Risk management 145

Risk management

- The Triglav Group was adequately capitalised, safe and profitable in 2019.
- The adequacy of the Group's capital and financial strength is reflected in the "A" ratings of S&P Global Ratings and AM Best.
- Capital strength is confirmed by the capital structure, which almost entirely consists of the highest-quality capital.
- As part of the Group's regular capital management activities, Zavarovalnica Triglav last year successfully issued a subordinated bond.

The basis for ensuring adequate safety and profitability of operations and a high level of trust of all stakeholders is the firmly integrated process of managing capital in the Group. The objective is the efficient use of available own funds for the long-term and stable return on investment of Zavarovalnica Triglav's shareholders. The return on investment is predefined in the dividend policy criteria and takes into account the interests of the remaining stakeholders and regulatory restrictions.

One of the key factors for achieving these goals is a comprehensive risk management system, closely linked to the process of accepting risks. It enables the persons responsible to identify, in a timely manner, profitability and risks posed by a particular business opportunity, and to regularly measure and monitor the amount, return and use of economic capital. On this basis, the capital structure is optimised and business decisions are adjusted.

The Group measures the risks and monitors capital adequacy using the methods which comply with the Solvency II standard formula, based on mark-to-market valuation. At the same time, it uses and develops an internal risk measurement methodology by risk type, which is also used to test the appropriateness of the regulatory method. To ensure long-term target capital adequacy, the own risk and solvency assessment is regularly performed so as to determine the current and future solvency requirements and define the appropriate capital management measures. The 2019 own risk and solvency assessment confirmed the high level of capital adequacy of the Group despite the still less favourable conditions on the financial markets or increasingly pessimistic forecasts for the EU economy.

In 2019, the Group was well capitalised. Its capital strength is reflected in its capital structure, which almost entirely consists of the highest-quality capital – share capital and reconciliation reserve. A small portion of available own funds also includes subordinated liabilities. Last year, as part of the Group's regular capital management activities to ensure its optimal capital structure and cost-effectiveness, Zavarovalnica Triglav successfully issued a 30.5-year subordinated bond (Tier 2 pursuant to the Solvency II regulations) with the first call date after 10.5 years. The total value of the bond issue was EUR 50 million. The adequate capital and financial strength of the Group is reflected in 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 credit ratings have a stable medium-term outlook. [→ *See Section 6.6 of the Business Report for more information*].

Changes in exposure and on the financial markets, mainly the lowering of already low interest rates, required some adjustments to the Group's risk profile compared to the end of 2018. These changes primarily arise from the changed investment portfolio and the increase in the volume of the insurance portfolio, particularly the non-life insurance portfolio. The continued low interest rate period also increased life insurance risks. In the context of market risks, the Company lowered spread risks as a result of decreased corporate bond exposure and higher exposure to government bonds, thereby reducing market risks in relation to the previous year. The own risk and solvency assessment was performed once in 2019.

During the reporting year, emerging risks from the environment were continuously monitored and the Company actively responded to any potential threats.

The existing risk management system is continuously upgraded, especially in the areas of increased vulnerability related to external influences or internal initiatives.

Main risk management development activities at the Group level in 2019

- In the context of **market risks**, development activities focused on interest rate risks. Due to the increased risks associated with the external environment as a result of low interest rates, the regular duration gap calculation and the monitoring of the impact of interest rates on capital were upgraded. As a measure to reduce interest rate risks, stricter policies for target asset-liability matching in the portfolios of concluded insurance policies were adopted. Apart from that, certain measures in taking out life insurance were introduced.
- With regard to **underwriting risks**, the relevant processes began to be comprehensively upgraded in order to gain a quicker and high-quality overview of the Group's concentrations.
- In the context of **credit risks**, regular monitoring of subsidiaries' exposure to banks was successfully transferred from Zavarovalnica Triglav to its subsidiaries. This has enabled the Company to carry out more effective monitoring and take timely action to ensure the target exposure to banking groups at the Group level. A more detailed control review of the credit ratings of all reinsurance companies with which the Group members cooperate was set up, in addition to the system of regular automatic verification.
- With respect to **liquidity risks**, a harmonised methodology for determining liquid assets was prepared, thus harmonising liquidity monitoring in the Group members.
- Based on experience and knowledge gained, the **operational risk management system was upgraded**. Reporting on realised operational risks was implemented at the Group level, with a special emphasis on information technology risks, including cyber risks and the business continuity management system. An increase in exposure to cyber risks was identified, and stress scenarios were updated in all Group members within the own risk and solvency assessment. At the Group level, vulnerability arising from such risks was checked. Additional risk measurement and monitoring was implemented and new security mechanisms were set up, which will be continuously upgraded.
- In the implementation of minimum standards, particularly in the drafting of regular risk reports, the Company **continued to cooperate with the Group members** with the aim of improving the quality of data and the reporting system at the Group level. With the goal of improving the risk management culture, training workshops were held for the employees of the Company and the Group.

1. Risk management system

The **comprehensive risk management system** is one of the key prerequisites for the achievement of the Triglav Group's strategic objectives and the cornerstone of the wider system of its governance. The risk management system of Zavarovalnica Triglav is clear, transparent and well documented. In accordance with the principles of the parent company, it is defined in the Group's minimum standards and established in all its members, taking into account the principle of proportionality, i.e. the size, complexity and business profile of a particular subsidiary. The system provides for a timely identification, monitoring and reporting of all material risks. Furthermore, it includes the processes that provide for effective management of individual risks or exposures. The development of the system is effectively transferred from the parent company to other Group members on the basis of the common minimum standards.

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.

In Zavarovalnica Triglav, the Risk Management Department is responsible for the preparation and transfer of minimum standards, with a focus on subsidiaries, while a separate department is in charge of the management of subsidiaries within the Group. By enforcing minimum standards, this establishes and maintains an efficient and transparent governance system of the Triglav Group, for which effective communication and quality exchange of data and information are essential, in particular time availability, methodological consistency, accounting verifiability and integrity.

The **own risk and solvency assessment process**, which is strongly related to the quality of the whole risk management system, is part of the second life of defence [→ *see the description of the lines of defence below in Section 1.1*]. By assessing solvency requirements, the appropriateness of both the regulatory method and the strategic guidelines is verified in terms of ensuring capital adequacy. In order to optimise the use of capital, solvency requirements are assessed in relation to the requirements of implementing the strategic plan, while capital adequacy is tested using the defined stress tests. On this basis, the Company takes measures such as changes to the guidelines for accepting transactions, premium rates, adjustments to the limit system and risk transfers. Part of the described process is the stability testing of the Group's capital adequacy in relation to new, emerging risks from the environment. After testing their impact on own funds using the selected scenarios, risk mitigation measures are identified based on the estimated impact so as to increases the readiness for identified risks and upgrade the internal control system. All of this forms an effective system for making strategic decisions.

1.1 Powers and responsibilities

The comprehensive risk management system enables the Company to make business decisions that are consistent with risk appetite objectives.

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

- The **first line of defence** consists of the business functions, which actively manage concrete business risks through their business decisions and are primarily responsible for risk identification and underwriting.
- The **second line of defence** includes key functions and other related areas that exercise oversight as well as decision-making bodies. The latter form the risk management system, which includes exposure identification, measurement and monitoring as well as the exposure limit system.
- The **third line of defence** includes the internal audit function. This function executes regular independent effectiveness and efficiency reviews of the internal control system and the risk management system in individual functional areas.

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 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 with the reports of key functions. At its sessions, the Supervisory Board regularly monitors the risk profile and capital adequacy, as well as the results of the own risk and solvency assessment. Furthermore, it gives its approval to the Solvency and Financial Condition Report and to risk reports. The Supervisory Board may establish a working body, which provides expert assistance and support in the formulation of positions on risk management.

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

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

Supervisory Board and Audit Committee

Management Board

First line of defence → Risk underwritting

Business functions at all levels

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

Second line of defence → Risk Management

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

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

Third line of defence → Independent control

Internal audit

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

The **Management Board** defines the business objectives and the risk appetite, as well as approves the risk management strategy and policies. It is responsible for ensuring the effectiveness of the risk management system and approves the policies and work plans 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 and the Solvency and Financial Condition Report. Independently or within a committee, the Management Board not only actively participates in and directs the own risk and solvency assessment process, but also ensures its compliance with, and integration into, the capital planning and management processes.

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

The **key functions** of Zavarovalnica Triglav's governance system are **organised as independent organisational units**. These are 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 the other organisational units of the Company. They are all part of the second line of defence, except for the internal audit function, which is also a key function but part of the third line of defence. All key functions cooperate with one another and regularly exchange the necessary information. The key function holders meet the fit and proper requirements defined by the applicable internal rules for the respective area. In the risk management activities, the key functions proactively cooperate with the other control functions at the Group level.

The risk management function is responsible for the establishment and coordinated and continuous operation of the integrated risk management system in accordance with the guidelines of the Management Board. Furthermore, it is in charge of monitoring the general risk profile, developing risk measurement methodologies and risk valuation models, performing the underlying risk analyses, reporting on risk exposures, and undertaking capital adequacy valuation using the regulatory method and other capital models. In line with the guidelines of the Management Board, the risk management function also coordinates and performs the 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, the Supervisory Board and the Audit Committee of 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, the Supervisory Board and the Audit Committee of the Supervisory Board thereon. It monitors and assesses the impacts due to the changed legal environment and compliance risks, assesses the adequacy and effectiveness of procedures, and advises on measures to adapt the Company's operations to any identified changes by giving guidelines, recommendations and proposals to co-create the internal controls for ensuring compliance of a particular process, line of business, or the Company as a whole. The compliance function also plays a major role with respect to fair and transparent conduct by monitoring adherence to the ethical commitments and ensures their implementation in practice.

The internal audit function performs an ongoing 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 not only for the quality and continuous development of internal auditing at the Company, but also for transferring know-how and best practices in this area to the other Group members. Apart from that, it provides advisory services in agreement with the Management Board and the management of functional areas.

The actuarial function coordinates and calculates insurance technical provisions. It ensures that the appropriate methods, models and assumptions are used in the calculations and that the data used are appropriate, sufficient and of good quality. Its key tasks are to verify the appropriateness of the general underwriting risk policy and to deliver 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 the own risk and solvency assessment, while also adjusting and calculating capital requirements based on underwriting risks. In the context of the second line of defence, it regularly monitors the implementation of the actuarial function and informs the Supervisory Board and the Management Board of any important findings.

All key functions are in charge of not only transferring know-how and best practices to the 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 certain 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.

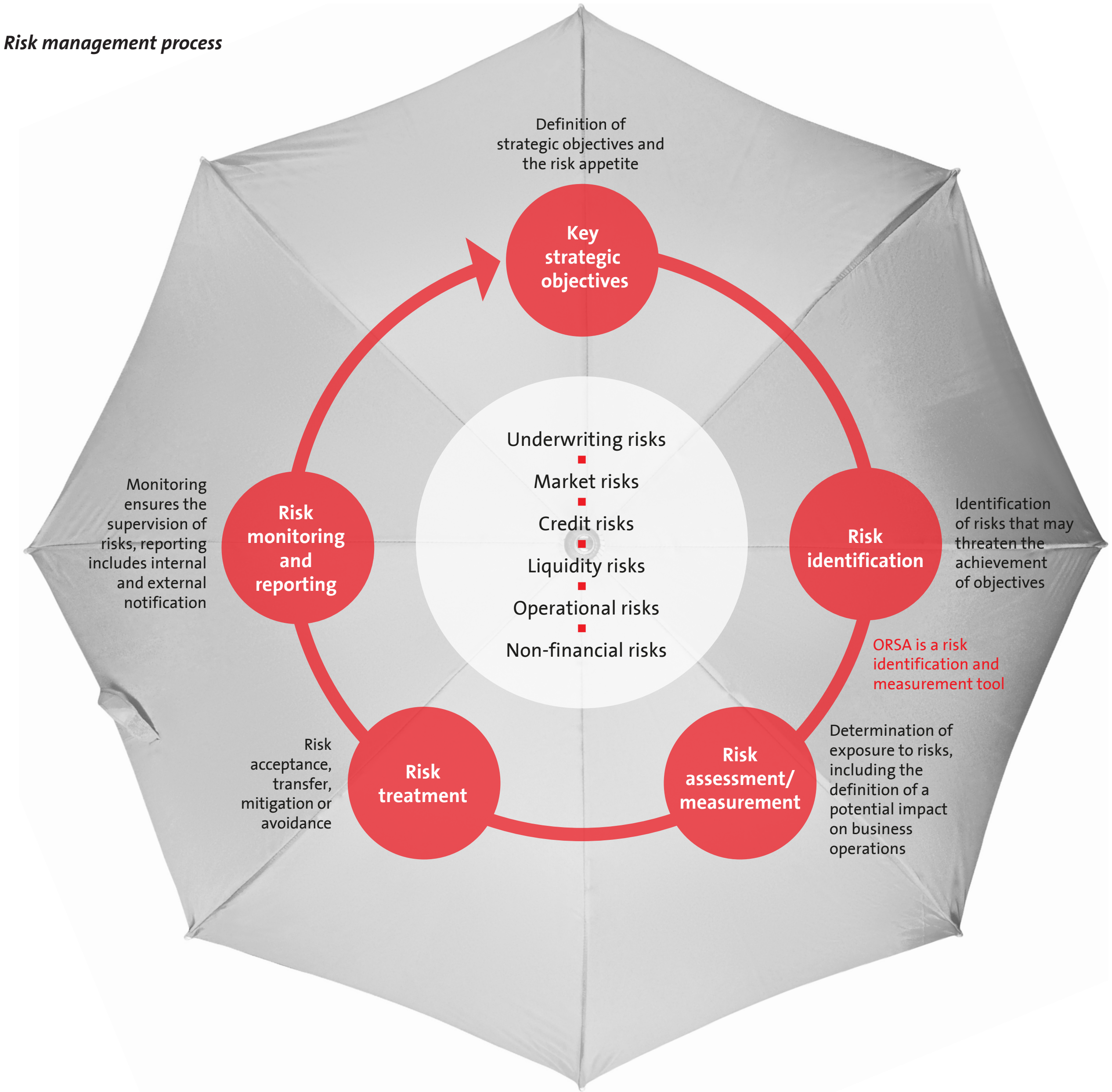
The risk management system includes the following committees at the Company level.

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

1.2 Risk management framework

The risk management system incorporates all areas of risk management, with a special emphasis on those that materially affect the operations and the set business objectives. An important factor in risk management is the establishment of an appropriate culture within the Company, based on knowledge, cooperation and open communication about risks; the Management Board and the management bodies of individual Group members play the key role in this.

Risk management process



The comprehensive risk management process of Zavarovalnica Triglav is based on the Group's strategy and the Company's business plan. In the process of planning the guidelines and objectives for the strategy period, the Company defines the risks that it is willing to take in order to achieve these objectives. In addition, it defines the key indicators based on which the target (appetite) and threshold (tolerance) values of risk exposure are set. Firstly, on the basis of the set strategic objectives, any probable events that could have a material impact on the achievement of objectives are identified once a year in the own risk and solvency assessment process. Secondly, the impact of these events on the Company's operations is assessed and, if necessary, measures to manage them are defined.

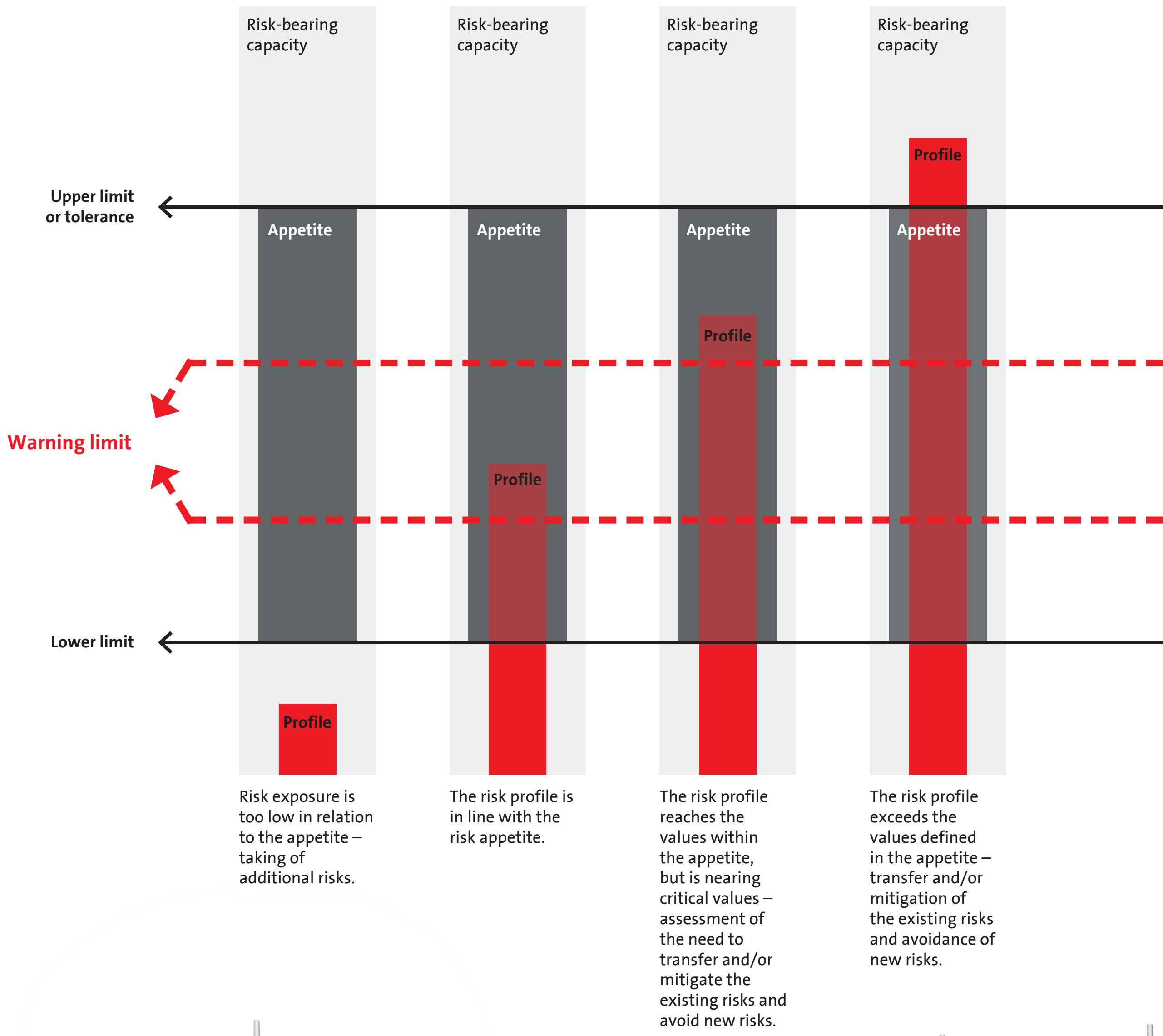
The identified events are the risks which the Company appropriately classifies, assesses and analyses, particularly in terms of size of impact and probability of occurrence. The analysis serves as the basis for the Management Board to make decisions on the risk management method, which depends on the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

The **risk appetite** determines the key indicators for each material risk and their target and threshold values. 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 the *solvency ratio*. Its target range and tolerance are consistent with the dividend policy and defined in the internal document regulating capital management of the Company and the Group. Maintaining capital adequacy within the target range is an ongoing process, which requires regular review of business decisions in terms of profitability and the risks assumed.

The Risk Management Department regularly monitors the matching of the risk profile (the actual exposure to risks) and the risk appetite and briefs the Management Board, the Supervisory Board and the Audit Committee of the Supervisory Board thereon.

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

The basis for deciding on the risk management method



The risk exposure monitoring mechanisms enable the Company not only to detect and identify any negative trends but also to take appropriate measures, which is operationally performed at several levels. At the level of the **functional areas**, 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 the increased volatility where the exposure of the Group is higher. Material detected or identified risks are included in the own risk and solvency assessment process.

Risks are regularly measured and monitored using various methods.

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

The appropriateness of the regulatory method is thoroughly analysed at least once a year in the context of the own risk and solvency assessment process. The results of the internal risk measurement method are also taken into account in the final assessment of appropriateness.

The Management Board and the Supervisory Board are regularly informed about the Company's and the Group's exposure to both individual risk types and the overall exposure to risks. The risk report, which is prepared on a quarterly basis, is a documented result of regular risk measurement and monitoring, as it covers all key risk indicators, including the trends, limits and recommendations of the Risk Management Department.

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

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 Triglav Group has a sufficient amount of capital in relation to the measurable risks accepted. By consistently assessing profitability in relation to the risks accepted, capital adequacy goals are pursued when deciding to enter into a transaction, including taking into account the criterion of earning appropriate profit for owners. The goal of capital management is to guarantee the safety and profitability of operations as well as a long-term and stable return on investment by paying out dividends based on the predefined criteria in the dividend policy.

In previous years and during 2019, the Group was adequately capitalised, safe and profitable.

The amount of available own funds to cover regulatory capital requirements is regularly measured both at the level of individual insurance subsidiaries and at the Group level in accordance with the applicable legislation.

The target capital adequacy of Zavarovalnica Triglav at the Group level 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 future capital and capital adequacy levels. This allows it to detect any changes in the environment affecting capital adequacy and to ensure optimum capital allocation.

Capital adequacy also has a significant impact on credit ratings; therefore, credit rating models are taken into account when making decisions. 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. Risk management*].

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 functional areas 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 the risk classification

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 accordance with 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. 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, which are divided into premium risk, provision risk, catastrophe risk and lapse risk. Within underwriting risks (including reinsurance risks), non-life underwriting risks (including health insurance) and life underwriting risks (including pension insurance) are treated separately.
- **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 include interest rate risk, equity risk, currency risk, property risk, spread risk and market concentration risk.
- **Liquidity risks** are the risks 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 risks 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 risks usually materialise as the inability to liquidate financial assets or selling them at prices below current market rates.
- **Credit risks** present a risk of loss or adverse change in the financial position of the Company and arise from fluctuations in the credit position. They are the result of the debtor's failure to meet all or part of its financial or contractual obligations.
- **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, legal risks, compliance risk, conduct risk, project risk, outsourcing risk and model risk.
- **Non-financial risks** include 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 future or existing operations of the Company or the Group, resulting from a negative image 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 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. This also includes any changed circumstances relating to environmental, social, human resource, bribery and anti-corruption matters. The Company's risk profile is also 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, the focus of sustainable risks is the impact of climate change, which along with other sustainable risks (the ageing population, antibiotic resistance, pandemic risk, etc.) will affect the business of insurers, both via liabilities and assets.

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 quantify 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 risk trend assessment.

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 include spread risk, market concentration risk 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. This 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 description of the differences between the valuations is presented in Section D of the Solvency and Financial Condition Report of Zavarovalnica Triglav and in Section D of the Solvency and Financial Condition Report of the Triglav Group.

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

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, will be presented in greater detail in the Solvency and Financial Condition Report, which is compiled separately for Zavarovalnica Triglav and the Triglav Group.

The presentation of the risk profile of the Group and the risk assessments of individual risk segments are based on market values for solvency purposes. The Company uses the regulatory method, which was adjusted to the Group's internal characteristics and assessed as appropriate for risk measurement in the context of the own risk and solvency assessment process.

With respect to unit-linked life insurance, investment risk is borne by the policyholder and not by the insurer. The tables below therefore separately show the value of these insurance contracts, where appropriate, or exclude them from the presentation of exposure and risk assessment of the Company and the Group. This applies to unit-linked insurance and, in 2019, also to PDPZ Zmerni and Drzni guarantee funds. For ease of comparison, their figures as at the end of 2019 were compared with the corresponding figures for 2018.

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. Management is centralised and takes place at the parent company level. The concentration of available own funds in the parent company enables it to actively manage these funds in accordance with the strategic objectives and interests of a wide circle of stakeholders.

According to the latest available estimates, the level of available own funds, with the dividends taken into account at the Group level, significantly exceeded the estimated regulatory risk level, which is shown in the table as a capital requirement.

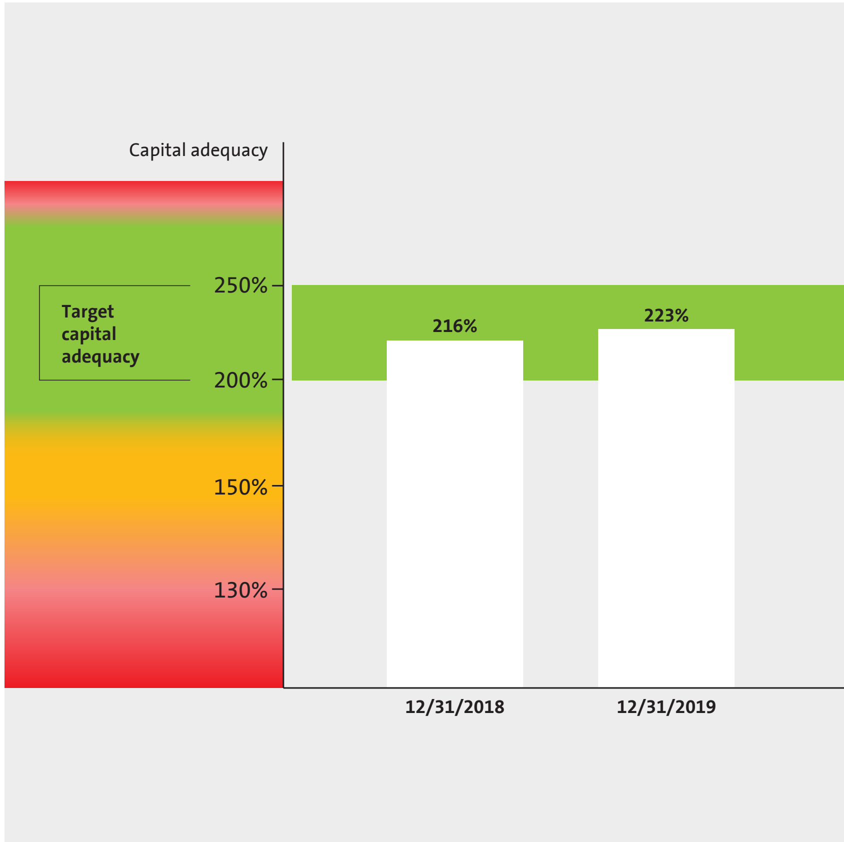
Solvency ratio for the Triglav Group and Zavarovalnica Triglav

	Triglav Group		Zavarovalnica Triglav	
	31 Dec. 2019	31 Dec. 2018	31 Dec. 2019	31 Dec. 2018
Available own funds (in EUR million)	892	843	905	861
SCR (in EUR million)	400	391	320	325
Solvency ratio (in %)	**223**	**216**	**283**	**265**

The Group was well capitalised as at the 2019 year-end. Available own funds increased by EUR 49 million due to market profit and the issued subordinated bond. The expected dividend amount for 2019 has been already deducted from this amount of available own funds. The capital requirement is calculated using the standard formula. The increase in the capital requirement in 2019 primarily resulted from the higher volume of business, which was additionally influenced by the approved legislative amendments to the Commission Delegated Regulation. The later increased the capital requirement for natural catastrophes and thus the amount of non-life insurance underwriting risks. In addition to the earthquake and flood risks, the capital requirement for natural catastrophes also includes hail and storm risks.

Details of significant reasons for the changes in the 2019 business year are described in the Solvency and Financial Condition Report for 2019, which is published separately for the Company and the Group on the Company's website.

Risk appetite and actual capital adequacy of the Triglav Group



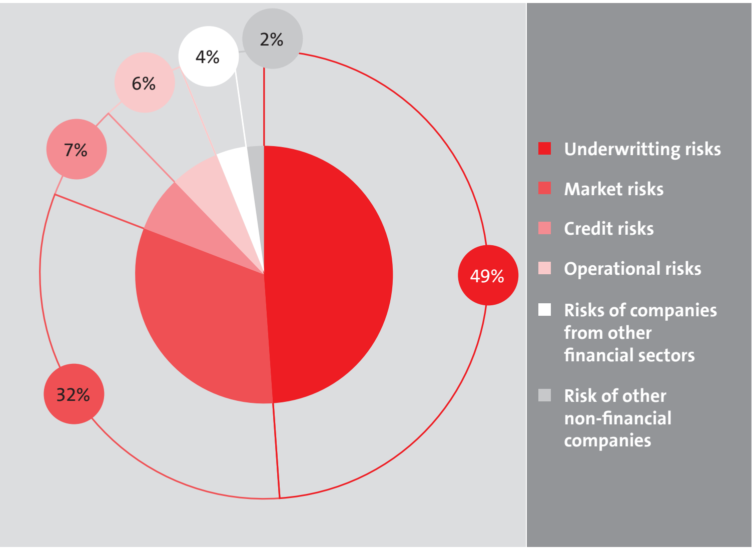
2.2 Risk profile

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

The level of underwritten risks is in line with the guidelines defined in the risk appetite. As the period of low interest rates continued in 2019, the Company pursued the goal of reducing market risks while increasing the scope of underwriting risks. The first is mainly a result of a more conservative investment policy and better matching of life insurance assets and liabilities. The Group is most exposed to market and underwriting risks, followed by credit and operational risks. Within the Group, Zavarovalnica Triglav assumes the bulk of the risks.

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

Risk profile assessment of the Triglav Group as at 31 December 2019*



* 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. Risk assessment is based on the latest known data that impact risk assessment and perceived trends. It is the best estimate as at 31 December 2019.

Risk dashboard of Zavarovalnica Triglav and the Triglav Group as at 31 December 2019*

Risks	Risk assessment	Risk trend	Note
Capital adequacy	low	upward	Capital adequacy remains within the target range in both the Company and the Group, despite changes in the 2019 standard formula that increase the risk assessment. 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	stable	The Group maintains premium growth and achieves the target values of indicators in strategic markets. The combined ratio is within the strategically defined range. Low interest rate risks that hamper the profitability of life and pension insurance are still present. Due to the inclusion of hail and storm risks in the standard formula, non-life underwriting risks also increased.
Market risks	medium	stable	Given the challenging financial market conditions and persistent low interest rates, the Company pursued the maximum possible matching of assets and liabilities and a more conservative investment policy, and thus a reduction in market risks. Uncertainty about the sudden increase in credit spreads remains at the forefront. Due to extremely low interest rates, Zavarovalnica Triglav regularly monitored interest rate risks and implemented measures primarily in the life and pension insurance segments.
Credit risks	low	stable	Despite the increase in exposure, credit risks remain low. The main reason is the regular monitoring and management of individual exposures in all segments and good diversification of the portfolio.
Liquidity risks	medium	stable	Zavarovalnica Triglav's liquidity position is regularly monitored at various time intervals. The liquidity position has improved slightly in the recent period and, according to internal criteria, is in a neutral liquidity position.
Operational risks	medium	stable	The Triglav Group has identified cyber and regulatory risks as key types of operational risks. In order to better identify vulnerabilities and readiness for cyber events, the Company and its subsidiaries analysed in detail the most current cyber risks and prepared key measures to reduce them in 2019. Furthermore, the Company began to obtain the Information Security Management System certification in accordance with the requirements of the ISO 27001 standard in 2019.

* An overall assessment of the main risk types 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.

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, which includes insurance, reinsurance and asset management 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.

The **execution of insurance transactions comprises four key processes**, in the context of which underwriting risks are identified, measured, monitored and managed: product development, underwriting, underwriting risk transfer and claim settlement.

- The limits of the target levels of risks accepted are taken into account already in **product development** by setting the premium amount and the general underwriting criteria using actuarial techniques. At this stage, the Company defines the underwriting risks which it is prepared to accept, which it wishes to avoid, which have to be mitigated and which will be transferred to reinsurers, either partly or fully.
- The next key process is **underwriting**, in which risks are properly classified, the price of insurance coverage is set and where an insurance product is appropriately tailored to the policyholder or the insured object by reducing the possibility of abuse, moral hazard and adverse selection.
- The third key process is defining a comprehensive approach to **transferring (excess) underwriting risks** to reinsurance partners or capital markets. The main method for the transfer of underwriting risks is reinsurance. The annual planned reinsurance programme includes the calculation of own shares by individual insurance class, and on this basis, maximum coverage is defined, in addition to procedures and criteria for determining the maximum possible loss with regard to individual insurance perils.
- The last key process in conducting insurance transactions is **claim settlement**, in which the Company pays out the claims it is obligated to pay to the insured in exchange for received insurance premium. In the claim settlement process, the Company monitors whether the amount of an insurance claim is within reasonable expectations. The Company responds to any identified discrepancies with appropriate corrective actions in all key processes described.

The way the four key processes are implemented affects the entire insurance business.

Underwriting risks are divided into:

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

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

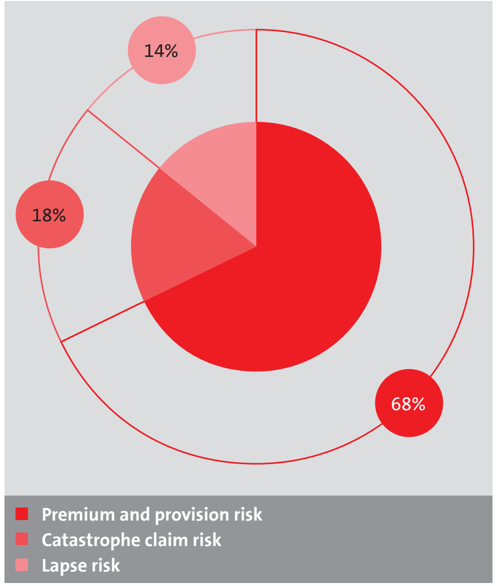
2.3.1 Non-life insurance underwriting risks

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 of individual insurance segments 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.

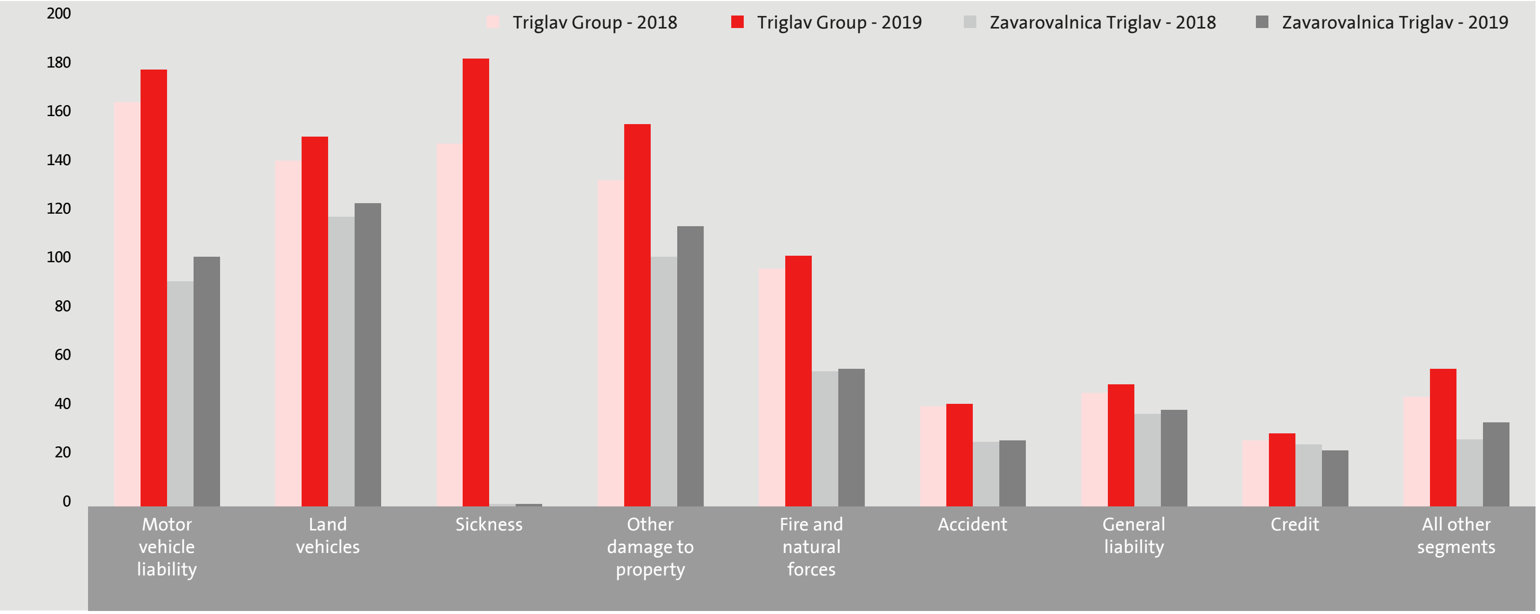
Premium risk occurs when written premium is insufficient to meet all obligations arising from the conclusion of an insurance contract, not taking into account major or catastrophe losses. The risk depends on premium earned and the annual variability of claims ratios, which are determined for each insurance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

Risk assessment* for the Triglav Group by non-life underwriting risk type including health underwriting risks as at 31 December 2019

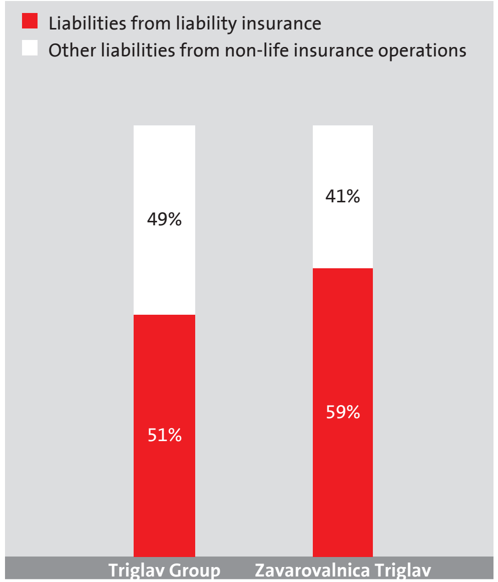


* The risk profile is determined on the basis of a risk assessment using the standard formula, without taking into account the effects of diversification across individual categories of non-life insurance underwriting risks. It includes non-life insurance and additional accident insurance taken out with life insurance, but non-life insurance annuities are excluded. Risk assessment is the best estimate as at 31 December 2019, which is based on the latest known data that impact risk assessment and perceived trends.

Gross written premium from insurance and co-insurance contracts by insurance segment in EUR million



Ratio of liabilities from liability insurance to other insurance as at 31 December 2019



Premium risk is regularly monitored at the Group level as well as at the level of its insurance and reinsurance subsidiaries. The adequacy of written premium in relation to actual claims and costs arising from underwritten insurance contracts is measured with combined ratios. Combined ratios for the last three years are presented in [→ *Section 8.1 for the Group and Section 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.

Provision risk occurs when the actual claims paid deviate from the expected. Insurance technical provisions for solvency purposes represent the best estimate of expected claims paid from the existing non-life and health insurance contracts, taking into account the time value of money. If the claims paid are higher than the formed provisions, the Group will generate a loss from the existing obligations in the amount of such a surplus. However, if future realisation is lower than expected, the Group will generate profit. Provision risk is measured by assessing potential loss from provisions 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 2.9 of the Accounting Report*] for further details) 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 2019 year-end, insurance technical provisions, both for financial reporting and for solvency purposes, were adequate (see the [→ *sections 2.9.3 and 3.15 of the Accounting Report*] for more information), therefore provision risk management is appropriate.

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

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

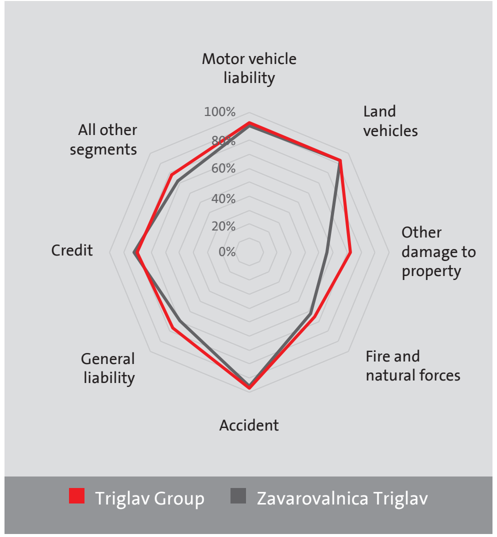
Lapse risk occurs when the lapse rates of underwritten non-life insurance contracts are higher than the expected lapse rates. In practice this risk is lower than in life insurance policies, because the term of non-life insurance policies is mostly one year (short-term) and because even in the case of multi-year insurance policies the Company cannot unilaterally terminate an insurance policy, except in the case of default on premium payments. 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 is the risk of an unexpected one-time loss event with a loss potential that is significantly 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 material impact on the Company's ability to settle its obligations. Concentration risk is managed with regular monitoring of 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 share in relation to gross written premium as at 31 December 2019



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 and high-severity risks. Special attention is paid to events such as earthquakes, storms, hail, floods and frost. 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 nature 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. The year 2019 was marked by four major weather disasters. See [→ *Section 7.2 Environmental impact on the performance of the Triglav Group in the Business Report*] for more information.

Assumed capacity of nuclear perils for 2018 and 2019

	Assumed capacity in EUR	
	2019	**2018**
Zavarovalnica Triglav d.d.	10,000,000	10,000,000
Pozavarovalnica Triglav Re d.d.	3,000,000	2,984,400
Triglav Osiguranje d.d., Zagreb	1,000,000	850,000
Total after the event	**14,000,000**	**13,834,400**

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

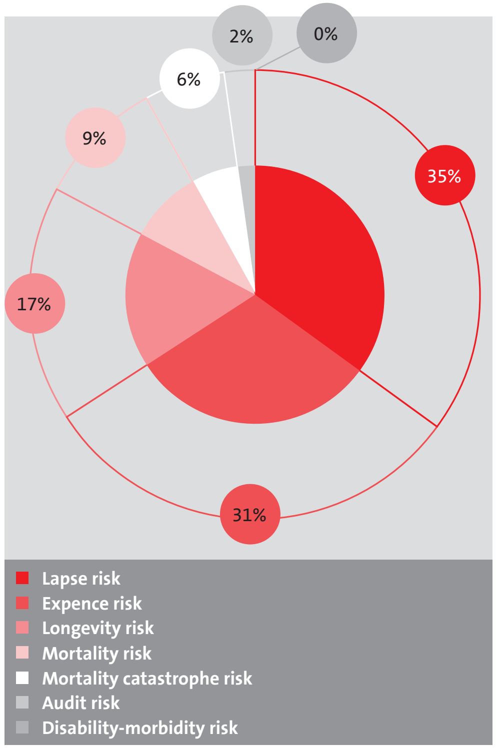
The greatest risk among low-frequency and high-severity risks of the Group is an earthquake in Ljubljana. It is covered with quota share reinsurance, while retention is additionally protected with excess-of-loss reinsurance for catastrophe events. In the context of the insurance scenario, the Company tested the effect of a 200-year earthquake, which represents the maximum concentration of exposure for this risk. In addition to the payment of damages from insurance operations, this scenario includes all other operating effects on the business, such as increased claim handling expenses and costs of business continuity downtime. Furthermore, the scenario includes the calculation of the effect of a fall in the value of Slovene government debt securities and equity investments, drop in the value of real property due to the adverse economic situation in Slovenia and the effect of changes in the volume of insurance business. Having an adequate reinsurance coverage, the Company and the Group would successfully survive a severe earthquake. In the case of a 200-year earthquake in Ljubljana, the estimated financial impact under the scenario would amount to EUR 115 million for the Company or EUR 133 million for the Group. These crisis scenarios showed a strong resilience of both the Company and the Group, which would retain their capital adequacy even if these scenarios 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. **Life insurance underwriting risks** comprise all underwriting risks arising from life insurance underwriting processes and from maintaining the life insurance portfolio. The Group underwrites mortality, longevity and morbidity risks, permanent total incapacity for work risk, disability, accidental death, critical illness and injury risks, medical expense risk, daily benefit risk, second medical opinion risk and others.

The level of underwritten risks is determined in the defined risk appetite. The Group is most exposed to life expense and lapse risks. Within the Group, Zavarovalnica Triglav underwrites the bulk of life underwriting risks. Gross written insurance, co-insurance and reinsurance premiums in 2019 by insurance subsidiary of the Group is presented in [→ *Section 7.5 of the Business Report*].

Risk assessment* by life underwriting risk type for the Triglav Group as at 31 December 2019



* 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 life insurance and non-life insurance annuities, but additional accidental insurance taken out with life insurance is excluded. Risk assessment is the best estimate as at 31 December 2019, which is based on the latest known data that impact risk assessment and perceived trends.

Lapse risk (early policy termination is requested by the policyholder) is the difference between the future realised and expected surrenders, capitalisation and any other changes to policies. Lapse risk 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 in the difference between the actual and expected result. Expense risk may be a consequence of miscalculations and incorrect allocation of actual expenses (the inadequacy of the cost model) and incorrectly estimated 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 amount of calculated premium,
- the level of insurance technical provisions,
- the amount and type of risk transfer (reinsurance, co-insurance), and
- differences between the actual and the expected result of the Company.

Mortality risk can arise from:

- inappropriate risk assessment in the underwriting process (mainly arising from information asymmetry between the policyholder and the Company);
- incorrectly estimated level, trend or volatility of future mortality rates for a particular homogeneous risk group (e.g. the lack of empirical data);
- catastrophe events that affect mortality (e.g. a pandemic); 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. An important 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, where deviations of the actual effects compared to the estimated are regularly checked. In the event any deviations outside the set parameters are detected, appropriate action is taken, e.g. adapting the design or parameters of an insurance product, appropriately adjusting the parameters for the calculation of insurance technical provisions.

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 2.9 of the Accounting Report*]). The test results for 2019 show that an adequate level of insurance technical provisions for life insurance was formed at the level of both the Group and individual insurance subsidiaries, with the exception of an identified shortfall in the guarantee fund backing supplemental voluntary pension insurance, for which additional other insurance technical provisions were created.

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

Traditional life and pension insurance policies which include saving at a guaranteed interest rate are exposed to asset-liability mismatch risk, where the assets are insufficient to cover the described liabilities. Similar risks due to a special guarantee for the return arise from the 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 760 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 2.3% return on assets. The return on investments achieved by this fund in 2019 was 3.0% (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 savings phase). The policyholder will be entitled to them at the end of the savings period and the transition to the payout period, i.e. when they will begin to receive life annuity, which will then be calculated based on the saved assets and by applying the aforementioned fixed factors. This guarantee exposes the Company also to longevity risk (in addition to the above-mentioned interest rate risk). This risk is not transferred to reinsurers, instead additional provisions are formed if necessary.

The most important type of a contractual financial option is the 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 relevant criteria and due to the fact that most policies originate from geographically dispersed retail sale. Any risk concentration in the portfolio is reduced by transferring a portion of the risks to reinsurers based on the reinsurance programme. The risk sum insured in the event of death is less than EUR 60,000 for 81.1% of the whole life insurance portfolio and less than EUR 35,000 for 99.9% for the other life insurance portfolio. For additional accidental death insurance, the sum insured is lower than EUR 50,000 and accounts for 98.1% of the respective portfolio, while for additional disability insurance the sum insured is less than EUR 100,000 for 97.9% of the respective portfolio. The aforementioned sums insured represent the stipulated retention in line with the reinsurance contract for most insurance policies.

2.4 Market risks

Financial investments are the largest asset category and represent 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.

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

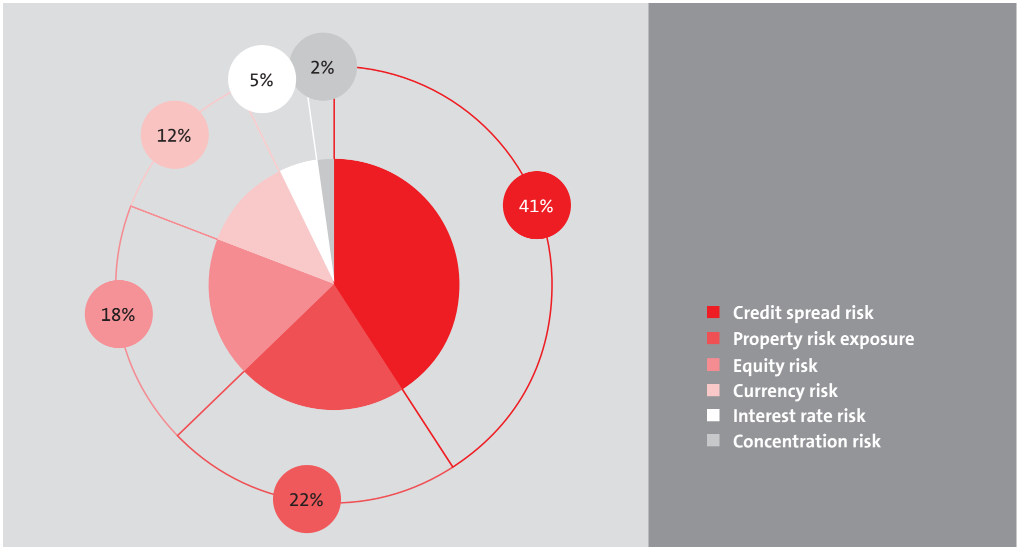
In its market risk appetite, the Group defined the level of unexpected losses, which is still acceptable in relation to its strategic objectives and capital strength. On this basis, the limit system also specifies maximum acceptable exposure to individual market risks, the target investment portfolio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

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

Market risk assessment* by type for the Triglav Group as at 31 December 2019



* The market risk profile is determined on the basis of a risk assessment using the standard formula. It also includes market risks from the ring fenced funds, without taking into account the effects of diversification across individual market risk categories. Risk assessment is the best estimate as at 31 December 2019, which is based on the latest known data that impact risk assessment and perceived risk trends.

Based on the investment structure (see [→ *Section 7.9 of the Business Report*] for further details), the Group is most exposed to debt securities, followed by equity securities and investment property. The highest market risk for the Group is spread risk, followed by property, equity, currency and interest rate risks. The lowest risk is market concentration risk. See [→ *Section 7.9 of the Business Report*] for concentration by sector and geographical area.

2.4.1 Spread risk

Spread risk is predominantly determined by debt securities, which account for more than 73% of the Group's total investments. Their value also depends on the level and volatility of credit spreads, which reflect the credit quality of an instrument. The majority of these investments is associated with exposure to government bonds, followed by exposure to the corporate sector, which represents over 21% 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 55% of investments in debt securities have at least the "A" credit rating. The bulk (over 87%) of the portfolio is accounted for by debt securities of issuers having an investment grade 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 Investment structure*] in 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 6.3% of the Group's investment portfolio. The majority of exposure to equity risk arises from exposure of the parent company.

The Group manages equity risk in its portfolio through exposure limits as well as through geographical and sectoral diversification 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 following table shows the geographical diversification of equity investments, excluding unit-linked life insurance contract investments. The value of equity investments increased due to new investments in alternative investments and growth in equity prices. Most equity investments are represented by shares issued by EU issuers, followed by globally diversified shares.

Geographical diversification of equity investments

	Triglav Group		Zavarovalnica Triglav	
	31 Dec. 2019	31 Dec. 2018	31 Dec. 2019	31 Dec. 2018
Equities in the EU	172,524,215	124,734,578	106,344,992	74,667,877
Equities in the USA	8,796,000	10,607,802	0	4,126,014
Equities in Asia*	0	416,705	0	416,705
Equities in emerging markets	6,477,385	7,716,085	475,185	519,403
Global equities**	19,405,083	24,870,743	489,891	3,763,766
Total financial investments	**207,202,683**	**168,345,913**	**107,310,068**	**83,493,766**
Unit-linked life insurance contract investments***	411,955,883	346,204,752	372,603,167	316,843,905
TOTAL	**619,158,566**	**514,550,665**	**479,913,235**	**400,337,671**

* Equity investments in developed Asian countries (Japan, Hong Kong)
** Globally diversified 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 its 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 equity in the amount of EUR 14.8 million and on its profit in the amount of EUR 6.0 million. By contrast, a 10% drop in market prices of equity investments would reduce the Group's equity by EUR 14.7 million and its profit by EUR 6.0 million. The assessment of impact on profit or loss shown in the table below shows only the impact realised 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. 2019		31 Dec. 2018		31 Dec. 2019		31 Dec. 2018	
	10%	–10%	10%	–10%	10%	–10%	10%	–10%
Equities in the EU	17,252,422	-17,252,422	12,473,458	-12,473,458	10,634,499	-10,634,499	7,466,788	-7,466,788
Equities in the USA	879,600	-879,600	1,060,780	-1,060,780	0	0	412,601	-412,601
Equities in Asia*	0	0	41,671	-41,671	0	0	41,671	-41,671
Equities in emerging markets	647,739	-647,739	771,608	-771,608	47,519	-47,519	51,940	-51,940
Global equities**	1,940,508	-1,940,508	2,487,074	-2,487,074	48,989	-48,989	376,377	-376,377
Total financial investments	**20,720,268**	**-20,720,268**	**16,834,591**	**-16,834,591**	**10,731,007**	**-10,731,007**	**8,349,377**	**-8,349,377**
Impact on equity	14,751,545	-14,699,550	10,640,662	-10,425,723	10,661,415	-10,609,420	7,361,449	-7,148,462
Impact on profit or loss	5,968,724	-6,020,719	6,193,930	-6,408,869	69,592	-121,587	987,927	-1,200,915

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

2.4.3 Property risk

The property risk of the Group arises from real property for own use, investment property and leased property. Total exposure amounts to EUR 206.3 million. Real property for own use 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. 2019	**31 Dec. 2018**	**31 Dec. 2019**	**31 Dec. 2018**
Investment property	79,921,480	89,840,454	46,091,134	45,270,540
Real property for own use*	125,010,215	113,296,053	72,412,004	67,986,100
Total	**204,931,695**	**203,136,507**	**118,503,138**	**113,256,640**

* 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". 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 exposed to currency risk relating to the euro to a lesser extent. The Group's currency risk also arises from the surplus of assets over liabilities in US dollars, which the Group reduced relative to the previous 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 19.4 million to hedge the open currency position in Croatian kunas. The actual exposure to this currency is therefore lower than the one shown in the table below.

Financial investments in euros represent 92.7% of the Group's total financial investments. Exposure to a specific currency does not account for more than 1% of total financial investments.

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

Triglav Group as at 31 Dec. 2019	EUR	HRK	USD	RSD	BAM	MKD	Other	Total
Financial investments	**2,534,674,173**	**70,376,862**	**21,600,318**	**39,314,817**	**34,378,233**	**22,098,617**	**11,280,218**	**2,733,723,238**
Debt securities	2,316,079,577	36,958,936	15,172,817	32,991,075	14,695,316	10,958,551	9,134,536	2,435,990,808
Equity securities	193,192,056	8,112,689	3,840,700	92,453	1,873,101	91,681	0	207,202,680
Derivatives	0	0	0	0	0	0	0	0
Loans and deposits	25,402,540	25,305,237	2,586,801	6,231,289	17,809,816	11,048,385	2,145,682	90,529,750
Reinsurers' share of insurance technical provisions	**91,005,175**	**294,265**	**1,144,442**	**5,307,698**	**4,486,267**	**0**	**509,958**	**102,747,805**
Operating receivables	**162,311,980**	**12,279,694**	**2,622,413**	**13,210,004**	**5,707,266**	**5,786,038**	**4,780,429**	**206,697,824**
Cash and cash equivalents	**57,875,879**	**2,358,734**	**1,027,643**	**2,037,517**	**11,896,352**	**332,288**	**341,364**	**75,869,777**
Total	**2,845,867,207**	**85,309,555**	**26,394,816**	**59,870,036**	**56,468,118**	**28,216,943**	**16,911,969**	**3,119,038,644**
Unit-linked life insurance contract investments	**460,129,885**	**2,286,839**	**18,260,912**	**0**	**0**	**0**	**1,353,653**	**482,031,289**
TOTAL ASSETS	3,305,997,092	87,596,394	44,655,728	59,870,036	56,468,118	28,216,943	18,265,622	3,601,069,933
Subordinated liabilities	64,847,294	0	0	0	0	0	0	64,847,294
Insurance technical provisions	2,203,819,904	53,133,946	8,398,241	43,862,405	41,063,989	17,427,553	26,221,303	2,393,927,341
Insurance technical provisions for unit-linked life insurance contracts	463,041,430	2,286,839	18,260,912	0	0	0	1,353,653	484,942,834
Other financial liabilities	1,678,527	16,981	0	0	140,824	28,063	0	1,864,395
TOTAL LIABILITIES	2,733,387,155	55,437,766	26,659,153	43,862,405	41,204,813	17,455,616	27,574,956	2,945,581,864
Difference	**572,609,937**	**32,158,628**	**17,996,575**	**16,007,631**	**15,263,305**	**10,761,327**	**-9,309,334**	**655,488,069**

Triglav Group as at 31 Dec. 2018	EUR	HRK	USD	RSD	BAM	MKD	Other	Total
Financial investments	**2,397,158,010**	**31,334,849**	**59,455,121**	**34,032,066**	**19,336,647**	**32,102,498**	**9,782,779**	**2,583,201,970**
Debt securities	2,179,834,960	22,722,806	31,848,557	17,030,938	10,089,367	29,090,296	6,907,924	2,297,524,848
Equity securities	150,226,170	6,381,713	6,803,879	3,777,111	86,724	144,662	925,654	168,345,913
Derivatives	1,393,263	0	0	0	0	0	0	1,393,263
Loans and deposits	65,703,616	2,230,329	20,802,686	13,224,017	9,160,556	2,867,540	1,949,201	115,937,945
Reinsurers' share of insurance technical provisions	**75,642,018**	**681,999**	**0**	**4,117,876**	**0**	**5,060,226**	**418,380**	**85,920,499**
Operating receivables	**141,722,581**	**0**	**13,748,977**	**8,661,043**	**5,484,475**	**9,037,802**	**0**	**178,654,878**
Cash and cash equivalents	**55,020,251**	**2,600,347**	**866,052**	**6,499,300**	**488,391**	**1,937,935**	**189,385**	**67,601,661**
Total	**2,669,542,860**	**34,617,195**	**74,070,150**	**53,310,285**	**25,309,513**	**48,138,461**	**10,390,544**	**2,915,379,007**
Unit-linked life insurance contract investments	**392,565,570**	**7,778,931**	**2,032,955**	**0**	**0**	**0**	**138,314**	**402,515,770**
TOTAL ASSETS	3,062,108,430	42,396,126	76,103,105	53,310,285	25,309,513	48,138,461	10,528,858	3,317,894,777
Subordinated liabilities	15,462,711	0	0	0	0	0	0	15,462,711
Insurance technical provisions	2,161,944,608	0	48,862,941	36,532,431	20,382,204	42,780,876	0	2,310,503,061
Insurance technical provisions for unit-linked life insurance contracts	392,647,839	7,778,931	2,032,955	0	0	0	138,314	402,598,039
Other financial liabilities	1,780,297	0	2,713,736	464,862	27,974	634,034	0	5,620,903
TOTAL LIABILITIES	2,571,835,455	7,778,931	53,609,632	36,997,293	20,410,178	43,414,910	138,314	2,734,184,714
Difference	**490,272,974**	**34,617,195**	**22,493,472**	**16,312,992**	**4,899,335**	**4,723,551**	**10,390,544**	**583,710,063**

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. They are classified as financial assets available for sale 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. In the event of a drop in interest rates, the Company performs the LAT to determine whether insurance technical provisions need to be increased. However, in terms of accounting, the change in interest rates does not affect insurance technical provisions for non-life insurance. The Company therefore manages interest rate risk on the basis of a more comprehensive, economic perspective. 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.

The Company manages interest rate risk through economic valuation. In this regard, special attention is paid to the matching of cash flows of assets and liabilities and/or to reducing the duration gap.

Due to the continued low interest rate period, the Company intensified the matching 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 62.7 million), while a sudden increase of 100 basis points would have a negative impact (in the amount of EUR 120 million). The impact of changes in interest rates on the financial statements is more pronounced than in the previous 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 mainly performed in the life insurance segment.

The Company monitors the duration gap[100] 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 is almost completely matched with the duration of liabilities if the Company does not take into account the issued subordinated bonds. The duration gap is negative and stands at –0.1 year (compared to –2.7 years as at 31 December 2018[101] and differs from the disclosure in the 2018 Annual Report due to the upgraded calculation method). Taking into account the issued subordinated bonds, however, the gap is slightly higher but still low at –0.3 year (compared to –2.7 years as at 31 December 2018); the duration gap of assets and liabilities is –2.0 years for the life insurance portfolio and 2.1 years for the non-life insurance portfolio.

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. Almost 60% of debt securities are government bonds and the rest are corporate bonds. The latter are divided approximately 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 Republic of Slovenia. See [→ *Section 7.9 of the Business Report*] for more information on the concentration of financial investments.

Sensitivity analysis of assets and liabilities to interest rate changes

	Triglav Group				Zavarovalnica Triglav			
	31 Dec. 2019		31 Dec. 2018		31 Dec. 2019		31 Dec. 2018	
	+100 bp	–100 bp	+100 bp	–100 bp	+100 bp	–100 bp	+100 bp	–100 bp
Debt securities issued by countries	–92,126,066	108,770,451	–39,545,827	42,191,448	–74,640,246	90,321,058	–26,320,170	28,195,793
Debt securities issued by financial institutions	–15,579,416	16,415,370	–15,918,260	16,816,479	–14,476,826	15,287,208	–14,076,794	14,889,685
Debt securities issued by companies	–18,274,181	19,096,553	–19,810,010	20,952,389	–12,472,527	13,274,208	–16,262,872	17,349,891
Compound securities	3,199	5,589	–942,401	982,350	3,199	5,589	–942,401	982,350
Other	0	0	5,515,871	–6,111,478	0	0	5,515,871	–6,111,478
Total financial investments	**–125,976,464**	**144,287,963**	**–70,700,627**	**74,831,188**	**–101,586,400**	**118,888,063**	**–52,086,368**	**55,306,240**
Insurance technical provisions for life insurance	**–6,026,137**	**81,542,341**	**–4,495,081**	**77,215,736**	**–5,985,948**	**44,985,191**	**–4,478,371**	**52,388,731**
Difference	**–119,950,327**	**62,745,622**	**–66,205,546**	**–2,384,548**	**–95,600,452**	**73,902,872**	**–47,607,997**	**2,917,509**
Impact on equity	–83,382,893	94,106,788	–61,958,139	66,172,298	–68,434,720	78,148,813	–49,798,827	53,102,350
Impact on profit or loss	–36,567,434	–31,361,166	–4,247,407	–68,556,846	–27,165,731	-4,245,941	2,190,830	–50,184,841

[100] In addition to the duration of assets and liabilities, the duration gap also takes into account the value of assets and liabilities.
[101] The recalculation was made on the basis of the applicable methodology to ensure the comparability of the calculated duration gap as at 31 December 2018 and 31 December 2019.

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 Company and the Group assume the credit risks of:

- investments at which the risk of downgrade or insolvency of counterparties exists, with all exposures to each debtor being monitored;
- reinsurance contracts where the risk of inability to pay out claims or the risk of downgrade of a reinsurer due to a loss event 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 recourse claims.

Based on the financial statements, the Company and the Group are exposed to credit risks from financial assets in relation to banks through cash. The table above also shows cash from unit-linked life insurance contract investments, which do not pose any direct credit risks to the Company and 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 Company and the Group achieve this by establishing a limit system for each bank and banking group.

The exposure of the Company and the Group to reinsurance is measured by unearned premium and insurance technical provisions ceded to reinsurers, including past due receivables from reinsurance and co-insurance operations. Prudent assessment of the adequacy of reinsurance partners in terms of their credit quality and diversification is key. Exposure to receivables is measured by the Company's 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 5.12 of the Accounting Report*].

With regard to cash and cash equivalents, the Company is most exposed to Slovene banks. These mainly have the "BB" credit rating or are without a credit rating. At the Group level, in addition to Slovene banks, exposure arises from banks in the countries of subsidiaries, which usually do not have a credit rating.

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

The Group is most exposed to reinsurers with the "A" credit rating. The proportion of partners with an "AA" credit rating is also high. The proportion of reinsurance partners without a credit rating at the Group level is 15.9%, while it is considerably lower in the Company, i.e. 2.7%.

All receivables of the Company and the Group from insurance transactions with clients are presented in [→ *Section 3.9 of the Accounting Report*]. In the context of credit risks, the Company monitors and manages receivables from policyholders, receivables from intermediaries, other receivables from direct insurance operations and other short-term receivables, the majority of which are recourse claims.

In credit risk management, insurance receivables are monitored by maturity, namely all past due receivables from 0 days past due.

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

Credit risk exposure by partner type

	Triglav Group		Zavarovalnica Triglav	
	31 Dec. 2019	**31 Dec. 2018**	**31 Dec. 2019**	**31 Dec. 2018**
Cash	75,869,775	67,601,660	26,112,112	17,998,487
- Cash from unit-linked life insurance contract investments	7,081,628	3,009,899	6,885,372	2,934,139
- Other cash	68,788,147	64,591,761	19,226,740	15,064,348
Reinsurance	111,785,643	98,238,506	102,101,892	91,140,148
Receivables	33,598,434	36,573,280	14,970,545	15,273,807
Total	**221,261,729**	**183,241,074**	**143,184,843**	**124,412,442**
Total excluding cash from unit-linked life insurance contract investments	**214,180,101**	**180,231,175**	**136,299,471**	**121,478,303**

Exposure to reinsurance partners by credit rating

	Triglav Group		Zavarovalnica Triglav	
	31 Dec. 2019	**31 Dec. 2018**	**31 Dec. 2019**	**31 Dec. 2018**
AAA	0.0%	0.4%	0.0%	0.0%
AA to BBB	79.3%	82.2%	92.7%	95.0%
Below BBB	4.8%	5.9%	4.6%	1.6%
Not rated	15.9%	11.5%	2.7%	3.4%

2.6 Liquidity risks

Liquidity risk management is an important element of the risk management system, although the solvency capital requirement is not specified for liquidity risk by the standard formula. The Group 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, the Group maintains a surplus of liquid assets, allowing it to settle its obligations even in exceptional circumstances.

The liquidity risk management framework provides a comprehensive overview of liquidity. It takes into account the sources of liquidity (cash flows from investments and premiums) and liquidity needs (e.g. payments of claims), and allows for the analysis of potential impacts of exceptional circumstances from the aspect of the sources of liquidity and liabilities.

The Group members have established processes that enable them to maintain an appropriate structure of assets in terms of their nature, duration and liquidity. In the event of increased liquidity needs, an adequate liquidity position is ensured by planning actual and potential net cash outflows, having an appropriate level and structure of liquid investments, and monitoring the structure of liabilities and financial assets. The liquidity position is regularly monitored at various time intervals under assumed normal and exceptional circumstances and by establishing a limit system that adequately limits exposure to liquidity risk.

The liquidity risk management framework at the Group level is governed by guidelines that enable consistent monitoring at the Group level. The Company has established regular monitoring, measurement and reporting of risks, which is also introduced to 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 (credit lines, repurchase agreements, etc.).

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

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	**210,723,904**	**336,837,102**	**1,060,206,056**	**682,565,205**	**443,390,971**	**2,733,723,238**
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
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	12,661,873	190,793,792	3,031,895	16,010	194260	206,697,830
Cash	56,380,343	19,489,432	0	0	0	75,869,775
Total	**692,760,622**	**595,493,606**	**1,145,828,390**	**700,220,625**	**466,766,693**	**3,601,069,936**
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**

[102] 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. 2018	Not defined	Under 1 year	1 to 5 years	5 to 10 years	Over 10 years	Total
FINANCIAL ASSETS						
Financial investments	**179,605,017**	**281,657,284**	**1,195,372,423**	**804,584,025**	**121,983,220**	**2,583,201,970**
Debt securities	253,583	227,445,826	1,152,214,012	804,528,041	113,083,386	2,297,524,848
Held to maturity	0	22,162,116	57,599,720	89,392,632	27,618,717	196,773,185
At fair value through profit and loss	0	39,314,564	223,607,114	121,750,457	4,316,673	388,988,809
Available for sale	4,668	153,618,489	869,997,488	593,384,952	75,157,894	1,692,163,491
Loans and deposits	248,915	12,350,657	1,009,689	0	5,990,102	19,599,363
Equity securities	168,297,382	0	0	48,531	0	168,345,913
At fair value through profit and loss	60,463,809	0	0	0	0	60,463,809
Available for sale	107,833,573	0	0	48,531	0	107,882,104
Derivatives	0	0	1,393,263	0	0	1,393,263
Loans and deposits	11,054,052	54,211,457	41,765,148	7,453	8,899,834	115,937,945
Unit-linked life insurance contract investments	346,224,134	516,278	37,311,530	1,020,578	17,443,250	402,515,770
At fair value through profit and loss	346,224,134	516,278	33,087,558	1,020,578	17,443,250	398,291,798
Available for sale	0	0	0	0	0	0
Loans and deposits	0	0	4,223,972	0	0	4,223,972
Reinsurers' share of insurance technical provisions	4,442,156	38,280,234	25,641,541	11,054,273	6,502,295	85,920,499
Operating receivables	15,486,498	159,483,278	3,473,317	211,783	2	178,654,878
Cash	48,172,681	19,428,979	0	0	0	67,601,660
Total	**593,930,486**	**499,366,053**	**1,261,798,811**	**816,870,659**	**145,928,767**	**3,317,894,776**
FINANCIAL LIABILITIES						
Subordinated liabilities	0	15,462,711	0	0	0	15,462,711
Insurance technical provisions	395,158,863	492,108,990	388,203,592	437,460,039	597,571,577	2,310,503,062
Insurance technical provisions for unit-linked life insurance contracts	365,238,128	580,566	2,900,642	4,649,424	29,229,279	402,598,038
Other financial liabilities	0	5,620,904	0	0	0	5,620,904
Total	**760,396,991**	**513,773,171**	**391,104,234**	**442,109,463**	**626,800,856**	**2,734,184,715**

Total financial assets exceed total financial liabilities of the Triglav Group. As at the 2019 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 undefined maturity, 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 projected cash flows. Therefore, neither deficit in individual maturity buckets nor the payment of liabilities before the maturity date present a liquidity risk.

Liquidity at the Group level is adequate if the liquidity of each Group member is adequate. Thus, adequate liquidity of the Group can be deduced from the adequate or excess liquidity of the Company and the adequate liquidity of all or at least significant Group members. It is believed that the liquidity of Zavarovalnica Triglav and its major subsidiaries is adequate and therefore the Group's liquidity is adequate.

Financial assets and liabilities of Zavarovalnica Triglav by contractual maturity

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	**109,750,581**	**201,962,376**	**728,903,011**	**479,498,235**	**388,227,661**	**1,908,341,864**
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
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	0	113,440,596	0	0	0	113,440,596
Cash	26,112,112	0	0	0	0	26,112,112
Total	**508,767,975**	**381,598,785**	**790,338,119**	**488,567,570**	**410,814,003**	**2,580,086,452**
FINANCIAL LIABILITIES						
Subordinated liabilities	0	20,620,625	0	0	49,378,826	69,999,451
Insurance technical provisions	0	453,524,657	469,508,331	329,553,522	460,835,011	1,713,421,522
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**	**475,905,703**	**470,110,563**	**331,739,158**	**528,436,046**	**2,220,645,705**

Zavarovalnica Triglav as at 31 Dec. 2018	Not defined	Under 1 year	1 to 5 years	5 to 10 years	Over 10 years	Total
FINANCIAL ASSETS						
Financial investments	**95,142,342**	**157,284,550**	**848,083,058**	**637,616,344**	**98,265,217**	**1,836,391,512**
Debt securities	0	136,520,581	805,019,490	637,616,344	87,766,529	1,666,922,943
Held to maturity	0	13,510,990	36,635,000	81,699,243	27,618,717	159,463,950
At fair value through profit and loss	0	12,407,182	104,922,221	70,897,029	4,316,673	192,543,106
Available for sale	0	110,602,409	663,052,162	485,020,072	49,841,037	1,308,515,679
Loans and deposits	0	0	410,106	0	5,990,102	6,400,208
Equity securities	83,493,766	0	0	0	0	83,493,766
At fair value through profit and loss	10,110,817	0	0	0	0	10,110,817
Available for sale	73,382,949	0	0	0	0	73,382,949
Derivatives	0	0	1,393,263	0	0	1,393,263
Loans and deposits	11,648,576	20,763,969	41,670,305	0	10,498,688	84,581,539
Unit-linked life insurance contract investments	316,843,905	0	32,376,923	0	17,443,250	366,664,078
At fair value through profit and loss	316,843,905	0	28,346,931	0	17,443,250	362,634,086
Available for sale	0	0	0	0	0	0
Loans and deposits	0	0	4,029,992	0	0	4,029,992
Reinsurers' share of insurance technical provisions	49,529,019	27,224,261	8,273,186	2,866,840	0	87,893,306
Operating receivables	0	89,980,951	0	0	0	89,980,951
Cash	17,998,487	0	0	0	0	17,998,487
Total	**479,513,754**	**274,489,762**	**888,733,168**	**640,483,184**	**115,708,467**	**2,398,928,334**
FINANCIAL LIABILITIES						
Subordinated liabilities	0	20,612,951	0	0	0	20,612,951
Insurance technical provisions	388,362,002	226,224,257	315,890,863	351,884,235	413,782,117	1,696,143,474
Insurance technical provisions for unit-linked life insurance contracts	365,238,075	0	0	0	0	365,238,075
Other financial liabilities	0	1,587,443	0	0	0	1,587,443
Total	**753,600,077**	**248,424,651**	**315,890,863**	**351,884,235**	**413,782,117**	**2,083,581,943**

2.7 Operational risks

The aim of effective operational risk management of the Group is mainly to effectively remedy the consequences of realised operational loss events, mitigate and prevent operating losses, and to conduct business in a professional, diligent and ethical manner. The primary purpose of operational risk management is not to eliminate operational risks, but to identify them in a timely manner and reduce them cost-effectively with respect to the Company's tolerance of these risks. 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 them in greater detail, including the adopted measures and the status of implementation. The Company defined eight operational risk groups to monitor risks (internal fraud or unauthorised activity of employees; external fraud or unauthorised activity of third parties; system break-down and the related system disruption; damage to physical assets; inadequate management of human resources and the safety of the work environment; non-compliance with the applicable regulations, improper business or market practice as well as clients and products; inadequate implementation and management of processes and the control environment, including suppliers and business partners; information security risks).

The operational risk management methodology is based on three key sets:

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

The established system enables the Company to comprehensively manage operational risks, i.e. quality and prompt identification, measurement, assessment, management, monitoring and reporting of operational risks. The Company regularly upgrades this system based on the identified deficiencies and changes from the internal and external environments. In accordance with the principle of proportionality and materiality, it transfers it to subsidiaries, which report to it on realised operational loss events and other material operational risks.

Operational risk management places the greatest emphasis on critical business processes or operational risk segments. When assessing operational risk exposures across all business processes, the Company takes an inventory of internal controls, which is one of the key methods to manage them. The priorities of the internal control system are as follows:

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

The Company uses the reporting application for reporting on realised operational loss events, which enables the employees to report these events also anonymously. Operational loss events are thus aggregated in one place. By monitoring key operational risk indicators and comparing them with the operational risk appetite (the level of risks or potential losses that the Company is willing to take), it enables the Company to take quick and effective action if the appetite is exceeded.

The Triglav Group identified cyber and regulatory risks as key types of operational risks in 2019.

Computerisation, digitalisation and more sophisticated cyber attacks increase **cyber risks**. Even though in this respect the Company has not yet suffered a loss, it is aware of the threat posed by such risks and the need for regular maintenance and additional upgrading 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 segments that would be most affected were examined in greater detail as part of own risk and solvency assessment (ORSA). From experience, risks can be linked to events that can adversely affect the processes or personal data protection. All subsidiaries were involved in the preparation of risk scenarios, and based on the findings, key risk mitigation measures and appropriate action were adopted in the event of their realisation. Furthermore, the Company began with the activities to obtain the Information Security Management System certification in accordance with the requirements of the ISO 27001 standard in 2019. The established mechanisms of managing cyber and all other types of operational risks are gradually being transferred to other Group members.

The Company is exposed to regulatory risks 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). Although the planned compliance of Zavarovalnica Triglav's processes with the requirements of the GDPR has been achieved in recent years, there is still a certain degree of compliance risk, mainly due to possible differences in the interpretation of the GDPR between the Company and the supervisory authority and the absence of case law and comparative business practices. Moreover, the planned national legislation relating to personal data protection was not adopted in 2019.

Requirements for documenting disclosures to consumers and other relevant public have increased. In addition, the Company holds a dominant position in some segments of the insurance market. Both increase exposure to conduct risk, to which due attention is given.

The Company actively responds to changes in Slovene and European regulations. In doing so, it submits proposals to competent stakeholders, intensively engages in legislative processes for adopting and amending regulations that could affect work processes, and devotes adequate resources to this.

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

The functioning of information technology, particularly key applications, is important for the Group's operations. Zavarovalnica Triglav carefully manages information security risks and related business disruption and interruption. To ensure continuity of key business processes, the business continuity management system (BCM) was set up. Business continuity plans for critical business processes and IT disaster recovery plans are regularly revised, upgraded and checked. The BCM also includes:

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

In 2019, the Company prepared revised recovery plans for some key systems in its subsidiaries and, in cooperation with them, began to update the business impact assessment of the interruption of key processes. On this basis, business continuity plans will be comprehensively revised.

2.8 Non-financial risks

In terms of the Company's operations, material non-financial risks include strategic risks, capital risks, reputational risk, group risk 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.

2.8.1 Strategic risks

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

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

2.8.2 Capital risks

Capital risks 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 on capital adequacy due to regulatory or accounting changes.

Capital risks are regularly monitored in the context of the capital adequacy process. Some uncertainty is caused by potential amendments to legislation, which are currently being harmonised (Review 2020[103]), and the implementation of the new IFRS 17. The latter may indirectly affect capital adequacy due to the closely linked accounting and market measurement approaches, which serve as a basis for determining capital adequacy.

2.8.3 Reputational risk

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 risks, 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, 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).

2.8.4 Group risks

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.

2.8.5 Other non-financial and potential risks

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

As described in [→ *Section 2.3 of Risk management*], insurance operations include four key processes, through which underwriting risks are identified, measured, monitored and managed. In the context of these processes, the Company identifies the impacts of climate change and related risks, which include more frequent damage and greater severity of weather disasters. Products that are affected by climate change (e.g. crop insurance, hull insurance) are adjusted appropriately; their pricing is adjusted based on ongoing monitoring of past events. Climate change risk is also addressed when creating insurance technical provisions for some insurance classes. The Company manages the increased climate change risk through effective reinsurance protection for more frequent and widespread natural catastrophes. There is no sufficient empirical data yet for some changes in the environment, thus they are managed by testing sensitivity parameters and running potential scenarios, on the basis of which appropriate measures are adopted. The management of some non-financial risks is described in [→ *Section 12. Sustainable development of the Business Report*], especially in the sections on respect for human rights and fair business practices, anti-corruption measures and personal data protection.

At the same time, the Company is preparing to implement the Regulation of the European Parliament and of the Council, adopted in November 2019, on sustainability-related disclosures in the financial services sector, which will enter into force in March 2021.

The potential reform of the existing healthcare system in Slovenia, particularly the financing of the public part of the system, was publicly discussed also in 2019; however, no changes were made.

2.9 Stress tests

The Group regularly conducts stress tests for all material types of risks as well as monitors and assesses the potential impact of exceptional events on the risk profile and solvency. For more information see Section C of the Solvency and Financial Condition Report, which is published separately for the Company and the Group on the Company's website.

[103] https://www.eiopa.europa.eu/content/consultation-paper-opinion-2020-review-solvency-ii