinsurance and co-insurance operations. Exposure to receivables is measured by the Company's receivables from insurance operations and other receivables.

The largest exposures of the Company and the Group arising from financial investments are presented in [→ *Section 5.12 of the Accounting Report*].

Counterparty credit risk arising from the investment policy is managed by performing an expert analysis of the credit quality of these partners and through a sufficient degree of portfolio diversification. Their credit ratings are regularly monitored and exposure to partners without a credit rating is managed.

On the investment side, the Group is most exposed to partners with a credit rating below "BBB" and the Company to partners with a credit rating between "AA" and "BBB". Compared to 2017, the share of partners without a credit rating significantly decreased, especially on account of partners with the "BB" credit rating. The Company and the Group are most exposed to partners without a credit rating, primarily to Slovene banks and financial institutions.

	Exposure of the Group to financial partners by credit rating		Exposure of the Company to financial partners by credit rating	
	31 Dec. 2018	31 Dec. 2017	31 Dec. 2018	31 Dec. 2017
AAA	0.0%	0.0%	0.0%	0.0%
AA to BBB	26.5%	28.1%	36.2%	34.0%
Below BBB	35.5%	30.9%	34.1%	33.1%
Not rated	38.0%	41.0%	29.7%	32.9%

In the context of managing credit risk arising from reinsurance transactions, a diligent assessment of the adequacy of business partners for reinsurance purposes (in terms of credit quality and diversification) and regular monitoring of exposure are of key importance. Exposure to reinsurers is represented by claims provisions and unearned premium ceded to reinsurers.

The Company monitors and manages all reinsurance partners at the Group level with a comprehensive system, in which the rules for designating partners and their basic data are clearly specified. As the most important in this system, the procedure for assigning credit ratings is clearly defined; it enables the Company to assign an appropriate and coordinated second-best credit rating of partners. A system of uniform designating and assigning credit ratings is important not only in terms of credit risk monitoring and management but also in terms of calculating capital requirements for the Company and the Group.

	Exposure of the Group to reinsurance partners by credit rating		Exposure of the Company to reinsurance partners by credit rating	
	31 Dec. 2018	31 Dec. 2017	31 Dec. 2018	31 Dec. 2017
AAA	0.4%	0.0%	0.0%	0.0%
AA to BBB	82.2%	91.1%	95.6%	97.9%
Below BBB	5.9%	0.3%	2.6%	0.0%
Not rated	11.5%	8.6%	1.6%	2.1%

The Group is most exposed to reinsurers with the "AA" credit rating. A large share is also accounted for by partners with the "A" credit rating. The share of reinsurance partners without a credit rating at the Group level is 11.5%, while it is considerably lower in the Company, i.e. 1.6%.

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All Group receivables arising from insurance business with costumers are shown in [→ *Section 3.8 of the Accounting Report*]. In the context of credit risks, the Company monitors and manages receivables from policyholders, receivables from intermediaries, other receivables from direct insurance operations and other short-term receivables.

In credit risk management, insurance receivables are monitored by maturity of up to 90 days and over 90 days.

Separately from total insurance receivables, the Company also monitors and manages recourse receivables. They represent a credit risk that a person liable to recourse will not settle their obligations. In addition to the payment of recourse receivables, the Company monitors the effectiveness of the collection of credited recourse receivables and the share of recourse receivables in relation to claims settled.

The estimated amount of credit risk accounts for 6% of the Group's available capital.

2.6 Liquidity risk

Liquidity is an important element of the risk appetite. The Group pursues the goal of being able to meet, at any given moment, all of its matured liabilities. For this purpose, the Group maintains a surplus of liquid assets, allowing it to settle its obligations in stress situations.

The liquidity management framework provides a comprehensive overview of liquidity. It takes into account the sources of liquidity (cash flows from investments and premiums) and liquidity needs (e.g. payments of claims) and allows for the analysis of potential impacts of stress situations on both the sources of liquidity and liabilities.

The Group ensures that the established processes enable individual subsidiaries to maintain an appropriate structure of assets in terms of their nature, duration and liquidity. In the event of increased liquidity needs, an adequate liquidity position is ensured by planning actual and potential net cash outflows, having an appropriate level and structure of liquid investments, and monitoring the structure of liabilities and financial assets.

The liquidity position is regularly monitored at various time intervals, under assumed normal and stress situations and by establishing a limit system that adequately limits exposure to liquidity risk.

The guidelines set the liquidity management framework at the Group level. Every subsidiary ensures compliance with both general liquidity requirements and the liquidity requirements set by local regulators.

The Company has sufficient liquidity thanks to regular inflows from premium payments. In order to achieve sufficient liquidity in stress situations, additional safety mechanisms were set up and actions to be taken were planned (credit lines, repurchase agreements, etc.).

Total financial assets exceed total financial liabilities of the Triglav Group. As at the 2018 year-end, the Group had a significantly higher surplus of financial assets over financial liabilities in the maturity buckets of 1–5 years and 5–10 years and undefined maturity, whereas in other buckets the value of assets was below the value of liabilities. The table above shows the contractual maturity of assets and liabilities. The vast majority of the Group's assets is invested in highly liquid investments, therefore the deficits in individual maturity buckets do not represent a liquidity risk. Liquidity of the Group is adequate.

Financial assets and liabilities of the Triglav Group by remaining maturity[102]

The Triglav Group as at 31 Dec. 2018	Not defined	Under 1 year	From 1 to 5 years	From 5 to 10 years	Over 10 years	TOTAL
FINANCIAL ASSETS						
Financial investments	531,531,469	282,173,561	1,232,683,953	805,604,603	139,426,471	2,991,420,057
Debt securities	253,583	227,962,104	1,184,777,401	805,548,619	130,526,637	2,349,068,344
Held to maturity	0	22,870,190	78,804,106	119,675,937	39,489,404	260,839,637
At fair value through profit and loss	0	39,830,842	256,048,046	122,771,035	21,759,923	440,409,846
Available for sale	4,668	152,910,415	848,915,560	563,101,647	63,287,208	1,628,219,498
Loans and receivables	248,915	12,350,657	1,009,689	0	5,990,102	19,599,363
Equity securities	516,883,793	0	0	48,531	0	516,932,324
At fair value through profit and loss	406,668,561	0	0	0	0	406,668,561
Available for sale	110,215,232	0	0	48,531	0	110,263,763
Derivatives	19,381	0	1,917,432	0	0	1,936,813
Loans and receivables	14,374,712	54,211,457	45,989,120	7,453	8,899,834	123,482,576
Reinsurers' share of insurance technical provisions	4,442,156	38,280,234	25,641,541	11,054,273	6,502,295	85,920,499
Operating receivables	15,486,498	159,483,278	3,473,317	211,783	2	178,654,878
Cash and cash equivalents	48,172,681	19,428,979	0	0	0	67,601,660
Total	**599,632,804**	**499,366,052**	**1,261,798,811**	**816,870,659**	**145,928,768**	**3,323,597,094**
FINANCIAL LIABILITIES						
Insurance technical provisions	760,396,991	492,689,556	391,104,234	442,109,463	626,800,856	2,713,101,100
Other financial liabilities	86.628	5,212,509	321,753	1	12	5,620,903
Total	**760,483,619**	**497,902,065**	**391,425,987**	**442,109,464**	**626,800,868**	**2,718,722,003**

[102] The mismatch of cash flows in the table above results from the properties of insurance liabilities and the investment policy of the Group as well as the availability of investments of appropriate maturity with respect to the structure of liabilities. Liquidity is ensured not only with short-term investments with the maturity of less than 1 year but also with other highly liquid assets in other maturity buckets (e.g. government bonds of EEA countries and the OECD, shares in ETF funds, etc.).

The Triglav Group as at 31 Dec. 2017	Not defined	Under 1 year	From 1 to 5 years	From 5 to 10 years	Over 10 years	Total
FINANCIAL ASSETS						
Financial investments	640,017,238	193,345,537	1,175,999,872	877,126,274	151,597,820	3,038,086,741
Debt securities	245,149	153,037,652	1,124,588,368	875,995,337	149,980,697	2,303,847,203
Held to maturity	0	28,777,936	69,657,035	82,736,846	40,218,760	221,390,577
At fair value through profit and loss	0	31,300,673	220,735,576	145,128,286	19,313,217	416,477,752
Available for sale	5,905	85,793,484	829,224,555	648,130,205	82,417,932	1,645,572,081
Loans and receivables	239,244	7,165,559	4,971,202	0	8,030,788	20,406,793
Equity securities	620,468,540	0	603,050	45,414	0	621,117,004
At fair value through profit and loss	452,706,246	0	0	0	0	452,706,246
Available for sale	167,762,294	0	603,050	45,414	0	168,410,758
Derivatives	26,261	0	2,574,396	0	0	2,600,657
Loans and receivables	19,277,288	40,307,885	48,234,058	1,085,523	1,617,123	110,521,877
Reinsurers' share of insurance technical provisions	3,374,690	41,153,547	18,219,465	14,189,134	6,878,740	83,815,576
Operating receivables	14,766,819	143,858,996	5,050,674	201,865	0	163,878,354
Cash and cash equivalents	55,934,307	22,483,540	0	0	0	78,417,847
Total	**714,093,054**	**400,841,620**	**1,199,270,011**	**891,517,273**	**158,476,560**	**3,364,198,518**
FINANCIAL LIABILITIES						
Insurance technical provisions	421,041,341	704,107,796	478,300,110	495,127,657	633,668,687	2,732,245,591
Other financial liabilities	1	5,081,769	489,881	17,724	13	5,589,388
Total	**421,041,342**	**709,189,565**	**478,789,991**	**495,145,381**	**633,668,700**	**2,737,834,979**

Financial assets and liabilities of Zavarovalnica Triglav by remaining contractual maturity

Zavarovalnica Triglav as at 31 Dec. 2018	Not defined	Under 1 year	From 1 to 5 years	From 5 to 10 years	Over 10 years	Total
FINANCIAL ASSETS						
Financial investments	415,631,686	157,284,550	880,459,982	637,616,344	115,708,467	2,206,701,028
Debt securities	0	136,520,581	832,842,252	637,616,344	105,209,778	1,712,188,956
Held to maturity	0	13,510,990	36,635,000	81,699,243	27,618,717	159,463,950
At fair value through profit and loss	0	12,407,182	132,744,984	70,897,029	21,759,923	237,809,118
Available for sale	0	110,602,409	663,052,162	485,020,072	49,841,037	1,308,515,680
Loans and receivables	0	0	410,106	0	5,990,102	6,400,208
Equity securities	402,294,547	0	0	0	0	402,294,547
At fair value through profit and loss	326,954,722	0	0	0	0	326,954,722
Available for sale	75,339,825	0	0	0	0	75,339,825
Derivatives	0	0	1,917,432	0	0	1,917,432
Loans and receivables	13,337,138	20,763,969	45,700,297	0	10,498,688	90,300,093
Reinsurers' share of insurance technical provisions	49,529,019	27,224,261	8,273,186	2,866,840	0	87,893,306
Operating receivables	0	96,472,187	0	0	0	96,472,187
Cash and cash equivalents	17,998,487	0	0	0	0	17,998,487
Total	**483,159,192**	**280,980,998**	**888,733,168**	**640,483,184**	**115,708,467**	**2,409,065,008**
FINANCIAL LIABILITIES						
Insurance technical provisions	753,600,077	226,224,257	315,890,863	351,884,235	413,782,117	2,061,381,550
Other financial liabilities	0	1,579,670	0	0	0	1,579,670
Total	**753,600,077**	**227,803,927**	**315,890,863**	**351,884,235**	**413,782,117**	**2,062,961,220**

Zavarovalnica Triglav as at 31 Dec. 2017	Not defined	Under 1 year	From 1 to 5 years	From 5 to 10 years	Over 10 years	Total
FINANCIAL ASSETS						
Financial investments	512,846,045	96,459,883	829,242,356	706,393,895	133,663,936	2,278,606,114
Debt securities	0	85,957,365	768,371,011	706,391,533	132,065,082	1,692,784,992
Held to maturity	0	11,846,503	40,599,376	74,329,168	40,218,760	166,993,807
At fair value through profit and loss	0	18,557,321	127,522,154	76,255,405	19,313,217	241,648,097
Available for sale	0	54,550,557	600,249,481	555,806,961	66,543,370	1,277,150,369
Loans and receivables	0	1,002,984	0	0	5,989,735	6,992,719
Equity securities	494,661,549	0	0	0	0	494,661,549
At fair value through profit and loss	371,158,929	0	0	0	0	371,158,929
Available for sale	123,502,619	0	0	0	0	123,502,619
Derivatives	0	0	2,574,396	0	0	2,574,396
Loans and receivables	18,184,496	10,502,518	58,296,949	2,361	1,598,854	88,585,178
Reinsurers' share of insurance technical provisions	0	47,372,263	26,631,283	8,184,860	3,139,239	85,327,645
Operating receivables	0	87,209,951	0	0	0	87,209,951
Cash and cash equivalents	35,514,745	0	0	0	0	35,514,745
Total	**548,360,790**	**231,042,097**	**855,873,639**	**714,578,755**	**136,803,175**	**2,486,658,455**
FINANCIAL LIABILITIES						
Insurance technical provisions	416,250,767	427,082,723	397,431,494	415,987,854	446,607,195	2,103,360,033
Other financial liabilities	0	1,845,188	0	0	0	1,845,188
Total	**416,250,767**	**428,927,911**	**397,431,494**	**415,987,854**	**446,607,195**	**2,105,205,221**

2.7 Operational risk

The aim of effective operational risk management of the Group is mainly to effectively remedy the consequences of realised operational loss events, mitigate and prevent future operational losses, and to conduct business in a professional, diligent and ethical manner. To achieve this goal, processes with clearly defined powers and responsibilities were established. In these processes, all seven main operational risk groups are taken into account (internal fraud or unauthorised activity of employees; external fraud or unauthorised activity of third parties; system break-down and the related system disruption; damage of physical assets; inadequate management of human resources and the safety of the work environment; non-compliance with the applicable regulations, improper business or market practice as well as clients and products; inadequate implementation and management of processes and the control environment, including suppliers and business partners).

The methodology is based on three key sets:
- identification and assessment of potential operational risks;
- reporting on the realised operational loss events; and
- key operational risk indicators, which include early warning signals.

The established system enables the Company quality and prompt operational risk identification, measurement or assessment, treatment, monitoring and reporting, i.e. comprehensive operational risk management. The Company regularly upgrades the system based on the identified deficiencies and changes arising from the internal and external environment. This system is incorporated into subsidiaries in accordance with the principles of proportionality and materiality.

The Company established a process register and an internal control register, where the responsible persons (owners and managers) are appointed for each process and control. They both are regularly updated, taking into account any changes in the Company and the business environment. Apart from that, a data quality management (DQM) process was established, a part of which is an inventory of the data and key controls from the input to the end-use.

In operational risk management, the primary focus is on the critical business processes or segments of operational risk. In 2018, a comprehensive identification and assessment of potential exposure of all business processes to operational risks was performed, which also included an inventory of internal controls as one of the key methods of operational risk management. The internal control system mainly focuses on:
- effectiveness and reliability of business process implementation;
- ensuring compliance of the Company's operations with the internal documents and legal regulations;
- accuracy and reliability of financial and accounting reporting;
- protection of property.

The Company uses the reporting application for reporting realised operational risk loss events, which allows the employees to report these events also anonymously. Operational risk loss events are collected in one place which, in addition to monitoring key operational risk indicators and their comparison with the operational risk appetite (as the level of risks or potential losses which the Company is still preparing to accept), enables the Company to take actions fast and effectively should the risk appetite be exceeded.

In the reporting year, the Group identified regulatory risk, external fraud risk and information security risks, especially cyber risk, as key operational risk types.

Extensive reporting requirements in accordance with the existing regulatory requirements (Solvency II), numerous changes in the regulatory environment in recent period (particularly the General Data Protection Regulation (GDPR), the Regulation on key information documents for packaged retail and insurance-based investment products (PRIIPs), the Insurance Distribution Directive (IDD), new International Financial Reporting Standards (IFRS 9, IFRS 16 and IFRS 17)) and new, very high fines put **regulatory risks** in the forefront. The Company intensively prepared to ensure compliance with the above European legislation by devoting the necessary resources to that end. It adapted and set up the required processes and internal controls. Furthermore, it continues to monitor legislative changes and actively responds to them.

The new legislative framework increases the requirements relating to the disclosure of information to costumers and other interested public, thereby increasing conduct risk, to which the Company pays appropriate attention. Even though the Company is mostly exposed to insurance fraud, its fraud prevention, detection and investigation policy encompasses all business lines. Computerisation, digitisation and more sophisticated cyber-attacks continue to increase the importance of **cyber risk**. Although in this respect the Company has not yet suffered any loss, it is aware of the dangers of such risks and the need for additional upgrading of the information security management system and information security stress scenarios. Bearing this in mind, in 2018 an action plan was developed with the aim of upgrading the cyber risk management system. Furthermore, the operational risk indicators related to information security were upgraded in accordance with the development and technological progress of the Company. To improve readiness for such events, in the framework of own risk and solvency assessment (ORSA), the cyber risk events, which represent the greatest vulnerability and are linked to the events that may have an adverse effect on personal data processes and security, were defined and financially assessed. The established risk management of insurance fraud, cyber and operational risk in general are gradually being transferred to other insurance subsidiaries in the Group.

2.7.1 Ensuring business continuity and functioning of material systems for smooth business process implementation

The functioning of information technology, particularly key applications, is important for the operations of the Group. Zavarovalnica Triglav carefully manages information security risk and business disruption and interruption. Based on the risks identified in the use and development of IT applications, appropriate measures for their reduction were taken in 2018. These measures include adjustment of processes, especially the entire change development and management process, drafting of additional recovery plans of insurance subsidiaries of the Group, establishment of more complete and appropriate testing, as well as information and application infrastructure optimisation.

To ensure continuity of key business processes, the business continuity management system was set up. In addition to business continuity plans for critical business processes and disaster recovery plans, it consists of:

- a crisis management team of the Company, who is activated in the case of extraordinary events causing an interruption or disruption in business processes;
- a disaster recovery team for extraordinary events that cause major disruption to IT services;
- recovery teams for the Company's headquarters and regional units, who are activated in the event of interruption to the operation of the Company's headquarters and regional units.

The estimated amount of operational risk accounts for 4% of the Group's available capital.

2.8 Non-financial risks

The Group's operations are exposed to the following non-financial risk types: material strategic risks, capital risk, reputational risk and the Group risk. Non-financial risks are very closely linked to other risks in the Group, especially operational risks, and normally arise from several factors both inside and outside of the Group.

2.8.1 Strategic risk

Strategic risk is the risk of loss due to adverse business decisions, improper implementation of adopted strategic decisions and insufficient responsiveness to changes in the business environment (including legal and regulatory risks).

Strategic risks are appropriately managed with the established organisation and processes which ensure that the management of the Company has up-to-date and relevant information when making business decisions. In 2018, a revised Triglav Group Strategy for the 2019–2022 period was adopted. In the context of the Strategy, those strategic indicators were updated which provide the management of the Company an appropriate and up-to-date overview of the implementation of the strategic guidelines and objectives.

A high degree of political uncertainty worldwide and the developments in the financial markets are important factors that may affect the operations of the Group. This may impact the financial markets in particular, as in 2018 increased volatility was observed in some countries, for example in Italy and Turkey. The spreading of such events is a major risk for the European Union. In addition, changes in the insurance industry brought about by technological development, risks associated with business digitisation as well as the increasing regulatory and supervisory requirements for financial institutions are also taken into account. An appropriate response to these circumstances is one of the key conditions of the Group's business strategy implementation.

Strategic risks include the risks associated with **staff** recruitment in the future, particularly as a result of better job opportunities, increased dynamics in the labour market and consequently higher salary expectations, and the changed demographic profile of the population. The fact is that the labour force in Slovenia is declining. Approximately 12,000 people per year will retire and because there is no young labour force available to such an extent, there will not be enough suitable staff. The Company has identified this risk and responds to it with different activities aimed at developing and retaining the existing staff, **improving reputation and attractiveness of the employer brand** and pursuing a coordinated staff recruitment policy.

Strategic decisions are made by the management of the Group, who is also responsible for strategic risk management. The strategic risk management system is based on a well-established strategic planning process and related elements, which support in-depth discussions by the relevant decision-making committees, a regular review of strategic priorities and monitoring of their implementation. The powers and responsibilities of the bodies involved in strategic risk management are clearly defined, the implementation of the strategy is appropriately supervised and the achievement of strategic objectives is regularly monitored. The business strategies of individual Group members are aligned with one another and with the strategy of the Group.

2.8.2 Capital risk

Capital risk is the risk of loss due to inadequate capital structure with regard to the business volume and method or problems encountered by the parent company when acquiring fresh capital, especially in the event of adverse business conditions or the need for a rapid capital increase. It also includes the effects on capital adequacy due to regulatory or accounting changes.

Capital risks are regularly monitored in the context of the capital adequacy process. Some uncertainty is caused by the implementation of the new IFRS 17, which due to the closely linked accounting and market measurement approaches (a basis for determining capital adequacy) may indirectly affect capital adequacy.

2.8.3 Reputational risk

Reputational risk is the risk of potential damage to the Triglav brand and its reputation, which could have an adverse impact on the ability of the Group members to maintain or establish new business relationships. It arises from a negative image held about the Group by its insurers, policyholders, employees, business partners, shareholders, investors, supervisory bodies and other interested stakeholders. It could arise from credit, liquidity, market and operational risks or is related to them. An increased reputational risk is often a result of non-comprehensive management of other non-financial risks (strategic, capital and Group risks).

The basic element of the reputational risk management system is a good corporate governance system, which is monitored and supported with activities and surveys to assess the opinion that external stakeholders have of the Group. An important element of effective reputational risk management is also an efficient internal information flow and employee communication system, which ensures proper knowledge and sufficient understanding of the strategy, business operations, plans and current circumstances by all employees. Also important is to provide balanced, consistent and up-to-date information to the external stakeholders on the business operations and activities of the Group, thereby fostering mutual trust and long-term relationships. The system also includes monitoring and analysing the stakeholders' relationship to the Group.

2.8.4 Group risks

The Group risks arise from the business model of the Company, which is the parent company or a group of related parties. They include risks that might threaten the achievement of strategic objectives due to an inefficient governance system of the Group and insufficient understanding of the business environment in which its interrelated companies operate. The parent company's risk profile can also be influenced by transactions between the associated companies and the high complexity of concentration risk management.

2.9 Emerging risks

An important potential threat is posed by **regulatory risks** due to the constant changes in the regulatory environment and by **human resource risks**. In connection with the process digitisation and automation strategy of the Group, **cyber risk** will increase.

In the foreground are also **climate change risks**, which may be reflected in the increased frequency and severity of weather events, such as hail, storm, flood and frost, which requires a certain degree of prudence when assessing underwriting risks.[103]

The Intergovernmental Panel on Climate Change (IPCC) found that an increase in surface temperature of about 1 degree Celsius in the 1880–2012 period is undeniably proven, as well as the direct consequences of this warming, such as melting glaciers, a global increase in annual precipitation and rising sea levels. It is very likely that the 1983–2012 period was the warmest 30-year period in the last 1400 years on the northern hemisphere. The main reason for this is increased concentrations of anthropogenic greenhouse gases (carbon dioxide, methane and nitrogen oxides) in the second half of the 20th century. On 12 December 2015, the Agreement on Climate Change was adopted in Paris, which is the first universal and legally binding global climate agreement. The Agreement sets out a global action plan according to which the most dangerous consequences of climate change can be prevented by limiting global warming to 1.5 degrees Celsius above pre-industrial levels by 2100.

In the most recent report from 2018, the IPCC points out that, in order to meet the commitments of the Paris Agreement, carbon dioxide emissions should be reduced by 45 percent by 2030. In Europe, climate change risks primarily pose a threat to coastal regions and floodplains, while in the future most climate change-related damage will most likely result from droughts and heat waves.

According to the professional articles of the Environmental Agency of the Republic of Slovenia and the Intergovernmental Panel on Climate Change (IPCC)[104] reports, climate change in Slovenia is even greater than the global average. Over the past 50 years, the air temperature has increased by 0.33 degrees Celsius every 10 years. In successive ten-year intervals, the precipitation index decreased by 2%, snow cover index by 15%, while the duration of sunlight increased by 2%. The average temperature was the highest in Eastern Slovenia, while the amount of precipitation declined the most in Western Slovenia. Climate forecasts predict a further increase in temperature, especially in summer and winter, in all Slovene regions. The amount of precipitation will fall the most in summer, whereas it will slightly increase in winter.

2.10 Stress tests

The Group regularly conducts stress tests for all material types of risks as well as monitors and assesses the potential impact of stress situations on their risk profile.

Stress testing and scenario analysis are part of the Group's own risk and solvency assessment process. Stress tests are used to determine the effect of a simultaneous change in several parameters, e.g. simultaneous change in different risk categories that influence an insurance transaction and investment values. The analysis of potential effects and exposures takes into account the actual or planned exposure to:

- adverse circumstances that can last for long periods of time;
- sudden and major events;
- combinations of circumstances and events from the first and second indents.

The established framework for performing stress tests enables that the stress tests are prepared on the basis of workshops held with functional areas, at which the scenarios relevant for the current and future operations are assessed.

In 2018, stress testing was performed in the context of own risk and solvency assessment. The Company performed scenario tests to assess the risk sensitivity of the capital adequacy and future solvency requirements. The tests were prepared in such a way so as to reflect the current and potential risks in the environment to the greatest possible extent. The scenarios are an appropriate basis to assess the potential impact on the business operations of the Company as well as to help become familiar with the risks and design appropriate measures. The current relevant scenarios assessed by the Company include a financial scenario (the EIOPA 2018 stress test), an insurance scenario (an earthquake in Ljubljana), a cyber scenario and a non-financial risk scenario (regulatory changes with an impact on the increase of capital requirements).

In the context of the financial scenario, the stability of the Group's solvency was tested in the event of a sudden and significant rise in interest rates in combination with the fall in the market value of investments, mass cancellation of life insurance policies and the increase in non-life claims due to inflation.

In the context of the insurance scenario, the Company tested the effect of a 200-year earthquake, which represents the maximum concentration of exposure for this risk. The scenario also included other operational effects on business and the fall in the value of Slovene debt securities due to the adverse economic situation in Slovenia. The effects of the scenario are presented in [→ *Section 2.3.1 of the Report under Low-frequency and high-severity risks*].

The results of all assessed scenarios confirm that sufficient capital is available to the Group to offset the effect of the stress scenarios used.

2.11 Summary and focus of risk management in the future

Throughout the year, the Company and the Group regularly assessed risk exposure and compared it to the defined risk appetite. It is estimated that both the risk profile and the risk management system are adequate.

To a large extent, the business performance of the Group depends on a number of more or less foreseeable circumstances. The aim of the Group's strategy is to achieve sustainable growth and an adequate return by monitoring, analysing and finding appropriate responses to the present and future challenges.

High risk management standards significantly contribute to the achievement of strategic objectives. The Triglav Group is committed not only to continuous upgrading of the risk management system but also to enhancing its use both in the strategic planning process and when making daily business decisions.

In the coming years, the risk management culture will be further improved at the Group level. The Group will face important challenges in the areas where major changes or increased risks are expected, particularly in relation to cyber risk and the upgrading of the internal control environment, including redesigned processes due to regulatory changes.

[103] GRI GS 201-2 | [104] Dr. Klemen Bergant: Podnebje v prihodnosti – koliko vemo o njem? (Climate in the Future – How Much Do We Know About It?) Available at the ARSO website (http://www.arso.gov.si); Damjan Dvoršek: Podnebne spremembe v Sloveniji (Climate Change in Slovenia). Available at the ARSO website (http://www.arso.gov.si); IPCC: Climate Change 2014 Synthesis Report Summary for Policymakers