Risk management

- Despite the uncertainties brought about by the COVID-19 pandemic, the Triglav Group was adequately capitalised and liquid, which is also reflected in the reaffirmed “A” credit rating.
- In the reporting year, the Triglav Group showed a sufficient degree of preparedness and adaptability to an extraordinary situation, as during the pandemic no material operational risk was realised.
- Increased market risks in insurance segments were actively managed by pursuing optimal matching of assets and liabilities, prudent risk-taking and ensuring appropriate diversification of exposures.

The Triglav Group was well capitalised in 2020. Its capital strength is reflected in its quality capital structure, which to a lesser extent also includes subordinated liabilities. The volume of the latter decreased, as Zavarovalnica Triglav’s subordinated bond with the ZT02 ticker symbol matured in March 2020. The situation was rather unpredictable, especially in the first half of the year. Despite the increased volatility of financial markets and the business environment, taking into account the adopted dividend policy, the high capital adequacy of the Group was confirmed.

On 31 March 2020, the Insurance Supervision Agency (ISA) called on all insurance, reinsurance and pension companies to suspend the payment of dividends by 1 October 2020 in order to ensure financial stability during the pandemic. In August 2020, this preventive measure was extended until the auditors issued an opinion on the annual reports for 2020. The ISA additionally stipulated that a company wishing to pay out dividends earlier must substantiate this decision and the reasons for it, both quantitatively and qualitatively, and inform the Agency at least one month before the intended payment. Zavarovalnica Triglav performed calculations to test the situation in exceptional circumstances, based on the precise assumptions used in stress tests. The impact of the payment on assets, liabilities, available own funds and capital adequacy for the period until the end of 2024 was also taken into account. Although the appropriate capital strength was confirmed based on the analyses performed, even with the payment of planned dividends, the Company decided not to pay dividends in 2020 due to the aggravated situation and restriction on gathering during the second wave of the COVID-19 epidemic.

The adequate capital and financial strength of the Group was additionally confirmed by the long-term credit rating and financial strength rating of “A” assigned to the Group by the credit rating agencies S&P Global Ratings and AM Best. Both ratings have a stable medium-term outlook. See Section 6.6 of the Business Report for more information.

Adequate liquidity of Zavarovalnica Triglav was maintained through regular management of its liquidity position. Due to the slightly tight liquidity situation in the financial markets before the implementation of the European Central Bank (ECB) measures in the first quarter, the Company upgraded its liquidity plan in stress situations. Additional mechanisms were established and tested in order to ensure liquidity in the event of further deterioration in market liquidity. See Section 2.6 for more information about the liquidity position.

The changed exposure to risks and changes in the financial markets, especially the increased volatility of credit spreads and the decrease of already low interest rates, demanded more careful maintenance of a good underwriting result and the quality of the debt portfolio as well as consistent matching of assets and liabilities. Due to the persisting period of low interest rates, life underwriting risks increased. By reducing the exposure to corporate bonds and increasing the exposure to government bonds, the Company decreased spread risks, thereby reducing market risks compared to the preceding year. Significant fluctuations were also observed in the equity portfolio. During the reporting year, no significant deterioration in the overall credit quality of clients and business partners was seen as a result of the COVID-19 pandemic.

Throughout the year, the Company monitored emerging risks in the environment and actively responded to them, also by upgrading the risk management system.

Main risk management development activities at the Triglav Group level in 2020

- In the context of **market risks**, the main focus was on spread risks. Additional stress scenarios were designed, thus upgrading the regular monitoring of value at risk in spread risk, as increased risks in the external environment and the financial markets were identified. Changes in the environment also demanded a review and revision of the limit system in terms of market risks. Careful attention was also devoted to currency risk.
- With respect to **underwriting risks**, business risks were regularly monitored in terms of the effects of the COVID-19 pandemic, the portfolio of major policies began to be upgraded to ensure better monitoring of portfolio exposure, and the profitability of life insurance products was carefully monitored due to extremely low interest rates.
- The **credit risk** system was upgraded by implementing thresholds in individual areas related to counterparty portfolio management, which will contribute to more effective credit risk management by counterparty type.
- Regular uniform assessment and monitoring of country risk was established to achieve more effective management of risks of exposure to countries in the Group's portfolio.
- The redesigned **liquidity risk** management system enables regular monitoring and comprehensive review of liquidity risk in the coming year with a uniform indicator for normal and stress situations. In addition, the liquidity plan in stress situations, as an important plan of said system, was updated.
- Based on the new knowledge and experience gained during the COVID-19 pandemic, **the operational risk management system was** further **upgraded**. Special attention was paid to information technology risks, including cyber risks. The new GRC/IRM (governance, risk, compliance/integrated risk management) software was set up to comprehensively manage operational risks and support internal audit processes.
- The Company effectively cooperated with the Group members in regular monitoring of risks, own risk and solvency assessment and assessing stress scenarios, thus **continuing the building of the Group's governance system**.

1. Risk management system

The comprehensive risk management system plays the key role in the achievement of the Triglav Group's strategic objectives and is an important element of its governance system, which enables the fulfillment of obligations and effective operations even in the uncertain situation brought about by the COVID-19 pandemic.

It is determined by internal rules, a clear segregation of powers and responsibilities, and well-established processes and activities to identify and assess risks and control both assumed and potential risks. This allows us the Company to take appropriate action and thus keep its risk profile at the level defined in its risk appetite. The system is clear, transparent and well-documented. In subsidiaries, it is developed according to the principles of the parent company and by adhering to the principle of proportionality. Comprehensive risk management enables the Company to promptly identify, measure, monitor and report on all material risks and to take timely action.

1.1 Powers and responsibilities

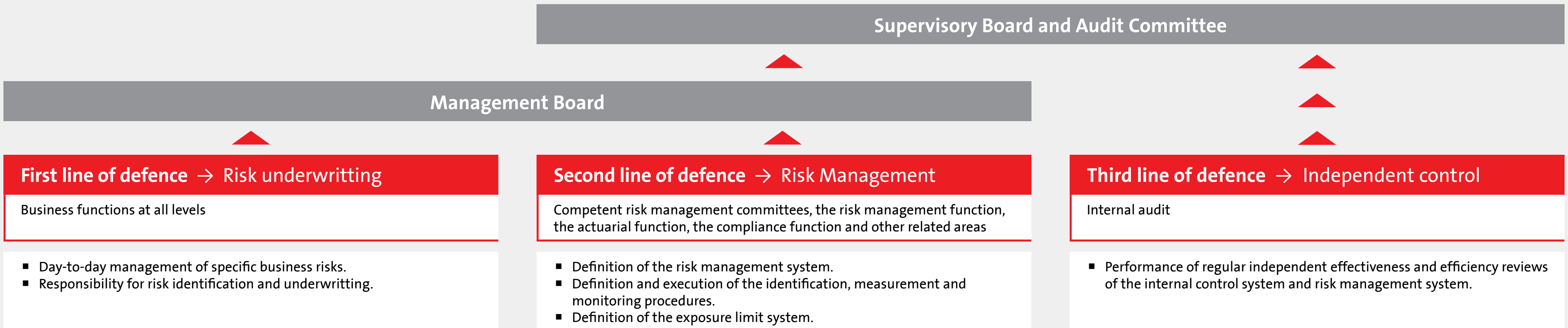
The system of powers and responsibilities in risk management **is designed based on the "three lines of defence" model**.

- **The first line of defence** consists of the business functions, which actively manage specific business risks through their business decisions and which are responsible for risk identification and underwriting in accordance with the guidelines of the Management Board and for active operational management of specific business risks.
- **The second line of defence** includes key functions – the risk management function, the compliance function and the actuarial function – and other related areas that exercise supervision, as well as risk management system committees. They all form the risk management system, which includes exposure identification, measurement and monitoring as well as the exposure limit system.
- **The third line of defence** comprises the internal audit function, which carries out regular independent effectiveness and efficiency reviews of the operation of the internal control system and the risk management system in individual divisions. It also makes recommendations for improvement.

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

The Supervisory Board and the Management Board are also responsible for defining organisational goals and strategies for achieving them. Furthermore, they establish the management structure and processes that ensure optimal management of assumed risks.

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



The Supervisory Board 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 is briefed on the reports of key functions. At its sessions, the Supervisory Board also takes note of the risk profile, capital adequacy and the findings of the own risk and solvency assessment report. Furthermore, it gives its approval to the Solvency and Financial Condition Report.

Expert assistance and support in formulating positions on risk management is provided by **the Audit Committee**, which acts as a working body of the Supervisory Board. The Audit Committee supervises the adequacy and effectiveness of the risk management system and focuses on monitoring the comprehensive risk profile of the Company. It is also included in the definition of stress tests and scenarios, which are used to check the level of capital adequacy as part of the implementation of own risk and solvency assessment.

The Management Board defines the business objectives and the risk appetite, as well as approves the risk management strategy and any related policies. It is responsible for ensuring the effectiveness of the risk management system and approves the work plan of each key function. It is regularly briefed on capital adequacy and approves the most important reports drafted by the key functions, including the Regular Supervisory Report, the Solvency and Financial Condition Report, the Risk Report and the Own Risk and Solvency Assessment Report. Independently or within a committee, the Management Board actively participates in and directs the own risk and solvency assessment process, which is designed to verify business decisions and define the guidelines of the risk management system. The Management Board also ensures its compliance with the capital planning and management processes.

The business functions at Zavarovalnica Triglav operate within the framework of the first line of defence. They are responsible for risk underwriting and identification in their respective work area in accordance with the Management Board's guidelines, as well as for the management of specific risks within the allowed exposure limits.

The key functions of Zavarovalnica Triglav's **governance system** are **organised as independent organisational units**. They comprise the risk management function, the non-life and life insurance actuarial functions, the compliance function and the internal audit function, which carry out their duties and responsibilities independently from one another and from other organisational units of the Company. They are all part of the second line of defence, except for the internal audit function, which is part of the third line of defence. All key functions cooperate with one another and regularly exchange the necessary information. In risk management, they also cooperate with other control functions at the Group level. The key function holders meet the fit and proper requirements defined by the applicable internal rules for the respective area.

The risk management function is responsible for the establishment and coordinated and continuous operation of the integrated risk management system in accordance with the Management Board's guidelines. Furthermore, it monitors the general risk profile, methodological development of the risk management system and the harmonisation of main risk assessment models, performs the underlying risk analyses, reports on risk exposures and assesses capital adequacy using the regulatory method and other capital models. In line with the Management Board's guidelines, the risk management function also coordinates and performs own risk and solvency assessment, drafts quarterly risk reports, the Solvency and Financial Condition Report and the Regular Supervisory Report, as well as reports to regulatory bodies as required. In addition, it regularly reports on the risk profile to the Management Board and the Supervisory Board.

The compliance function monitors the compliance of the Company's operations with the applicable regulations and commitments within the internal control system, and regularly reports to the Management Board and the Supervisory Board thereon. It monitors and assesses the impacts of the changed legal environment and compliance risks, assesses the adequacy and effectiveness of procedures, advises on measures to adapt the Company's operations to any identified changes, and co-creates the internal controls for ensuring compliance of a particular process, line of business, or the Company as a whole by providing guidelines and making recommendations and proposals. In addition, the compliance function plays a major role in ensuring a fair and transparent conduct by monitoring adherence to the ethical commitments and overseeing their implementation in practice.

The actuarial function operates separately for non-life and life insurance. Among its tasks is to coordinate and calculate insurance technical provisions using appropriate methods, models and assumptions, as well as comprehensive, high-quality and relevant data. It verifies the appropriateness of the general underwriting risk policy and delivers an opinion whether the amount of the premium of individual products is sufficient to cover all the liabilities arising from insurance contracts. The actuarial function also checks the adequacy of reinsurance and participates in own risk and solvency assessment, while coordinating and calculating capital requirements for underwriting risks. It reports on important findings to the Management Board and the Supervisory Board.

The **internal audit function** performs regular and comprehensive control of the Company's operations. This is achieved by reviewing and assessing the adequacy and effectiveness of the Company's governance, risk management and control procedures in a systematic and methodical manner and by making recommendations for their improvement. It cooperates with external auditors and other supervisory bodies, monitors the implementation of internal and external auditors' recommendations and participates in internal audits at other Group members. Moreover, the internal audit function is responsible for the quality and continuous development of internal auditing at the Company. It provides advisory services in agreement with the Management Board and the management of divisions.

The Company's all key functions are in charge of not only transferring know-how and best practices to other Group members but also of ensuring their coordinated operation.

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

Zavarovalnica Triglav's committees that are part of the Triglav Group's risk management system and their roles.

- **The Risk Management Committee** deals with all material risks of the Company and the Group and is responsible for the management of strategic or non-financial risks.
- **The Assets and Liabilities Committee** deals with market risks, including credit risks arising from exposure to banks and banking groups, life underwriting risks and liquidity risk.
- **The Non-life Insurance Committee** is responsible for non-life underwriting risks and credit risks related to exposure to reinsurers.
- **The Operational Risk Committee** deals with operational risks, information security risks, including cyber risks and business continuity risks, compliance risks and outsourcing risks.
- **The Non-Life and Life Insurance Product Forums** are responsible for the development of new insurance products and any risks related thereto.
- **The Project Steering Committee** deals with project risks and reports to other competent committees thereon.

Risk management within the Group is first performed at the level of individual subsidiaries and then at the Group level. At the level of individual subsidiaries, the management body and the persons in charge of risk management are responsible for the establishment and operation of the risk management system.

The minimum standards for the Group members are set by the Subsidiary Management Division. Minimum standards for risk management are also part of the minimum standards. The parent company's Risk Management Department is responsible for the preparation and transfer of minimum standards to the subsidiaries in cooperation with the Subsidiary Management Division. By enforcing common standards, the Group establishes and maintains an effective and transparent governance system, with effective communication, quality exchange of data and information, time availability, methodological consistency, accounting verifiability and integrity being its key elements.

1.2 Risk management process

The comprehensive risk management process at Zavarovalnica Triglav is based on the Group's strategy and the Company's business plan, which both provide the basis for defining the risk appetite. The risk appetite sets out material risks the Company is willing to assume to achieve its objectives and the key indicators by which these risks are measured and monitored, including target values and limits. The Company has zero tolerance for all risks that it is not willing to assume in the course of its operations.

One of the key indicators is *capital adequacy ratio (CAR)*. Its target range and tolerance are consistent with the dividend policy and defined in the framework of the capital management of 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 **own risk and solvency assessment process** is closely connected to the quality of the whole risk management system. By assessing solvency requirements, the appropriateness of both the regulatory method and the strategic guidelines is verified in terms of ensuring capital adequacy. To optimise the use of capital, solvency requirements are assessed in relation to the implementation of the strategic plan, and the stability of capital adequacy is tested with stress scenarios for existing and potential or emerging risks from the environment of an individual risk. On this basis, the Company takes appropriate measures such as changes to the guidelines for accepting transactions, premium rates, adjustments to the limit system and risk transfers. This increases the readiness of the Group members for identified risks and upgrades the internal control system, thus building an effective system for strategic decision-making.

The risk management process consists of risk identification, measurement or assessment, treatment and monitoring and risk reporting.

Proper risk assessment requires the correct capture of data on risk exposure and a good knowledge of the properties (volatility) of risk factors and impacts on key indicators (from the Risk Appetite Statement).

In risk measurement, the standard Solvency II formula (the regulatory method) is used

Risk Management Process

Key strategic objectives	1. Risk identification		2. Risk assessment/ measurement	3. Risk treatment	4. Risk monitoring and reporting
Definition of strategic objectives and the risk appetite	Identification of risks that may threaten the achievement of objectives	ORSA is a risk identification and measurement tool	Determination of exposure to risks, including the definition of a potential impact on business operations	Risk acceptance, transfer, mitigation or avoidance	Monitoring ensures the supervision of risks, reporting includes internal and external notification

as the primary method, which is based on standard volatility and own risk exposure. It is supplemented with the Company's own assessments of the volatility of risk factors at the same confidence level and over the same period. In this way, its adequacy is also regularly monitored. Risks are additionally assessed according to the methodology of the credit rating agency S&P, which is based on a 99.7% confidence level over a period of one year.

At least once a year, in the context of the own risk and solvency assessment process, a comprehensive 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.

For assumed and potential risks, the target values and/or limits are set that must be complied with when taking risks. The risk monitoring mechanisms enable the Company not only to identify any negative trends but also to take appropriate measures, which is operationally performed at several levels. At the level of **divisions**, risks are identified with the established processes of notifying the key functions about transactions with increased risks, while at the **aggregate level** risks are identified by regularly monitoring the concentration of exposure and increased volatility, where the Group's exposure is higher. Material detected or identified risks are included in the own risk and solvency assessment process.

The Risk Management Department regularly monitors and reports on the matching of the actual risk profile and the risk appetite. The findings are discussed by the Risk Management Committee, which approves any measures to be taken in the event of an infringement. Regular reporting on risks to the Management Board, the Supervisory Board and the Audit Committee of the Supervisory Board also includes any findings and measures taken by the Risk Management Committee.

As presented in Section 1.1, the Management Board and the Supervisory Board are regularly informed about the individual types of risks assumed for both the Company and the Group, as well as about the risks as a whole. The risk report, which is drawn up 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.

1.3 Capital management

A well-integrated risk management system is key to effective capital management. **Ensuring capital adequacy within the target range** means that at any given moment the Group has a sufficient amount of capital in relation to the measurable risks assumed. When deciding on entering into a business transaction, the Company consistently assesses profitability in relation to the assumed risks, thereby pursuing the target capital adequacy, and takes into account the criterion of earning appropriate profit for the shareholders. 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.

The capital management strategic objectives and the dividend policy criteria

> 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	

In previous years and in 2020, the Group was adequately capitalised, safe and profitable.

The amount of available own funds to cover regulatory capital requirements is regularly measured both for individual insurance subsidiaries and for the Group as a whole.

The target capital adequacy of the Group is set within the range of 200–250%. This means that the Company has an adequate amount of capital to carry out its core business and cover potential losses. Capital surplus provides protection against losses due to unforeseen adverse events and volatile capital requirements. In addition to maintaining regular capital adequacy, the Company plans and assesses the existing capital level and its future adequacy. This allows it to adapt to any changes in the environment affecting capital adequacy and to optimise capital allocation.

Capital adequacy also has a significant impact on the Company's credit ratings. Therefore, when making business decisions, it is taken into account how they impact the results of the models of major credit rating agencies. The capital model of the Group is assessed by the credit rating agencies S&P Global Ratings and AM Best. See Section 6.6 of the Business Report for more information on the credit rating.

1.4 Risk types

The most important risk types are described below, while 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, involving all divisions in accordance with their respective powers and responsibilities. Its purpose is to ensure the inclusion of all material risks 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.

The Group uses risk classification in accordance with the standard formula set out in the Insurance Act (ZZavar-1) for internal risk monitoring. In its operations, the Company assumes the following risks:

- **Underwriting risks** are the risks 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. Within underwriting risks, non-life underwriting risks (including health insurance) and life underwriting risks (including pension insurance) are treated separately. Every type of insurance has its own specific risks, which are duly identified and managed. In direct insurance business, the Company is predominantly faced with traditional underwriting risks.
  - *Non-life underwriting risks* comprise premium risk, provision risk, catastrophe risk and lapse risk.
  - *Life underwriting risks* include mortality risk, longevity risk, morbidity risk, lapse risk, expense risk, catastrophe risk and revision risk.
- **Market risks** are the risks 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. Market risks comprise interest rate risk, equity risk, currency risk, property risk, spread risk and market concentration risk.
- **Credit risks** are the risks of loss or adverse change in the financial position of the company and arise from fluctuations in the credit position of counterparties. They are the result of the debtor's failure to meet all or part of its contractual obligations.
- **Liquidity risk** is the risk of loss that may occur if the Company or the Group members are not able to meet all expected and unexpected present and future cash outflows and past due liabilities. Liquidity risk may arise from inadequate or insufficient available funds or from the uncertainty of financial markets and the consequent difficulty in accessing the financial resources needed to pay for liabilities. Liquidity risk usually materialises as the inability to liquidate financial assets or sell them at prices lower than the market rates at a given moment.
- **Operational risks** are the risks of loss arising from inadequate or failed internal processes, personnel or systems, or from external events and their impact. They include information security risks with a special emphasis on cyber risks and major business interruption events, legal risks, compliance risk, conduct risk, project risk, outsourcing risk and model risk.
- **Non-financial risks** comprise strategic risks, capital risk, reputational risk and the Group risks.
  - *Strategic risks* are the risks 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).
  - *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 face of adverse business conditions or the need for a rapid increase in capital.
  - *Reputational risk* is the risk of loss arising from lost income from existing or future operations resulting from a negative image of the Company or the Group held by its shareholders and investors, clients, employees, business partners, competent or supervisory bodies and the public.
  - The *Group risks* arise from the business model of the Company, which is the parent company, or a group of related parties. They comprise 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 of its members. This also includes any changed circumstances relating to environmental, social, human resource, bribery and anti-corruption matters. Moreover, the Company's risk profile is influenced by the transactions between the associated companies and the high complexity of concentration risk management.

In the context of non-financial risks, the Company separately addresses sustainability risks, which have become increasingly important in the recent period and include environmental, social and governance (ESG) factors. From the perspective of insurers, sustainable risks focus on the impact of climate change, which along with other sustainable risks (the ageing population, antibiotic resistance, pandemic risk, etc.) will affect the operations of insurers, both via liabilities and assets. Climate risks are divided into physical risks and transition risks. More activities are presented in Section 2. of this part of the report and in Section 12. Sustainable development and ESG aspects at the Triglav Group of the Business Report.

In addition to the risks described above, the Group is also exposed to *emerging risks*, i.e. risks that may still develop or that already exist. They are difficult to assess but can have a significant impact on the 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 of the damage caused.

Emerging risks are therefore monitored very closely and the risk management system is appropriately upgraded. As part of regular monitoring, they are identified through the risk trend.

Risks as determined by **IFRS** are: **underwriting**, **market**, **credit**, **liquidity** and **other risks**. The Company's risk classification can be translated into the IFRS risk classification as follows:

- In accordance with IFRS, the most common market risks are currency, interest rate and other price risks, which include equity and property risks.
- Under IFRS, credit risks comprise spread risk and market risk concentration, which are both classified as market risks according to the Company's classification, and counterparty default risk. In this respect, exposures from cash and cash equivalents, reinsurance and receivables represent a significant part of the counterparty default risk.
- There are no differences between the classifications of underwriting and liquidity risks.
- Other risks as defined by the IFRS include operational and non-financial risks.

The Company monitors the situation and reports to the management on exposure and risk assessment based on regulatory requirements and internal risk classification. Due to the differences in the IFRS and Solvency II valuation methods, the values of individual balance sheet items may differ noticeably, which is also reflected in differences in exposure to individual risks. In addition, different valuation methods affect the sensitivity of the items and thus the risk assessment. A more detailed presentation of the differences between the two valuations is included in the Solvency and Financial Condition Report, which is published on the Company's website (www.triglav.eu).

Presented below in more detail are risk exposures according to the classification used in the Company's risk management system.

Challenges and opportunities of today

Presented below is an overview of the main trends in the environment that have affected or will continue to affect the Group's operations and its response to them. By identifying changes, the risk management system is not only built but also constantly upgraded.

Each trend brings opportunities and challenges, which are associated with the risks in operations, depending on how the Company deals with them. The Group realises its vision of long-term operations through their efficient and correct treatment.

1. Macroeconomic and financial instability

The year 2020 was marked in particular by the COVID-19 pandemic and, as its consequence, by increased volatility in the financial markets. The pandemic had a significant impact on the operations of the insurance industry. Its impact is expected in the future as well, especially in the event of a further decline in economic activity. Countries and central banks are responding to the situation with incentive measures which also carry risks. Due to the provision of additional liquidity, the balance sheets of central banks strengthened significantly, and with high budget deficits, the government debt of most countries increased considerably. The potential risks of future economic growth and higher credit spreads have increased, especially for countries that will be more significantly affected by the effects of the current crisis in the medium term. The deepening recession could also affect the insurance business (potential pressure to reduce premiums, increased credit risks and lower value of financial investments). Reduced inflows and the lower value of financial investments could also have a negative impact on liquidity risk.

The insurance market will continue to face extremely low, negative interest rates in the future, as poor economic forecasts and the pandemic have further increased the likelihood of long-term low interest rates.

The Group's acceptance of challenges and risk management

The Group is responding to the situation at hand by prudently **adjusting its risk profile**, reducing market risks and increasing underwriting risks. A functioning risk management system enables the Group to monitor the situation in the environment on an ongoing basis and to respond to it rapidly by appropriately addressing the negative impacts on capital adequacy and profitability.

Investment policies are primarily designed to pursue the interests of policyholders, insured persons and other beneficiaries from insurance contracts. Therefore, the security of investments and the simultaneous achievement of the highest possible profitability with the assumed risks are at the forefront. The amount, maturity and currency of assets intended to cover insurance liabilities are harmonised with liabilities as much as possible, thus further limiting market risks. By managing the remaining assets, the goal of achieving a reasonable rate of return is pursued, taking into account all the risks assumed and maintaining a high overall credit rating of the investment portfolio. In the current situation, additional attention is paid to the optimal profitability of the insurance business and the appropriate rate of return on investment, which is also achieved by investing in alternative investments, which at somewhat lower liquidity generate slightly higher expected rates of return. The volume of such investments is subordinated to achieving adequate portfolio liquidity even in the event of deteriorating financial market conditions.

The Group has an effective **system for monitoring the entire counterparty portfolio** for timely identification and action. The credit quality of the portfolio is regularly monitored, while the concentration in the Group is managed by taking into account and adjusting the exposure to individual partner segments.

With adequate liquidity, the Company ensures that it meets all its obligations on time. To **maintain the optimal liquidity level**, liquidity risk is managed on an ongoing basis, which includes regular testing of liquidity in exceptional circumstances and the liquidity plan with the order of measures to take in such cases.

2. Digital transformation and cyber security

Digitalisation (advanced analytics, growing use of cloud services, the Internet of Things, cognitive computing, mobile network development, robotic process automation, machine learning, artificial intelligence, API, the sharing economy and remote business) contributes a lot to the changes occurring in the environment. It is reflected in the expectations and needs of clients, the cost-effectiveness of companies and new ways of doing business. Insurers are expected to constantly monitor and adapt their operations to changes in society, technological changes and innovative business models developed by insurtech and fintech companies. Keeping abreast of new solutions and implementing them into operations can be (with very rapid and continuous development) a considerable challenge for insurance service providers, but at the same time it is and will be an important distinguishing factor.

Technological development is associated with the exponential growth of cyber threats, such as attacks to steal information or stop business processes. Managing and limiting the possible financial and operational-process effects of these threats is crucial for successful operations, while maintaining clients' confidence in the secure processing of their often sensitive data. Regulators are therefore working to increase security by introducing security measures and security incident reporting procedures (such as the GDPR). Recent developments include the EIOPA guidelines for outsourcing cloud services and for information technology security and management.

One of the direct consequences of the COVID-19 pandemic for the insurers is engaging with clients mostly remotely and via digital channels (taking out insurance, settling claims, etc.). Work processes also moved from business premises to employees' home, with communication mainly taking place via the internet connection and with remote access to the company's data. All of the above gave additional impetus to business digitalisation and produced many challenges, such as client identification, remote signing, remote inspection of the subject insured and secure document exchange. At the same time, the vulnerability of insurers to cyber attacks as well as their number have increased worldwide.

Increased risks in the environment are also a business opportunity for insurers. Cyber insurance makes a valuable contribution to secure business operations and can play a key role in the healthy transition to a digital economy.

The Group's acceptance of challenges and risk management

The Group actively responds to the situation at hand by accelerating business digitalisation and the use of other solutions resulting from strategic development processes in recent years, particularly the introduction of an omni-channel sales approach and remote and paperless operations. Thanks to solutions such as remote signing, video identification and remote inspection of the subject insured, **business continuity was ensured also in the extraordinary circumstances**.

In order to ensure appropriate information security, **the information security management system and security controls were constantly upgraded**, in addition to having implemented a new operational risk management tool, which includes cyber threats. To continuously monitor security events, **a security and control centre** was established, which operates 24/7. New information tools are developed at the Company and transferred to other Group members in accordance with established procedures. With these security tools, the Company is able not only to promptly manage new security risks, but also actively manage the level of information security at the Company.

Before and during the implementation of new technological solutions, all relevant risks are assessed and a set of measures for their management is designed. When purchasing IT solutions, those providers are selected that offer legally compliant solutions for information security and personal data protection with guaranteed compatibility of services.

To deal with the challenges of remote business and increasing cyber threats, the Company provides custom-tailored cyber insurance products and related assistance services to its clients.

3. Climate change

Climate change is a material risk in the long run, which also depends on further responses and the speed of nearing carbon-free business. The effectiveness of climate change mitigation measures will increase the degree of required business adjustments, thus putting the risk of transition at the forefront. In the opposite scenario, if measures are inadequate, increased physical risks can be expected with the increasing occurrence of weather disasters and other consequences. The magnitude of this risk is difficult to assess due to the uncertainty of how, when and where the weather disaster will occur and how it will affect the volume of business due to different client expectations and needs.

The effects of climate change are already reflected in higher average global atmospheric temperatures, rising sea levels, more frequent and longer heat waves, and in recent years more frequent extreme weather events in our region and worldwide.

The statistical monitoring of atmospheric temperature around the world shows that the last decade has been the warmest of all recorded so far. Based on the current tables and expected trends, it is estimated that the realised climate risks will depend primarily on the increase in average global temperature, which could be reflected in the escalation of the frequency and intensity of weather phenomena such as storms, floods, hail and fires. This will affect the need for greater security and, consequently, the demand for certain non-life insurance products. The related growing need to diversify the risks assumed through reinsurance may lead to higher prices of reinsurance coverage. With the increase in mortality and disease and the emergence of new epidemics, climate risks could also affect the supply and demand of life and health insurance products. A major epidemic leading to a pandemic can worsen socio-political stability and macroeconomic and geopolitical conditions, which is usually reflected in economic activity and financial markets. The identified events will also affect the breakdown of regions according to the suitability for habitation, which may lead to more extensive migration and volatility of the real property market.

Due to further changes in the environment, the insurance industry could feel pressure to increase insurance prices and reduce insurability or even introduce complete non-insurability of individual risks, which would increase competitiveness, reduce overall confidence in the industry and therefore damage the insurers' reputation.

Various stakeholders, from regulators to businesses, consumers, non-governmental organisations and others, are responding to the risk of climate change. The main goal is to harmonise their actions in such a way as to reduce the negative effects of change. To this end, various guidelines are developed for the transition to new conditions and relationships, which is accompanied by the risk of transition to a low-carbon economy and the expectation that the value of direct or related investments in activities, sectors or countries with a high carbon footprint will decrease. The new EU regulation to promote the transition to a green economy and the changing values of consumers increase the attractiveness of the market of insurance products related to the renewable energy sector. The demand for such investment products and insurance solutions, which accompany the buyer in adopting a sustainable lifestyle, is therefore growing.

The Group's acceptance of challenges and risk management

The Company is constantly monitoring the environmental efficiency of its operations and is implementing new regulations that direct the economy towards sustainable development.

It recognises and manages climate change because it is aware of its importance. Extraordinary weather events as a result of climate change are becoming more frequent and occur with increasing intensity. Therefore, special attention is paid to the adequacy of premium amounts to cover weather damage and an expert assessment of the risk of increasing insurance liabilities due to climate change is reasonably included in the information on historical data (the number and intensity of past loss events). The speed of weather changes does not allow, based on past experience, to identify in a timely and sufficient manner, the expected changes and thus potential insurance liabilities which could lead to the fact that an increasing share of capital would have to be allocated to the risks of future weather events.

The Company strives to raise public awareness in various ways about the importance of insurance in the event of such accidents, as it is aware that the risk of climate change will affect the future quality of life of everyone. Weather disasters with major damage are expected in the future as well, thus citizens are advised to check the adequacy of their insurance coverage. Safe and self-protective behaviour is promoted through the Triglav Vreme application.

The Company not only provides a broad range of insurance products that cover the risks of adverse weather events, but also designs new business models focused on new insurance coverage and promotion of insurability. The goal is to attract the attention of as many retail and corporate clients as possible and encourage them to buy insurance, and, with its greater geographical diversification, to provide wider and easier accessibility of insurance products. The Company reduced the impact of assumed risks on its operations by having an appropriate reinsurance coverage, which is constantly checked and adjusted.

In the reporting year, the commitment to sustainability was adopted, which is presented in more detail in Section 12. Sustainable development and ESG aspects at the Triglav Group of the Business Report.

4. An ageing society and social security

In more mature European economies, we are witnessing a steady ageing of the population as a result of longer life expectancy and declining birth rates. International migration phenomena only partially mitigate this trend. Precarious work and income insecurity are typical of young age groups in European countries. On the other hand, with increasing longevity, public spending on pensions and healthcare is rising, and undefined long-term care brings additional uncertainty. The described trends are reflected not only in government budget deficits and related government debt, but also in the threatened sustainability of public finances.

The labour shortage that accompanies these trends will also affect development and economic growth.

The Group's acceptance of challenges and risk management

The coverage of risks that are not included in the statutory social security or are insufficient is provided by additional and supplemental insurance products. The Company is expanding its life, pension and health insurance product range, thus increasing the security of clients at all stages of life. It is exposed to the longevity risk in products with lifetime annuity or pension payouts. As this is a very long-term risk, it requires special attention. It is managed by developing dynamic models of the policyholders' life expectancy and setting appropriate premium rates and provisions.

The aim of the Group's employee management policy is to create a stimulating, development-oriented environment with engaged, healthy and satisfied employees. With their help, the Group members are able to achieve ambitious strategic and business objectives. In addition to the development of existing employees, new hires are carefully selected and onboarded.

All employees are provided with opportunities for personal growth, development and career advancement. The Company strives to acquire, develop and retain the best employees, improve selection processes, and promote mobility both within an individual Group member and at the Group level. A system of onboarding and development mentoring was set up for new and promising employees.

The Company values new knowledge and digital skills, cooperation among employees and a responsible attitude towards clients. In addition, it promotes innovation, multiculturism and the transfer of experience and know-how between generations. Within the framework of the intergenerational cooperation programme, various activities are carried out for the continuous development of know-how and competences, maintaining work performance, satisfaction, health and engagement of older employees (preventive activity). The goal is to train leaders to work with mixed-age groups and to direct organisational culture towards effective cooperation between generations. Great emphasis is placed on the digital literacy of older employees, various forms of mentoring to foster knowledge transfer, workshops for leaders and employees over the age of 55, and the constant raising of awareness of employees of all generations.

The Group implements the minimum standards for the uniform employee management and transfer of good practices within the Group. The Company's adapted human resource information system (Gecko HRM) was launched in 2020 in subsidiaries in Slovenia and began to be implemented in two other Group members in the Adria region.

By developing the desired organisational culture and engaged, healthy and satisfied employees, a reputable employer brand is built.

2.
Risk exposure and management

The quantitative presentation of risk exposure is primarily based on accounting data. Exposures on a mark-to-market basis, which is also used for solvency reporting, is presented in greater detail in the Solvency and Financial Condition Report, available at the Company's website (www.triglav.eu).

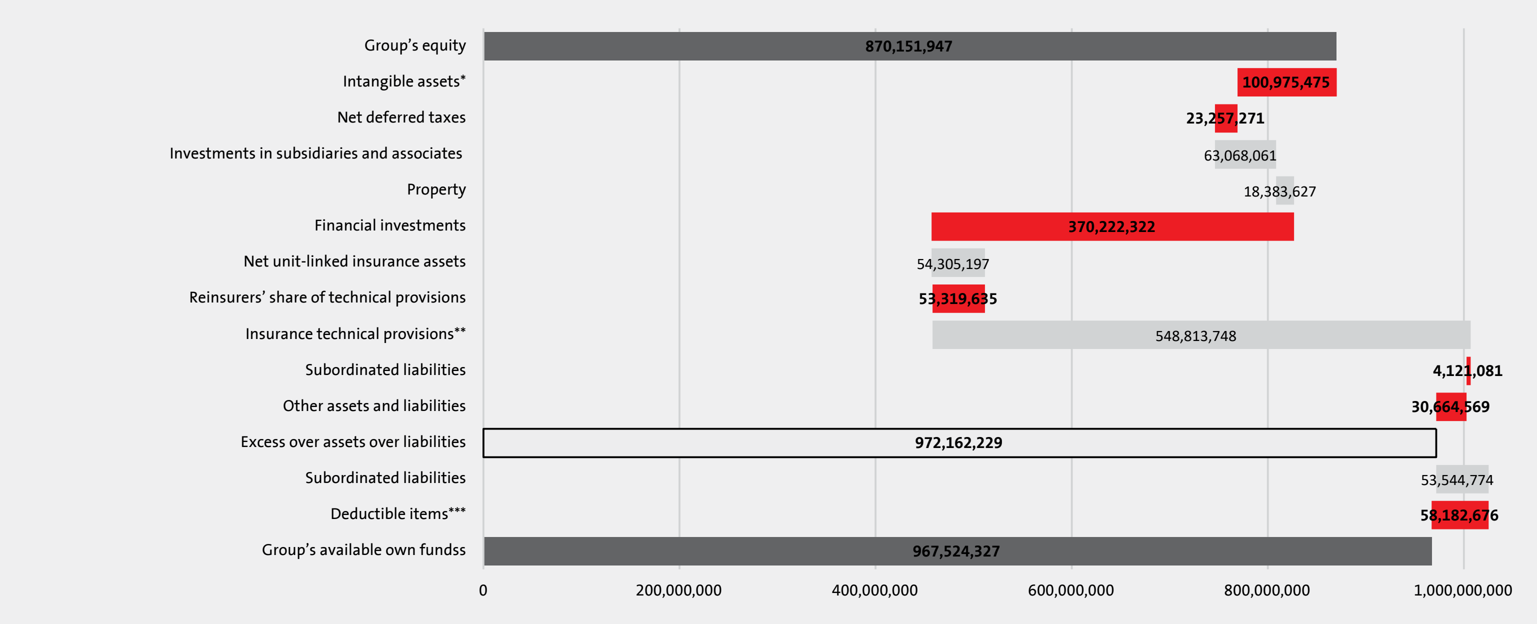
The presentation of the risk profile of the Triglav Group and the risk assessments by individual risk segment are based on market values for solvency purposes. The Company uses the regulatory method, which was assessed as appropriate for risk measurement in the context of the own risk and solvency assessment process.

With respect to unit-linked insurance, investment risk is borne by the insured person and not by the insurer. The tables below therefore, where appropriate, separately show the value of these insurance contracts or exclude them from the presentation of exposure and risk assessment of the Company and consequently the Group.

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.

Explanation of differences in capital valuation in the balance sheet for solvency and financial reporting purposes for the Triglav Group as at 31 December 2020



* The fair value of intangible assets is valued at 0.
** Consolidation method for solvency purposes differs for Triglav Skladi and Triglav, pokojninska družba.
*** In this item interests in companies with sectoral rules, forseeable dividends and non-available minority interests at group level are included.

The definition of equity in the balance sheet for financial reporting purposes differs from the definition of own funds for solvency purposes. Details of significant reasons for the changes in 2020 and the related differences in valuation are described in the Solvency and Financial Condition Report for 2020, D and E sections, which is published on the Company's website (www.triglav.eu).

As at the 2020 year-end, the Group remained well capitalised. Its capital adequacy improved mainly due to an increase in available own funds, which are higher by EUR 76 million compared to 2019 as a result of market profit. Foreseeable dividends for 2020 were already deducted from available own funds. In the reporting year, the Company did not pay dividends for 2019 based on the regulator's recommendations to temporary suspend the payment of dividends. However, the capital requirement did not change significantly in the comparative period.

Capital adequacy of the Triglav Group and Zavarovalnica Triglav

	Triglav Group		Zavarovalnica Triglav	
	31 Dec. 2020	31 Dec. 2019	31 Dec. 2020	31 Dec. 2019
Available own funds (EUR million)	968	892	983	905
SCR (EUR million)	404	400	318	320
Capital adequacy (%)	**240**	**223**	**309**	**283**

Realised capital adequacy was 240% as at 31 December 2020 and was thus within the target capital adequacy range, i.e. between 200% and 250%. Thus, the Group achieves its target risk appetite, which is in line with the capital management strategic objectives and the dividend policy criteria presented in Section 1.3 of Risk management.

2.2 Risk profile

Risks are assessed on the basis of a standard formula defined by the applicable legislation and internal methodologies, which are mostly based on the value-at-risk method. It distributes market losses or gains with a confidence interval of 99.5% over a one-year horizon. With regard to solvency capital requirement (SCR), the diversification specified in the standard formula prescribed by law is taken into account.

The level of underwritten risks is in line with the guidelines defined in the risk appetite. Due to the outbreak of the COVID-19 pandemic and its impact on financial markets, special attention was paid to market risks in 2020. In doing so, the achievement of optimal matching of assets and liabilities was pursued and the impacts on spread risk were taken into account. Despite the COVID-19 pandemic, underwriting risks were effectively underwritten and their scope increased.

The Group is most exposed to market and underwriting risks, followed by credit and operational risks. Within the Group, the Company assumes the bulk of the risks.

The risk profile of Zavarovalnica Triglav and the Triglav Group, which shows their exposure to material risk categories, is shown in the table below.

Risk dashboard of Zavarovalnica Triglav and the Triglav Group* as at 31 December 2020

Risk	Risk assessment (current)	Risk trend (future)	Note
Capital adequacy	low	▲	Despite the uncertainty caused by the COVID-19 pandemic, the capital adequacy remains within the target range both in the Company and the Group. There are some uncertainties in the announced changes to the standard formula, which are still being harmonised at the EU level and which may affect capital adequacy in the coming years.
Underwriting risks	medium	▶	The Group maintained premium growth and achieved the target values of indicators in strategic markets even in the past period. Despite more frequent disasters with higher severity (earthquakes in Croatia, weather disasters), the combined ratio remained within the strategically defined range. Low interest rate risks that hamper the profitability of life and pension insurance are still present.
Market risks	medium	▶	The situation in the financial markets deteriorated significantly in 2020 due to the emergence of a pandemic. Despite the easing of the situation in the second half of the year, there is still increased uncertainty regarding future developments in financial markets. This will largely depend on the further development of the pandemic. The risk of a renewed increase in credit spreads is still at the forefront, and low interest rates are still persisting. Due to all the above, the Company actively manages market risks, thus special attention is paid to the development of optimal investment policies and the matching of assets and liabilities, which is especially important in the life insurance segment.
Credit risks	low	▶	Despite the increase in exposure, credit risks remain low. The main reason is the regular and systematic monitoring and management of individual exposures in all segments and good diversification of the portfolio.
Liquidity risk	low	▶	At the beginning of the year, a short-term deterioration in market liquidity was seen, which did not have an impact on the Company's liquidity. In the second half of the year, the liquidity position slightly improved. Through regular monitoring of the liquidity position, a strong liquidity position is maintained.
Operational risks	medium	▶	Due to the COVID-19 pandemic, the Company identified an increase in operational risks, especially due to potential staff absences, adjusted organisation and implementation of processes (internal, regulatory and with respect to clients), new information security risks (due to working from home) and additional regulatory changes arising from emergency legislation. Thanks to regular monitoring of the situation and rapid response to it, no pandemic-related material operational risk was realised. We are aware that these risks are still relevant. In addition to the above, the Group continues to identify cyber and regulatory risks as key types of operational risks, which it manages through ongoing monitoring and responding to current events.

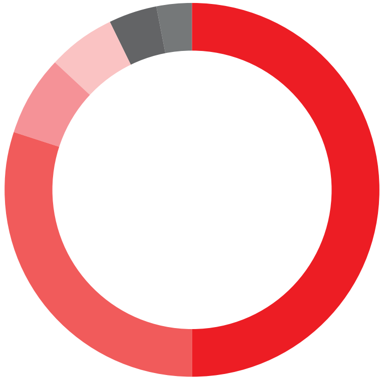
* An overall assessment of the main risk categories was made on the basis of discussed quarterly risk reports. The risk trend shows a potential assessment of future risks relative to current projections.

i) The colour scale of assessed risks:

■ high ■ medium ■ low

ii) Risk trend: ▼ downward ▶ stable ▲ upward

Risk profile assessment* of the Triglav Group as at 31 December 2020



- Underwrittng risks: 50%
- Market risks: 30%
- Credit risks: 7%
- Operational risks: 6%
- Risks of companies from other financial sectors: 4%
- Risks of other non-financial companies: 3%

*The risk profile is determined on the basis of a risk assessment using the standard formula, without taking into account the effects of diversification across individual risk categories.

2.3 Underwriting risks

Underwriting risks are the risks that are directly related to taking out an insurance policy, its amount and, consequently, the loss or 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 Triglav Group assumes underwriting risks by conducting its core business, i.e. insurance and reinsurance activities. A well-established and effective underwriting risk management system includes the relevant procedures, segregation of powers and authorisations to achieve the target level of risks, which the Company is still prepared to accept in order to achieve its business and strategic objectives.

According to insurance types, underwriting risks are classified into:

- **non-life underwriting** risks and
- **life underwriting** risks.

The structure of consolidated gross written insurance, coinsurance and reinsurance premiums of the Group by non-life and life insurance segment is presented in detail in Section 7.5 Gross written insurance, coinsurance and reinsurance premiums of the Business Report.

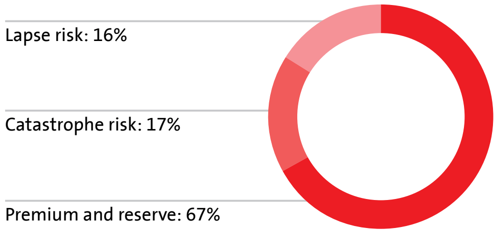
2.3.1 Non-life insurance underwriting risks

When concluding non-life insurance policies, the Group's insurance and reinsurance subsidiaries underwrite premium risk, provision risk, lapse risk and catastrophe risk. Under the standard formula, these risks depend on the exposure by individual risks and their variability.

The Group is most exposed to premium and provision risks, followed by catastrophe and lapse risks. At the Group level, Zavarovalnica Triglav underwrites the bulk of the non-life underwriting risks, while Triglav, Zdravstvena zavarovalnica underwrites the majority of health underwriting risks.

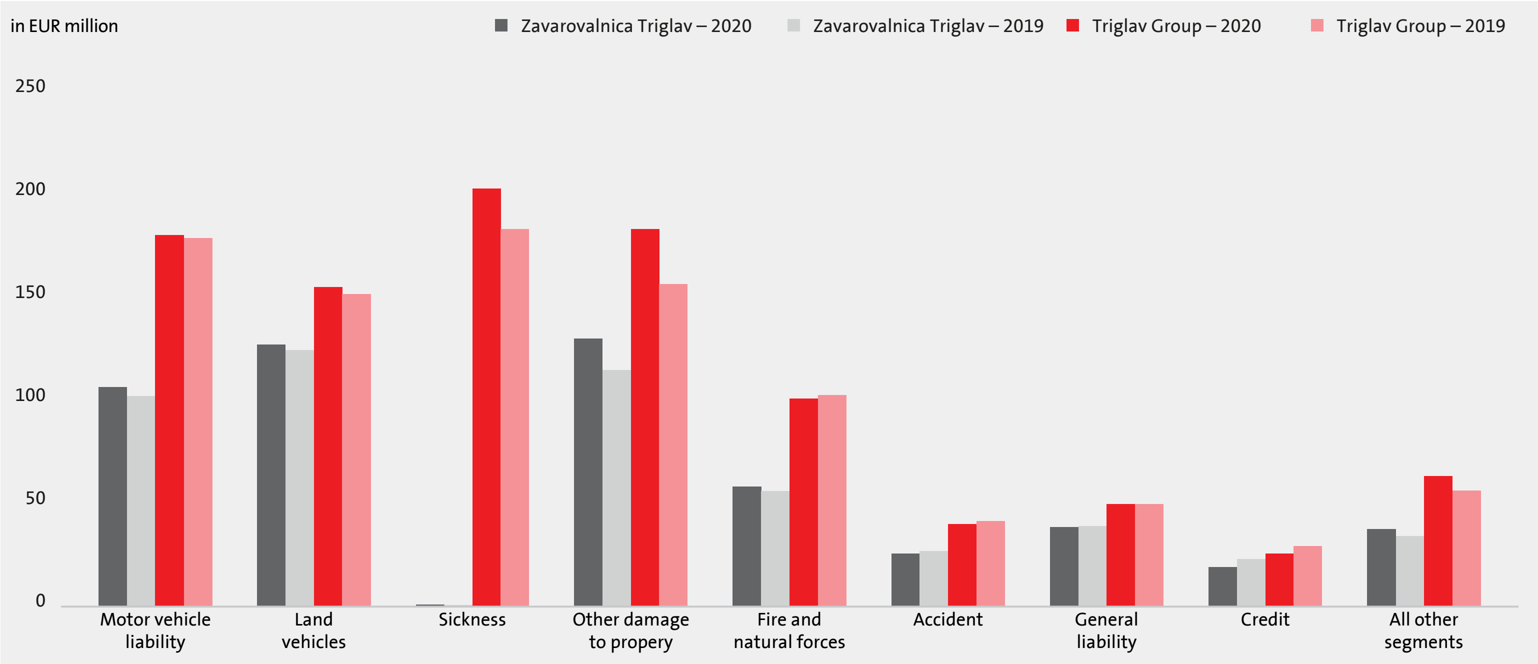
Premium risk is the risk that the written premium will be insufficient to meet all obligations arising from the conclusion of an insurance contract, not taking into account major or catastrophe losses. The risk depends on net premium income and the annual variability of claims ratios, which are determined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

Risk assessment* for non-life insurance including health insurance for the Triglav Group as at 31 December 2020

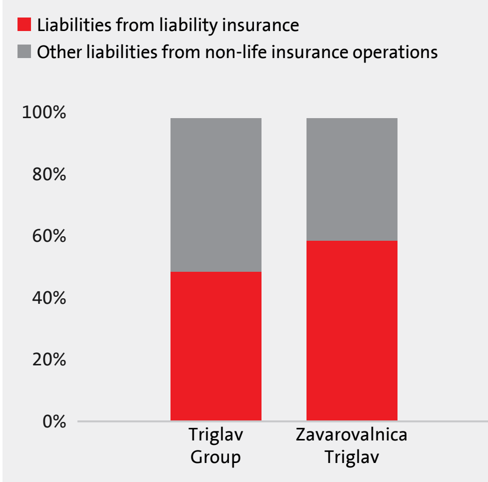


*The risk profile is determined on the basis of a risk assessment using the standard formula, without taking into account the effects of diversification across individual categories of non-life insurance underwriting risks. It includes non-life insurance and additional accident insurance taken out with life insurance, but non-life insurance annuities are excluded.

Gross written insurance, coinsurance and reinsurance premiums by insurance segment in EUR million



Ratio of liabilities from liability insurance to liabilities from other insurance as at 31 December 2020



Premium risk is regularly monitored both at the Group level and at the level of insurance segments. The adequacy of written premium in relation to actual claims and costs arising from underwritten insurance contracts is also measured with combined ratios. Combined ratios for the last three years are presented in the sections 8.1 for the Group and 8.2 for the Company in the Business Report.

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.

Reserve risk occurs when the actual claims paid deviate from the expected. Insurance technical provisions represent an estimate of expected claims paid from valid non-life insurance contracts. The reserve risk is measured by assessing potential loss for claims already incurred in an extreme event, taking into account a scenario that (statistically) occurs once in 200 years and which, 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 2.11 of the Accounting Report for more information) is verified by regularly performing the liability adequacy test based on the balance on the last day of the business year and by regularly calculating insurance technical provisions for solvency purposes. According to actuarial estimates of future claims as at the 2020 year-end, insurance technical provisions, for both financial reporting and solvency purposes, were adequate (see the sections 2.11.7 and 3.15 of the Accounting Report for more information).

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

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 contracts concluded at 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.

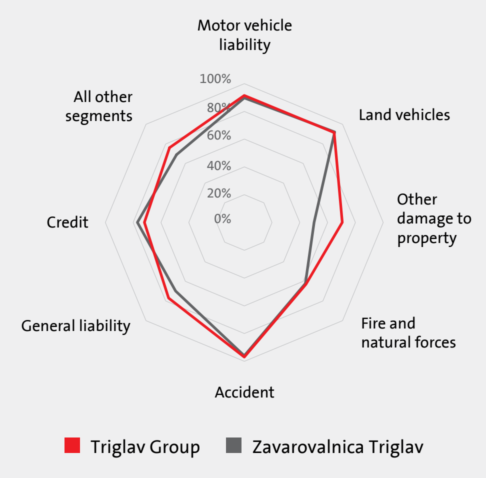
Lapse risk is realised when the lapse rates of underwritten non-life insurance contracts are higher than the expected lapse rates. The risk is low in practice, as the duration of non-life insurance policies is mostly one-year, without the possibility of termination, except in special cases. Nevertheless, 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 insurance catastrophe risk means the risk of an unexpected one-time loss event with a loss potential that is considerably higher than the estimated average loss of insurance companies in the Group. Catastrophe risk at the Group level is greatest where the insurance business is concentrated in a particular geographical area, sector or economic activity by individual insurance peril.

Non-life insurance risk concentration
Concentration risk is the consequence of the concentration of insurance business in a geographic area, sector or industry, or individual insured perils. It may also arise as a result of correlation between individual insurance classes. In such a case, even a single loss event may have a significant impact on the Company's ability to settle its obligations. Concentration risk is managed through prudent assumption of underwriting risks, regular monitoring of portfolio exposures and appropriate reinsurance contracts.

A large loss can occur in the case of large individual claims, such as 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 to gross written premium ratio as at 31 December 2020



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 agreements 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 Group's insurance subsidiaries.

Low-frequency, high-severity risks
Special attention is paid to all claims resulting from natural events. The results of various models are taken into consideration when assessing the loss potential of catastrophe events and then used to determine the reinsurance coverage. The reinsurance programme includes different types of reinsurance coverage, which depend on the type of insured perils and insurance segments.

The Triglav Group's largest retention amounts to EUR 5 million per peril, with the exception of nuclear perils, EUR 10 million per natural catastrophe and EUR 5 million per other aggregate perils occurring after the event. The Group's largest contingent exposure in the amount of EUR 14 million could arise from nuclear perils, which the Group has assumed from the Slovene Nuclear Pool. Nuclear perils are characterised by an extremely low frequency, as no loss event has been reported in 26 years, and by a low or null correlation with other contingent liabilities.

Assumed capacity of nuclear perils for 2019 and 2020

	Assumed capacity in EUR	
	2020	**2019**
Zavarovalnica Triglav d.d.	10,000,000	10,000,000
Pozavarovalnica Triglav Re d.d.	3,000,000	3,000,000
Triglav Osiguranje d.d., Zagreb	1,000,000	1,000,000
Total after the event	**14,000,000**	**14,000,000**

The year 2020 was marked by six major weather disasters and two earthquakes.

	Triglav Group	Zavarovalnica Triglav
Weather disasters	22,506,043	20,776,002
Earthquakes	8,578,526	4,046,864
Total gross*	**31,084,569**	**24,822,866**
Total net*	**15,697,146**	**14,423,146**

* Also includes claims development and an estimate by the end of the year.

The gross estimate of natural disasters at the Group level for 2020 amounted to EUR 31.1 million, which is significantly more than in the preceding year. See Section 7.2 Environmental impact on the Triglav Group's operations in the Business Report for more information.

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 once since 2020. The protection against increased occurrence of natural catastrophes is also arranged for the Group. The reinsurance programme has so far proved to be appropriate.

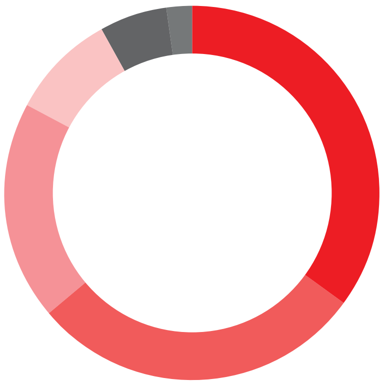
The greatest risk among low-frequency, high-severity risks of the Group is an earthquake in Ljubljana. It is covered with quota share reinsurance, while retention is additionally protected with excess-of-loss reinsurance for catastrophe events. The impact of the 200-year earthquake in Ljubljana on the capital adequacy of the Company and the Group is assessed each year with a stress scenario in the context of the own risk and solvency assessment process. Having an adequate reinsurance coverage, the Company and the Group would successfully survive a severe earthquake. The estimated financial impact under the stress scenario would amount to EUR 115 million for the Company and EUR 133 million for the Group. This shows a strong resilience of both the Company and the Group, which would retain their capital adequacy even if this scenario were realised.

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. Supplemental insurance can be added to unit-linked and traditional insurance policies. **The life insurance underwriting risks** of the Group include mortality, longevity, morbidity, lapse, expense, catastrophe and revision risks.

The Group is most exposed to life expense and lapse risks. The Company underwrites the bulk of the Group's life underwriting risks.

Risk assessment* for life insurance for the Triglav Group as at 31 December 2020



- Lapse risk: 35%
- Life expense risk: 29%
- Longevity risk: 19%
- Mortality risk: 9%
- Catastrophe risk: 6%
- Revision risk: 2%
- Morbidity risk: 0%

* The risk profile is determined on the basis of a risk assessment using the standard formula, without taking into account the effects of diversification across individual categories of life insurance underwriting risks. It also includes risks from ring-fenced funds.It includes life insurance and non-life insurance annuities, but additional accidental insurance taken out with life insurance is excluded.

Lapse risk is the realised difference between the future expected and actual surrenders, capitalisation and any other changes to policies. It may arise from changes in the general economic environment, which affect policyholders' behaviour.

Life expense risk is the risk that the actual life insurance expenses will differ from the expected. It may be reflected in inadequately calculated premium, insufficient insurance technical provisions and, consequently, in the difference between the expected and actual difference in profitability of insurance products. The risk may be a consequence of miscalculations, the inadequacy of the cost model or incorrectly estimated volume, trend or volatility of expenses.

Mortality risk may occur when there is a difference between actual and projected mortality. The difference affects the adequacy of the calculated premium, the amount of insurance technical provisions, the amount and type of risk transfer (reinsurance, coinsurance) and the difference between the expected and actual profitability of insurance products.

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); and
- other sources leading to an incorrect estimate.

Moreover, mortality risk may include **longevity risk**, which is discussed in detail primarily in annuity and pension insurance.

Adequate risk equalisation, which is the basic principle under which the insurance industry functions, is achieved through sufficiently large homogeneous risk groups, which constitute the entire portfolio of the presented risks. The key prerequisite for adequate risk 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 and provision risks are managed in the context of the actuarial control cycle by regularly checking the deviations of the actual effects of risks from those anticipated. In the event any deviations outside the set parameters are detected, appropriate action is taken (by adapting the design or parameters of an insurance product or by adjusting the parameters for the calculation of insurance technical provisions).

Gross written insurance, coinsurance and reinsurance premiums in 2020 by (re)insurance subsidiary of the Group is presented in Section 7.5 of the Business Report.

Insurance technical provisions are based on prudent assumptions. 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 expected contractual and other cash flows. The test is performed at least once a year based on the balance on the last day of the business year (see Section 2.11 of the Accounting Report for more information). The test results for 2020 showed that an adequate level of insurance technical provisions for life insurance was formed for the Group and individual insurance subsidiaries. Additional other insurance technical provisions were created for the identified shortfalls in the guarantee fund backing supplemental voluntary pension insurance saving and the guarantee fund backing supplemental voluntary pension insurance payouts.

A part of life insurance risk management at the Group level 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 control cycle.

Traditional life and pension insurance policies which include saving at a guaranteed interest rate are exposed to asset-liability mismatch risk. Similar risks due to a special guarantee for the return arise from the SVPI policies during the saving period. These risks are described in detail among market risks in Section 2.4.6 of Risk management.

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 maximising the matching of assets and liabilities arising from these policies, as well as by creating additional provisions, especially in the part of the portfolio of liabilities with higher guarantees. The guarantee fund backing life insurance with mathematical provisions in the amount of EUR 723.5 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 said guarantee fund, it is necessary to guarantee a 2.0% return on assets. The achieved rate of return on the fund in 2020 stood at 3.1% (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 (in the accumulation phase). The policyholder will be entitled to the guaranteed annuity factors at the end of the accumulation period and the transition to the payout period, i.e. when they will begin to receive lifetime annuity, which will then be calculated based on the accumulated assets and by applying the aforementioned fixed factors. With this guarantee, the Company is additionally exposed to the longevity risk. This risk is not transferred to reinsurers, instead additional dedicated provisions are formed if necessary.

The most important type of a contractual financial option is the policyholder's right 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.

Life underwriting risk concentration

The concentration of life insurance underwriting risks is assessed as low, because the life insurance risk portfolio is well dispersed by all criteria and due to the fact that most policies originate from geographically dispersed retail sale. Any minor concentration risk in the portfolio is reduced by transferring a portion of the risks to reinsurers based on the reinsurance programme. The sum insured in the event of death is less than EUR 60,000 for 82.5% of the whole life insurance portfolio and less than EUR 35,000 for 99.5% for the other life insurance portfolio. For additional accidental death insurance, the sum insured is lower than EUR 50,000 and accounts for 99.1% of the respective portfolio, while for additional accidental disability insurance the sum insured is less than EUR 100,000 for 99.4% of the respective portfolio. The aforementioned sums insured represent retention stipulated by a contract in line with the reinsurance contract for most insurance policies.

2.4 Market risks

Financial investments are the largest asset category and therefore an important part of the Group's operations. 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. However, individual market risks are also significantly affected by the matching of assets and liabilities.

Market risks are managed according to established methods and processes, with powers and responsibilities clearly defined. This ensures that market risks are promptly identified, measured, managed and monitored. 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 available own funds 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 also specifies maximum acceptable exposure to individual market risks, the target investment portfolio structure, etc.

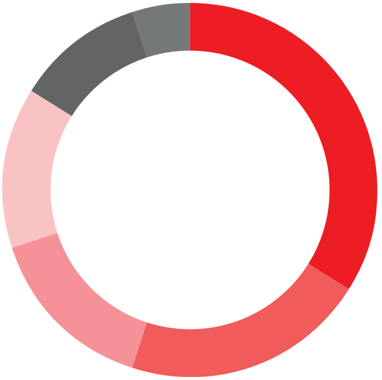
Apart from an appropriately diversified investment portfolio and regular asset-liability matching, the Group uses, to a lesser extent, derivatives to reduce market risks.

The Group is exposed to the following market risk types:

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

In terms of the investment structure (see Section 7.9 of the Business Report for further information), the Group is most exposed to debt securities, followed by investment property and equity securities. The highest market risk for the Group is spread risk, followed by property, equity, currency and interest rate risks. Market concentration risk is the smallest. See Section 7.9 of the Business Report for concentration by sector and geographical area.

Market risk assessment* by subcategory for the Triglav Group as at 31 December 2020



* The market risk profile is determined on the basis of a risk assessment using the standard formula. It also includes market risks from ring-fenced funds, without taking into account the effects of diversification across individual market risk categories.

2.4.1 Spread risk

Spread risk is predominantly determined by debt securities, which account for almost 74% of the Group's total investments. Their value also depends on the level of credit spreads, which reflect the credit quality of debt instruments. The level and volatility of credit spreads increased significantly in 2020, especially in the first half of the year due to the outbreak of the COVID-19 pandemic. In the second half of the year, both credit spreads and their volatility fell. Nevertheless, the Company and the Group actively manage this risk on an ongoing basis in accordance with established investment policies.

The majority or 65% of investments that are exposed to the spread risk are related to exposure to countries, followed by exposure to the financial sector, which represents nearly 18% 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 61% of investments in debt securities have at least the "A" credit rating. The bulk (almost 90%) of the portfolio is accounted for by debt securities of issuers having a credit rating of at least "BBB". The credit quality of the debt portfolio improved compared to the previous year, mainly due to replacing investments with poor credit ratings with investments with better credit ratings.

The structure of debt securities is presented in detail in Section 7.9 The structure of investments of the Triglav Group and Zavarovalnica Triglav of the Business Report.

2.4.2 Equity risk

Equity investments that are managed under financial investments and exclude investments in subsidiaries and associates and 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 by setting exposure limits as well as through geographical and sectoral diversification of investments. 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, excluding unit-linked life insurance contract investments. The value of equity investments increased primarily due to new investments in associates and alternative funds. Most equity investments are in shares issued by issuers in advanced markets, among which issuers based in the European Union predominate. In 2020, the value of equity investments was significantly affected by the emergence of the COVID-19 pandemic, which caused considerable declines in the value of equity investments, particularly in regulated markets. In the second half of the year, market demand grew again and so this effect was not noticeable at the end of the year.

Geographical diversification of equity investments

	Triglav Group		Zavarovalnica Triglav	
	31 Dec. 2020	31 Dec. 2019	31 Dec. 2020	31 Dec. 2019
Equities in the EU	182,841,448	172,524,215	112,358,977	106,344,992
Equities in the USA	11,594,039	8,796,000	0	0
Equities in Asia*	0	0	0	0
Equities in emerging markets	6,722,771	6,477,385	703,485	475,185
Global equities**	19,209,734	19,405,083	524,109	489,891
Total financial investments	**220,367,992**	**207,202,683**	**113,586,570**	**107,310,068**
Unit-linked life insurance contract investments***	443,699,251	411,955,883	396,272,477	372,603,167
TOTAL	**664,067,243**	**619,158,566**	**509,859,047**	**479,913,235**

* Equity investments in advanced Asia (Japan, Hong Kong)
** Globally dispersed equity investments
*** The figure includes only equity investments.

The sensitivity analysis of equity investments, whose risks are borne by the Company and the Group, in relation to the change in prices of equity investments and an analysis of this impact on the Group's comprehensive income or profit or loss showed that a 10% increase in market prices of equities in the portfolio would have a positive impact on the Group's fair value reserve in the amount of EUR 14.9 million and on its profit in the amount of EUR 7.2 million. If the trend were opposite and market prices of equity investments dropped by 10%, the Group's fair value reserve would decrease by EUR 14.7 million and its profit by EUR 7.4 million. The assessed impact on profit or loss shown in the table below presents only the assessed changes at the Group level, because it does not include unit-linked life insurance contract investments.

Sensitivity analysis of equity investments*

	Triglav Group				Zavarovalnica Triglav			
	31 Dec. 2020		31 Dec. 2019		31 Dec. 2020		31 Dec. 2019	
	10%	–10%	10%	–10%	10%	–10%	10%	–10%
Equities in the EU	18,284,145	-18,284,145	17,252,422	-17,252,422	11,235,898	-11,235,898	10,634,499	-10,634,499
Equities in the USA	1,159,404	-1,159,404	879,600	-879,600	0	0	0	0
Equities in Asia**	0	0	0	0	0	0	0	0
Equities in emerging markets	672,277	-672,277	647,739	-647,739	70,349	-70,349	47,519	-47,519
Global equities***	1,920,973	-1,920,973	1,940,508	-1,940,508	52,411	-52,411	48,989	-48,989
Total financial investments	**22,036,799**	**-22,036,799**	**20,720,268**	**-20,720,268**	**11,358,657**	**-11,358,657**	**10,731,007**	**-10,731,007**
Impact on fair value reserve	14,868,401	-14,684,012	14,751,545	-14,699,550	11,172,313	-10,987,924	10,661,415	-10,609,420
Impact on profit or loss	7,168,398	-7,352,787	5,968,724	-6,020,719	186,344	-370,733	69,592	-121,587
Impact on capital	**22,036,799**	**-22,036,799**	**20,720,268**	**-20,720,268**	**11,358,657**	**-11,358,657**	**10,731,007**	**-10,731,007**

* The effects shown do not include the tax aspect and the impact of the reduction in assets on liabilities (for life insurance).
** Equity investments in advanced Asia (Japan, Hong Kong)
*** Globally dispersed equity investments

2.4.3 Property risk

The property risk of the Group arises from own-use real property, investment property and leased property. Total exposure amounts to EUR 202 million; own-use real property also includes property leased by the Group. With respect to the latter, the Group is not directly exposed to property risk, because it primarily involves long-term lease agreements. The Group's real property is primarily located in Slovenia.

Exposure to real property in relation to its purpose

	Triglav Group		Zavarovalnica Triglav	
	31 Dec. 2020	**31 Dec. 2019**	**31 Dec. 2020**	**31 Dec. 2019**
Investment property	78,977,800	79,921,480	44,451,276	46,091,134
Real property for own use*	122,991,284	125,010,215	71,363,367	72,412,004
Total	**201,969,084**	**204,931,695**	**115,814,643**	**118,503,138**

* Investment property is disclosed at cost in the financial statements. The fair value of investment property is presented in Section 3.3 of the Accounting Report, where other land and buildings for direct performance of the insurance activity are deducted, which are otherwise included in "property, plant and equipment" (see Section 3.2 of the Accounting Report). The fair value is calculated using valuation techniques. Valuation of property based on the existing methodology is performed by an authorised valuer. The amount of leased property includes only right-of-use assets in the table.

2.4.4 Currency risk

The Group's currency risk arises predominantly from subsidiaries operating in an environment whose local currency is not the euro. These companies conduct most of their transactions in the local currency, thus being less exposed to currency risk related to the euro. The Group's currency risk also arises from the excess of assets over liabilities in US dollars, in respect of which the Group maintained a similar exposure compared to the preceding year.

The Group manages currency risk through asset-liability matching and, to a lesser extent, by using currency derivatives for hedging purposes. The Company entered into a foreign exchange forward contract in the amount of EUR 19.2 million to hedge the open currency position in Croatian kunas. In addition, Triglav Osiguranje d.d., Zagreb, entered into two foreign exchange forward contracts of EUR 6.3 million to hedge the open currency position in euros.

Financial investments in euros represent 92% of the Group's total financial investments. Exposure to a specific currency does not account for more than 3% of total financial investments.

Currency exposure of the Triglav Group's financial assets and liabilities

Triglav Group as at 31 Dec. 2020	EUR	USD	BAM	RSD	HRK	MKD	Other	Total
Investment property	**77,134,475**	**0**	**1,185,645**	**350,965**	**297,644**	**8,130**	**0**	**78,976,859**
Financial investments	**2,655,845,492**	**29,599,429**	**36,851,948**	**44,203,906**	**71,435,682**	**22,696,740**	**26,747,358**	**2,887,380,555**
Debt securities	2,438,770,066	17,596,291	15,016,223	37,741,302	38,116,197	13,669,674	24,248,243	2,585,157,996
Equity securities	200,675,591	9,278,833	1,557,322	20,901	8,555,741	279,604	0	220,367,992
Derivatives	113,301	0	0	0	0	0	0	113,301
Loans and deposits	11,177,083	2724305	19691315	6018895	24763744	8404670	2499115	75,279,127
Other financial investments	5,109,451	0	587,088	422,808	0	342,792	0	6,462,139
Reinsurers' share of insurance technical provisions	**96,854,065**	**10,588,314**	**6,807,883**	**4,610,331**	**5,065,478**	**0**	**1,947,567**	**125,873,638**
Operating receivables	**150,058,314**	**3,648,543**	**6,207,656**	**15,420,036**	**14,787,717**	**6,067,265**	**7,772,900**	**203,962,431**
Cash and cash equivalents	**57,215,668**	**1,685,244**	**14,907,400**	**2,329,788**	**3,520,502**	**213,554**	**2,027,508**	**81,899,664**
Total	**3,037,108,014**	**45,521,530**	**65,960,532**	**66,915,026**	**95,107,023**	**28,985,689**	**38,495,333**	**3,378,093,147**
Unit-linked life insurance contract investments	**469,633,743**	**29,127,807**	**0**	**0**	**2,238,983**	**258**	**808,188**	**501,808,979**
TOTAL ASSETS	**3,506,741,757**	**74,649,337**	**65,960,532**	**66,915,026**	**97,346,006**	**28,985,947**	**39,303,521**	**3,879,902,126**
Subordinated liabilities	49,423,693	0	0	0	0	0	0	49,423,693
Insurance technical provisions	2,259,902,671	17,650,600	46,343,223	49,235,940	73,662,286	24,628,309	51,806,112	2,523,229,141
Insurance technical provisions for unit-linked life insurance contracts	480,048,197	29,127,807	0	0	0	258	808,188	509,984,450
Employee benefits	15,734,257	0	524,799	194,598	984,470	343,029	0	17,781,153
Other financial liabilities	1,996,326	0	337,985	519,667	15,777	26,084	0	2,895,839
TOTAL LIABILITIES	**2,807,105,144**	**46,778,407**	**47,206,007**	**49,950,205**	**74,662,533**	**24,997,680**	**52,614,300**	**3,103,314,276**
Net currency exposure of the statement of financial position	**699,636,613**	**27,870,930**	**18,754,525**	**16,964,821**	**22,683,473**	**3,988,267**	**-13,310,779**	**776,587,850**
Currency derivatives	**12,945,506**	**0**	**0**	**0**	**-12,869,218**	**0**	**0**	**76,288**
Net currency exposure	**712,582,119**	**27,870,930**	**18,754,525**	**16,964,821**	**9,814,255**	**3,988,267**	**-13,310,779**	**776,664,138**

Triglav Group as at 31 Dec. 2019	EUR	USD	BAM	RSD	HRK	MKD	Other	Total
Investment property	**77,818,742**	**0**	**1,206,286**	**364,700**	**515,824**	**15,927**	**0**	**79,921,480**
Financial investments	**2,539,890,434**	**21,600,318**	**35,092,622**	**39,641,851**	**70,376,862**	**22,553,450**	**11,280,218**	**2,740,435,755**
Debt securities	2,316,079,577	15,172,817	14,695,316	32,991,075	36,958,936	10,958,551	9,134,536	2,435,990,808
Equity securities	193,192,056	3,840,700	1,873,101	92,453	8,112,689	91,681	0	207,202,680
Derivatives	0	0	0	0	0	0	0	0
Loans and deposits	25,402,540	2,586,801	17,809,816	6,231,289	25,305,237	11,048,385	2,145,682	90,529,750
Other financial investments	5,216,261	0	714,389	327,034	0	454,833	0	6,712,517
Reinsurers' share of insurance technical provisions	**91,005,175**	**1,144,442**	**4,486,267**	**5,307,698**	**294,265**	**0**	**509,958**	**102,747,805**
Operating receivables	**162,311,980**	**2,622,413**	**5,707,266**	**13,210,004**	**12,279,694**	**5,786,038**	**4,780,429**	**206,697,824**
Cash and cash equivalents	**57,875,879**	**1,027,643**	**11,896,352**	**2,037,517**	**2,358,734**	**332,288**	**341,364**	**75,869,777**
Total	**2,928,902,210**	**26,394,816**	**58,388,793**	**60,561,770**	**85,825,379**	**28,687,703**	**16,911,969**	**3,205,672,641**
Unit-linked life insurance contract investments	**460,129,885**	**18,260,912**	**0**	**0**	**2,286,839**	**0**	**1,353,653**	**482,031,289**
TOTAL ASSETS	**3,389,032,095**	**44,655,728**	**58,388,793**	**60,561,770**	**88,112,218**	**28,687,703**	**18,265,622**	**3,687,703,930**
Subordinated liabilities	64,847,294	0	0	0	0	0	0	64,847,294
Insurance technical provisions	2,203,819,904	8,398,241	41,063,989	43,862,405	53,133,946	17,427,553	26,221,303	2,393,927,341
Insurance technical provisions for unit-linked life insurance contracts	463,041,430	18,260,912	0	0	2,286,839	0	1,353,653	484,942,834
Employee benefits	14,027,996	0	504,361	170,062	918,504	252,123	0	15,873,046
Other financial liabilities	1,678,527	0	140,824	0	16,981	28,063	0	1,864,395
TOTAL LIABILITIES	**2,747,415,151**	**26,659,153**	**41,709,174**	**44,032,467**	**56,356,270**	**17,707,739**	**27,574,956**	**2,961,454,910**
Net currency exposure of the statement of financial position	**641,616,944**	**17,996,575**	**16,679,619**	**16,529,303**	**31,755,948**	**10,979,964**	**-9,309,334**	**726,249,020**
Currency derivatives	**19,462,267**	**0**	**0**	**0**	**-19,491,226**	**0**	**0**	**-28,959**
Net currency exposure	**661,079,211**	**17,996,575**	**16,679,619**	**16,529,303**	**12,264,723**	**10,979,964**	**-9,309,334**	**726,220,061**

2.4.5 Interest rate risk

In terms of financial statements, the Group is exposed to interest rate risk primarily on the assets side, particularly through debt securities, which are classified as available-for-sale financial assets and financial assets measured at fair value through profit or loss. The Group is also exposed to interest rate risk on the liabilities side, mostly through insurance technical provisions for **life insurance**. The change in interest rates, in terms of accounting, also has a lesser impact on insurance technical provisions for **non-life insurance**, especially for insurance technical provisions formed for the payment of annuity claims for motor vehicle and accident insurance. In the event of a drop in market interest rates, the Company performs the LAT to determine whether insurance technical provisions need to be increased. When interest rates rise, insurance technical provisions are reduced to the level of accounting estimates, as the LAT for insurance technical provisions shows a lower excess of their values.

The Company manages interest rate risk with economic valuation. The latter is presented in the Solvency and Financial Condition Report, which shows the interest rate sensitivity of assets and liabilities in terms of economic impact. In this regard, special attention is paid to the matching of cash flows of assets and liabilities and/or to reducing the duration gap.

In 2020, due to the extended period of low interest rates and their further reduction caused by the pandemic, the Company continued its activities to match the duration of assets and liabilities, especially in life insurance. In this segment, the Company is particularly exposed to reinvestment risk, as the duration of assets is shorter than the duration of liabilities.

The asset-liability sensitivity analysis of the change in interest rate and its impact on comprehensive income or profit or loss of the Group showed that a sudden decrease of 100 basis points would have a positive impact (in the amount of EUR 23.9 million), while a sudden increase of 100 basis points would have a negative impact (in the amount of EUR 131.9 million). The impact of a drop in interest rates on the financial statements is lower than in the preceding year, which is a consequence of deliberately extending the duration of interest-sensitive investments in order to better match the duration of liabilities based on economic valuation, which is not fully included in accounting valuation. The matching of the duration of assets and liabilities was primarily performed in the life insurance segment in terms of the economic aspect.

The Company monitors the duration gap[94] of interest-sensitive items for the life and non-life insurance segments, excluding the unit-linked life insurance and supplemental voluntary pension insurance segments.

The duration of assets largely matches the duration of liabilities. The duration gap is positive and stands at 0.7 years (compared to –0.1 years as at 31 December 2019); the duration gap of assets and liabilities is –0.5 years for the life insurance portfolio and 2.3 years for the non-life insurance portfolio.

Sensitivity analysis of assets and liabilities to interest rate changes*

	Triglav Group				Zavarovalnica Triglav			
	31 Dec. 2020		31 Dec. 2019		31 Dec. 2020		31 Dec. 2019	
	+100 bp	–100 bp	+100 bp	–100 bp	+100 bp	–100 bp	+100 bp	–100 bp
Debt securities issued by countries	-120,667,871	143,684,528	-92,126,066	108,770,451	-98,726,974	120,097,898	-74,640,246	90,321,058
Debt securities issued by financial institutions	-15,155,525	16,167,191	-15,579,416	16,415,370	-12,458,272	13,368,843	-14,476,826	15,287,208
Debt securities issued by companies	-14,605,276	15,237,317	-18,274,181	19,096,553	-9,507,308	10,063,122	-12,472,527	13,274,208
Compound securities	-156	7,977	3,199	5,589	-156	7,977	3,199	5,589
Other	0	0	0	0	0	0	0	0
Total financial investments	**-150,428,828**	**175,097,013**	**-125,976,464**	**144,287,963**	**-120,692,710**	**143,537,841**	**-101,586,400**	**118,888,063**
Insurance technical provisions for life insurance	-18,578,329	125,293,539	-6,026,137	81,542,341	-9,785,793	87,110,802	-5,985,948	44,985,191
Insurance technical provisions for non-life insurance	0	25,925,448	0	0	0	25,530,747	0	0
Total technical provisions	**-18,578,329**	**151,218,987**	**-6,026,137**	**81,542,341**	**-9,785,793**	**112,641,549**	**-5,985,948**	**44,985,191**
Impact on capital	**-131,850,499**	**23,878,027**	**-119,950,327**	**62,745,622**	**-110,906,918**	**30,896,292**	**-95,600,452**	**73,902,872**
Impact on fair value reserve	-128,803,593	152,194,239	-83,382,893	94,106,788	-109,455,614	131,023,216	-68,434,720	78,148,813
Impact on profit or loss	-3,046,907	-128,316,212	-36,567,434	-31,361,166	-1,451,304	-100,126,924	-27,165,731	-4,245,941

* The effects shown do not include the tax aspect and the impact of the reduction in assets on liabilities (for life insurance).

2.4.6 Market risk concentration

The Group continuously monitors concentration arising from financial investments on the basis of exposure by issuer and/or group of related issuers of securities and other financial assets, as well as geographical and sectoral concentration.

The largest share of the Group's assets is accounted for by debt securities. Over 65% of debt securities are government bonds and the rest are corporate bonds. The latter are divided almost equally into financial and non-financial sector bonds. Excluding unit-linked life insurance contract investments, the highest exposure to an individual issuer is represented by the Federal Republic of Germany. See Section 7.9 of the Business Report for more information on the concentration of financial investments.

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

2.5 Credit risks

Credit risk is defined as the risk of loss or 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.

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

The Triglav Group assumes credit risks associated with:

- financial investments at which the risk of downgrade or insolvency of counterparties exists (all exposures to each debtor are monitored);
- reinsurance contracts where the risk of inability to pay out claims or the risk of downgrade of a reinsurer exists (it also includes credit concentration risk, which is a result of exposure to the average credit rating of a reinsurance group);
- receivables from insurance transactions, which at the time of their existence represent expected payments of premium and subrogation receivables.

Credit risk exposure by partner type

	Triglav Group		Zavarovalnica Triglav	
	31 Dec. 2020	31 Dec. 2019	31 Dec. 2020	31 Dec. 2019
Cash	81,899,664	75,869,775	22,304,222	26,112,112
- Cash from unit-linked life insurance contract investments	3,523,659	7,081,628	3,390,040	6,885,372
- Other cash	78,375,005	68,788,147	18,914,182	19,226,740
Reinsurance	140,930,302	111,785,643	115,387,028	102,102,184
Receivables*	30,331,591	33,598,434	14,481,907	14,970,545
Total	**253,163,273**	**221,261,729**	**174,477,379**	**143,184,843**
Total excluding cash from unit-linked life insurance contract investments	**249,639,614**	**214,180,101**	**171,087,339**	**136,299,471**

* Past due reinsurance receivables are included in exposure from reinsurance.

According to the financial statements, the Triglav Group is exposed to credit risks to banks through cash in terms of financial assets. The table above also shows cash from unit-linked life insurance contract investments, which do not pose any direct credit risks to the Group. Credit risk to banks is managed by performing an expert analysis of the credit quality of these partners and through a sufficient degree of portfolio diversification. The latter is achieved by limiting our exposure to individual banks and banking groups, which is regulated with a functioning limit system.

Exposure to reinsurance is measured by insurance technical provisions ceded to reinsurers, including past due receivables from reinsurance and coinsurance operations. Prudent assessment of the suitability of reinsurance partners by their creditworthiness and diversification plays a key role in this. Exposure to receivables is measured by the Company's past due receivables from insurance operations and other receivables.

The Group is exposed to receivables through past due receivables from insurance operations and other receivables.

The Company regularly monitors counterparties' credit ratings and carefully manages its exposure to partners without a credit rating.

The largest exposures of the Company and the Group from financial investments are presented in Section 5.13 of the Accounting Report.

With regard to cash and cash equivalents, the Company is most exposed to Slovenian banks, which mainly have the "BB" credit rating or are without a credit rating. In addition to Slovenian banks, the Group is exposed to banks in the countries where the subsidiaries operate that are usually without a credit rating.

The Company monitors all reinsurance partners also at the Group level. The risks associated with them are managed through a comprehensive system and well-defined rules, the most important of which is the process of assigning credit ratings, as it enables the Company to determine an appropriate and coordinated second-best credit rating of partners. For monitoring and managing credit risks as well as for calculating capital requirements using the regulatory method, the system of uniform naming and keeping of basic data on reinsurance partners is also important when determining credit ratings.

Exposure to reinsurance partners by credit rating

	Triglav Group		Zavarovalnica Triglav	
	31 Dec. 2020	31 Dec. 2019	31 Dec. 2020	31 Dec. 2019
AAA	0.0%	0.0%	0.0%	0.0%
AA to BBB	76.7%	79.3%	88.2%	92.7%
Below BBB	9.0%	4.8%	8.3%	4.6%
Not rated	14.3%	15.9%	3.6%	2.7%
Average credit rating	BBB	BBB	A	A

The Group is most exposed to reinsurers with the "A" credit rating. The proportion of partners with the "AA" credit rating is also high. The proportion of non-rated reinsurance partners at the Group level is 14.3%, with the majority being related to the claims of subsidiaries covered by non-rated reinsurers. The proportion of non-rated reinsurance partners in the Company is considerably lower, i.e. 3.6%.

Concentration of five largest exposures to reinsurers by country

	Triglav Group 31 Dec. 2020		Triglav Group 31 Dec. 2019
Germany	25.8%	Germany	25.1%
Serbia	8.7%	United Kingdom	16.7%
United Kingdom	8.1%	Serbia	13.4%
Russia	7.3%	Switzerland	7.8%
France	5.5%	Bosnia and Herzegovina	6.3%

	Zavarovalnica Triglav 31 Dec. 2020		Zavarovalnica Triglav 31 Dec. 2019
Slovenia	66.8%	Slovenia	67.2%
Russia	8.4%	Russia	6.3%
United Kingdom	4.2%	United Kingdom	5.7%
Germany	3.7%	Switzerland	5.6%
Switzerland	2.7%	Germany	3.3%

The geographical concentration of reinsurers at the Group level is the highest in Germany and has not changed significantly compared to the year before. Concentration to the United Kingdom decreased during 2020 due to a change in the location of our major partners (due to the Brexit). No other consequences of the Brexit were identified that would materially affect the operations of both the Company and the Group.

Zavarovalnica Triglav is geographically most exposed in Slovenia due to its exposure to the subsidiary Pozavarovalnica Triglav Re.

All receivables from insurance transactions with clients are presented in Section 3.10 of the Accounting Report. In the context of credit risks, the Company monitors and manages receivables from policyholders and agents, other receivables from direct insurance business and other short-term receivables, the majority of which are subrogation receivables.

Separately from receivables from direct insurance business, the Company also monitors and manages subrogation receivables. These represent a credit risk that the policyholder will not settle their obligations. In addition to the payment of subrogation receivables, the Company monitors the effectiveness of the collection of credited subrogation receivables and the share of subrogation receivables in relation to claims settled. According to the analyses carried out, the pandemic did not have a significant impact on the payment discipline of insurance receivables nor did it significantly increase the share of insurance receivables in default.

2.6 Liquidity risk[95]

Liquidity risk management is an important part of the risk management system, although the solvency capital requirement is not specified for liquidity risk by the standard formula. The Company pursues the goal of being able to meet all expected and unexpected present and future cash outflows and past due liabilities at any given moment. For this purpose, it maintains a surplus of liquid assets, allowing it to settle its obligations even in exceptional circumstances.

Liquidity risk management provides a comprehensive overview of the area. Liquidity sources include sources from the existing portfolio of insurance and investments (cash flows of investments and insurance premiums), sources arising from new business and additional sources intended primarily for extraordinary events (credit lines and repurchase agreements). Liquidity requirements are primarily defined as payments of claims, expenses and dividend payments. The framework for managing this risk also allows us to examine the effects of exceptional circumstances on the side of both liquidity sources and liabilities.

The Company established regular monitoring, measurement and reporting on these risks, which is also being implemented in subsidiaries through the transfer of methodology. Each subsidiary ensures that it meets its liquidity requirements, while complying with locally prescribed regulatory liquidity requirements and the minimum standards for liquidity risk at the Group level.

The Company has sufficient liquidity thanks to the large volume of liquid investments and the regular inflow of premiums paid. Sufficient liquidity in exceptional circumstances is achieved with additional safety mechanisms and planned actions (predominantly credit lines and repurchase agreements).

The Company maintained adequate liquidity in 2020. The greatest impact on liquidity risk was seen at the end of March, when a more pronounced liquidity tightening was observed in the financial markets, which lasted for about two weeks. With liquidity tightening in the financial markets, the liquidity of the Group's financial investments was analysed by asset classes. The increase in liquidity risk in the financial markets was reflected in the fact that more time was needed for purchases and sales of financial investments, and haircuts (discounts on sales) were also higher than usual. The Company responded to the new situation by maintaining large amounts of cash intended to cover the planned outflows and even more prudently planning expected high outflows. It thus ensured that the costs of meeting current obligations in a timely manner were kept to a minimum.

In April 2020, the situation in the financial markets calmed down to such an extent that, compared to March, a high increase in liquidity risk and deductions in potential purchases or sales of financial instruments was no longer detected in trading in financial instruments. The operations over the rest of the year continued without any perceived problems with operational liquidity, and given the current situation, no major problems are expected in the coming months.

In 2020, the Company upgraded its liquidity risk management system, thereby also responding to the situation resulting from the COVID-19 pandemic. Risk assessment was upgraded to a risk assessment arising from liquidity gaps between cash flows in the coming year. Liquidity risk is monitored separately for the non-life and life insurance portfolios.

[95] SASB: FN-IN-550a.3

Financial assets and liabilities of the Triglav Group by contractual maturity[96]

Triglav Group as at 31 Dec. 2020	Not defined	Under 1 year	1 to 5 years	5 to 10 years	Over 10 years	Total
FINANCIAL ASSETS						
Financial investments	**230,651,380**	**314,246,530**	**1,129,869,235**	**666,573,748**	**546,039,662**	**2,887,380,555**
Debt securities	0	293,809,361	1,082,460,413	665,052,457	544,440,537	2,585,762,768
Held to maturity	0	31,231,539	152,806,645	129,670,716	32,856,608	346,565,508
At fair value through profit and loss	0	63,433,997	286,695,148	144,426,381	45,085,691	539,641,217
Available for sale	0	187,050,251	641,413,262	390,955,360	460,507,176	1,679,926,049
Loans and deposits	0	12,093,574	1,545,358	0	5,991,062	19,629,994
Equity securities	220,347,368	0	0	20,624	0	220,367,992
At fair value through profit and loss	69,654,292	0	0	0	0	69,654,292
Available for sale	150,693,076	0	0	20,624	0	150,713,700
Derivatives	0	113,301	0	0	0	113,301
Loans and deposits	3,841,873	20,323,868	47,408,822	1,500,667	1,599,125	74,674,355
Other financial assets	6,462,139	0	0	0	0	6,462,139
Unit-linked life insurance contract investments	443,699,151	27,399,797	8,441,839	4,947,720	17,320,472	501,808,979
At fair value through profit and loss	443,699,151	27,399,797	8,441,839	4,947,720	17,320,472	501,808,979
Available for sale	0	0	0	0	0	0
Loans and deposits	0	0	0	0	0	0
Reinsurers' share of insurance technical provisions	735,663	54,328,865	49,419,914	14,737,162	6,652,033	125,873,637
Operating receivables (including tax receivables)	18,201,144	180,721,999	3,919,146	921,097	199,054	203,962,440
Cash	63,697,538	18,202,126	0	0	0	81,899,664
Total	**756,984,876**	**594,899,317**	**1,191,650,134**	**687,179,727**	**570,211,221**	**3,800,925,275**
FINANCIAL LIABILITIES						
Subordinated liabilities	0	0	0	0	49,423,693	49,423,693
Insurance technical provisions	44,804	751,488,693	704,856,157	427,309,850	639,529,640	2,523,229,144
Insurance technical provisions for unit-linked life insurance contracts	443,467,200	2,050,279	9,918,342	14,200,974	40,347,914	509,984,709
Other financial liabilities	212,197	2,685,974	-2,362	1	24	2,895,834
Total	**443,724,201**	**756,224,946**	**714,772,137**	**441,510,825**	**729,301,271**	**3,085,533,380**

[96] The table shows financial assets classified by contractual maturity, although liquid investments may be sold earlier. The liability side shows insurance technical provisions using projected cash flows to determine the duration. Therefore, the table does not reflect real liquidity. 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.).

Triglav Group as at 31 Dec. 2019	Not defined	Under 1 year	1 to 5 years	5 to 10 years	Over 10 years	Total
FINANCIAL ASSETS						
Financial investments	**217,031,615**	**336,837,102**	**1,060,206,056**	**682,565,205**	**443,390,971**	**2,740,030,949**
Debt securities	264,700	299,594,414	1,017,167,110	677,319,782	441,644,802	2,435,990,808
Held to maturity	0	27,857,884	38,245,129	92,051,148	27,954,910	186,109,071
At fair value through profit and loss	0	43,055,517	237,204,597	124,603,533	152,419,520	557,283,167
Available for sale	0	219,105,366	739,106,003	460,665,101	255,279,810	1,674,156,280
Loans and deposits	264,700	9,575,647	2,611,381	0	5,990,562	18,442,290
Equity securities	207,184,150	0	0	18,530	0	207,202,680
At fair value through profit and loss	57,120,147	0	0	0	0	57,120,147
Available for sale	150,064,003	0	0	18,530	0	150,082,533
Derivatives	0	0	0	0	0	0
Loans and deposits	3,275,054	37,242,688	43,038,946	5,226,893	1,746,169	90,529,750
Other financial assets	6,307,711	0	0	0	0	6,307,711
Unit-linked life insurance contract investments	412,257,898	5,667,553	37,818,047	5,092,862	21,194,927	482,031,287
At fair value through profit and loss	412,054,586	1,944,818	37,818,047	5,092,862	21,194,927	478,105,240
Available for sale	0	0	0	0	0	0
Loans and deposits	203,312	3,722,735	0	0	0	3,926,047
Reinsurers' share of insurance technical provisions	736,604	42,705,727	44,772,392	12,546,548	1,986,535	102,747,806
Operating receivables (including tax receivables)	12,661,873	190,793,792	3,031,895	16,010	194,260	206,697,830
Cash	56,380,343	19,489,432	0	0	0	75,869,775
Total	**699,068,333**	**595,493,606**	**1,145,828,390**	**700,220,625**	**466,766,693**	**3,607,377,647**
FINANCIAL LIABILITIES						
Subordinated liabilities	0	15,468,468	0	0	49,378,826	64,847,294
Insurance technical provisions	22,443,171	657,298,324	594,600,025	456,665,735	662,920,083	2,393,927,338
Insurance technical provisions for unit-linked life insurance contracts	435,810,508	128,400	602,232	4,743,210	43,658,485	484,942,835
Other financial liabilities	115,805	1,686,513	62,062	1	33	1,864,414
Total	**458,369,484**	**674,581,705**	**595,264,319**	**461,408,946**	**755,957,427**	**2,945,581,881**

Total financial assets exceed total financial liabilities of the Triglav Group. As at the 2020 year-end, the Group had a higher surplus of financial assets over financial liabilities in the maturity buckets of 1–5 years and 5–10 years and with undefined maturity in the same way as at the 2019 year-end, whereas in other buckets the value of assets was below the value of liabilities. The vast majority of the Group's assets is invested in highly liquid investments, which also provides the coverage of liabilities in maturity buckets before the bucket into which they are classified in the table shown. The insurance technical provisions take into account the maturity based on forecast cash flows. Therefore, neither deficit in individual maturity buckets nor the payment of liabilities before the maturity date present a liquidity risk.

Based on the adequate liquidity of the Company and the appropriate liquidity of subsidiaries, adequate liquidity is assessed at the Group level.

Financial assets and liabilities of Zavarovalnica Triglav by contractual maturity

Zavarovalnica Triglav as at 31 Dec. 2020	Not defined	Under 1 year	1 to 5 years	5 to 10 years	Over 10 years	Total
FINANCIAL ASSETS						
Financial investments	**119,922,685**	**212,380,789**	**704,231,444**	**487,748,790**	**459,304,664**	**1,983,588,373**
Debt securities	0	211,857,208	681,095,384	486,714,123	457,705,539	1,837,372,253
Held to maturity	0	6,164,778	43,634,286	77,968,804	16,140,644	143,908,512
At fair value through profit and loss	0	32,999,460	78,661,256	66,561,824	27,527,067	205,749,607
Available for sale	0	172,692,969	558,389,731	342,183,495	408,046,766	1,481,312,962
Loans and deposits	0	0	410,110	0	5,991,062	6,401,173
Equity securities	113,586,570	0	0	0	0	113,586,570
At fair value through profit and loss	1,863,439	0	0	0	0	1,863,439
Available for sale	111,723,131	0	0	0	0	111,723,131
Derivatives	0	113,301	0	0	0	113,301
Loans and deposits	2,681,255	410,281	23,136,060	1,034,667	1,599,125	28,861,388
Other financial assets	3,654,860	0	0	0	0	3,654,860
Unit-linked life insurance contract investments	396,272,477	26,205,391	775,998	2,669,441	16,369,180	442,292,488
At fair value through profit and loss	396,272,477	26,205,391	775,998	2,669,441	16,369,180	442,292,488
Available for sale	0	0	0	0	0	0
Loans and deposits	0	0	0	0	0	0
Reinsurers' share of insurance technical provisions	0	66,547,514	28,797,332	6,691,530	3,867,062	105,903,438
Operating receivables (including tax receivables)	0	95,800,206	0	0	0	95,800,206
Cash	22,304,222	0	0	0	0	22,304,222
Total	**538,499,384**	**400,933,900**	**733,804,775**	**497,109,761**	**479,540,906**	**2,649,888,726**
FINANCIAL LIABILITIES						
Subordinated liabilities	0	0	0	0	49,423,693	49,423,693
Insurance technical provisions	0	486,927,330	550,053,043	299,025,324	414,312,291	1,750,317,988
Insurance technical provisions for unit-linked life insurance contracts	420,868,884	1,005,816	4,629,113	6,617,380	15,604,904	448,726,097
Other financial liabilities	0	1,627,543	0	0	0	1,627,543
Total	**420,868,884**	**489,560,689**	**554,682,156**	**305,642,704**	**479,340,888**	**2,250,095,321**

Zavarovalnica Triglav as at 31 Dec. 2019	Not defined	Under 1 year	1 to 5 years	5 to 10 years	Over 10 years	Total
FINANCIAL ASSETS						
Financial investments	**113,616,099**	**201,962,376**	**728,903,011**	**479,498,235**	**388,227,661**	**1,912,207,382**
Debt securities	0	191,594,425	708,961,849	474,393,611	385,126,369	1,760,076,254
Held to maturity	0	11,172,275	29,692,929	88,657,404	20,946,944	150,469,553
At fair value through profit and loss	0	22,721,942	119,345,943	46,557,817	140,564,297	329,189,998
Available for sale	0	157,700,208	559,512,870	339,178,390	217,624,567	1,274,016,035
Loans and deposits	0	0	410,106	0	5,990,562	6,400,668
Equity securities	107,310,068	0	0	0	0	107,310,068
At fair value through profit and loss	695,915	0	0	0	0	695,915
Available for sale	106,614,152	0	0	0	0	106,614,152
Derivatives	0	0	0	0	0	0
Loans and deposits	2,440,514	10,367,951	19,941,162	5,104,624	3,101,292	40,955,543
Other financial assets	3,865,518	0	0	0	0	3,865,518
Unit-linked life insurance contract investments	372,905,282	5,667,553	32,906,130	1,642,404	20,637,240	433,758,610
At fair value through profit and loss	372,905,282	1,944,818	32,906,130	1,642,404	20,637,240	430,035,875
Available for sale	0	0	0	0	0	0
Loans and deposits	0	3,722,735	0	0	0	3,722,735
Reinsurers' share of insurance technical provisions	0	60,528,259	28,528,978	7,426,931	1,949,102	98,433,270
Operating receivables (including tax receivables)	0	113,440,596	0	0	0	113,440,596
Cash	26,112,112	0	0	0	0	26,112,112
Total	**512,633,493**	**381,598,785**	**790,338,119**	**488,567,570**	**410,814,003**	**2,583,951,970**
FINANCIAL LIABILITIES						
Subordinated liabilities	0	20,620,625	0	0	49,378,825	69,999,450
Insurance technical provisions	0	453,535,458	469,508,330	329,553,522	460,835,011	1,713,432,322
Insurance technical provisions for unit-linked life insurance contracts	414,454,235	128,400	602,232	2,185,636	18,222,209	435,592,711
Other financial liabilities	0	1,632,021	0	0	0	1,632,021
Total	**414,454,235**	**475,916,504**	**470,110,562**	**331,739,158**	**528,436,045**	**2,220,656,504**

2.7 Operational risks

The aim of effective operational risk management of the Triglav Group is mainly to effectively remedy the consequences of realised operational loss events, mitigate and prevent operating losses, and to conduct business in a professional, diligent and ethical manner. The primary purpose of operational risk management is not to eliminate them, but to identify them in a timely manner and reduce them cost-effectively with respect to the defined tolerance of the Company. In order to achieve these goals, the Company established processes with clearly defined powers and responsibilities. An important role is also played by the Operational Risk Committee (ORC), which is regularly briefed on any identified operational loss events and discusses any major such event in greater detail, defining the necessary measures with persons responsible and deadlines of their implementation as well as monitoring their implementation. The Company defined nine operational risk groups to monitor risks (internal fraud or unauthorised activity of employees; external fraud or unauthorised activity of third parties; system failure or break-down and the related system disruption; damage to physical assets; inadequate management of employees and the safety of the work environment; non-compliance with internal and external regulations; inadequate implementation and management of processes and the control environment, including business partners; information security risks including cyber risks and business continuity management system; project risks).

Operational risk management is based on three key sets:

- identification and assessment of potential operational risks;
- reporting on realised operational loss events; and
- monitoring of key operational risks indicators, which include early warning signals.

The established system enables the Company to comprehensively manage operational risks, and includes quality and prompt identification, assessment or measurement, management, monitoring and reporting of operational risks. The Company regularly upgrades this system based on the identified deficiencies and changes in the internal and external environments. The fact that the Company is adequately flexible and proactive in its approach to operational risks was also demonstrated during the extraordinary situation resulting from the COVID-19 pandemic. Due to regular monitoring of the situation and a rapid response of both the Company and the Group, no material operational risk related to the pandemic has been realised to date. A number of measures have been taken to limit infections, protect employees and ensure remote implementation of as many key business processes as possible. Their results were monitored on an ongoing basis in order to upgrade the measures if necessary. More attention was paid to any increased risks to take additional action if necessary.

In accordance with the principles of proportionality and materiality, Zavarovalnica Triglav transfers the operational risk management system to subsidiaries, which regularly report on realised operational loss events and other material operational risks.

Operational risk management places the greatest emphasis on key business processes or operational risk segments. When assessing exposure to operational risks, internal controls for their management are inventoried by each business process, which is an important part in their management. The priorities of the internal control system are as follows:

- efficiency, reliability and continuity of business processes;
- ensuring compliance of operations with the internal acts and legal regulations;
- accuracy and reliability of financial and accounting reporting; and
- information and property protection.

In 2020, the Company introduced new GRC/IRM (Governance, Risk, Compliance/Integrated Risk Management) software for comprehensive management of all types of operational risk data and support to internal audit processes. The Company will begin using it in early 2021, thus enabling even more coordinated operation of key functions in risk management processes and a more comprehensive (up-to-date) overview of risks.

Due to changes in operations resulting from the COVID-19 pandemic, higher exposures to operational risks were identified. These mainly resulted from the increased probability of the absence of key employees or the simultaneous absence of a high number of employees due to illness, adapted work organisation and implementation of processes (internal, regulatory and with respect to clients), new vulnerabilities due to remote business and related information security risks, and additional regulatory changes arising from emergency legislation.

Although the Company has not yet suffered a loss due to cyber events, it is aware of the dangers of such risks and the importance of regular maintenance and additional upgrades of the information security management system. In order to better identify vulnerabilities and thus be better prepared for such events, cyber risks and the Group's business segments that would be most affected were examined in greater detail as part of own risk and solvency assessment; on that basis, measures to improve security were designed.

The Company is exposed to the regulatory risk due to extensive regulatory requirements, frequent changes and new elements in the regulatory environment, and high regulatory penalties – especially in connection with the General Data Protection Regulation (GDPR). In times of emergency, the Company is additionally exposed to regulatory changes brought about by emergency legislation and risks due to rapid adjustments of business processes. The regulatory risk may also be realised due to differences in interpretation between the Company and the supervisory body and the absence of case law and comparable business practice. The foreseen national legislation for the protection of personal data has not yet been adopted, and the Company continues to be bound by strict consumer legislation and requirements for documenting information disclosures to consumers and other relevant public. The regulatory risk is managed by promptly monitoring and implementing legislative changes in business processes, complying with the positions of supervisory and other state bodies, involving the Company in regular and extraordinary procedures via the Slovenian Insurance Association, and monitoring business practices.

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

Continuity of key business processes at Zavarovalnica Triglav is ensured with the business continuity management system (BCMS). The operation of IT systems, especially key applications, is important for operations. The Company appropriately manages information security risks and related business disruption and interruption.

It is important that business continuity plans for critical business processes and IT disaster recovery plans are regularly revised, upgraded and tested. The BCMS also includes:

- a crisis management team of the Company, which is activated in the case of extraordinary events that cause a major 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, which are activated in the event of interruption to the operation in an individual commercial building or regional unit.

Even during the COVID-19 pandemic, business continuity was ensured, mostly remotely, and thus the adequacy of the BCMS was checked in practice. After the first pandemic wave, the Company effectively implemented the BCMS – pandemic project and, based on the experience gained, updated its documentation, expanded the crisis management team and developed an adapted business continuity plan in the event of an outbreak of infectious diseases.

In 2020, the Company revised recovery plans for some key systems in its subsidiaries and, in cooperation with them, updated the business impact analysis due to the interruption of key processes.

2.8 Non-financial risks

Non-financial risks to the Triglav Group's operations include material strategic risks, capital risks, reputational risk, Group risks and other potential risks. Non-financial risks are very closely linked to other risks within the Group, especially operational risks, and are affected by many different factors, both inside and outside the Group.

Strategic risks are the risks of loss due to adverse business decisions of the management body, improper implementation of strategic decisions and the lack of responsiveness to key changes in the business environment.

Strategic risks are managed through organisation and processes which ensure that the Company's management has up-to-date and relevant information when making business and strategic decisions.

Capital risks[97] are the risks of loss due to inadequate capital structure with regard to the business volume and method or problems encountered by the parent company when acquiring new capital. They occur in the face of adverse business conditions or the need for a rapid increase in capital. They also include the effects of regulatory and/or accounting changes on capital adequacy.

Capital risks are regularly monitored in the context of the capital adequacy process. Some uncertainty is caused by potential amendments to legislation, which are currently being harmonised (Review 2020[98]), and the implementation of the new IFRS 17. The latter can also indirectly affect capital adequacy as its determination is based on the accounting and market approaches, which are closely linked.

Reputational risk is the risk of damage to the Triglav brand and its reputation, which could have an adverse impact on the operations of the Group members. It arises from a negative image held about the Group by policyholders, employees, business partners, shareholders, investors, competent or supervisory bodies, and other interested stakeholders. Reputational risk also arises as a secondary effect of other events involving credit, liquidity, market or operational risks.

The Group's reputational risk management system is based on effective corporate governance and transparent communication with all stakeholders. In order to assess such risk, the Company conducts regular research and analysis to monitor the key stakeholders' view of the Group and take appropriate action on this basis. Furthermore, the Company analyses external media releases, the strength of the Triglav brand, employee and client satisfaction, and feedback from external stakeholders. One of the indicators of employee satisfaction is the ORVI index (see Section 12.4.2.1 Organisational vitality (climate) and organisational culture for more information). The Company uses Net Promoter Score for quality management of client satisfaction (see the sections 11.1 Comprehensive client relationships and 12.5 Responsibility towards clients, Client satisfaction for more details).

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 of its members.

2.8.1 Other non-financial and potential risks

The success of the Company's operations depends on the comprehensive management of **sustainable risks** and the high confidence of all key stakeholders. The Group is committed to long-term effective management and transparent governance.

The Company responded quickly and effectively to the COVID-19 pandemic and related changes. Its operations turned out to have reached a high level of digitalisation. Employees effectively performed their duties by working from home. Client support applications also worked without major problems. The NPS analysis showed that our clients accepted a new way of digitalised operations of the Company and were satisfied with it.

The Company sees business digitalisation as the key to the successful future of the Group. In order to meet the changing needs of clients, the Company will continue to implement a strategy that identifies and addresses key challenges in the environment and to pay special attention to the development of hardware and information technology. Thus, client needs will be fulfilled with innovative methods and new products.

Climate change risks

Due to climate change, the profile of underwriting risks accepted by the Company is changing. Climate change is expressed in two ways: as a trend of the rising average temperature and as an increase in the severity and frequency of extreme events. The trend of rising average temperature may cause natural phenomena, such as strong hail storms, droughts in the summer and weather phenomena that did not occur in the past in the area where the Company and the Group accept underwriting risks. In recent years, weather

[97] SASB: FN-IN-550a.3 | [98] https://www.eiopa.europa.eu/content/consultation-paper-opinion-2020-review-solvency-ii

phenomena in Europe were witnessed that were not typical of or so severe in this region in the past. These include hurricanes, which can affect larger areas and are not just a local phenomenon.

In addition to the increased severity of individual weather phenomena, an increase in their frequency can also be expected in the future. When developing insurance products and concluding insurance, the Company considers climate change trends. In development, climate change is taken into account by incorporating it in the premium, while products are designed to follow the relevant insurance principles (deductibles, limited sums insured and annual aggregates). In underwriting, attention is paid not only to those underwriting risks which are subject to climate change, but also to their corresponding geographical dispersion. These include immovable property insurance and crop insurance. An additional form of managing the risks posed by climate change is adequate reinsurance protection, which protects the portfolio both in terms of individual events and the annual aggregate. At Zavarovalnica Triglav, model-based assessment is used to assess individual risks of natural events. See Climate Change in Challenges and opportunities in Risk Management for more information.

The management of some non-financial risks is described in Section 12. Sustainable development and ESG aspects at the Triglav Group in the Business Report, especially in the sections on respect for human rights, fair business practices, anti-corruption measures, personal data protection and environmental aspects.

In the reporting year, the Company also carried out activities to implement the Regulation of the European Parliament and of the Council of 27 November 2019, on sustainability-related disclosures in the financial services sector, which will enter into force in March 2021.

2.9 Future risks as a result of the pandemic

The year 2020 was marked by the onset of a pandemic. Due to all activities carried out and the situation in the financial markets calming down, Zavarovalnica Triglav and the Triglav Group concluded 2020 in terms of risks and capital adequacy within the framework set out in the Risk Appetite Statement. The Company also maintained strong liquidity.

Nevertheless, the pandemic is not over yet and global economies are still facing a deep economic, health and social crisis. A decline in global gross domestic product is inevitable due to the strict restrictive measures put in place to curb the spread of infection, and may even last longer. Countries are trying to mitigate the negative effects of the pandemic through expansionary fiscal policies that stimulate economic activity and reduce the chance of a possible rise in the unemployment rate. The situation in the financial markets improved throughout 2020 in both equity and debt securities markets. In addition to the above, it is estimated that the insurance market will continue to face extremely low, negative interest rate levels, as poor economic forecasts have further increased the likelihood of a long period of low interest rates.

Incentive measures by central banks also carry risks for future operations as corporate borrowing increases, which in the long run brings potential risks for further growth, because in the event of a deeper recession businesses would be over-indebted.

In addition to future risks arising from central banks' incentive measures, risks arising from a possible deepening recession are also important. They could affect the demand for insurance and the consequent reduction in written premium. This is also related to liquidity risk, both on the side of the potential reduction of inflows from the insurance business and on the side of market liquidity of the investment portfolio.

Significant potential impacts on the Triglav Group's operations, which could be realised in the coming year, are related primarily to market and credit risks. In the context of market risks, the impact could be perceived mainly on spread risk due to the possible increase of credit spreads in the event of the further aggravation of the situation or a deterioration in the credit ratings of issuers of securities. There is also an increased possibility of negative movements in the stock markets and possible reductions in the value of real property. In terms of interest rate risk, this would mean that interest rates would decrease even further, which would have a positive impact on the Company and the Group. With respect to credit risk, special attention is paid to monitoring the payment discipline of receivables and the creditworthiness of major partners.

Liquidity risk could be affected by the consequences of the pandemic in the future through a potential decline in economic activity and a consequent increase in the unemployment rate, which could affect Zavarovalnica Triglav's operations and developments in financial markets with a resurgence in volatility. The performed liquidity tests of the Company at the event as foreseen by the standard formula (i.e. a major change that occurs once in 200 years) and the anticipated delay in payment by the reinsurer for the non-life portfolio show that the Company would be able to meet all operating liabilities and maintain adequate liquidity.

Furthermore, in 2020 a repo agreement was entered into and reviewed, which provides additional liquidity, especially in extraordinary situations. As part of the liquidity risk management system, the liquidity plan in stress scenarios was upgraded, which, among other things, determines the sequence of activities to be performed in this case.

In the context of testing the sensitivity of the credit portfolio of both the Company and the Group, possible real events as a result of the epidemic were assumed which would have a material impact on the Company's and the Group's operations in the coming years. The most probable among them was evaluated.

When testing sensitivity to our partners (banks) in terms of cash and cash equivalents, it was found that in the event of a deterioration in the credit rating of our largest partner by one notch at the same exposure, the average credit rating of these partners would not change.

Similarly, when testing sensitivity to our reinsurance partners, it was found that in the event of a deterioration in the credit rating of our largest partner by one notch at the same exposure, the average credit rating of these partners would not change.

The Company's sensitivity related to receivables from its core business was verified by reducing the expected share of payments for 2021. The share was set at the lowest level in the last ten years (the 2012 debt crisis). In this scenario, it is estimated that the reduction in expected payments would amount to EUR 44.7 million, which represents a direct impact on the profit or loss. The assessment was made assuming the same value of insurance receivables in 2021 as in 2020.

The development of the risk management system will continue in 2021, particularly in areas where the trend of increasing risks will be identified.

Credit risks in terms of credit quality and the dynamics of clients' payments will be consistently monitored and the amount of assumed market and liquidity risks in relation to the current situation in the financial markets will be regularly assessed. Development activities will also depend on changes in legislation, where changes related to capital adequacy calculations[99] and sustainable risks are expected.

Sensitivity analysis*

	Triglav Group			Zavarovalnica Triglav		
	Impact on fair value reserve	**Impact on profit or loss**	**Total impact on capital**	**Impact on fair value reserve**	**Impact on profit or loss**	**Total impact on capital**
Spread risk (+1%)	-128,803,593	-21,625,236	-150,428,829	-109,455,614	-11,237,097	-120,692,710
Equity risk (–10%)	-14,684,012	-7,352,787	-22,036,799	-10,987,924	-370,733	-11,358,657
Property risk (–5%)	0	-1,646,020	-1,646,020	0	-1,435,587	-1,435,587
Interest rate risk (–1%)	152,194,239	-128,316,212	23,878,027	131,023,216	-100,126,924	30,896,292
Total	**8,706,634**	**-158,940,255**	**-150,233,621**	**10,579,678**	**-113,170,340**	**-102,590,662**

* The effects shown do not include the tax aspect and the impact of the reduction in assets on liabilities (for life insurance).

[99] In December 2020, EIOPA submitted amendments to Solvency II legislation to the European Commission in a document entitled »Opinion on the 2020 review of Solvency II«.