Risk Management.

Risk Management

- Despite the persisting emergency situation caused by COVID-19, the Group performed well and without interruption in 2021. Furthermore, it maintained strong capital strength and liquidity, which was confirmed by the re-affirmed "A" credit rating.
- The Group carried out the planned prudent underwriting of non-life and life underwriting risks and ensured the optimal matching of assets and liabilities, while reducing risk exposure with appropriate diversification.
- The risk management system was upgraded in terms of strategic initiatives and external potential risks. Key development activities took place in the field of sustainability risk management.

The Triglav Group was well capitalised in 2021. Its capital strength is based on its quality capital structure, which to a lesser extent also includes subordinated liabilities. The Group achieved high capital adequacy despite ongoing uncertainties in the business environment and taking into consideration the existing dividend policy. After the Insurance Supervision Agency temporarily suspended the payment of dividends in 2020, Zavarovalnica Triglav paid them again in 2021.

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

Zavarovalnica Triglav's adequate liquidity was maintained through regular management of its liquidity risk. See sections 1.5 and 2.6 of Risk Management for more information about the liquidity risk.

Throughout the year, the Company adapted to changes in financial markets, uncertainties due to higher inflation, increased volatility in energy prices and disruptions in supply chains. See Section Challenges and opportunities of today and Section 2.4 of Risk Management for more information.

The Company also responded to new risks in the environment, which were regularly monitored, by upgrading its risk management system.

Main risk management development activities at the Triglav Group level in 2021

- With regard to **market risks**, the management of assets and liabilities in the PDPZ (SVPI) group of ring-fenced funds was upgraded, which enabled the Company to improve the calculation of its internal interest rate risk assessment. By harmonising it in all insurance companies, interest rate risk monitoring at Group level was improved.
- In order to better identify the liquidity level, **the liquidity risk management system** was upgraded. It will allow the Company to take more effective action in the event of a stricter liquidity situation in the financial markets and achieve higher returns while maintaining the target liquidity.
- In relation to **operational risks**, the Company completed the implementation of the new GRC/IRM tool, which will be gradually transferred to other Group members. This enabled key functions and other relevant departments in the second line of defence to more comprehensively and uniformly document and monitor operational risks, as well as to improve communication and the effectiveness of identifying other material risks and measures.
- To manage **non-financial risks**, the monitoring of reputational and sustainability risks was upgraded. The upgrade of sustainability risk management includes the establishment of a system with clearly defined powers and tasks and a comprehensive analysis of potential exposures.

For the remaining types of risk, the focus was on process automation and maintaining the existing system. More attention was paid to upgrading **the risk management system at the level of subsidiaries** in order to consistently monitor their material risks.

1. Risk management system

The comprehensive risk management system plays the key role in the achievement of the Triglav Group's strategic objectives. It enables reliable and effective operations even in an uncertain situation, such as the COVID-19 pandemic.

The risk management system is determined by internal rules, a clear segregation of powers and responsibilities and effective processes to continuously identify, assess and control both assumed and potential risks. This allows the Company to take appropriate and timely action and keep its risk profile at the level defined in its risk appetite. The system is clear, transparent and well-documented. In subsidiaries, it is developed according to the parent company's principles and by adhering to the principle of proportionality.

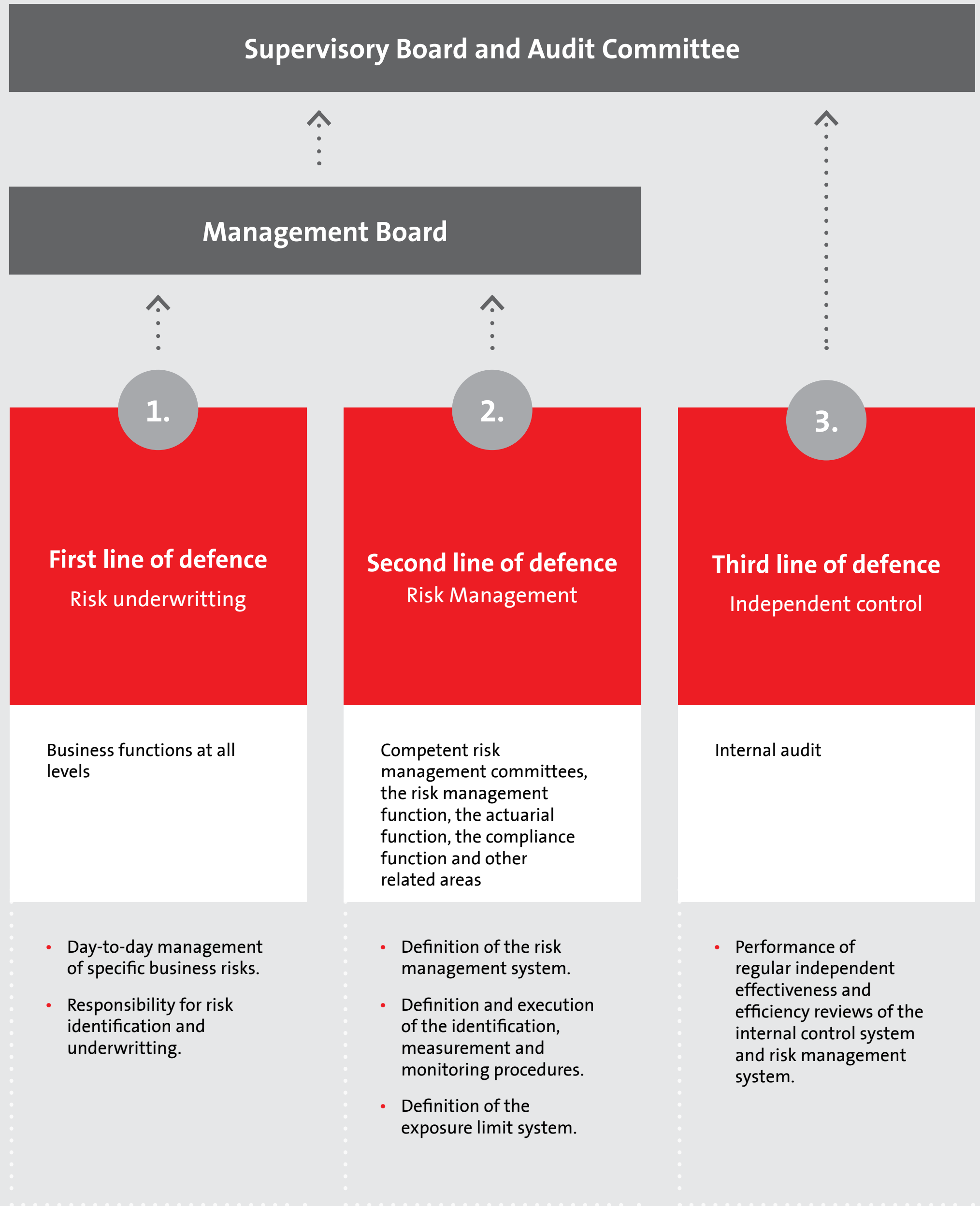
1.1 Powers and responsibilities

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

- **The first line of defence** consists of the business functions, which actively manage specific business risks through their decisions. The business functions are responsible for risk identification and underwriting in their respective work area in accordance with the guidelines of the Management Board and for active operational management of specific business risks.
- **The second line of defence** includes key functions (the risk management function, the compliance function and the actuarial function) and other related areas that exercise oversight as well as committees defining the risk management system, including exposure identification, measurement and monitoring procedures, and the exposure limit system.
- **The third line of defines** includes the internal audit function. This function regularly performs independent effectiveness and efficiency reviews of internal control systems and the risk management system in individual business lines. It also makes recommendations for improvement.

Even though the Management Board and the Supervisory Board are not directly part of the three lines of defence, they play a key role in the risk management system. They both are key stakeholders serviced by the three lines of defence. In addition, they are responsible for the operation of the system and defining organisational goals and strategies for achieving them. Furthermore, they establish the management structure and processes that ensure optimal management of assumed risks.

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



The Supervisory Board gives consent to the Management Board with respect to the written rules of the risk management system at the highest level. Within the scope of its powers and responsibilities, the Supervisory Board takes note of the key functions' reports, and at its sessions also of the risk profile, capital adequacy and the key findings of the own risk and solvency assessment process. Moreover, it gives its approval to the Solvency and Financial Condition Report.

The Audit Committee, which acts as a working body of the Supervisory Board, provides expert assistance and support in formulating positions on risk management. It supervises the adequacy and effectiveness of the risk management system. Furthermore, the Audit Committee focuses on monitoring the comprehensive risk profile of the Group's parent company. It also participates in designing stress tests and scenarios, which are used to check the level of capital adequacy as part of own risk and solvency assessment.

The Management Board defines the business objectives and the risk appetite. It approves the risk management strategy and related policies as well as the work plans of each key function. It also ensures an effective risk management system. Furthermore, the Management Board is regularly briefed on capital adequacy and approves the most important reports drafted by the key functions, including the Regular Supervisory Report, the Solvency and Financial Condition Report, the Risk Report and the Own Risk and Solvency Assessment Report. Independently or within a committee, it actively participates in and directs the own risk and solvency assessment process, which checks business decisions and defines the guidelines of the risk management system. The Management Board also ensures the risk management system's compliance with the capital planning and management process.

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

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

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

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

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

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

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

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

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Review of the risk management system's committees and their responsibilities

COMMITTEE LEVEL 1

Risk Management Committee (RMC)

Responsibilities:
- Non-financial risks not falling within the powers of other committees,
- Capital risks and
- overall all other types of risks, with an emphasis on the Group's most material risks.

Approves:
- methodologies and rules defining risk assessment methods;
- limit systems related to all risk categories;
- recommendations to subsidiaries regarding the maximum permitted exposures to individual risks.

Reporting

COMMITTEE LEVEL 2

Primarily responsible for the specified risk types and monitoring and control of the effectiveness of the risk management system within its powers, in accordance with the methodologies approved by the Risk Management Committee.

Assets and Liabilities Committee (ALCO)

Responsible for:
lliquidity risk, market risks, life insurance underwriting and pension risks, credit risks of the investment portfolio

Non-life Underwriting Committee (UWC)

Responsible for:
non-life insurance underwriting and credit risks

Operational Risk Committee (ORC)

Responsible for:
operational risks

Project Steering Committee (PSC)

Responsible for:
project risks

Compliance and Sustainable Development Committee (CSDC)

Responsible for:
compliance risks, reputational risks and sustainability risks

Reporting

COMMITTEE LEVEL 3

Primarily responsible for the specified risk subtypes.

Life Insurance Product Forum (LI PF)

Responsible for:
life insurance underwriting risks

Non-life Insurance Product Forum (NLI PF)

Responsible for:
non-life insurance underwriting risks

The system of committees that are part of the risk management system was expanded in 2021 to include **the Compliance and Sustainable Development Committee**, which took over the monitoring of reputational and sustainability risks. This committee operates at the level of the Group and the Company, and its purpose is preventive. It assesses and reduces compliance risks (risks related to non-compliance of the Company's operations with regulations, internal rules, applicable acts and commitments) and reputational risks (risks related to the reputation of both the Company and the Group). In this way, sustainability risk management was even more comprehensively integrated into the Group's risk management system.

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

- **The Risk Management Committee** deals with all material risks of the Company and the Group. It also assesses capital and strategic or non-financial risks not within the competence of other committees.
- **The Assets and Liabilities Management Committee** assesses market risks, including credit risks arising from exposure to banks and banking groups, life underwriting risks and liquidity risk.
- **The Non-life Insurance Committee** is responsible for non-life underwriting risks and credit risks related to exposure to reinsurers.
- **The Operational Risk Committee** deals with operational risks, which include information security risks, cyber risks and business continuity risks, as well as compliance risks and outsourcing risks.
- **The Non-Life and Life Insurance Product Forums** assess the development of new insurance products and any risks related thereto.
- **The Project Steering Committee** deals with project risks and reports thereon to other competent committees.
- **The Compliance and Sustainable Development Committee** is responsible for compliance risks, reputational risks and sustainability risks.

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

The Subsidiary Management Division coordinates the drawing up of minimum standards for Group companies, which also include minimum standards for risk management. The parent company's Risk Management Department is responsible for their preparation and transfer to the subsidiaries in cooperation with the Subsidiary Management Division. By enforcing common standards, the Group ensures an effective and transparent risk management system at Group level, which is based on effective communication, quality exchange of data and information, time availability, methodological consistency, accounting verifiability and integrity.

1.2 Risk management process

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

One of the key indicators for measuring and monitoring risks is the *capital adequacy ratio*. Its target range and tolerance are consistent with the dividend policy and defined in the framework of the capital management of both the Company and the Group. Maintaining capital adequacy within the target range is an ongoing process, which requires regular review of business decisions in terms of profitability and the risks assumed.

The own risk and solvency assessment process is closely connected to the quality of the whole risk management system. By assessing solvency requirements, the appropriateness of both the regulatory method and the strategic guidelines is verified in terms of ensuring capital adequacy. In order to improve the use of capital, solvency requirements are assessed in relation to the requirements of implementing the strategic plan, while the stability of capital adequacy is tested with stress scenarios for existing and potential or emerging risks from the environment of an individual risk. This allows the Company to take appropriate action, such as changes to the guidelines for accepting transactions and adjustments to premium rates and the limit system, risk transfers and similar. This increases the readiness of Group members for identified risks and upgrades the internal control system, thereby building an effective system for strategic decision-making.

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

Proper risk assessment requires the correct and comprehensive capture of data on risk exposure, good knowledge of the properties (volatility) of factors of specific risks and their impacts on key indicators defined in the Risk Appetite Statement.

The standard Solvency II formula (the regulatory method), which is based on standard volatility and own risk exposure, is primarily used for risk assessment. This formula is supplemented with the Company's own assessments of the volatility of risk factors at the same confidence level and over the same period. In this way, its adequacy is regularly monitored. Risks are additionally assessed according to the methodology of the credit rating agency S&P, which is based on a 99.7% confidence level over a period of one year.

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

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

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

The Management Board and the Supervisory Board are regularly informed about the individual types of risks assumed for both the Company and the Group, as well as about the overall risk. The risk report, which documents the results of regular risk measurement and monitoring, is drawn up on a quarterly basis and covers all key risk indicators, including the trends, limits and recommendations of the Risk Management Department.

1.3 Capital management[100]

A well-integrated risk management system is essential to effective capital management. **Ensuring capital adequacy within the target range** allows the Group at any given moment to have a sufficient amount of capital in relation to the measurable risks assumed. In addition to maintaining regular capital adequacy, the Company plans and assesses the existing capital level and its future adequacy. As part of the Group's regular capital management to ensure its optimal composition and cost efficiency, the Company issued a subordinated bond in 2019, which is taken into account in capital adequacy. When deciding on entering into a business transaction, the Company consistently assesses its profitability in relation to the assumed risks, thereby pursuing the target capital adequacy, and takes into account the criterion of earning appropriate profit for the shareholders. The goal of capital management is to guarantee the safety and profitability of operations as well as a long-term and stable return on investment by paying out dividends based on the predefined criteria in the dividend policy.

The Triglav Group was adequately capitalised and profitable in 2021.

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

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

Capital adequacy also has a significant impact on the Company's credit ratings. Therefore, when making business decisions, it is taken into account how they impact the results of the models of major credit rating agencies. The Group's capital model 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.

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	

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

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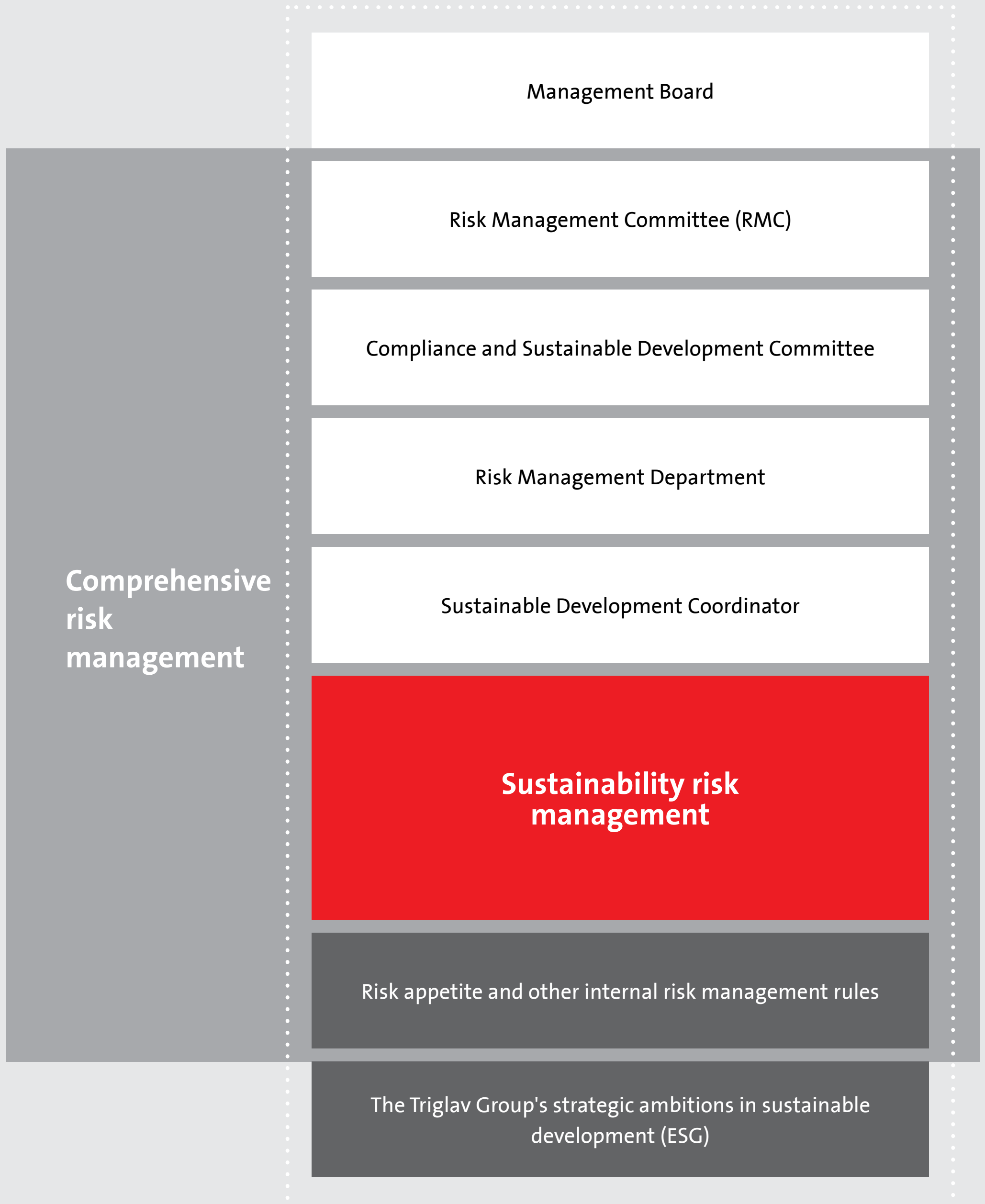
1.4 Sustainability risk management

Following the adoption of the Triglav Group's commitment to sustainability in 2020, the content related to sustainability and sustainability risks was upgraded in 2021 with the Group's strategic ambitions in this field (see the section The Triglav Group's strategic ambitions in sustainable development (ESG) in Section 4.1 of the Business Report for more information), incorporating care for sustainable development into the Company's organisational structure. The Company is building a comprehensive sustainability risk management system; sustainability risks are part of non-financial risks (see Section 1.5). To this end, the risk appetite and internal risk management rules were defined for sustainability risks. At Group level, sustainability-related activities are coordinated and directed by the Sustainable Development Coordinator. The Company's risk management function is responsible for the optimal integration of sustainability aspects of business into the risk management system, which are monitored by the Compliance and Sustainable Development Committee. The latter reports to the Risk Management Committee, which is responsible for the comprehensive management of the Group's most material risks. Decisions are made by the Management Board. See Section 12 of the Business Report for more information about sustainability aspects.

Sustainability risk management as part of comprehensive risk management at the Triglav Group



1.5 Types of risks and their management

The most important types of risk and methods of their management are described below. Exposure to individual types of risk and risk assessment are presented in more detail in Section 2 of Risk Management.

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

1.5.1 Underwriting risks

The Triglav Group assumes underwriting risks by underwriting various types of insurance policies. As the insurance portfolio is diverse by product type, underwriting risks at Group level are also diverse. Insurance is divided into non-life insurance, which includes health insurance and reinsurance, and life insurance, which includes pension insurance. Insurance claims or the resulting insurance liabilities are divided into life insurance liabilities that depend on biometric factors (such as age, gender and health status of the person insured) and non-life insurance liabilities (independent of biometric factors).

Non-life insurance liabilities include all (potential) non-life insurance claims except non-life annuities – these are non-life insurance claims that depend on biometric factors of the injured party and are therefore classified as life insurance liabilities. **Non-life insurance liabilities** also include (potential) accident insurance claims, which are part of life insurance policies, but the claims do not depend on the biometric factors of the injured parties.

Life insurance liabilities arise from insurance policies for traditional, unit-linked and pension insurance. Pension insurance also includes supplemental voluntary pension insurance provided by the Company in the context of the second pillar of the pension system.

- **Non-life insurance underwriting** at Group level create risks for an undercharged premium in relation to assumed risks, higher claims than provisions created for underwritten policies, higher deviations in the profitability of underwritten policies than expected and major or more catastrophic events. The described risks depend on their volatility and respective exposure.

  Premium risk is the risk that written premium is insufficient to meet all obligations arising from the conclusion of an insurance contract. The risk depends on net premium income and the annual volatility of claims ratios, which are determined for each insurance segment using the standard formula. The adequacy test of the latter for own insurance portfolio is performed annually as part of oown risk and solvency assessment. This shows, on average, lower risks than predicted by the standard formula. However, higher volatility in claims ratios results in higher uncertainty and/or risks. Premium risk also depends on the diversification of exposures between different various insurance segments in the portfolio. Thus, the Group pursues an effective diversification of the portfolio in different insurance segments. Premium risk is managed through efficient monitoring of claims experience and a timely adjustment of pricing policy.

  Reserve risk arises when the actual realised claims deviate from the expected claims. Insurance technical provisions are formed in relation to the estimate of expected claims paid from valid non-life insurance contracts. The reserve risk is therefore measured by estimating potential loss for claims already incurred in an exceptional event. With respect to the latter, a scenario is taken into consideration that (statistically) occurs once in 200 years and which, in accordance with the standard formula used to measure the amount of required capital of the insurance company for each insurance segment, depends on the best estimate of net claims provision and its annual volatility. The reserve risk is also influenced by the maturity of liabilities – the average duration of claim settlements – for which provisions were made. With respect to liability insurance, more than half of foreseen claims are settled after one year, while in other insurance segments they are paid within one year. Provisions with long maturities have a higher reserve risk than short-term provisions. Liabilities with long maturities also include claims paid as annuities and therefore include the payment revision risk and other biometric risks, which are otherwise characteristic of life insurance products. The reserve risk is monitored by regularly checking the past amount of formed provisions in relation to realised claims and, based on the findings, by adapting the existing processes of creating provisions.

  Lapse risk is realised when the lapse rates of underwritten non-life insurance contracts are higher than the expected lapse rates. At Group level, this risk is managed by regularly analysing lapse and adjusting products if necessary.

Material types of risk of the Triglav Group

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Non-life insurance catastrophe risk means the risk of an unexpected one-time loss event with a loss potential that is considerably higher than the estimated average loss of insurance companies in the Group. Catastrophe risk at Group level is the highest where the insurance business is concentrated in a particular geographical area or sector/industry by individual insurance peril.

Therefore, for non-life insurance, **concentration risk** is monitored at Group level and separately in each (re)insurance company. Concentration risk occurs upon the concentration of insurance business in geographical areas or sectors/industries for individual insured perils. Concentration may also arise as a result of correlation between individual insurance classes. In such case, even a single loss event may have a significant impact on the Company's ability to settle its obligations in a particular insurance segment. Concentration risk is managed through prudent assumption of underwriting risks, regular monitoring of portfolio exposures and appropriate reinsurance contracts.

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

- Life insurance underwriting at Group level creates mortality risk, longevity risk, morbidity risk, lapse risk, expense risk and catastrophe risk. The above-mentioned claims, which are paid as annuities, are also exposed to these risks, but in addition to biometric risks they are also subject to the payment revision risk. Life insurance products therefore depend primarily on biometric factors and are exposed to the risk of changes in actual biometric data as well as other factors, such as the share of cancellations and the amount of costs in the premium. If the assumptions change unfavourably, the premium and/or insurance technical provisions may become too low and the insurance policy less profitable than expected at the time of its conclusion. Complementary insurance, such as accident insurance, is less dependent on biometric data and more similar to non-life insurance, so their risks are also similar to the risks of non-life insurance products.

The Group is exposed to **mortality risk** in insurance products that cover the risk of death if at the time of the person insured's death the coverage is greater than the created provisions. Whole life insurance products, credit life insurance products and life insurance policies with a savings component have the highest exposure. The sums insured in the event of death in these cases are high, while insurance technical provisions are relatively low.

Longevity risk at Group level means exposure to annuity and pension insurance products. With these policies, the amount of the basic annuity is determined in advance and is fixed. It is calculated based on paid-in assets and assumptions, in particular the estimated life expectancy of the beneficiaries. If there is a significant increase in the overall life expectancy of the population insured, the probability of death decreases, thereby increasing the liabilities of exposed policies. Due to the guaranteed amount of annuity, the Company faces the risk of uncertainty due to longevity (**guaranteed annuity rate risk**) in some older pension insurance policies already during the accumulation period. The policyholder will be entitled to guaranteed payouts at the end of the accumulation period and the transition to the annuity period (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 risk is not transferred to reinsurers, instead additional dedicated provisions are formed if necessary.

Products with the coverage of critical and serious illnesses and disability underwritten by the Group's insurance companies are exposed to **disability and morbidity risk**. As a rule, these insurance policies do not have a savings component, so their exposure is proportional to the amount of the sum insured.

Products whose contractual provisions allow the policyholder to amend the policy, e.g. to surrender the policy, change the amount of cover or premium, decide how much of the savings to use to buy an annuity, are exposed to **lapse risk** (conversion into a capitalised policy or policy surrender). The realisation of this risk depends on the policyholders' actions, and therefore it is more difficult to manage. This risk is reduced by designing the products that meet the clients' needs and by carefully managing the existing portfolio.

The Group is exposed to **expense risk** in all life insurance products and non-life annuities. The expenses included in the policy are determined at the time of conclusion, either as a fixed amount or share. However, as insurance or annuity payments can last for more than 20 years, the increase in actual expenses may exceed the expenses attributed to the policy and thus have a negative impact on the profitability of the Group's insurance portfolio. This risk may be a consequence of miscalculations, the inadequacy of the cost model or incorrectly estimated future volume, trend or volatility of expenses.

Non-life annuities are exposed to **revision risk**. Periodic annuity payments may be increased mainly due to the deterioration of the beneficiary's health or a change in legal practice, consequently increasing the nominal value of the Group's liabilities.

Life insurance catastrophe risk for life insurance in the event of death and disability primarily includes cases of concentration and extreme events that may affect a large number of persons insured.

Contractual financial options and guarantees are embedded in a number of policies, so the risks related thereto are assessed in the context of regular portfolio valuation. Among them is **guaranteed interest rate risk**, which occurs **in the products with a savings component** (traditional life insurance and annuity insurance). 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 the policies, are lower than the guaranteed interest rate. This risk is reduced by maximising the matching of assets and

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liabilities from these policies and by creating additional provisions, especially in the part of the portfolio of liabilities with higher guarantees. Similar risks due to a special guarantee for the return arise from the SVPI policies during the saving period.

The most important type of a contractual financial option is the life product policyholder's right to suspend the payment of premium and transform the policy into a paid-up (capitalised) policy or to surrender the policy, which is managed as part of lapse risk.

The basic principle of the insurance business is to achieve adequate **risk equalisation**. At Group level, this is achieved through sufficiently large homogeneous risk groups, which constitute the entire portfolio of the presented underwriting risks. The key prerequisite for adequate risk equalisation is efficient and correct classification of risks. A specific risk is assessed and classified into an appropriate group at the time of underwriting. Also considered are the new findings, know-how and procedures of reinsurers who assume a portion of underwriting risks.

All identified risks are managed **in the context of the actuarial control cycle** by regularly checking the deviations of the actual effects of risks from those anticipated. In the event of deviations, appropriate action is taken – by adapting the design or criteria of an insurance product or by adjusting the criteria for the calculation of insurance technical provisions to the existing situation.

See Section 2.3 of Risk Management for more information about underwriting risks.

1.5.2 Market risks

The Group invests written premium (in the framework of the insurance business) and own assets of Group companies. The investment portfolios of Group companies include a wide range of different financial instruments. Their value depends on the situation and trends in financial markets. Financial investments are the largest asset group and therefore an important part of the Group's operations. In this way, insurance and other obligations and capital requirements are covered while ensuring an appropriate return. In investing, the Company is exposed to market risks due to changes in the prices of equity securities and real property, changes in interest rates (risk-free interest rates and credit spreads) and changes in exchange rates. An important part of these risks are also risks arising from the excessive concentration of assets from direct investment in financial instruments or indirect through investments in collective investment undertakings.
The primary method of measuring and monitoring these risks at Group level is based on the **Solvency II standard formula**, which is complemented by **internal measures based on the value-at-risk (VaR) method**.

Market risks are managed according to the established methods and processes with clearly defined powers and responsibilities. The market risk management system enables quality analyses and reporting on market risks, as well as developing and implementing measures aimed at preventing the reduction of available own assets due to changes in financial markets, including the real property market. Market risks are reduced by appropriately diversifying the investment portfolio and regularly matching assets and liabilities (**the ALM process**). Derivatives are also used but to a lesser extent.

The level of unexpected losses, which is still acceptable in relation to the Group's strategic objectives and capital strength, is defined in its market risk appetite. Based on the risk appetite, the limit system also specifies maximum acceptable exposure to individual types of market risk and the target investment portfolio structure.

The following risks are considered in the context of market risks:

- **Interest rate risk** is highly dependent on the matching of cash flows of assets and liabilities by maturity. At the Group level, it is managed within the framework of the asset and liability management (ALM) process and is limited by the maximum permissible deviation in the duration of assets and liabilities. In the event of a negative gap between the duration of assets and liabilities, interest rate risk means that when interest rates fall, the value of liabilities from the Group's insurance policies (bonds, loans, deposits) increases above the value of assets. This movement, however, affects the profitability of operations and capital adequacy.
- **Equity risk** is mainly related to changes in exposure and equity prices and volatile growth in share prices. Assets and liabilities sensitive to changes in the level or stock market volatility are exposed to this risk. Assets (investments) mainly include shares and equity-oriented collective investment undertakings. With the growth of stock markets, opportunities can arise from such investments. Liabilities sensitive to this risk arise primarily from unit-linked life insurance and supplemental voluntary pension insurance. In this segment, the focus is therefore on achieving the greatest possible matching of assets and liabilities.
The purpose of equity investments is to achieve higher long-term returns and ensure adequate diversification of the investment portfolio. The Group manages equity risk in its portfolio by setting exposure limits as well as through geographical and sectoral diversification of equity investments.
In addition, due to different levels of development of capital markets and local statutory limitations, the investment policy is adapted to individual markets.
- **Property risk** arises from changes in the value of investment property, own-use real property, other tangible fixed assets and real property leased by Group companies for own use.
- **Spread risk** arises from the sensitivity of the values of assets, liabilities and financial instruments to changes in the level or volatility of credit spreads over the risk-free interest rate term structure. The appropriate return on the life insurance portfolio with an embedded financial guarantee is ensured by managing the bond portfolio. Within the Group, only debt investments with embedded credit and liquidity risks are exposed to the risk. The increase in credit spreads is associated with the fall in the price of fixed-income securities and vice versa. Zavarovalnica Triglav actively manages credit spread risk arising from such securities at Group level. Therefore, investment policies were developed that aim to invest in high-quality securities and are subject to the limit as defined in the Risk Appetite Statement.
- **Currency risk** is the risk of a decrease in the value of assets denominated in foreign currencies or an increase in the value of liabilities denominated in foreign currencies

due to changes in exchange rates. At Group level, currency risk arises from the mismatched currency position of assets and liabilities. Currency risk is managed by matching assets and liabilities and, to a lesser extent, by using derivatives.

- **Market concentration risk** arises from a possible unfavourable change in the financial situation due to high dependence or unfavourable correlations between the movement of the values of individual exposures or their groups. Factors or types of concentration are different. They include, for example, the risk of asset concentration (in case of excessive exposure to one investment or one issuer) and the risk of sector or geographical concentration (with excessive exposure to one concentrated geographical area and/or sector/industry, where the risk arises from geopolitical, macroeconomic, social, weather or other disturbances). The Group continuously monitors geographical and sector concentration and concentration arising from financial investments. The latter is monitored based on exposure by issuer and/or group of related issuers of securities and other financial assets.

See Section 2.4 of Risk Management for more information about market risks.

1.5.3 Credit risks

The Group companies are exposed to credit risks in their operations. These risks measure the potential loss of assets due to the inability of the counterparty to meet its contractual obligations. They arise from fluctuations in the credit position of counterparties and the concentration of risks of these parties.

By type of partner, the Group's credit risk arises from three sources:

- **reinsurance:** The Group creates credit risks by transferring underwriting risks to reinsurers. Its exposure to reinsurance is measured by insurance technical provisions ceded to reinsurers, including overdue receivables from reinsurance and coinsurance business. At Group level, these risks are managed by carefully selecting reinsurance partners with an appropriate credit rating, ensuring that the transferred risks are adequately dispersed among the partners. The comprehensive system and well-defined rules for credit risk management include the process of assigning credit ratings, which enables the Company to determine an appropriate and coordinated second best rating of partners. For monitoring and managing credit risks as well as calculating capital requirements using the regulatory method, the system of uniform naming and keeping of basic data on reinsurance partners is also important when determining credit ratings.
- **banks:** Credit risks arising from the Group members' investments in cash and cash equivalents are managed by performing an expert analysis of the bank's credit quality and through a sufficient degree of portfolio diversification. The latter is achieved through a resilient and comprehensive limit system, which limits the exposures of individual companies to banks and the Group to banking groups.
- **receivables:** The Group also faces credit risks with overdue insurance and other receivables from partners of the Group's (re)insurance companies. This exposure is managed by regularly monitoring the payment dynamics by various homogeneous groups and insurance segments. Separately from receivables from direct insurance operations, the Company also monitors and manages subrogation receivables, which represent the credit risk of non-payment of the policyholder's liabilities towards the Company. The Company manages them by monitoring the effectiveness of the collection of credited subrogation receivables and the share of subrogation receivables in relation to the claims settled.

Concentration risk in the context of credit risk occurs upon overexposure to an individual counterparty, group of related parties or parties connected by common risk factors such as credit ratings. At Group level, the concentration risk of individual counterparties is managed with a single database of all counterparties in reinsurance and banking.

See Section 2.5 of Risk Management for more information about credit risks.

1.5.4 Liquidity risk

Liquidity risk is defined as the risk of loss due to the timing mismatch of inflows and outflows, as a result of which a Group company is unable to meet its obligations or is able to meet them only at higher expenses. Therefore, liquidity risk arises 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. Realisation of financial investments is thus not possible or is carried out at a price lower than the market price.

The Company's expected cash flows, i.e. inflows and outflows, are kept and managed proactively. Most cash flows of liabilities arise from liabilities from insurance operations. The assets intended to cover these liabilities are adjusted by covering them in accordance with the investment policy in normal circumstances (**the ALM process**), while striving to generate surplus assets to ensure the repayment of liabilities even in a stress scenario when liquidity needs are greater. In this way, the Group is able to meet all expected and unexpected present and future cash outflows and overdue liabilities at any given moment.

Because liquidity risk cannot be eliminated by holding dedicated capital (the standard formula does not take it into account), a process for continuously providing adequate liquidity reserves was established. These are determined based on **various stress scenarios** adjusted to the Company's liquidity risk, which includes adverse insurance and financial events. Based on them, the Company assesses liquidity risk and adjusts liquidity, which must always exceed the needs.

Liquidity sources include primarily insurance premium and cash flows of investments intended to cover liabilities. The most important liquidity needs include the payment of claims, expenses and the payout of planned dividends. In the event of an emergency, an action plan is in place, including the sale of liquid excess assets over liabilities and additional security mechanisms such as credit and repo lines. Scenarios and measures are reviewed annually and adjusted to exposures and the market situation. With the described system, liquidity risk is effectively assessed and managed, while optimising excess liquidity by investing in alternative sources with higher returns on the market.

The Group companies manage liquidity risk themselves. Each meets liquidity requirements and takes into account local regulatory liquidity requirements and the Group's minimum standards for liquidity risk management.

The liquidity of the Group companies is planned on an annual basis by estimating the volume and scope of business in the coming year, while in the framework of own risk and solvency assessment it is planned for at least three years. Planning includes future potential liquidity needs and effectively provides available liquidity sources.

See Section 2.6 of Risk Management for more information about liquidity risk.

1.5.5 Operational risks

Operational risks are the risks of loss arising from inadequate or failed internal processes, personnel or systems, or from external events and their impact, both within the Company or in other Group companies.

They are constantly present, therefore it is crucial to identify and address them on an ongoing basis. The aim of operational risk management at Group level is to effectively remedy the consequences of realised operational loss events and mitigate and prevent operating losses in a professional, diligent and ethical manner. This can be achieved by identifying these risks in a timely manner and limiting them cost-effectively according to defined tolerances.

The Group identified **nine operational risk groups** used to monitor risks. These include:

- internal fraud, unauthorised activity or negligence of employees;
- external fraud or unauthorised activity of third parties;
- system failure or break-down and related business disruptions;
- damage to physical assets and related losses or business disruptions;
- inadequate management of employees and the safety of the work environment;
- non-compliance with internal and external regulations;
- inadequate implementation and management of processes and the control environment, including business partners;
- cyber risks and other information security risks and
- project risks.

Operational risk management places the greatest emphasis on key business processes or operational risk segments. Operational risks are assessed based on all available information, such as estimates of potential risks by groups of business processes, realised loss events and other relevant information by employees and key functions. When assessing exposure and managing operational risks, internal controls for their management are inventoried by each business process. The priorities of the internal control system are as follows:

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

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

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

One of the material operational risks is related to continuous operation of key business processes, which is ensured with the **business continuity management system (BCMS)** at Zavarovalnica Triglav. It comprises all key components relevant to the business, in particular the provision of the necessary staff, work locations and resources, which includes the operation of information technology with key applications. The Company appropriately manages information security and related business disruptions and interruptions. Business continuity plans for critical business processes and IT disaster recovery plans are regularly revised, upgraded and checked. The BCMS also defines:

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

See Section 2.7 of Risk Management for more information about operational risks.

1.5.6 Non-financial risks

Non-financial risks to the Triglav Group's operations include material strategic risks, reputational risk, Group risk, sustainability risks and emerging risks. Non-financial risks usually originate from the external environment and are very closely linked to other risks, especially operational. They normally arise from several realised factors both inside and outside of the Group.

- *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. They also include part of legal and regulatory risks arising from key changes in the Group's business environment.
- *Reputational risk* is the risk of loss of existing or future business or goodwill due to a negative image of the Group held by its clients, business partners, employees, shareholders, investors, supervisory and other government bodies, and others concerned or the general public.

  Effective reputational risk management allows the Company to retain the leading position in the market, maintain or increase market capitalisation, resolve potential crises with greater ease and remain resilient in an uncertain situation. It ensures the trust, loyalty and satisfaction of stakeholders.
- *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 and insufficient understanding of the business environment of the Group members. The risk profile is also affected by the review and treatment of large transactions between related companies and the complexity of concentration risk management. All these

risks can materialise in the form of major or minor deviations from the business and financial plans due to losses incurred or lost business opportunities.

- *Sustainability risks* (including ESG risks) are a set of risks of both the Company and the Group companies arising from environmental, social and governance factors, and may have a negative impact on the financial position or solvency of the Company and the Group companies.

  Environmental risks are divided into physical risks and transition risks. Physical risks are the risks of a financial loss due to extreme weather events or other environmental impacts related to climate change. Transition risk is associated with risks arising from changes in business or the environment, due to measures to promote the transition to a low-carbon economy in order to reduce the human impact on climate change.

  Social risks mainly include risks arising from the way the Company and the Group companies operate in relation to the requirements of the wider social environment, in particular ensuring diversity and equal opportunities for various stakeholders, safety, health and satisfaction of employees, and good relations with clients, suppliers and outsourcers.

  Governance risks are risks associated with an inappropriately or inadequately established governance system, especially in the field of environmental and social aspects. They include the legality of business operations, corporate governance standards, including the risk management system and internal control system, remuneration of the company's management, used business practices and the investor relations policy.

More activities are presented in Section 2 of Risk Management and in Section 12 Sustainable development and ESG aspects at the Triglav Group of the Business Report.

Non-financial risks are risks that, due to their nature, cannot be reduced, addressed or mitigated with dedicated capital. The standard formula does not cover them.

In addition to the risks described above, the Group is also exposed to *potential or emerging risks*. These are risks that may or may not develop in the future but are not yet material. They are difficult to assess but can have a significant impact on the business. They cannot be predicted based on past experience as there is often no data from which to predict either the frequency or the severity of the damage caused.

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

Classification of the Company's risks according to IFRS

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

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

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

Risk exposures according to the classification used in the Company's risk management system are presented further on in the text.

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The Group's risk management system is upgraded by regularly identifying changes in the environment, taking into account strategic guidelines and objectives. In this way, the Group achieves a level of preparedness suitable for optimal response even in the case of unexpected events, which ensures profitable, stable and future-oriented business operations. The following were identified as the main trends that were at the forefront in 2021 and that will be important in the future: events related to the development and consequences of the COVID-19 pandemic, upgrading of sustainable business, emphasising the monitoring of upcoming regulatory climate-related changes and further development of business digitalisation.

The Group's acceptance of challenges and risk management

The Triglav Group regularly monitors the situation and prudently **manages risks**. In doing so, it pursues the widest possible diversification of its exposure to risks and manages their concentration to as far as segments, especially in areas where greater uncertainty is identified. The existing risk management system enables the Group to monitor the situation in the environment on an ongoing basis and to respond rapidly by appropriately addressing its negative impacts on capital adequacy and profitability.

In 2021, the focus continued to be on the moderate underwriting of market risks and increasing underwriting risks (the latter due to business growth). The slightly higher risk-free interest rate reduced the risk of providing embedded financial guarantees for life insurance products with a savings component.

Market risks in the Group's own insurance portfolios are managed with **established investment policies** by primarily following the interests of policyholders, persons insured and other beneficiaries from insurance contracts and focusing on simultaneous investment security and achieving maximum profitability while strictly taking into account the assumed risks. The amount, maturity and currency of assets intended to cover insurance liabilities are harmonised with liabilities as much as possible, thus further limiting market risks. By managing the remaining assets, the goal of achieving a reasonable rate of return is pursued, taking into account all the risks assumed and maintaining a high overall credit rating of the investment portfolio. See Section 7.9 of the Business Report 2.4 for more information about investments and Section 2.4 of Risk Management for more information about market risks. In the current situation, careful attention is paid to the optimal profitability of the insurance business and the appropriate rate of return on investment, which is also achieved by investing in alternative investments and listed index funds. This additionally ensures a higher diversification of investments. Alternative investments with comparably lower liquidity show slightly higher expected returns. The volume of such investments is subject to achieving adequate portfolio liquidity, taking into account stress scenarios for deteriorating liquidity in financial markets and increasing liquidity needs.

During the COVID-19 pandemic, the Company monitored the effects of the energy shortage and supply chain disruptions on business operations. As part of regular risk management in 2021, the Company did not detect any excess concentrations in the affected segments of its insurance portfolio that could have a significant impact on its financial position. The lack of semiconductors led to a noticeable decrease in the number of new registered vehicles and a consequent increase in the share of used vehicles in Slovenia, which account for the highest number of motor vehicle insurance policies at Group level. The average age of passenger

1. Macroeconomic, financial and social instability as a result of COVID-19

The year 2021 was largely marked by the continued COVID-19 pandemic. With the introduction of vaccination and digital COVID certificates, countries found it easier to regulate the pandemic than in the preceding year and took fewer restrictive measures that would weaken economic activity. The continued strong and accommodative monetary policy resulted in considerable excess liquidity, sharp growth in stock markets and significantly stronger economic activity. Along with stable economic growth, the introduction of vaccination and an effective response to the pandemic, investors were faced with uncertain signs of a tight monetary policy, as excess liquidity and consequent excess demand slowly but steadily raised prices, initially only energy prices. The COVID-19 pandemic also left its mark on the available volume of global production. Due to the slowdown or interruptions in the operation of individual industries, with occasional increases in the number of infections and other unexpected factors, there were temporary disruptions in supply chains, which are expected to continue. The reduced global supply further boosted price growth, particularly due to the energy crisis with rising electricity prices. The growth of these prices slowly began to spill over to all the links in the supply chain, in which the final burden is borne by the consumer. Central banks became increasingly responsive to higher inflation, tightened the monetary policy and announced higher interest rates. The latter could not only have the effect of raising interest rates in bond markets but could also lead to a fall in share prices if monetary policy tightened too quickly. The economic outlook for the coming years remains good but increasingly uncertain, also due to possible new COVID-19 variants resistant to existing vaccines and, under the influence of the pandemic, due to increasingly pressing geopolitical and internal socio-political risks that increase political instability, social inequality and social intolerance.

vehicles in the market is increasing, which the Company took into consideration when redesigning its products, while upgrading and expanding the range of products suitable for older vehicles (mini assistance, technical assistance, comprehensive collision insurance (kasko karambol)). Its portfolio of motor vehicle insurance covers is very well spread out across car brands and sales channels, thus adequately managing uncertainties in relation to individual manufacturers and dealers.

To manage default risks, the Group established an effective **system for monitoring the entire portfolio of counterparties**, which enables it to promptly identify these risks and take action. The credit quality of the portfolio is regularly monitored, while the concentration in the Group is managed by taking into account and adjusting exposure to individual partner segments.

Higher inflation also has an effect on the Company's operations. With the increase in operating expenses and expenses in the insurance portfolio, especially in non-life insurance, its unexpected faster growth could result in higher claims. Such risks are managed by regularly adjusting the pricing policy. Higher inflation also affects the investment portfolio, primarily through fixed-income investments, the value of which is historically negatively correlated to rising inflation. Inflation risk is managed within the framework of interest rate risk management. In addition, higher inflation has the effect of reducing the real disposable income of households, which would therefore spend less money on taking out new optional insurance policies or renewing existing ones. If current macroeconomic developments stabilise in stagflation (low economic growth with high inflation), credit and liquidity risks could increase.

The Group insurance companies carefully monitor the cost aspect and investment returns in life and pension insurance policies, which are subject to premium costs determined at the time of conclusion throughout their whole term and also have contractually-defined returns. Taking into consideration **expected inflation**, the Company is changing its focus from pension insurance with a guaranteed interest rate to funds with a mixed and equity investment policy. These offer policyholders the possibility of higher returns and more easily mitigate inflation, while the Company itself is less exposed as they do not include a guaranteed interest rate, which is difficult to achieve in the current market situation. Furthermore, to take out supplemental voluntary pension insurance, the Group directs policyholders to Triglav, pokojninska družba, which is its specialised company for pension funds.

In 2021, which was characterised by the central banks' expansionary policy, the Company did not record any deterioration in liquidity. The adequacy of liquidity was regularly checked and confirmed by stress tests, as the liquidity risk management system includes both stress scenarios and a liquidity plan in the event that it would not achieve adequate liquidity without them. The Company has a system in place that provides adequate liquidity reserves to meet liquidity needs even in an extraordinary situation.

The Triglav Group actively participated in the EIOPA stress test, which confirmed its capital strength and liquidity in the case of severe consequences of the pandemic.

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2. Implementation of the social aspects of sustainable business in the COVID-19 situation

At a time when the COVID-19 disease is still spreading, it is even more important to continue operations that aim for balanced long-term development and include care for the environment, society and all stakeholder groups. In 2021, we witnessed two waves of increasing cases of infections in the Adria region, as well as measures and instructions of governments and expert groups to limit them. The same can be expected in the future.

The COVID-19 epidemic further exacerbated the health crisis. There are more and more warnings about its future consequences for people's health due to the redistribution of healthcare services from regular treatment to the treatment of COVID-19 patients. Hospitals dedicated to COVID-19 patients suspended other programmes due to labour shortages, and many diseases are therefore not detected as early as they would otherwise be. People can be expected to be of poorer health, which means negative consequences in the near future.

The effects of the pandemic were also felt at work. Various forms of hybrid work were implemented, including working from home. This caused problems for some employees due to inadequate working conditions (working hours, premises, etc.).

The pandemic, which has lasted for almost two years, also affected people's mental health, affecting personal relationships due to people worrying about the threat of the virus and having less social contact. These health problems are expected to deteriorate as the pandemic continues.

One of the key challenges for Slovenia and the region is the ageing population, which will have an even greater impact on the healthcare system and the labour market.[101] On the one hand, this has an impact on labour shortage, slow development and economic growth, and on the other hand, with increasing longevity, public spending on pensions and healthcare is increasing. All this increases the risks of public finance sustainability due to the growing budget deficit and higher public debt.

The Group's acceptance of challenges and risk management

Sustainability aspects are incorporated into the Triglav Group's operations, which are based on responsible long-term development. The Group committed itself, through its activities, to reduce uncertainty in the environment, provide its clients with financial and other security and create long-term sustainable value for its shareholders and other stakeholders. The coverage of risks that the compulsory social security scheme does not cover or covers inadequately is ensured by complementary and supplemental insurance products. The Company is expanding its life, pension and health insurance product range, thereby increasing the security of clients at all stages of life. During the pandemic, claims were settled through appropriate life underwriting risk management and thus contributed to the financial security of the affected policyholders, especially in the event of a difficult recovery from COVID-19. The Company is exposed to longevity risk in products with lifetime annuity or pension payouts. Especially long-term risk requires special attention: it is managed by developing dynamic models of the policyholders' life expectancy and setting appropriate premium rates and provisions.

The Group is aware that healthcare will continue to gain social significance. It is proactively increasing its range of healthcare services in order to provide its policyholders – via health centres – with timely and, at the same level of quality, more affordable healthcare services than its competitors on the market. The Group aims to transform from a traditional health insurance provider into a health partner and provide clients with comprehensive lifelong services. By offering additional healthcare services, it takes into consideration the risk of a potential health reform and the abolition of supplemental health insurance.

[101] Poročilo Ekonomski pregled Slovenije 2020; OECD

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The pandemic also had a strong impact on employment and how the Group interacts with its employees, who play a key role in achieving the Group's ambitious business objectives. Changes in this area were driven by government measures and the Group's strategic initiatives to create a stimulating, development-oriented environment with engaged, healthy and satisfied employees. The Group provides for their development and carefully chooses new employees, who are subject to thorough onboarding.

In 2021, close attention was paid to government measures, which were consistently implemented in order to provide employees with the safest possible working environment. The Company regularly reviewed security measures to curb the spread of COVID-19. With the adopted and promptly revised work instructions, the Company set out in detail the obligation and method of verifying the compliance of employees, clients and other partners with the recovered/vaccinated/tested rule. Good practices were transferred from the parent company to other Group companies, which adapted them to local legislation. Hybrid work was introduced, which includes working from home, and a new employment contract was entered into with employees who were able to work from home because of the nature of their work. Based on a written order, working from home was enabled to those who were unable to work in the Company's premises due to measures to curb the spread of COVID-19 and to health risk groups. The safety statement was updated with a risk assessment and measures related to the increased **risk of infection with agents causing infectious diseases**. Testing and other measures were carried out to ensure the health and safety of employees at work (protective masks, disinfectants, etc.).

As part of the Triglav.smo programme (striving for healthy, satisfied, engaged employees), the decision was made to improve employees' knowledge about **mental health**. Due to the increase in mental distress and problems in society, two sets of online meetings entitled **A healthy mind in a healthy body were held**. The staff at the Psihološki utrip (Psychological Pulse) group continued to provide psychosocial support and professional guidance for better mental health. An increase in the number of employees needing such support was observed. In order to improve the life-work balance, measures related to the Family-Friendly Enterprise Certificate continued to be implemented.

The Group will continue to attract new highly qualified and highly skilled employees by strengthening the brand of a development-oriented and responsible employer, firmly believing that this will help to retain the top employees in the Group. Assessments of the organisational climate in the Group show better results every year. This proves that the Group is effectively adapting to the changes resulting from the epidemic; communication is open and effective, and the Company atmosphere remains positive despite the changed working methods. The measures taken and achievements in 2021 confirm that an appropriate degree of flexibility was built into the Group's system for managing such risks, which will be needed in the future to manage uncertainty in society.

See Section 12.4.2 of the Business Report for more information about activities for the care for employees.

3. Digital transformation and cyber security

The Group's acceptance of challenges and risk management

The Group actively responds to changes at hand by accelerating business digitalisation and the use of other solutions resulting from strategic development processes in recent years, particularly the introduction of an omni-channel sales approach and remote and paperless operations. See Section 11.2 of the Business Report for more information on development activities. Thanks to solutions such as remote signing, video identification and remote inspection of the object insured, **business continuity was ensured also in the extraordinary circumstances**, proving that the Group is well-prepared for digital business.

The Company ensures appropriate information security and complies with regulatory requirements by **constantly upgrading the information security management system and security controls, regularly testing information security and verifying recovery procedures and information systems**. To continuously monitor security events, **a security and control centre** was established, which operates 24/7. New information tools are developed at the Company and transferred to other Group members in accordance with established procedures. With these tools, new security risks are controlled promptly, while actively managing the level of the Group's information security. Information risks and within them cyber risks are monitored with a new tool for operational risk management. The Company is aware that people are the most vulnerable part of information security, which is why it regularly raises employees' awareness and educates them about information security risks and their management. The level of awareness is regularly checked, for example by social engineering tests using electronic communication (a phishing test). Based on these findings, a plan of actions and measures is designed to improve information security and employee awareness.

Before and during the implementation of new technological solutions, related risks are assessed and a set of measures for their management is designed; new solutions are then verified on an ongoing basis, used to measure client satisfaction and improved based on the feedback received. IT solution providers are selected that offer legally compliant solutions for information security and personal data protection with guaranteed compatibility of services. This approach is also used in the project of developing an integrated sales module.

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

The already high level of digitalisation of everyday life is increasing even faster during COVID-19 times. Advanced analytics, the use of cloud services, the Internet of Things, cognitive computing, mobile network development, process robotisation, machine learning, artificial intelligence, API, the sharing economy and remote business are all on the rise. All this is reflected in clients' expectations and needs, the cost efficiency of companies, the need for faster adaptation, the development or acquisition of additional information systems with appropriate functionalities that meet the requirements of regulations and information security, and new ways of doing business. Insurers are expected to constantly follow and adapt their operations to changes in society as well as implement technological changes and innovative business models developed by insurtech and fintech companies. The insurers' digital transformation process has been noticeably accelerating recently. Searching for new digital services and implementing them into operations and providing an outstanding user experience can be a significant challenge for insurance service providers (due to rapid and continuous development), but it is also becoming one of the key differentiating factors. Clients have high expectations related to the quality of services and user experience in an omni-channel environment that they gain with service providers in other industries or on global digital platforms. The COVID-19 pandemic caused a change in the way insurers engage with clients, switching mostly from physical contact to communicating predominantly remotely and via digital channels (taking out insurance, settling claims, etc.). As is extensively reported in the previous section on employees, work processes also moved from business premises to employees' home, with communication mainly taking place via an internet connection and with remote access to Company data. All of the above gave additional impetus to business digitalisation and produced many challenges, such as client identification, remote signing, remote inspection of the object insured, secure document exchange and managing changes in client data in the Company's databases.

Technological development is associated with the exponential growth of cyber threats, such as attacks to steal information, blackmail for ransom or stop business processes. The vulnerability of insurers to cyberattacks and their number increased worldwide. Managing and limiting the possible financial and operational-process effects of these threats is crucial for successful operations, while maintaining clients' confidence in the secure processing of their often sensitive data. Regulators are working to increase security by introducing security measures and security incident reporting procedures (such as the GDPR). The current focus is on EIOPA guidelines on outsourcing to cloud service providers and guidelines on information and communication technology security management. The Regulation of the European Parliament and of the Council on digital operational resilience for the financial sector is expected to be adopted in 2022.

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

4. Implementation of environmental sustainability and climate change risk management

The Group's acceptance of challenges and risk management

The Group comprehensively monitors the environmental efficiency of its operations and incorporates new regulatory requirements that facilitate the economy's transition to sustainable development into its governance systems. The Group's strategic ambitions relating to sustainable development (ESG) define key guidelines for the implementation of business processes in the Group members, engagement with clients and other stakeholders, and its activities and integration in the community. The Group strives for sustainable solutions that focus on the efficient use of energy, water and other natural resources as well as reduce pollution. In engagement with clients and other external stakeholders, the Group aims to meet the set environmental goals and national and global environmental commitments, thereby monitoring the direct and indirect impacts of operations on the environment and related environmental risks. The Group takes a proactive approach to tackling challenges such as climate change. In parallel with developing various types of insurance coverage, the Group aims to make individuals better understand climate risks, the growing dangers of natural disasters and other climate change impacts on society and to be more aware of them. The Group will support the development of science so as to understand the causes of environmental change and their indicators as well as the development of new technologies to reduce the negative impacts of economic and social activities on the environment. See Section 12.3 of the Business Report for more information.

Climate change emergencies will be more frequent and severe in the long run. Therefore, special attention is paid to the adequacy of premium amounts to cover weather damage and an expert assessment of the risk of increasing insurance liabilities due to climate change is reasonably included in the information on historical data (the number and intensity of past loss events). Based on the stress scenario for increased severity and/or frequency of catastrophes in one year, which was performed for the Company's existing non-life insurance portfolio, there was a noticeable increase in total net claims, but their value does not exceed the Company's internal limit for underwriting catastrophe risks due to its adequate reinsurance protection.

Climate change is a material risk in the long run, which also depends on humankind's future responses and the speed of nearing carbon-free business. At the same time, it is also a sustainability risk, an area which is an increasingly important part of business.

The coordination and effectiveness of climate change mitigation measures will increase, as will the required business adjustments, which will put the risk of business transition at the forefront. According to the opposite scenario, measures taken will be inadequate, resulting in higher physical risks with an increased frequency and severity of weather disasters and other consequences.

The effects of climate change are already reflected at a global level in higher average atmospheric temperatures, rising sea levels, more frequent and longer heat waves, and in recent years more frequent extreme weather events also seen in the Adria region. In the future, the Group's markets will be characterised by more frequent floods, which also applies to the winter months (property insurance), primarily due to higher river levels, prolonged droughts in the summer months (agricultural insurance) and severe hail. The frequency and severity of weather disasters will increase the demand for insurance coverage; therefore, insurance companies will need more reinsurance coverage, which will put pressure on reinsurance prices. Increasing the frequency and severity of weather disasters will increase the risk of the non-life insurance portfolio, while increasing the capital needs of insurance companies, which may further reduce the supply of such insurance coverage.

As the atmospheric temperature increases, mortality and the likelihood of disease or new epidemics also increase, which may affect supply and demand of life and health insurance. The COVID-19 pandemic showed that large and long-lasting disease outbreaks can worsen socio-political stability and the macroeconomic and geopolitical situation, which usually results in reduced economic activity and shocks in financial markets. These events will also affect the new division of regions suitable for habitation, which may lead to more extensive migration and volatility in the housing market.

The insurance sector could significantly facilitate the social transition to a carbon-neutral economy and, by providing adequate coverage, contribute to a higher level of stability and security in terms of physical risks, thereby improving the economy.

The legislative package relating to sustainability will, among others, regulate the classification of economic activities by environmental orientation and upgrade the reporting requirements for the environmental aspects of business operations. Its implementation is expected to transform society into a more environmentally conscious society, although this will also lead to additional costs. Many challenges remain open in the field of data quality and sources and methodologies for their diverse use, mainly due to the general vagueness of approaches and data availability and therefore the lack of market practice in the (re)insurance sector, which would otherwise greatly facilitate legislative changes. The new EU regulation to promote the transition to a green economy and the changing values of consumers are increasing the attractiveness of the market of insurance products related to the renewable energy sector. The demand for investment-insurance products and insurance solutions, which accompany the buyer in adopting a sustainable lifestyle, is therefore growing.

Recent analyses for Slovenia, as part of the short-term effects of climate change, predict an increased frequency and severity of weather disasters, but do not assess them as extremely severe. Slovenia's action will be focused predominantly on increasing sustainable methods of energy production, reducing emissions from transport and digitalising public administration and industry.

The Company strives to raise public awareness in various ways about the importance of insurance against damage due to climate change, as it is aware that this risk will affect the quality of life of us all. Weather disasters causing major damage are expected in the future as well, thus people are advised to regularly check the adequacy of their insurance coverage. Safe and self-protective behaviour is promoted with preventive warning systems, and after events with products that provide various types of assistance services. The Company designed the Triglav Vreme (Triglav Weather) application and the Toča (Hail) warning system, within which it provides catastrophe relief. See Section 12 of the Business Report for more information.

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

Upgrading the sustainability risk management system, which will be at the forefront next year, will be based on the risks identified in the own risk and solvency assessment process. These risks will relate to the improvement of the quality of data for environmental risk assessment and, on this basis, to the upgraded system of monitoring and reporting on sustainability risks in accordance with the law.

There is also the Group reputational risk, which arises from the adjustment of operations in relation to competitors, especially with the growing awareness of society. These future potential risks can be realised over a long period of time and affect all key business processes, acquisition and retention of business and personnel. They are considered in the context of strategic activities by adapting the governance system to those areas where the Group's exposure is greatest, which is based on a comprehensive understanding of causes and consequences and their consistent treatment within the operations.

See Section 12 Sustainable development at the Triglav Group of the Business Report for more information about sustainability aspects.

Business Report

Risk Management

Challenges and opportunities of today

Accounting Report

2. Risk exposure and management

The quantitative presentation of risk exposure presented below is primarily based on accounting data. Exposures on a mark-to-market basis are presented in greater detail in the Solvency and Financial Condition Report available at www.triglav.eu.

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

In the case of unit-linked insurance, the risk is not borne by the Company. Certain tables below therefore show the value of these insurance contracts separately or are excluded from the presentation of exposure and risk assessment of the Company and consequently the Group.

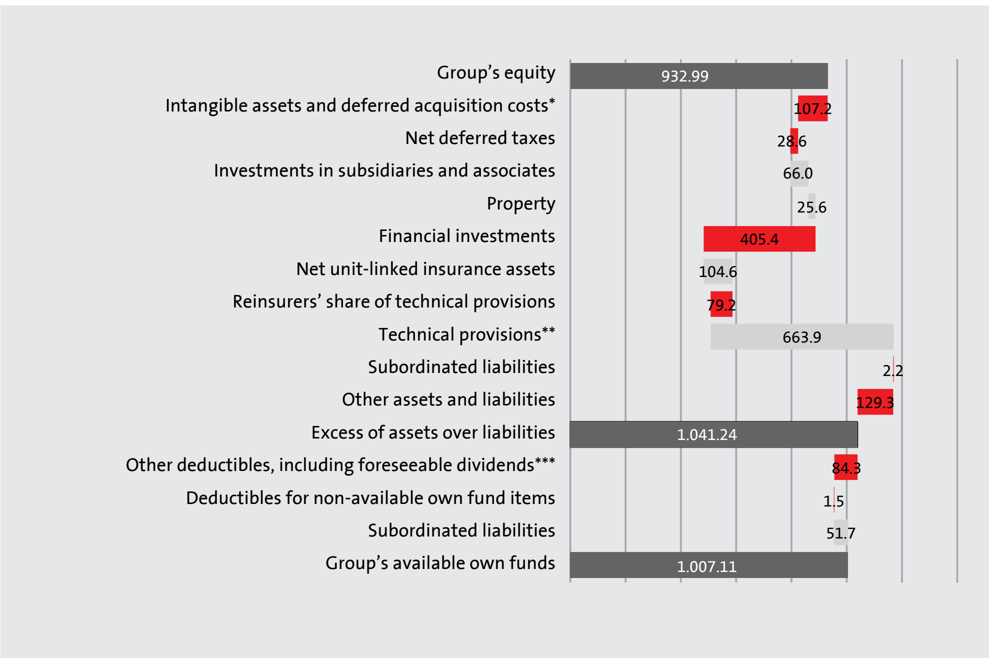
2.1 Capital and capital adequacy management

Effective capital management enables the Group to improve its operations, adopt appropriate business decisions and maintain its competitive advantages.

The definition of equity in the balance sheet for the preparation of financial statements differs from its definition for solvency purposes. Differences and important reasons for changes in items of both types of capital in 2021 are described in the Group's Solvency and Financial Condition Report for 2021, D and E sections, which is published on www.triglav.eu.

The Triglav Group was well capitalised also as at 31 December 2021. Achieved capital adequacy was 219% as at 31 December 2021, remaining within the target range, i.e. between 200% and 250%. Thus, the Group meets its target risk appetite, which is in line with the capital management strategic objectives and the dividend policy criteria presented in Section 1.3 of Risk management.

Explanation of differences in capital valuation in the balance sheet for solvency and financial reporting purposes for the Triglav Group as at 31 December 2021 (EUR million)



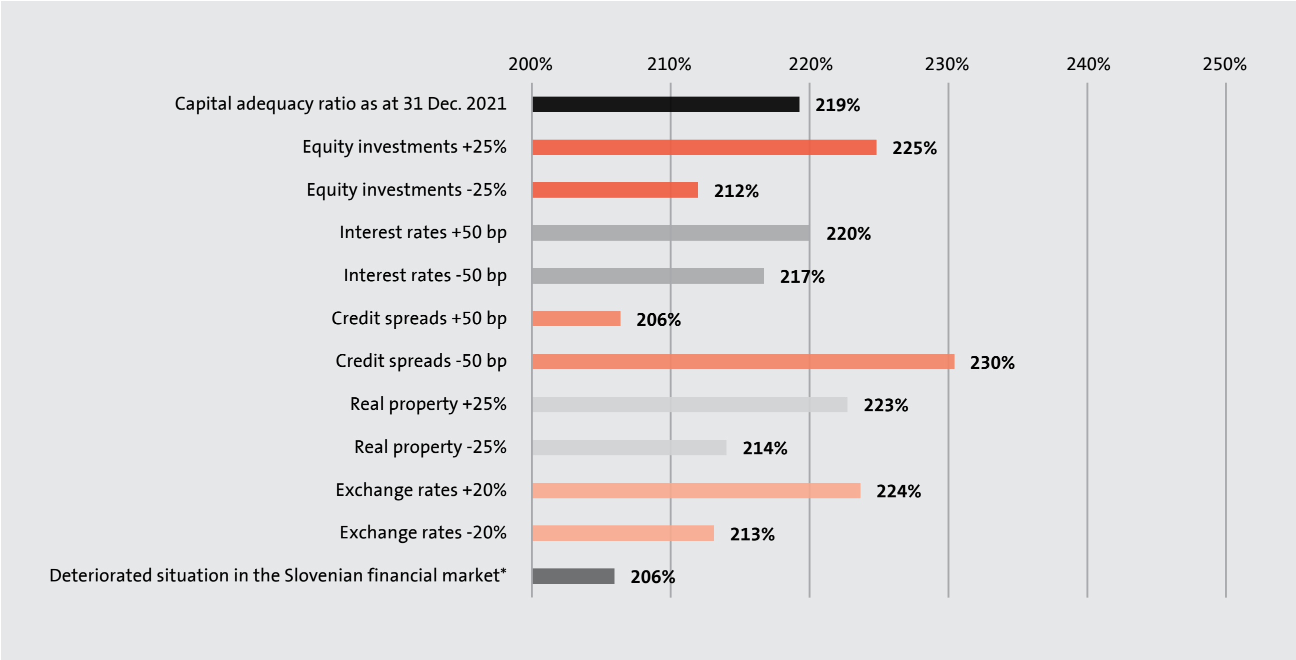
Capital adequacy of the Triglav Group and Zavarovalnica Triglav

	Triglav Group		Zavarovalnica Triglav	
	31 Dec. 2021	31 Dec. 2020	31 Dec. 2021	31 Dec. 2020
Available own funds (EUR million)	1,007	968	1,022	983
SCR (EUR million)	459	404	374	318
Capital adequacy (%)	**219**	**240**	**273**	**309**

Capital adequacy was affected by the increase in available funds, which are EUR 39.6 million higher than in 2020 due to profitable operations; this amount already takes into account the expected dividend amount for 2021. Zavarovalnica Triglav paid dividends in the amount of EUR 38.6 million for 2020. The Group's capital requirement increased in the comparative period due to higher market and underwriting risks, which is largely due to increases at the Company.

* The fair value of intangible assets is valued at 0.
** Consolidation for solvency purposes differs for Triglav Skladi and Triglav, pokojninska družba.
*** Other deductibles include deductions for participations in other financial undertakings, including non-regulated undertakings carrying out financial activities, and foreseeable dividends.

Sensitivity analysis of the movement of the Group's capital adequacy ratio



*The scenario includes an increase in credit spreads on Slovenian government bonds by 300 basis points, corporate financial bonds by 350 basis points, corporate non-financial bonds by 400 basis points and a drop in Slovenian share prices and the value of Slovenian collective investment undertakings by 50%.

The figure shows the sensitivity of the capital adequacy ratio to strong changes in individual parameters of the capital market and based on the assumed stress scenario of a deteriorating situation in the Slovenian financial market. The Group's capital adequacy ratio remains within the target range for all assessed sensitivities.

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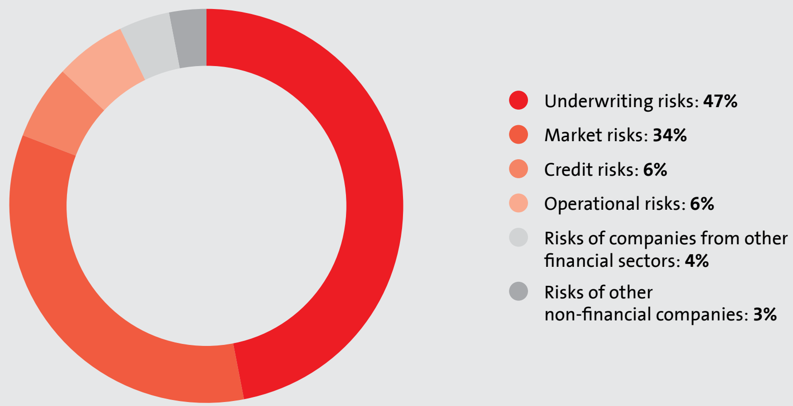
2.2 Risk profile

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

The level of underwritten risks was within the range defined in the risk appetite. The Group is most exposed to market and underwriting risks, followed by credit and operational risks. Within the Group, the Company assumes the bulk of the risks.

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

Risk profile assessment* of the Triglav Group as at 31 December 2021



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

Risk dashboard of Zavarovalnica Triglav and the Triglav Group* as at 31 December 2021

Risk	Risk assessment (current)	Risk trend (future)	Note
Capital adequacy	low	stable	Capital adequacy remains in the target range in both the Company and the Group. In 2021, the Group participated in the EIOPA stress test for insurance groups, which confirmed its capital strength.
Underwriting risks	medium	stable	The Group maintains premium growth and achieves the target values of indicators in strategic markets. Despite more frequent and severe disasters, it achieved the profitability of the insurance portfolio within the planned values. Along with inflation, risk-free interest rates also increased slightly, which partly reduced the risk of providing embedded financial guarantees for life and pension insurance products.
Market risks	medium	stable	In 2021, favourable conditions prevailed in the financial markets, as central banks made sure that market volatility was low. There were more problems in supply chains due to excess demand, insufficient supply and the crisis in the energy market. The latter, with excess market liquidity, led to high inflationary pressures at the end of 2021. In the future, uncertainty remains related to the level and length of the period of high inflationary pressures, which may also affect changes in interest rates. Nevertheless, the Group maintains risks at defined levels and pays special attention to the development of optimal investment policies and the matching of assets and liabilities.
Credit risks	low	stable	Despite the increase in exposure, credit risks remain low, which is ensured by regular and systematic monitoring and management of individual exposures in all segments and a well-diversified portfolio of partners.
Liquidity risk	low	stable	The Company's strong liquidity position is maintained by regularly monitoring the liquidity position. The EIOPA stress test, performed according to a uniform methodology at Group level, confirmed the adequate liquidity of Group insurance companies.
Operational risks	medium	stable	The Group takes a proactive approach to operational risk management. It pays more and more attention to regular maintenance and additional upgrades of the information security management system. The level of risk is increased by its strategic focus on digitalisation and the growing threat of cybersecurity incidents.

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

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

ii) Risk trend: downward stable upward.

2.3 Underwriting risks

Underwriting risks are directly related to underwriting insurance policies and the amount of their value. They are negatively affected by losses or adverse changes in the value of insurance liabilities due to inadequate pricing and assumptions taken into account in the calculation of insurance technical provisions.

This type of risk is significantly related to the premium amount. The structure of consolidated gross written insurance, coinsurance and reinsurance premiums of the Group by non-life and life insurance segment is presented in detail in Section 7.5 Gross written insurance, coinsurance and reinsurance premiums of the Business Report.

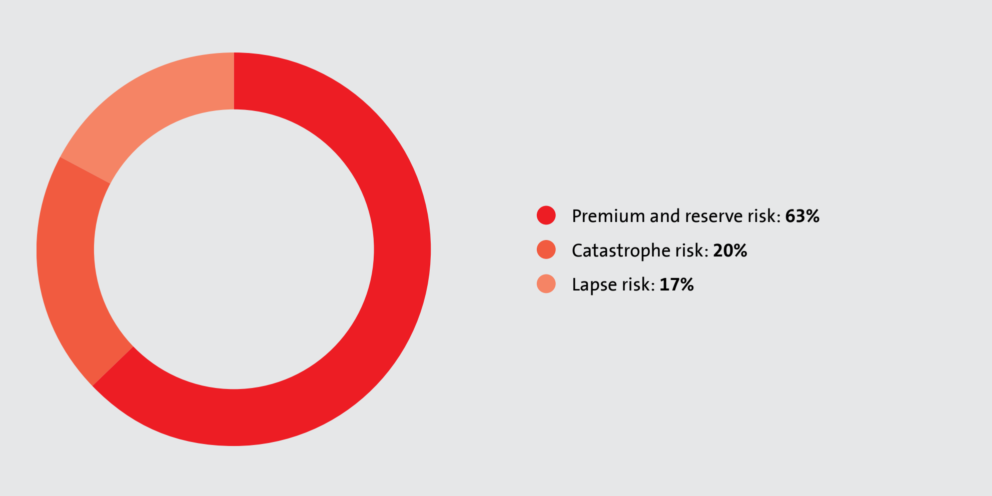
Underwriting risks are presented separately for non-life and life insurance.

2.3.1 Non-life underwriting risks

When underwriting non-life insurance policies, the Group's insurance and reinsurance subsidiaries underwrite premium risk, reserve risk, lapse risk and catastrophe risk. Under the standard formula, these risks depend on the exposure to individual risks and their volatility.

The Group is most exposed to premium and reserve risks, followed by catastrophe and lapse risks. At Group level, Zavarovalnica Triglav underwrites the bulk of the non-life underwriting risks, Triglav, Zdravstvena zavarovalnica underwrites most health underwriting risks, while Pozavarovalnica Triglav Re underwrites the majority of inward reinsurance underwriting risks. Other Group insurance companies contribute slightly over 20% to non-life underwriting risks.

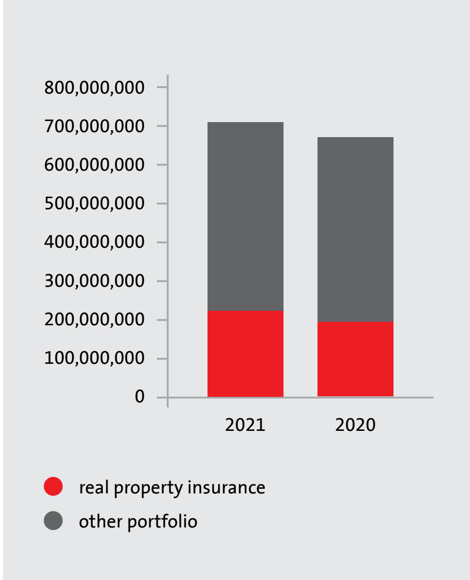
Risk assessment* for non-life insurance including health insurance for the Triglav Group as at 31 December 2021



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

The profile of non-life underwriting risks did not change significantly in 2021. The increase in their overall assessment was influenced by portfolio growth, which increased the exposure to all three main components of these risks.

Triglav Group's exposure to premium risk as at 31 December 2020 and 31 December 2021 (EUR)



Exposure to premium risk increased the most in 2021 in the real property insurance. Most growth in this line of business stems from underwriting international reinsurance policies, which increases the geographical diversification at Group level. See Section 7.5 of the Business Report for more details about the movement of gross written insurance, coinsurance and reinsurance premiums.

Premium risk is regularly monitored both at the Group level and at the level of insurance segments. The adequacy of written premium in relation to actual claims and costs arising from underwritten insurance contracts is also measured with combined ratios. Combined ratios for the last three years are presented in Section 8.1 for the Group and Section 8.2 for the Company in the Business Report.
The sensitivity analysis of the Group's net combined ratio showed that by increasing or reducing the ratio by 1 percentage point, the Group's profit before tax would decrease or increase by EUR 6.8 million. Due to the increase or decrease of the Company's net combined ratio by 1 percentage point, its profit before tax would change by EUR 4.1 million. Taking into account one (additional) maximum net loss in the amount of EUR 7.5 million, the Company's combined ratio would deteriorate by 1.82 percentage points in 2021.

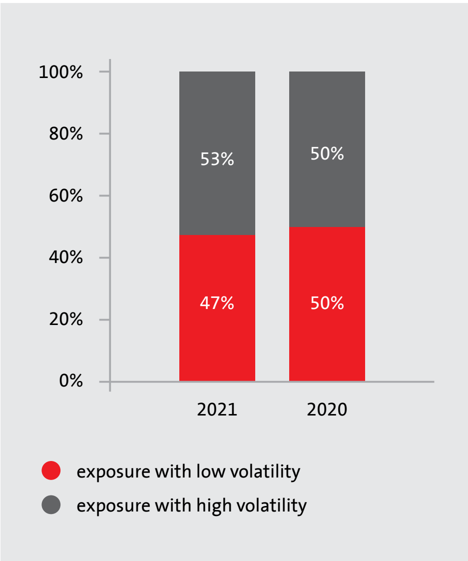
Based on actuarial estimates of the movement of the amount of benefits, expenses, combined ratios and the market situation, premium rates for non-life insurance are high enough, therefore premium risk management is appropriate.

The appropriateness of provisions for financial reporting purposes for individual insurance classes (see Section 3.18 of the Accounting Report for more information) is verified by performing the liability adequacy test based on the balance as at the last day of the financial year by regularly calculating insurance technical provisions for solvency purposes. According to actuarial estimates of future claims as at the 2021 year-end, the created insurance technical provisions were adequate for both financial reporting and solvency purposes (see Section 3.18 and Section 3.16 of the Accounting Report for more information).

In addition to exposures (net claims provisions), reserve risk assessment is affected by volatility, which varies by line of business. In 2021, the

Group maintained the ratio between the exposure of insurance segments with low and high volatility. Insurance segments with lower volatility at Group level include: motor vehicle liability insurance, other motor vehicle insurance and legal expenses insurance. The remaining insurance segments are characterised by higher volatility.

The ratio of the exposure for reserve risk for provisions with low and high volatility for the Triglav Group as at 31 December 2021 and 31 December 2020



The Group's insurance companies regularly check or analyse the adequacy of insurance technical provisions. As harmonised actuarial methods are consistently used in the formation of insurance technical provisions, the adequacy of provisions is assessed based on the difference between the originally estimated liabilities and the subsequently estimated liabilities as at a specific cut-off date. Analyses show that the difference in historical years is such that it confirms the adequacy of provisions as at 31 December 2021.

Lapse risk increased during the year due to the increase in the non-life insurance portfolio.

Non-life insurance catastrophe risk

In 2021, the Company recorded four events, which it defined as catastrophe events, of which one was frost, two were storm events and one was a flood event. The table presents the gross and net financial effects of these events for the Company. They are shown separately according to modelled and non-modelled perils. At the Company, the perils where it has the largest exposures or pose a high risk are regularly modelled. These perils are flood, hail, storm and earthquake.

For Slovenia, the Company has several models at its disposal, on the basis of which the distribution of claims according to return periods for hail, storm and flood is determined. The table below shows the most probable maximum loss (PML) for a 200-year return period[102] over a one-year period by peril.

[102] SASB: FN-IN-450a.1 | [103] SASB: FN-IN-450a.2

Probable maximum loss (PML) for a 200-year return period by peril* at Zavarovalnica Triglav

Modelled peril (EUR million)	31 Dec. 2021
Hail	75.5
Storm	132.7
Flood	48.8

*In the case of availability of several models, the average of modelled results was taken into account.

Realized financial effect of catastrophe events at Zavarovalnica Triglav[103]*

	Modelled perils		Non-modelled perils	
	31 Dec. 2021	31 Dec. 2020	31 Dec. 2021	31 Dec. 2020
Gross financial impact (EUR million)	12.8	20.8	3.4	0
Net financial impact (EUR million)	11.2	11.8	3.3	0

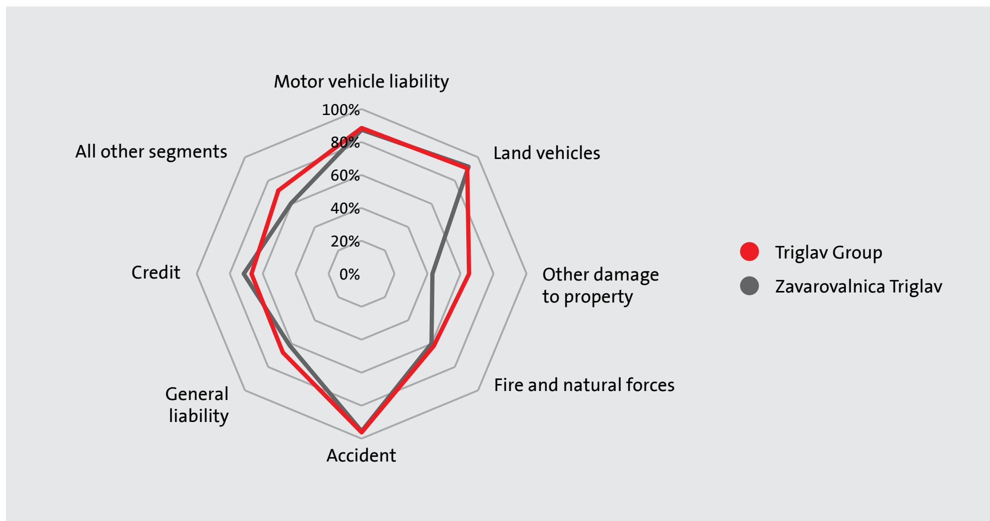
* Also includes claims development and an estimate by the end of the year.

The Company models flood, storm and hail among realised catastrophe events, but it does not model frost. See Section 7.2 Environmental impact on the Triglav Group's operations in the Business Report for more information about realised catastrophe events.

Non-life insurance risk concentration

The fire and natural disaster insurance portfolio includes the largest number of individual large perils, which is also exposed to catastrophe perils, therefore the greatest need for reinsurance coverage is related thereto. Compared to the preceding year, the Group's reinsurance coverage did not change significantly.

Net written premium share in relation to gross written premium as at 31 December 2021



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 with individual Group companies. Pozavarovalnica Triglav Re concludes outward reinsurance contracts for a portion of the risks it reinsures in order to effectively manage its exposure and protect its own assets, while indirectly protecting the assets of the Group's insurance companies.

The Group's largest retention amounts to EUR 5 million per peril, with the exception of nuclear perils, EUR 10 million per catastrophe and EUR 5 million per other correlated perils occurring after the event. The Group's largest potential exposure in the amount of EUR 14 million could arise from nuclear perils, which the Group has assumed from the Slovenian nuclear pool. Nuclear perils are characterised by an extremely low frequency, as no such claim has been reported in 28 years, and by a low or null correlation with other contingent liabilities.

Assumed capacity of nuclear perils for 2020 and 2021 in the Triglav Group

	Assumed capacity in EUR	
	2021	2020
Zavarovalnica Triglav d.d.	10,000,000	10,000,000
Pozavarovalnica Triglav Re d.d.	3,000,000	3,000,000
Triglav Osiguranje d.d., Zagreb	1,000,000	1,000,000
Total after the event	**14,000,000**	**14,000,000**

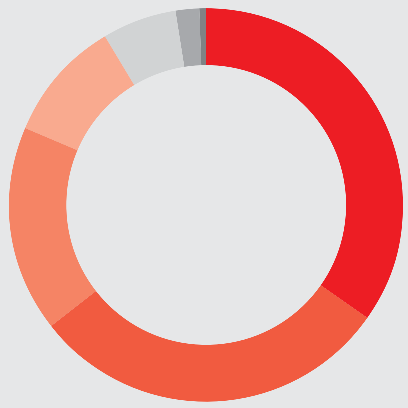
The reinsurance coverage for retention in the case of catastrophe events is designed as excess of loss reinsurance with four layers. It was used twice in 2021. The protection against increased occurrence of catastrophes is also arranged for the Group. The reinsurance programme has so far proved to be appropriate.

The earthquake event in Ljubljana also poses a concentration risk for the Group. It is covered with quota share reinsurance, while retention is additionally protected with excess-of-loss reinsurance for catastrophe events. The impact of the 200-year earthquake in Ljubljana on the capital adequacy of the Company and the Group is verified each year with a stress scenario in the context of the own risk and solvency assessment process. Having an adequate reinsurance coverage, the Company and the Group would successfully survive a severe earthquake. According to stress scenario calculations[104], the estimated financial impact of a major earthquake in Ljubljana would amount to EUR 39.3 million for the Company and EUR 40 million for the Group. This shows a strong resilience of both the Company and the Group, which would retain their capital adequacy even if this event were realised.

2.3.2 Life underwriting risks

The Group is most exposed to lapse and life expense risks. Within the Group, Zavarovalnica Triglav underwrites the bulk of life underwriting risks.

Risk assessment* of life insurance for the Triglav Group as at 31 December 2021



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

The life underwriting risk profile did not change significantly in 2021, nor was it significantly affected by portfolio growth.

Gross written insurance, coinsurance and reinsurance premiums in 2021 by (re)insurance subsidiary of the Group is presented in Section 7.5 of the Business Report.

Insurance technical provisions for life insurance are determined according to prudent assumptions, and their adequacy is regularly checked. 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 3.17 of the Accounting Report for more information). The test results for 2021 showed that an adequate level of insurance technical provisions for life insurance was created for the Group and individual insurance companies. Additional other insurance technical provisions were created for the identified shortfalls in the guarantee fund backing supplemental voluntary pension insurance saving and the guarantee fund backing supplemental voluntary pension insurance payouts.

[104] In addition to high insurance claims, the earthquake scenario in Ljubljana takes into account additional operating expenses due to business interruption, an increase in claim handling expenses and a reduction in reinsurers' share in claims. The scenario does not take into account the potential effects of the earthquake in Ljubljana on the financial markets in Slovenia.

Traditional life and pension insurance policies which include saving at a guaranteed interest rate are exposed to potential asset-liability mismatch risk. Similar risks due to a special guarantee for the return arise from the SVPI policies during the saving period. These risks are described in detail among market risks in Section 2.4.5 of Risk Management. The guarantee fund backing life insurance includes the majority of the Company's liabilities with a guaranteed fixed interest rate. Mathematical provisions in the amount of EUR 701.2 million were created for this guarantee fund. In order to achieve a guaranteed return on the life insurance portfolio in said guarantee fund, it is necessary to guarantee a 2.0% return on assets. The achieved rate of return on the fund in 2021 stood at 1.9% (see Section 15.11 of the Business Report for more information).

Life underwriting risk concentration

The concentration of life underwriting risks is assessed as low. The life insurance portfolio is well dispersed by all criteria, including geographically, due to dispersed retail sale of policies. Any minor concentration risk in the portfolio is reduced by transferring a portion of the risks to reinsurers based on the reinsurance programme. The sum insured in the event of death is less than EUR 60,000 for 83.1% of the whole life insurance portfolio and less than EUR 35,000 for 99.6% for the other life insurance portfolio. For complementary accidental death insurance, the sum insured is lower than EUR 50,000 and accounts for 99.1% of the respective portfolio, while for complementary accidental disability insurance the sum insured is less than EUR 100,000 for 99.4% of the respective portfolio. The aforementioned sums insured represent retention stipulated by a contract in line with the reinsurance contract for most insurance policies.

2.4 Market risks

With respect to market risks in the context of financial investments (see Section 7.9 of the Business Report for more details), the Group is most exposed to debt securities, followed by equity securities and realproperty. The highest market risk for the Group is spread risk, followed by equity risk, property risk, currency risk and interest rate risk. Market concentration risk is assessed as the lowest. See Section 7.9 of the Business Report for concentration by sector and geographical area.

Compared to the preceding year, equity risk assessment rose in particular. It is higher mainly due to higher exposure of this segment and the growth of market share prices.

2.4.1 Spread risk

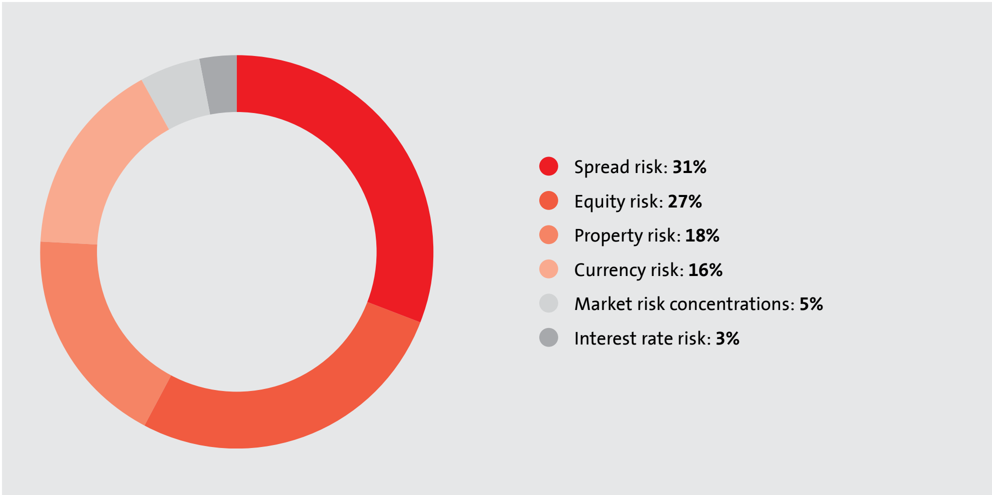
Spread risk is predominantly determined by debt securities, which account for around 69% of the Group's total investments. Their value also depends on the level of credit spreads, which reflect the credit quality of debt instruments. The level of credit spreads did not change significantly during 2021. Central banks' policies helped to maintain stability by keeping credit spreads at low levels through their bond-buying programmes, allowing economies to recover quickly and effectively after a downturn due to the shutdown in production and supply. The Company and the Group manage this risk proactively and in accordance with investment policies.

The bulk (approximately 65%) of investments that are exposed to spread risk are related to exposure to countries, followed by exposure to the financial sector, which represents 18% of investments in debt securities.

Exposure to credit spread risk arises from debt securities. It s limited by the maximum allowed share in the capital, to which the investment policy is also adpated. In its investment portfolio, the Group is exposed to investments with outstanding credit quality. Over 59% of investments in debt securities have at least the "A" credit rating. The bulk (over 90%) of the portfolio is accounted for by debt securities of issuers having a credit rating of at least "BBB". The credit quality of the debt securities portfolio did not change significantly in 2021. Its level was maintained despite the reorientation of investments to other investment classes, which reduced their value, and despite the higher share of investments with a "BBB" credit quality rating. The average credit quality with an "A" credit rating was maintained in 2021.

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

Market risk assessment* by subtype for the Triglav Group as at 31 December 2021



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

2.4.2 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 9% of the Group's investment portfolio. The majority of exposure to equity risk arises from exposure of the parent company.

The value of equity investments defined above increased sharply in 2021. The reason for their growth is new investments in collective investment undertakings, which focus on buying listed funds, new payments into alternative investment funds and sharply increased prices of equity investments, especially from the Slovenian regulated market. Geographical diversification of equity investments is shown in the table. Most equity investments are in shares issued by issuers in advanced markets, among which issuers based in the European Union predominate.

Geographical diversification of equity investments*

	Triglav Group		Zavarovalnica Triglav	
	31 Dec. 2021	31 Dec. 2020	31 Dec. 2021	31 Dec. 2020
Equities in the EU	276,478,222	182,841,448	184,660,063	112,358,977
Equities in the USA	31,728,927	11,594,039	18,463,891	0
Equities in Asia**	0	0	0	0
Equities in emerging markets	6,988,438	6,722,771	885,254	703,485
Global equities***	15,765,073	19,209,734	0	524,109
Total financial investments	**330,960,660**	**220,367,992**	**204,009,208**	**113,586,570**
Unit-linked life insurance contract investments	594,267,073	443,699,251	529,598,379	396,272,477
TOTAL	**925,227,733**	**664,067,243**	**733,607,587**	**509,859,047**

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

The sensitivity analysis of equity investments, whose risks are borne by the Company and the Group, in relation to the change in prices of equity investments and an analysis of this impact on the Group's comprehensive income or profit or loss showed that a 10% increase in market prices of equities in the portfolio would have a positive impact on the Group's fair value reserves in the amount of EUR 20.5 million, increasing its profit by EUR 12.6 million. If the trend were opposite and market prices of equity investments dropped by 10%, the Group's fair value reserves would decrease by EUR 20.4 million and its profit by EUR 12.7 million. The estimated impact on the profit or loss is shown in the table. This only illustrates the estimated changes at Group level and does not include unit-linked life insurance contract investments.

Sensitivity analysis of equity investments*

	Triglav Group				Zavarovalnica Triglav			
	31 Dec. 2021		31 Dec. 2020		31 Dec. 2021		31 Dec. 2020	
	10%	−10%	10%	−10%	10%	−10%	10%	−10%
Equities in the EU	27,647,822	−27,647,822	18,284,145	−18,284,145	18,466,006	−18,466,006	11,235,898	−11,235,898
Equities in the USA	3,172,893	−3,172,893	1,159,404	−1,159,404	1,846,389	−1,846,389	0	0
Equities in Asia**	0	0	0	0	0	0	0	0
Equities in emerging markets	698,844	−698,844	672,277	−672,277	88,525	−88,525	70,349	−70,349
Global equities***	1,576,507	−1,576,507	1,920,973	−1,920,973	0	0	52,411	−52,411
Total financial investments	**33,096,066**	**−33,096,066**	**22,036,799**	**−22,036,799**	**20,400,921**	**−20,400,921**	**11,358,657**	**−11,358,657**
Impact on fair value reserves	20,490,695	−20,394,885	14,868,401	−14,684,012	17,237,779	−17,141,969	11,172,313	−10,987,924
Impact on profit or loss	12,605,371	−12,701,181	7,168,398	−7,352,787	3,163,142	−3,258,952	186,344	−370,733
Impact on capital	**33,096,066**	**−33,096,066**	**22,036,799**	**−22,036,799**	**20,400,921**	**−20,400,921**	**11,358,657**	**−11,358,657**

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

2.4.3 Property risk

The Group's total exposure to property risk amounts to EUR 194.7 million. Own-use real property also includes property leased by the Group. With respect to the latter, the Group is not directly exposed to property risk, because it mainly 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. 2021	31 Dec. 2020	31 Dec. 2021	31 Dec. 2020
Right-of-use assets	10,933,109	9,821,211	4,548,297	3,587,916
Investment property not intended for the direct conduct of insurance business	75,110,973	78,977,800	43,840,055	44,451,276
Real property for own use**	108,655,212	113,170,073	65,143,310	67,775,451
Total	**194,699,294**	**201,969,084**	**113,531,662**	**115,814,643**

* 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 conduct of insurance business are deducted, which are otherwise included in the item "property, plant and equipment" (see Section 3.2 of the Accounting Report). The fair value is calculated using valuation techniques. Valuation of property based on the existing methodology is performed by an authorised valuer.

** Own-use real property shows the item "property, plant and equipment" in the Accounting Report.

2.4.4 Currency risk[105]

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

To a lesser extent, the Group manages investment risks with derivatives. The Group's exposure to the Croatian kuna was reduced through a foreign exchange forward contract as at 31 December 2021.

Financial investments in euros represent 91% of the Group's financial investments, with the exposure to individual foreign currency not exceeding 3%.

[105] SASB FN-IN-550a.1

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Risk exposure and management

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

Triglav Group as at 31 December 2021	EUR	USD	BAM	RSD	HRK	MKD	Ostalo	Skupaj
Investment property	**73,655,405**	**0**	**939,908**	**343,315**	**165,071**	**7,274**	**0**	**75,110,973**
Investments in associates	**35,591,377**	**0**	**439,970**	**0**	**0**	**0**	**0**	**36,031,348**
Financial investments	**2,696,810,852**	**33,348,260**	**16,018,156**	**46,360,648**	**82,083,642**	**24,907,486**	**38,171,105**	**2,937,700,149**
Debt securities	2,356,117,282	16,010,033	10,329,321	40,483,390	39,468,000	16,185,482	33,976,306	2,512,569,814
Equity securities	295,388,355	13,665,459	2,653,539	9,161	17,595,702	563,555	1,084,890	330,960,661
Derivatives	20,317	0	0	0	0	0	0	20,317
Deposits and loans	41,257,160	3,672,768	2,425,387	5,349,172	25,019,940	7,504,037	3,109,909	88,338,373
Other financial investments	4,027,738	0	609,909	518,925	0	654,412	0	5,810,984
Insurance technical provisions transferred to reinsurers	**134,760,073**	**11,754,730**	**10,916,992**	**5,380,847**	**6,582,046**	**0**	**5,445,203**	**174,839,891**
Operating receivables	**137,361,117**	**6,165,396**	**5,678,925**	**21,679,860**	**16,501,938**	**4,818,444**	**21,098,646**	**213,304,326**
Cash and cash equivalents	**59,471,380**	**969,631**	**15,422,167**	**1,707,739**	**1,931,335**	**476,533**	**2,342,846**	**82,321,631**
Total	**3,137,650,205**	**52,238,017**	**49,416,118**	**75,472,409**	**107,264,032**	**30,209,737**	**67,057,800**	**3,519,308,318**
Unit-linked life insurance contract investments	**567,844,531**	**44,651,331**	**0**	**0**	**2,552,189**	**108,067**	**4,461,368**	**619,617,486**
TOTAL ASSETS	**3,705,494,736**	**96,889,348**	**49,416,118**	**75,472,409**	**109,816,221**	**30,317,804**	**71,519,168**	**4,138,925,804**
Subordinated liabilities	**49,471,831**	**0**	**0**	**0**	**0**	**0**	**0**	**49,471,831**
Insurance technical provisions	2,306,950,485	22,677,748	30,595,827	45,549,130	79,294,238	25,226,955	66,074,002	2,576,368,385
Insurance technical provisions for unit-linked life insurance contracts	573,082,632	44,651,331	0	0	0	108,067	4,461,368	622,303,398
Employee benefits	15,702,584	0	590,328	227,465	840,249	311,507	0	17,672,133
Other financial liabilities	2,653,226	0	37,556	377,054	15,372	2,445	0	3,085,653
TOTAL LIABILITIES	**2,947,860,758**	**67,329,079**	**31,223,711**	**46,153,649**	**80,149,859**	**25,648,974**	**70,535,370**	**3,268,901,400**
Net currency exposure of the statement of financial position	**757,633,978**	**29,560,269**	**18,192,407**	**29,318,760**	**29,666,362**	**4,668,830**	**983,798**	**870,024,404**
Currency derivatives	**19,275,628**				**−19,255,311**			**20,317**
Net currency exposure	**776,909,605**	**29,560,269**	**18,192,407**	**29,318,760**	**10,411,051**	**4,668,830**	**983,798**	**870,044,721**

Triglav Group as at 31 December 2020	EUR	USD	BAM	RSD	HRK	MKD	Ostalo	Skupaj
Investment property	**77,134,475**	**0**	**1,185,645**	**350,965**	**297,644**	**8,130**	**0**	**78,976,859**
Investments in associates	**27,787,566**	**0**	**450,150**	**0**	**0**	**0**	**0**	**28,237,715**
Financial investments	**2,655,845,492**	**29,599,429**	**36,851,948**	**44,203,906**	**71,435,682**	**22,696,740**	**26,747,358**	**2,887,380,555**
Debt securities	2,438,770,066	17,596,291	15,016,223	37,741,302	38,116,197	13,669,674	24,248,243	2,585,157,996
Equity securities	200,675,591	9,278,833	1,557,322	20,901	8,555,741	279,604	0	220,367,992
Derivatives	113,301	0	0	0	0	0	0	113,301
Deposits and loans	11,177,083	2,724,305	19,691,315	6,018,895	24,763,744	8,404,670	2,499,115	75,279,127
Other financial investments	5,109,451	0	587,088	422,808	0	342,792	0	6,462,139
Insurance technical provisions transferred to reinsurers	**96,854,065**	**10,588,314**	**6,807,883**	**4,610,331**	**5,065,478**	**0**	**1,947,567**	**125,873,638**
Operating receivables	**150,058,314**	**3,648,543**	**6,207,656**	**15,420,036**	**14,787,717**	**6,067,265**	**7,772,900**	**203,962,431**
Cash and cash equivalents	**57,215,668**	**1,685,244**	**14,907,400**	**2,329,788**	**3,520,502**	**213,554**	**2,027,508**	**81,899,664**
Total	**3,064,895,580**	**45,521,530**	**66,410,682**	**66,915,026**	**95,107,023**	**28,985,689**	**38,495,333**	**3,406,330,862**
Unit-linked life insurance contract investments	**469,633,743**	**29,127,807**	**0**	**0**	**2,238,983**	**258**	**808,188**	**501,808,979**
TOTAL ASSETS	**3,534,529,323**	**74,649,337**	**66,410,682**	**66,915,026**	**97,346,006**	**28,985,947**	**39,303,521**	**3,908,139,841**
Subordinated liabilities	49,423,693	0	0	0	0	0	0	49,423,693
Insurance technical provisions	2,259,902,671	17,650,600	46,343,223	49,235,940	73,662,286	24,628,309	51,806,112	2,523,229,141
Insurance technical provisions for unit-linked life insurance contracts	480,048,197	29,127,807	0	0	0	258	808,188	509,984,450
Employee benefits	15,734,257	0	524,799	194,598	984,470	343,029	0	17,781,153
Other financial liabilities	1,996,326	0	337,985	519,667	15,777	26,084	0	2,895,839
TOTAL LIABILITIES	**2,807,105,144**	**46,778,407**	**47,206,007**	**49,950,205**	**74,662,533**	**24,997,680**	**52,614,300**	**3,103,314,276**
Net currency exposure of the statement of financial position	**727,424,179**	**27,870,930**	**19,204,675**	**16,964,821**	**22,683,473**	**3,988,267**	**−13,310,779**	**804,825,565**
Currency derivatives	**12,945,506**	**0**	**0**	**0**	**−12,869,218**	**0**	**0**	**76,288**
Net currency exposure	**740,369,685**	**27,870,930**	**19,204,675**	**16,964,821**	**9,814,255**	**3,988,267**	**−13,310,779**	**804,901,853**

*The tables includes only the most important items from the balance sheet by currency. Therefore, intangible assets, property, plant and equipment, non-current assets held for sale, right-of-use assets, financial investments in subsidiaries and other assets, other provisions, deferred tax liabilities, operating liabilities, lease liabilities and other liabilities are not included.

2.4.5 Interest rate risk

In terms of financial statements, the Group is exposed to interest rate risk primarily on the assets side, particularly through debt securities, which are classified as available-for-sale financial assets and financial assets measured at fair value through profit or loss. The Group is also exposed to interest rate risk on the liabilities side, mostly through insurance technical provisions for **life insurance**. The change in interest rates, in terms of accounting, also has a lesser impact on insurance technical provisions for **non-life insurance**, especially on those created for the payment of annuity claims for motor vehicle and accident insurance.

In the event of a drop in market interest rates, the Company performs the LAT to determine whether insurance technical provisions need to be increased. When interest rates rise, insurance technical provisions are reduced to the level of accounting estimates. The LAT carried out for insurance technical provisions showed a lower surplus of their amount.

The Company manages interest rate risk with economic valuation. The latter is presented in the Solvency and Financial Condition Report, which shows the interest rate sensitivity of assets and liabilities to economic impacts. In this regard, the cash flows of assets and liabilities are carefully matched and their duration gap is reduced.

In mid-2021, the Company began to reduce the maturity of its investment portfolio, because a rise in interest rates and inflationary pressures were expected, which were realised at the end of 2021. Interest rate trends show that interest rates were significantly higher as at 31 December 2021 than the year before. They may continue to rise, which would end the period of low interest rates.

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 19.3 million), while a sudden increase of 100 basis points would have a negative impact (in the amount of EUR 110.7 million). The impact of a drop in interest rates on the financial statements is lower than in the preceding year, which is a consequence of lower interest sensitivity of assets and liabilities. Assets are less sensitive to interest rates due to lower exposure and shorter maturity compared to the preceding year, while insurance liabilities are less sensitive due to higher interest rate levels in the period.

The Company and the Group monitor the duration gap[106] of interest-sensitive items for the life, non-life and supplemental voluntary insurance segments, excluding the unit-linked life insurance segment.

The matching of the duration of assets and liabilities was lower at the 2021 year-end than at the 2020 year-end. The reason for this duration gap is shortening the investment portfolio's duration due to the expected rise in interest rates. The duration gap of assets and liabilities in the Group is negative and stands at –1.0 years (compared to 0.1 year as at 31 December 2020). The most important impact arises from the Company, where the duration gap of assets and liabilities was –1.8 years (compared to 0.7 year as at 31 December 2020). It was –2.9 years for the life insurance portfolio (excluding supplemental voluntary pension insurance and unit-linked life insurance segments) and 1.2 years for the non-life insurance portfolio.

Sensitivity analysis of assets and liabilities to interest rate changes*

	Triglav Group				Zavarovalnica Triglav			
	31 Dec. 2021		31 Dec. 2020		31 Dec. 2021		31 Dec. 2020	
	+100 bp	–100 bp	+100 bp	–100 bp	+100 bp	–100 bp	+100 bp	–100 bp
Debt securities issued by countries	–95,209,665	109,701,001	–120,667,871	143,684,528	–72,058,154	84,374,724	–98,726,974	120,097,898
Debt securities issued by financial institutions	–11,781,910	12,466,526	–15,155,525	16,167,191	–8,987,158	9,510,788	–12,458,272	13,368,843
Debt securities issued by companies	–13,766,502	14,581,999	–14,605,276	15,237,317	–8,721,396	9,259,840	–9,507,308	10,063,122
Compound securities	4,851	1,427	–156	7,977	4,851	1,427	–156	7,977
Other	0	0	0	0	0	0	0	0
Total financial investments	**–120,753,227**	**136,750,952**	**–150,428,828**	**175,097,013**	**–89,761,857**	**103,146,779**	**–120,692,710**	**143,537,841**
Insurance technical provisions for life insurance	–7,114,800	89,556,173	–18,578,329	125,293,539	–7,114,800	56,984,924	–9,785,793	87,110,802
Insurance technical provisions for non-life insurance	0	23,687,975	0	25,925,448	0	23,255,269	0	25,530,747
Total insurance technical provisions	**–7,114,800**	**113,244,149**	**–18,578,329**	**151,218,987**	**–7,114,800**	**80,240,192**	**–9,785,793**	**112,641,549**
Impact on capital	**–113,638,426**	**23,506,803**	**–131,850,499**	**23,878,027**	**–82,647,057**	**22,906,587**	**–110,906,918**	**30,896,292**
Impact on fair value reserves	–102,271,823	116,707,229	–128,803,593	152,194,239	–82,277,092	95,072,550	–109,455,614	131,023,216
Impact on profit or loss	–11,366,604	–93,200,426	–3,046,907	–128,316,212	–369,965	–72,165,963	–1,451,304	–100,126,924

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

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

2.4.6 Market risk concentration

The largest share of the Group's assets is accounted for by debt securities. Approximately 65% of debt securities are accounted for government bonds and the rest by corporate bonds. The latter are divided almost equally into financial and non-financial sector bonds. Among individual issuers of debt securities, excluding unit-linked life insurance contract investments, the Group is most exposed to Germany, followed Slovenia. See Section 7.9 of the Business Report for more information on the concentration of financial investments.

2.5 Credit risks

The Group is exposed to credit risks from reinsurance, banks and receivables from policyholders and other partners. It is exposed to banks through cash held for the operations of Zavarovalnica Triglav and other Group companies. Compared to the 2020 year-end, the credit risk assessment did not increase significantly as at 31 December 2021, despite the increase in reinsurance exposure.

Credit risk exposure by partner type

	Triglav Group		Zavarovalnica Triglav	
	31 Dec. 2021	31 Dec. 2020	31 Dec. 2021	31 Dec. 2020
Banks	82,321,630	81,899,664	13,912,991	22,304,222
- Cash from unit-linked life insurance contract investments	2,042,836	3,523,659	1,967,631	3,390,040
- Other cash	80,278,794	78,375,005	11,945,360	18,914,182
Reinsurers	201,967,510	146,357,718	149,562,360	121,511,895
Persons insured and other partners*	44,905,588	42,929,510	16,881,127	17,617,771
Total	**329,194,728**	**271,186,892**	**180,356,478**	**161,433,888**
Total excluding cash from unit-linked life insurance contract investments	**327,151,892**	**267,663,233**	**178,388,847**	**158,043,848**

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

With regard to cash and cash equivalents, the Company is most exposed to Slovenian banks, which mainly have the "BBB" credit rating or are without credit ratings. In addition, the Group is exposed to banks in the countries of subsidiaries, which are usually without a credit rating. The table above also shows cash from unit-linked life insurance contract investments, which do not pose any direct credit risks to the Group. Since the end of 2020, the credit ratings of banks to which the Group is exposed have not changed significantly.

The Company monitors all reinsurance partners at Group level, with the largest exposure arising from the parent company and the Group's reinsurance company.

Exposure to reinsurance partners by credit rating

	Triglav Group		Zavarovalnica Triglav	
	31 Dec. 2021	31 Dec. 2020	31 Dec. 2021	31 Dec. 2020
AAA	0.0%	0.0%	0.0%	0.0%
AA to BBB	75.9%	76.7%	76.3%	88.6%
Below BBB	9.4%	9.0%	16.6%	7.9%
Not rated	14.8%	14.3%	7.1%	3.5%
Average credit rating	BBB	BBB	BBB	A

The Group is most exposed to reinsurers with the "A" credit rating. The proportion of partners with the "AA" credit rating is also high. The proportion of non-rated reinsurance partners at Group level is 14.8%. The bulk arises from the insurance claims of insurance companies active in the strategic markets, which are covered by non-rated reinsurers. The proportion of non-rated reinsurance partners in the Company is considerably lower, i.e. 7.1%.

The geographical concentration of reinsurers at Group level is the highest in Germany. Compared to 2020, it changed mainly due to the increase in the concentration of exposure to reinsurers in Russia, which predominantly arises from transactions at Zavarovalnica Triglav as a result of reported claims reinsured in Russia. Due to the exposure to its subsidiary Pozavarovalnica Triglav Re, the Company is geographically most exposed in Slovenia.

Concentration of five largest exposures to reinsurers by country

Triglav Group			
	31 Dec. 2021		31 Dec. 2020
Germany	19.2%	Germany	25.8%
Russia	12.6%	Serbia	8.7%
Serbia	8.6%	Great Britain	8.1%
Bosnia and Herzegovina	7.0%	Russia	7.3%
Great Britain	6.1%	France	5.5%

Zavarovalnica Triglav			
	31 Dec. 2021		31 Dec. 2020
Slovenia	52.5%	Slovenia	67.4%
Russia	16.1%	Russia	8.1%
Barbados	4.3%	Germany	4.4%
Kazakhstan	3.4%	Great Britain	4.0%
Great Britain	3.2%	Switzerland	2.6%

The Group is exposed to receivables through past due receivables from insurance operations and other receivables. In the context of credit risks, the Company monitors and manages receivables from policyholders and agents, other receivables from direct insurance operations and other short-term receivables, particularly subrogation receivables. In the Group's portfolio, these receivables are well dispersed and therefore do not cause concentration. All receivables from insurance transactions with clients are presented in Section 3.10 of the Accounting Report.

The Company monitors the payment discipline of receivables from policyholders in detail using several indicators. The movements of written premium and payments are monitored by maturity, in different time periods and by insurance class.

Separately from receivables from direct insurance operations, the Company also monitors and manages subrogation receivables. These pose a credit risk of the person insured's default. In addition to the payment of subrogation receivables, the Company monitors the effectiveness of the collection of credited subrogation receivables and the share of subrogation receivables in relation to claims settled.

Share of paid established receivables for the year

	Triglav Group		Zavarovalnica Triglav	
	31 Dec. 2021	31 Dec. 2020	31 Dec. 2021	31 Dec. 2020
Receivables due from policyholders	66.4%	68.2%	88.6%	87.4%
Subrogation receivables	41.2%	41.3%	45.4%	44.6%

The payment discipline did not change significantly during the year with regard to receivables from policyholders and subrogation receivables. It will remain within expected values in 2021 as well.

2.6 Liquidity risk[107]

Zavarovalnica Triglav and the Group companies had adequate liquidity in 2021. See Section 1.5 of Risk Management for further details about liquidity risk management.

Futures, options and other financial derivatives are used only if they help to mitigate market risks. As a possible measure to obtain additional liquidity, repo lines were established with commercial banks. The Company does not carry out securities lending techniques.

The Group's total financial assets exceeded its total financial liabilities also in 2021. The surplus is presented in the maturity buckets of 1–5 years, 5–10 years and with undefined maturity. In other buckets, the value of assets was below the value of liabilities. The vast majority of the Group's assets is invested in highly liquid investments, which also provides the coverage of liabilities in maturity buckets before the bucket into which they are classified in the table shown. The insurance technical provisions take into account the maturity based on forecast cash flows. Therefore, neither deficit in individual maturity buckets nor payments of liabilities before the maturity date present a liquidity risk.

Liquidity at Group level is assessed based on the liquidity of the Company and subsidiaries. The Triglav Group actively participated in the EIOPA stress test in 2021, which confirmed its strong liquidity in the case of severe consequences of the pandemic.

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

Financial assets and liabilities of the Triglav Group by contractual maturity*

Triglav Group as at 31 Dec. 2021	Not defined	Up to 1 year	1 to 5 years	5 to 10 years	Over 10 years	Total
FINANCIAL ASSETS						
Financial investments	**299,747,250**	**305,299,752**	**1,410,124,941**	**586,181,956**	**336,346,249**	**2,937,700,148**
Debt securities	0	268,969,894	1,322,232,348	585,021,323	336,346,249	2,512,569,814
held to maturity	0	12,364,163	57,517,081	65,706,297	21,973,192	157,560,733
at fair value through profit or loss	0	49,754,895	263,687,277	112,089,222	5,933,801	431,465,195
available for sale	0	206,850,836	1,001,027,990	407,225,804	302,447,617	1,917,552,247
loans and receivables	0	0	0	0	5,991,639	5,991,639
Equity securities	293,369,717	422,663	37,159,397	8,884	0	330,960,661
at fair value through profit or loss	112,613,404	0	0	0	0	112,613,404
available for sale	180,756,313	422,663	37,159,397	8,884	0	218,347,257
Derivatives	20,317	0	0	0	0	20,317
Loans and receivables	546,233	35,907,195	50,733,196	1,151,749	0	88,338,373
Other financial investments	5,810,983	0	0	0	0	5,810,983
Unit-linked life insurance contract investments	594,159,007	7,191,213	12,620,647	5,633,332	13,287	619,617,486
at fair value through profit or loss	594,159,007	7,191,213	12,620,647	5,633,332	13,287	619,617,486
available for sale	0	0	0	0	0	0
loans and receivables	0	0	0	0	0	0
Insurance technical provisions transferred to reinsurers	707,317	111,030,024	45,868,052	13,893,756	3,340,741	174,839,890
Operating receivables (including tax receivables)	19,462,809	173,998,442	18,838,077	1,005,010	1	213,304,339
Cash	60,027,240	22,294,390	0	0	0	82,321,630
Total	**974,103,623**	**619,813,821**	**1,487,451,717**	**606,714,054**	**339,700,278**	**4,027,783,493**
FINANCIAL LIABILITIES						
Subordinated liabilities	0	0	0	0	49,471,831	49,471,831
Insurance technical provisions	3,704,868	810,272,794	715,686,591	333,267,267	713,436,864	2,576,368,384
Insurance technical provisions for unit-linked life insurance contracts	526,332,718	3,410,853	16,097,832	22,339,710	54,122,285	622,303,398
Other financial liabilities	949,088	2,106,282	236,919	–206,664	22	3,085,647
Total	**530,986,674**	**815,789,929**	**732,021,342**	**355,400,313**	**817,031,002**	**3,251,229,260**

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

Financial assets and liabilities of Zavarovalnica Triglav by contractual maturity

Zavarovalnica Triglav as at 31 Dec. 2021	Not defined	Up to 1 year	1 to 5 years	5 to 10 years	Over 10 years	Total
FINANCIAL ASSETS						
Financial investments	**207,307,887**	**178,362,414**	**875,493,902**	**420,843,793**	**286,671,983**	**1,968,679,979**
Debt securities	0	175,031,547	854,813,120	420,023,044	286,671,983	1,736,539,694
held to maturity	0	10,423,856	49,873,577	65,706,297	14,942,503	140,946,233
at fair value through profit or loss	0	15,282,149	101,084,076	55,128,541	3,675,459	175,170,224
available for sale	0	149,325,542	703,855,468	299,188,206	262,062,381	1,414,431,597
loans and receivables	0	0	0	0	5,991,639	5,991,639
Equity securities	204,009,208	0	0	0	0	204,009,208
at fair value through profit or loss	31,631,419	0	0	0	0	31,631,419
available for sale	172,377,789	0	0	0	0	172,377,789
Derivatives	20,317	0	0	0	0	20,317
Loans and receivables	0	3,330,867	20,680,782	820,749	0	24,832,398
Other financial investments	3,278,362	0	0	0	0	3,278,362
Unit-linked life insurance contract investments	529,598,379	4,477,899	2,755,241	2,584,215	2,237	539,417,972
at fair value through profit or loss	529,598,379	4,477,899	2,755,241	2,584,215	2,237	539,417,972
available for sale	0	0	0	0	0	0
loans and receivables	0	0	0	0	0	0
Insurance technical provisions transferred to reinsurers		86,954,349	38,199,558	8,394,428	2,529,622	136,077,957
Operating receivables (including tax receivables)	0	105,681,286	0	0	0	105,681,286
Cash	13,912,991	0	0	0	0	13,912,991
Total	**750,819,257**	**375,475,948**	**916,448,701**	**431,822,437**	**289,203,842**	**2,763,770,185**
FINANCIAL LIABILITIES						
Subordinated liabilities	0	0	0	0	49,471,831	49,471,831
Insurance technical provisions	0	516,066,665	562,566,480	222,178,125	439,561,917	1,740,373,186
Insurance technical provisions for unit-linked life insurance contracts	499,681,626	843,819	5,022,362	8,158,599	26,428,645	540,135,052
Other financial liabilities	0	1,684,403	0	0	0	1,684,403
Total	**499,681,626**	**518,594,886**	**567,588,842**	**230,336,724**	**515,462,393**	**2,331,664,472**

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

2.7 Operational risks

Operational risks are proactively managed, in addition to any shortcomings, changes and trends in the internal and external environments being identified that may affect their increase. Such an approach allowed the Company to respond quickly even in the emergency situation such as the COVID-19 pandemic. Additional measures were taken where necessary and more attention was paid to the risks identified as increased (the absence of key employees or simultaneous absence of many employees due to illness, adjusted organisation of work and the method of executing business processes, additional information risks due to working from home and remote business and regulatory changes due to the government emergency measures).

Although the Company has not yet suffered a loss due to **cybersecurity incidents**, it is aware of their growing threat. The key to their management is regular maintenance and additional upgrades of the information security management system. In order to step up the identification of vulnerabilities and be better prepared for such incidents, the biggest cybersecurity threats and the Group's business segments that would be most affected were examined in greater detail as part of own risk and solvency assessment in 2021. Based on the findings, appropriate measures were developed to improve security. The Company carefully examined the cybersecurity scenario, in which it assessed the potential damage to operations, taking into account the established supervisory mechanisms. Based on this analysis, the cybersecurity incident response plan was updated, opportunities for improvement were identified and additional controls were set up, which will be checked next year.

The Company is also exposed to **regulatory risk and risks related to digital business solutions and remote business with existing and potential clients**. The latter include, among others, risks in terms of regulatory compliance and information security. Managing them requires meeting information security standards and taking measures in the process of identifying and authenticating individuals, ensuring the accuracy and completeness of client data, the electronic signing and authorisation of documents, secure transmission and access to documents, ensuring confidentiality, transparency and other measures to achieve compliance with regulations governing electronic business, electronic signing and personal data protection. The Company continues to be exposed to outsourcing risks and risks relating to the conduct of insurance business in foreign markets. Regulatory risk is managed by promptly implementing legislative changes in business processes, regular monitoring business practices, the positions of supervisory and other state bodies, and participating in regular and extraordinary Slovenian Insurance Association procedures.

Zavarovalnica Triglav has an effective risk management system for outsourcing. This ensures that operational and other risks related to outsourcing do not increase excessively. In accordance with internal rules, risks are identified and assessed before concluding a new transaction. Afterwards, they are regularly monitored and, if necessary, measures are taken to reduce them. The Company has two outsourcers: the subsidiary Triglav Skladi is the outsourcer in the management of assets of PDPZ Drzni and Zmerni guarantee funds and the managing general agent (MGA) is the outsourcer for insurance sale and claim settlement in the Polish market. On behalf and for the account of the Company, the MGA – directly and by organising a network of subcontractors (agents and agency companies) – ensures the provision of insurance distribution services and the provision of related services. All other operations of the Company carried out outside it are considered partially outsourced. Their unavailability would not significantly affect the implementation of the Company's key business processes. In terms of content, they relate mainly to contractual insurance agency services (sales via agencies) and the maintenance of software, hardware and IT systems. Operational and other risks are also monitored in relation thereto, and action is taken as necessary.

In 2021, the Company implemented *new GRC/IRM application software (governance, risk, compliance/integrated risk management)* for more effective operational risk management. It enables more comprehensive management of data on these risks, including cyber and regulatory risks, which were identified as main operational risks to the Company's operations, and outsourcing risks. This tool also supports internal audit processes for the even more coordinated operation of key functions in risk management processes and a more responsive overview. Furthermore, the GRC/IRM tool increased the completeness of the assessment of potential operational risks.

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

Based on the experience gained during the COVID-19 pandemic, the Company thoroughly upgraded the analysis of the impact of the business continuity management system's (BCMS) downtime on operations. Additional business continuity plans for current scenarios were developed and checked. Recovery IT plans were tested successfully.

In 2021, the Company revised recovery plans for some key systems in its subsidiaries and, in cooperation with them, updated the business impact assessment due to the interruption of key processes.

2.8 Non-financial risks

To manage non-financial risks, the reputational risk measurement method was upgraded, which takes into account additional aspects that may negatively affect the Group's reputation. The negative impact on reputation may be internal or external. With a functioning internal control system, it is ensured that the Group's operations are legal, professional and ethical. The Group ensures the appropriate quality of services and products, achieves financial goals, properly manages relationships with its key stakeholders and implements sustainability commitments or sustainable aspects of business. Furthermore, the Group respects the set environmental goals and aims to respect unrestricted, healthy competition in the market. Maintaining a low reputational risk assessment is key, as the Group set high goals in this area.

In order to assess reputational risk and the adequacy of its actions, the Group regularly carries out surveys to monitor key stakeholders' views of the Group. In addition, the Company follows in detail external media announcements, monitors the strength of the Triglav brand, measures the satisfaction of employees and clients and analyses feedback from other stakeholders. Satisfaction of key stakeholders is also monitored with various indicators. Employee satisfaction is measured using the ORVI index (see Section 12.4.2.3 Organisational vitality (climate) and organisational culture for more information), and quality client satisfaction management by the NPS indicator (see Section 12.4.1.1 Client satisfaction for more information). In order to maintain the reputation of the Group, especially among shareholders and investors, care is taken to achieve the target credit rating (see Section 6.6 Credit rating of the Triglav Group and Zavarovalnica Triglav for more information).

In 2021, the Group began to upgrade its sustainable risk management system, mainly by defining methodologies, indicators and reporting. Such risks mainly include emerging risks that may have long-term effects. In dealing with them, those business segments are identified that will be most exposed to change due to the greater role of sustainable operations. At this time, attention is paid to these risks mostly in the context of the own risk and solvency assessment, which examines climate change risks by analysing the exposure to catastrophes and stress testing of the related portfolio.

2.9 Future risks as a result of the pandemic

In terms of risks and capital adequacy, Zavarovalnica Triglav and the Triglav Group ended 2021 within the framework set out in the Risk Appetite Statement. The Company also remains highly liquid. The year 2021 was marked by the continuing pandemic and the economic recovery of global economies (See Section 7.2 Environmental impact on the Triglav Group's operations for more information).

As a result of the pandemic and related support measures for economic growth adopted by governments worldwide, concern is rising about increased inflationary pressures, to which central banks will respond by raising interest rates and abandoning a loose monetary policy. An excessive response could lead to economic cooling and even to a recession. With higher corporate indebtedness, a debt crisis may develop with increased credit spreads, lower growth in market prices of equity investments and, consequently, increased market, credit and liquidity risks. The outlook for the future remains good, with moderate growth in financial markets. However, the realisation of current forecasts of interest rate changes may bring an end to the period of low interest rates. With higher inflation, there are also risks associated with higher prices for services and rising costs, which may lead to a deterioration in the profitability of non-life and health insurance. As a result, the combined ratios and the number of surrenders of life insurance policies with a savings component may increase.

In addition, a deep recession could also have a negative impact on demand for insurance and on insurance premium. This is also related to liquidity risk, both due to the potential reduction of inflows from the insurance business and due to lower market liquidity of the investment portfolio.

Significant potential impacts on the Triglav Group's operations, which could be realised in the coming year, are related primarily to market, underwriting and credit risks. With regard to **market risks**, an increased risk could be observed, especially in spread risk due to the aggravation of the economic situation or the deterioration in the credit ratings of issuers of securities. Negative developments in stock markets and a possible decline in the value of real property are also expected. An increase in interest rate risk due to rising interest rates would have a negative impact on both the Company and the Group. In the context of **underwriting risks**, the Company consistently monitors premium risks, i.e. the adequacy of the pricing policy, and with respect to **credit risks**, the payment discipline of receivables and the creditworthiness of important partners.

Sensitivity analysis*

	Triglav Group			Zavarovalnica Triglav		
	Impact on fair value reserves	Impact on profit or loss	Total impact on capital	Impact on fair value reserves	Impact on profit or loss	Total impact on capital
Equity risk (–10%)	–20,394,885	–12,701,181	–33,096,066	–17,141,969	–3,258,952	–20,400,921
Property risk (–5%)	0	–1,441,562	–1,441,562	0	–1,065,316	–1,065,316
Interest rate risk (+100 bp)**	–102,271,823	–11,366,604	–113,638,426	–82,277,092	–369,965	–82,647,057
Combined ratio risk (+1 pp)	0	–6,770,795	–6,770,795	0	–4,112,225	–4,112,225
Total	**–122,666,708**	**–32,280,142**	**–154,946,849**	**–99,419,061**	**–8,806,458**	**–108,225,519**
Spread risk (+100 bp)**	**–102,271,823**	**–18,481,404**	**–120,753,227**	**–82,277,092**	**–7,484,766**	**–89,761,857**

* The effects shown do not include the tax aspect and the impact of the reduction in assets on liabilities (for life insurance).
** The table shows the sensitivity test of the change related to the parallel shift in the yield curve, where the increase in risk-free interest rate and credit spreads on the assets side has the same effect; as a result, the Company does not differentiate according to the type and credit quality of the security.

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Liquidity risk could be affected in the future by the decision of the European Central Bank to end the pandemic bond-buying programme in March 2022. The performed liquidity tests of the Company under the assumption of increased policy surrenders with a probability of once in 200 years show that the Company would be able to meet all operating liabilities and maintain adequate liquidity.

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

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

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

The Company's sensitivity related to insurance receivables was tested by reducing the expected share of payments for 2022. This share was defined according to its lowest level in the last ten years, which was during the 2012 debt crisis. In this scenario, it was estimated that the reduction in expected payments would amount to EUR 66.3 million and would have a direct impact on profit or loss. The estimate was prepared on the assumption that insurance receivables in 2022 were equal to those in 2021.

The development of the risk management system will continue in 2022, particularly in areas where the trend of increasing risks will be identified. Development activities will also be shaped by legislative changes, which are expected especially in relation to sustainability and liquidity risks.

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