Risk Management

More detailed monitoring of the effects of increased inflation

Contents

200%

Capital adequacy of the Triglav Group as at 31 December 2022

Sustainability risks and information security risks management upgraded

Risk Management

- The Triglav Group maintained strong capital strength and liquidity in 2022, which was confirmed by the re-affirmed "A" credit ratings.
- The Group effectively managed the risks that arose or increased due to the Russian-Ukrainian war, imposed European Union (EU) sanctions, rising inflation and the situation in the financial markets.
- The planned prudent underwriting continued and market risks were kept at target levels, while pursuing the set matching of assets and liabilities and the appropriate diversification of investments.
- Development activities focused on upgrading sustainability risks and information security risks.

The Group's operations are considerably affected by changes in the macroeconomic environment and financial markets. The year 2022 was marked by the Russian-Ukrainian war and strained geopolitical relations due to the sanctions imposed against Russia. Among the key consequences of the war in Ukraine is high inflation, stemming from incentives given to the business sector to mitigate the effects of the COVID-19 pandemic. To curb inflationary pressures, central banks raised interest rates, which was followed by financial markets (see Section 7.1 of the Business Report for more information).

Increases in inflation and interest rates mainly affect market and underwriting risks of the Company and the Group, especially non-life insurance, life insurance with a guarantee and supplemental voluntary pension insurance (SVPI) with a guaranteed return. The Group's risk management was therefore aimed at adapting to changes in the financial markets, mainly uncertainties due to higher inflation and higher risk-free interest rates, while taking into account the sanctions imposed against Russia and Belarus.

The military aggression led to a significant expansion and the implementation of additional restrictive measures at the level of the EU and the USA (OFAC). The Group's increased exposure to regulatory risk was identified, i.e. potential sanctions due to non-compliance with national legislation and/or financial sanctions and loss of reputation due to non-compliance with international restrictive measures. To ensure compliance, a uniform interpretation of restrictions was implemented and the processes necessary to regularly verify the correct use and compliance with restrictive measures in the Group were set up. Exposure to Russia and Belarus remained limited until the end of the year.

Despite the difficult business environment, the Triglav Group sustained strong capitalisation even by adhering to its dividend policy. Its capital adequacy was 200% as at 31 December 2022, which is around the lower end of the target range. The Group's capital strength is based on effective risk management and quality capital structure, which to a lesser extent includes subordinated liabilities. 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 and Group companies have adequate liquidity, which is achieved through regular liquidity risk management. See Section 3.5 of Risk Management for more information about the liquidity risk.

Main risk management development activities at Triglav Group level were carried out in the business lines that were identified as key due to internal improvements needed or in order to respond to external circumstances:

- With regard to **market risks**, due to higher interest rates and increased volatility in the financial markets, an additional set of indicators was implemented for more effective monitoring of risks within Zavarovalnica Triglav's in Triglav, Pokojninska družba d.d.'s supplemental voluntary pension insurance guaranteed fund.
- With respect to **non-life underwriting risks**, more detailed monitoring of the effects of increased inflation on insurance technical provisions was launched and measures were taken to ensure stable operations of the Company and the Group.
- The **liquidity risk** management system was upgraded for SVPI, which was included in the life insurance optimal liquidity monitoring system. The focus was on transferring good practices to the Group's subsidiaries.
- **Operational risk** management was upgraded particularly with respect to cyber risks. By updating risk indicators, the assessment of information risks was improved, ensuring better quality and timely action. Due to the increased volume of outsourcing, a better overview of risks was implemented, in addition to upgrading the integrated monitoring system.
- **Non-financial risk** management was upgraded especially in relation to **sustainability risks**. With regard to climate risks, a qualitative and quantitative assessment of the effects of climate change on the business operations of the Company and the Group was carried out, covering both transition risks and physical risks. It was found that some climate change impacts could be material for the Company and the Group, therefore timely measures are needed. On this basis, the activities for measuring and managing these risks were defined by specific segment, as well as main requirements for their regular monitoring.

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 risk management system proved to be adequate also in 2022. By upgrading it, it continued to be comprehensive and up-to-date. The system is defined by internal rules and a clear separation of the powers and responsibilities of the business functions, the Management Board, the Supervisory Board, and the key functions and other related areas that exercise supervision. It consists of effective processes used to constantly identify, assess and control assumed and potential or emerging 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**.

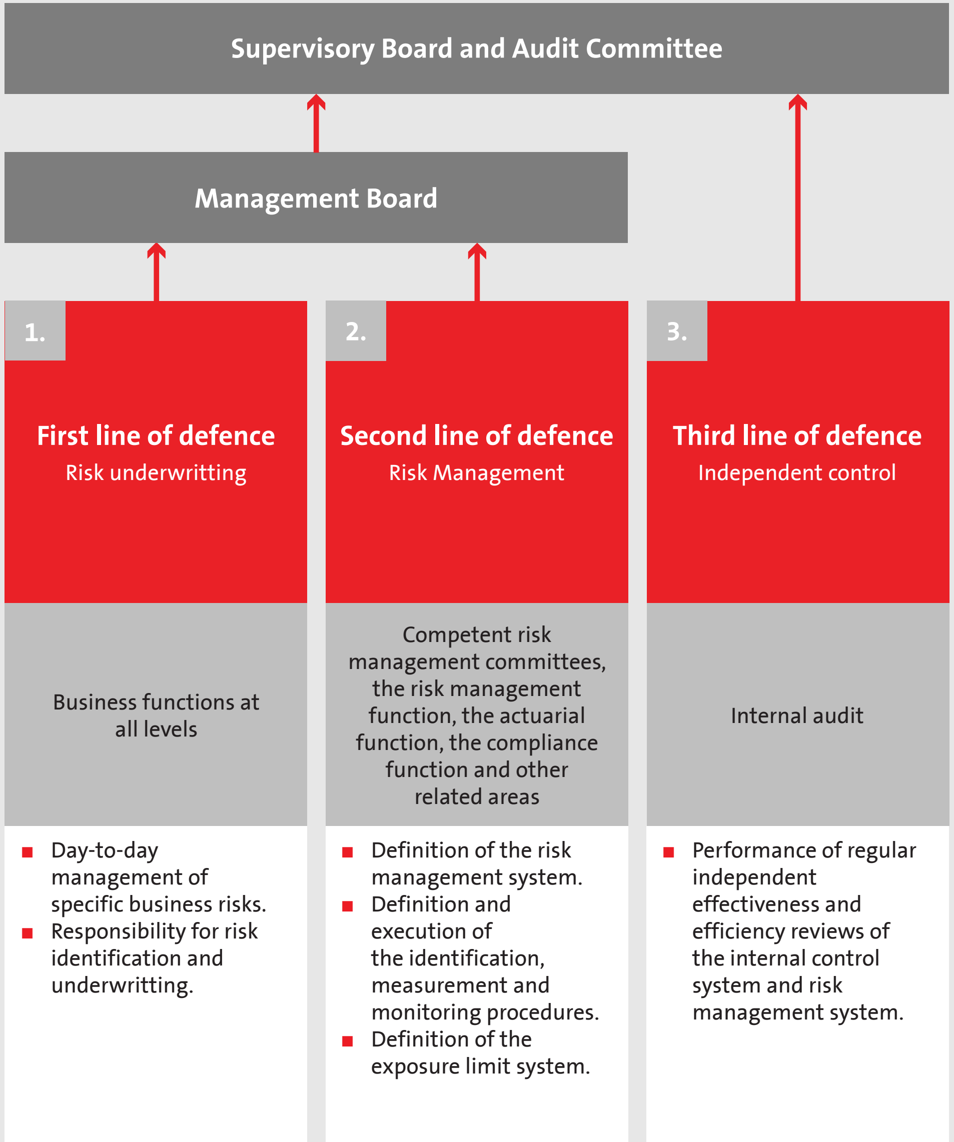
Even though **the Management Board and the Supervisory Board** are not directly part of the lines of defence, they play a key role in the risk management system. They both are key stakeholders serviced by the three lines of defence. They are responsible for the operation of the system and defining organisational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

The Company's **business functions** operate within the framework of first line of defence. They are responsible for risk identification and underwriting in their respective work area in accordance with the guidelines of the Management Board, 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. The key functions 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 with other areas within the Company and with Group companies. They are independent in their work.

The risk management function is responsible for the establishment and coordinated and continuous operation of the integrated risk management system. Furthermore, it monitors the general risk profile, methodologically consistent system development 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, such as the Solvency and Financial Condition Report and the Regular Supervisory Report, and reports to regulatory bodies as required.

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



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 compliance function operates within the internal control system and 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 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. The actuarial function also checks the adequacy of reinsurance and participates in own risk and solvency assessment, while coordinating and calculating capital requirements for underwriting risks. It reports on important findings to the Management Board and the Supervisory Board. The 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 systematic manner and by making recommendations for their improvement. Moreover, the internal audit function is responsible for the quality and continuous development of internal auditing. 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 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 **committees**, which provide support to the Management Board in regular risk monitoring, coordination of actions and information about risk management.

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 at the parent company coordinates the drawing up of minimum standards for Group companies. These also include minimum standards for risk management, for which the parent company's Risk Management Department is responsible; their transfer to the subsidiaries is carried out by the Risk Management Department in cooperation with the Subsidiary Management Division. Through the common standards, the Group ensures an effective and transparent risk management system, 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 its **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, *the capital adequacy ratio*, which the Company uses to measure business performance and pursue strategic objectives, is specified in greater detail its risk appetite. It is the ratio between available capital and the amount of capital requirement in relation to the amount and structure of the risks assumed. As part of **the own risk and solvency assessment process**, when planning solvency needs, it is ensured that the ratio is kept within the target range of 200–250% at Group level. Maintaining the ratio in the target range is ensured through a set of more detailed risk indicators and exposure limits in all segments of the Group's operations.

By regularly monitoring them, risks are identified in due time and appropriate action is taken. The Company's dividend policy is defined within the framework of managing its and the Group's capital and is subject to capital adequacy targets. 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. The stability of capital adequacy is checked with stress scenarios for existing and potential or emerging risks by individual type of risk. This provides the Company the basis to take appropriate action, also by amending the guidelines for accepting transactions and making adjustments to premium rates and the limit system, risk transfers and similar. This approach increases the readiness of Group members for identified risks and upgrades the internal control system, while building an effective system for strategic decision-making.

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

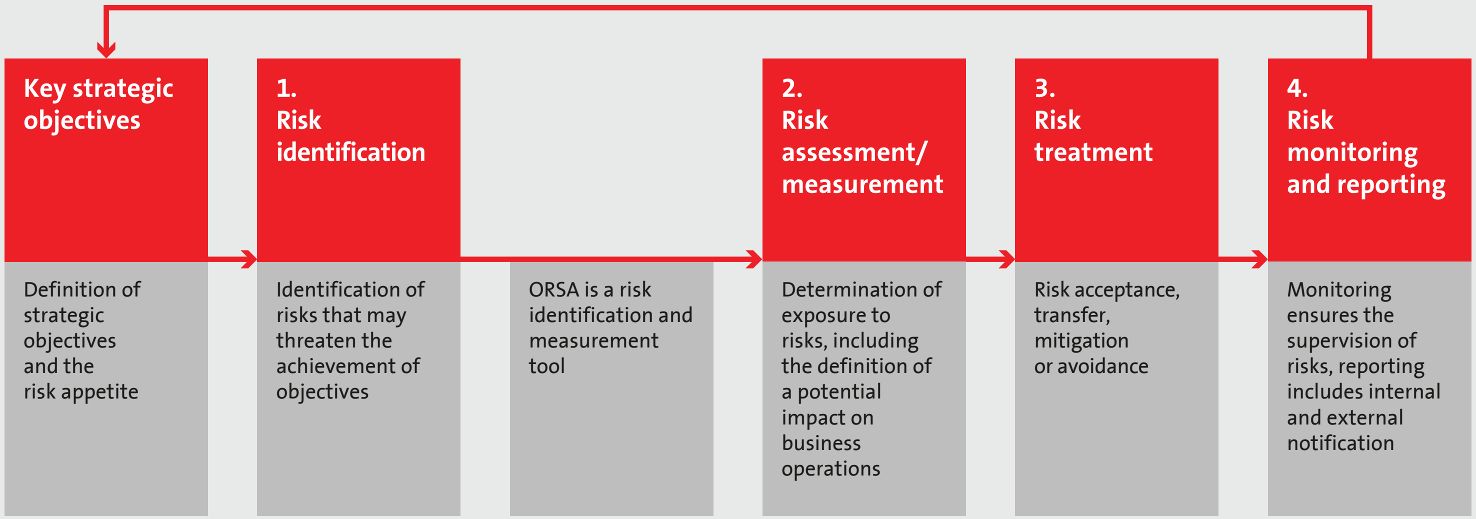
The standard Solvency II formula (the regulatory method), which is based on standard volatility and own risk exposure, is primarily used for **risk assessment**. The standard formula determines the level or a change in the parameters in the calculation under the stress scenario, and its result indicates for each risk how much the available capital would therefore decrease in the stress scenario. The more the risk affects the capital, the more material it is. With regard to solvency capital requirement (SCR), the diversification specified in the standard formula as prescribed by law is taken into account. The risk assessment is complemented with the Company's own assessment of the volatility of risk factors, taking into account the Value at Risk method, with the same confidence level of 99.5% over a one-year horizon. Risks are additionally assessed according to the methodology of the credit rating agency S&P.

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 method of risk measurement or assessment 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 **manage risks** appropriately. At the level of business lines, negative trends are identified with the processes established to notify the key functions about transactions with increased risks, while at the aggregate level, risks are identified by regularly monitoring the concentration of exposure and increased volatility, where the Group's vulnerability is higher. Material detected or identified risks are treated also in the own risk and solvency assessment process.

The Risk Management Department regularly **monitors** the matching of the actual risk profile and the defined 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.

Risk Management Process



1.3 Risk classification

The Group uses risk classification in accordance with the standard formula set out in the Insurance Act (ZZavar-1) for internal risk monitoring. Exposure and assessment to individual types of risk and risk management methods are presented in greater detail in Section 3. of Risk Management.

The most important types of risks taken in the course of operations are described below.

- **Underwriting risks** are the risks of loss or of adverse change in the value of insurance liabilities due to inadequate pricing and provisioning assumptions taken into account in the calculation of insurance technical provisions. **Non-life underwriting risks** (including health insurance) and **life underwriting risks** (including pension insurance) are treated separately. In direct insurance business, the Company is predominantly faced with traditional underwriting risks.
  - *Non-life underwriting risks:* premium and reserve risk, lapse risk and catastrophe risk.
  - *Life underwriting risks:* mortality risk, longevity risk, disability-morbidity risk, lapse risk, expense risk, catastrophe risk and revision risk.
- **Market risks** are the risks of loss or of adverse changes in the financial situation, resulting from fluctuations in the level and the volatility of market prices of assets, liabilities and financial instruments. Market risks comprise interest rate risk, equity risk, currency risk, property risk, spread risk and market concentration risk.

- **Credit risks** are the risks of loss or adverse change in the financial position of the company due to fluctuations in the credit position of counterparties and are a result of the debtor's inability to fulfil contractual obligations.
- **Liquidity risk** is the risk of loss that may occur if the company is not able to meet all expected and unexpected present or future cash outflows. Liquidity risk may arise from inadequate or insufficient available funds or from the uncertainty of financial markets and the consequent difficulty in accessing the financial resources.
- **Capital risk** is the risk of loss due to inadequate capital amount and/or structure with regard to the business volume and method or problems potentially encountered when the Company or the Group acquires additional capital, especially in the case of need for a rapid capital increase and/or unfavourable conditions for acquiring additional capital. The category of capital risks also includes legislative changes and changes in accounting standards having an impact on the Group's capital adequacy and, consequently, on the dividend payment.
- **Operational risks** are the risks of loss arising from inadequate or failed internal processes, personnel or systems, or from external events and their impact. Among others, they include information security risks with a special emphasis on cyber risks and major business interruptions.
- **Non-financial risks** important to the Triglav Group's operations include strategic risks, reputational risk, Group risk and sustainability risks. Non-financial risks predominantly originate from the external environment and are closely linked to other risks, especially operational risks. Generally, they arise from several realised factors both inside and outside of the Group.

The Group is also exposed to *potential or emerging risks*. These are risks that may develop in the future or already exist but are not yet material. They are difficult to assess but may 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.

Potential or emerging risks are therefore monitored closely and, in view of the findings, the risk management system is upgraded accordingly.

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 said standards, the most common market risks are currency, interest rate and other price risks, including equity and property risks.
- Under IFRS, credit risks include counterparty default risk, a significant part of which comprises exposures from reinsurance, cash, cash equivalents and receivables, as well as spread risk and market concentration risk. The classification used by Zavarovalnica Triglav considers the latter two as part of market risks.
- There are no differences between the classifications of underwriting and liquidity risks.
- Other risks as defined by the IFRS include operational, capital and non-financial risks.

The Company monitors the situation and reports to the management on risk exposure and risk assessment based on regulatory requirements and internal risk classification. Due to the differences in the IFRS and Solvency II valuation, 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 (www.triglav.eu).

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

2. Capital position

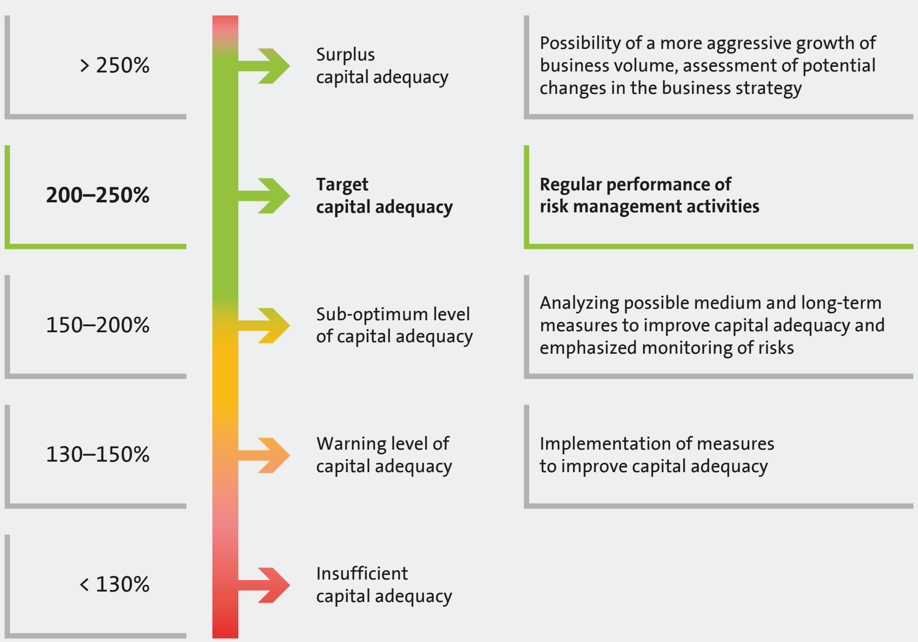
The management of the Company's and the Group's capital is an ongoing process, by which its adequate volume and quality are determined and maintained and, as a rule, capital risk managed.

2.1 Capital management[93]

A well-integrated risk management system is essential to effective management of capital and capital risk. **Ensuring capital adequacy within the target range** allows the Group at any given moment to have a sufficient amount of capital that corresponds to the measurable risks assumed. As part of the Group's regular capital management to ensure its optimal composition and cost efficiency, the Company issued a subordinated bond, which is taken into account in the calculation of capital adequacy. See Section 6.7 of the Business Report for more information.

When deciding on entering into a 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 capital management strategic objectives and the dividend policy criteria



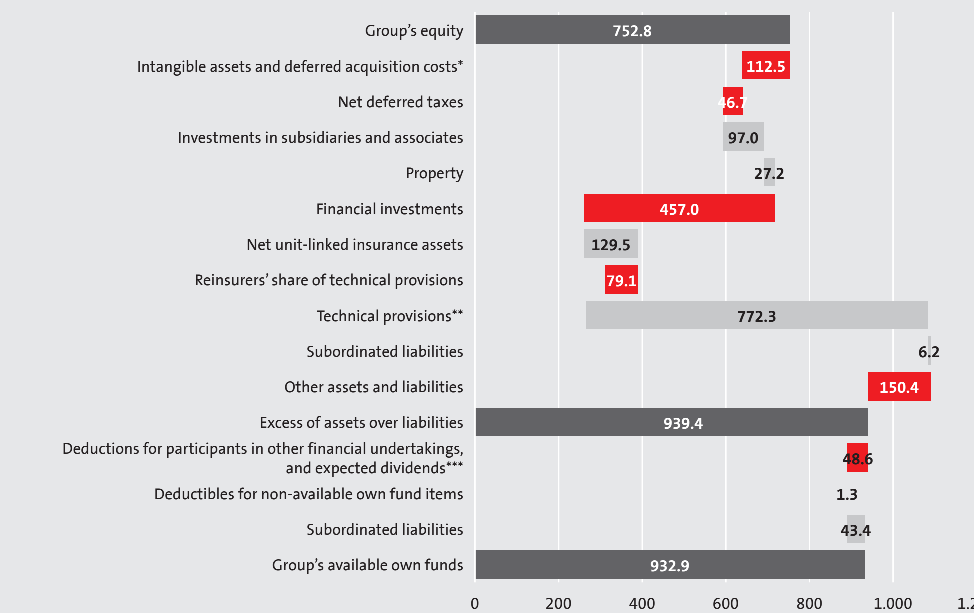
The Group's target capital adequacy is set within the range of 200–250%. This means that the Group has an adequate amount of capital to carry out its core business and cover potential losses. Capital surplus provides protection against losses due to unforeseen adverse events and volatile capital requirements.

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

2.2 Capital adequacy

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

Explanation of differences in capital valuation in the balance sheet for financial reporting and solvency purposes for the Triglav Group as at 31 December 2022 (EUR million)



* The fair value of intangable assets are valued at 0.
** Consolidation for solvency purposes differs for Triglav Skladi and Triglav, pokojninska družba.
*** These include deductions for participations and other undertakings subject to sectoral rules and for expected dividends.

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

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 2022 are described in the Group's Solvency and Financial Condition Report for 2022, D and E sections. The report is published on the website www.triglav.eu.

The Group calculates capital adequacy and the capital adequacy ratio according to the standard formula as the ratio between total eligible own funds and the solvency capital requirement. In determining capital adequacy, it does not take into account any adjustments and simplifications.

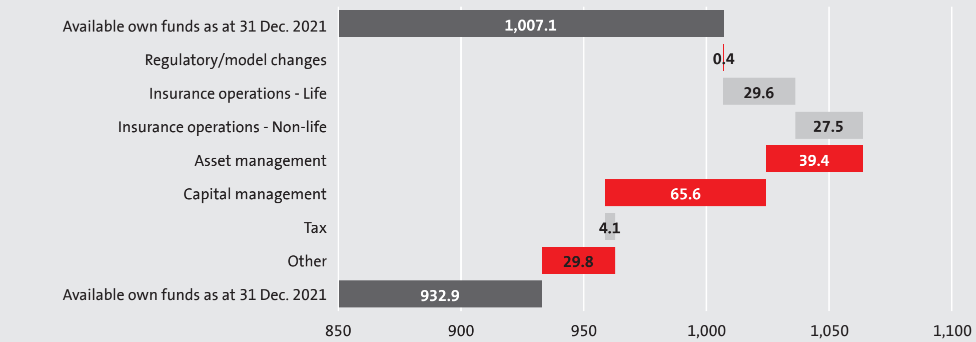
The Triglav Group was well capitalised as at 31 December 2022. Its capital adequacy was 200% and thus around the lower end of its target range of 200–250%, thereby meeting its target risk appetite. The risk appetite is in line with the capital management strategic objectives and the dividend policy criteria presented in Section 2.1 of Risk Management.

Capital adequacy of the Triglav Group and Zavarovalnica Triglav

	Triglav Group		Zavarovalnica Triglav	
	31 Dec. 2022	31 Dec. 2021	31 Dec. 2022	31 Dec. 2021
Available own funds (EUR million)	932.9	1,007.1	927.4	1,022.2
SCR (EUR million)	466.5	459.3	377.1	374.3
Capital adequacy (%)	**200**	**219**	**246**	**273**

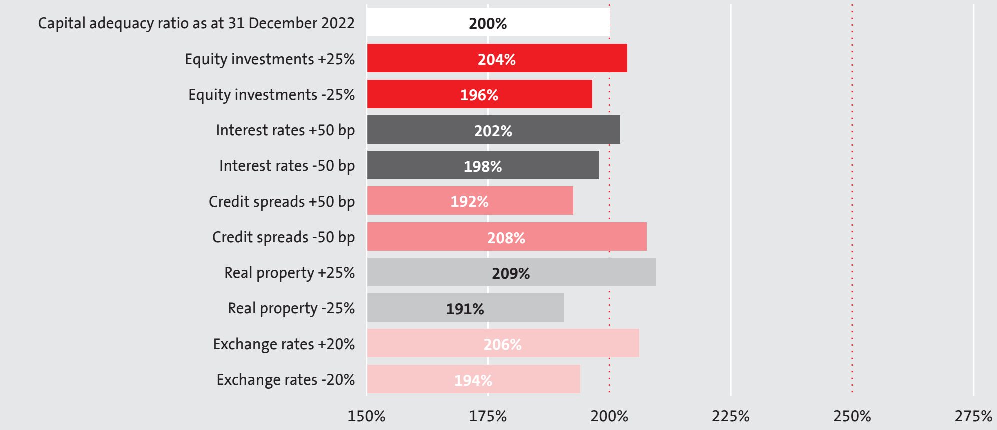
The Group's capital adequacy was affected by the decrease in available own funds by EUR 74.2 million compared to 2021 primarily due to a poorer result in the asset management segment as a consequence of a difficult situation on the financial markets. In the context of capital management, the largest impact on the reduction of available own funds is the paid dividend in the amount of EUR 84.1 million. The Group's capital requirements increased by EUR 7.2 million, mainly due to higher non-life underwriting risks and the change in the adjustment for the absorption capacity of deferred taxes.

Available own funds of the Group from 31 December 2021 to 31 December 2022 (EUR million)



In addition to calculating the Group's capital adequacy, at least once a year **a sensitivity analysis of its capital adequacy ratio** to major changes in selected financial market parameters is performed. With it, the stability of the Group's capital position, its resilience to major risk factors and their impact is assessed. Analyses as at 31 December 2022 show sensitivity to individual shocks on financial markets.

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



3. Risk profile

The risk profile shows the types of risks to which the Triglav Group is most exposed. Compared to the previous year, underwriting risks increased, whereas market risks decreased slightly. The Group continues to be most exposed to underwriting risks, followed by market, credit and operational risks. See Section 3.1 of Risk Management for more information about exposure to particular risk types.

In 2022, the Group's risk management was focused on adjusting to changes in the financial markets, mainly uncertainties due to rising inflation and higher risk-free interest rates while taking into account the sanctions imposed against Russia and Belarus, and on upgrading sustainability risks and information security risks.

The impact of inflation on operations

Higher inflation affects both insurance and asset management activities. The central banks' response to raise interest rates caused the inflation to indirectly affect the rise in required yields on **debt investments**, which are an important part of the investment portfolio.

Inflation affected **non-life insurance** operations in 2022 by increasing gross written premium, gross claims paid, claims provisions and expenses. Premium increase in 2022 will have the largest impact on premium income in 2023. Product prices were set by taking into account inflation at premium, claims and cost levels, including reinsurance. In agreement with the insurers, clauses were incorporated in contracts to allow adjusting the sum insured and premium according to the relevant price index in a certain period of time. Furthermore, sums insured, premiums and deductibles were adjusted by agreement, specifically in real property insurance, motor vehicle insurance, agricultural insurance and transport insurance. In adjusting, not only inflation was taken into account, but also the claims ratio of individual segments and any relevant trends (such as claims frequency).

In non-life insurance, inflation causes claims inflation, which increases the volume of provisions and costs. Both affect the operating result and the capital adequacy ratio. To assess the risk of higher inflation, the impact of its increase by 1 percentage point was tested (based on the calculation of non-life insurance claims provisions as at 31 December 2022). Taking into account higher inflation, gross claims provisions increase by EUR 3.1 million, mostly in the case of long-tail motor liability insurance and general liability insurance.

The Company's life insurance products, where benefits are limited by the sum insured, are not significantly affected by inflation. An exception may be some types of complementary insurance (riders), where the liability depends on the price of the service. Most insurance policies include a clause that allows the policyholder to adjust the premium and benefits based on inflation. The analyses carried out so far have not shown a significant impact of the current period of higher inflation on policyholders' decision to terminate an insurance policy early.

Inflation risks were actively managed within the established asset-liability management process (the ALM process). The impact of changes in the bond market, and thus on the bonds in the Company's asset portfolio, therefore remained within the previously set limits defined in the Risk Appetite Statement.

The impact of inflation on the **supplemental voluntary pension insurance** guaranteed fund is indirect – through an increase in the minimum guaranteed return and a fall in the value of existing debt investments in the pension fund. For Group companies that underwrite supplemental voluntary pension insurance with a guaranteed return (Zavarovalnica Triglav and Triglav, pokojninska družba), the risk of failing to achieve the guaranteed return materialised in 2022 as a result of rising interest rates and, consequently, a greater difference between the fund's guaranteed value and the value of the policyholders' assets. Particularly for Triglav, pokojninska družba, this also increased the risk of non-refundable payment into the guarantee fund with a guaranteed return, which occurs when provisions for failing to achieve the guaranteed return exceed 20% of the company's capital. See Section 3.2.2.2 of Risk Management for more information.

The Company and Group companies also monitor the impact of inflation on **liquidity risk**. In the event of declining purchasing power or too low returns on traditional insurance products with a savings component, this could increase the frequency of life insurance surrenders, whereas rapidly rising interest rates could decrease the value of assets. The higher frequency of surrenders and the fall in the value of assets are included in the stress scenario designed to regularly verify liquidity in exceptional circumstances. The liquidity stress scenario was transferred to Group subsidiaries. Both the Company and the Group companies had adequate liquidity in 2022. See Section 3.5 of Risk Management for more information about liquidity stress scenarios.

The year 2022 was also marked by a significant increase in health insurance claims incurred, especially in supplemental health insurance. The reasons for the increase in claims incurred are mainly the normalisation of the provision of healthcare services following the end of the epidemic, the increase in the prices of healthcare services and the implementation of legislative changes to ensure the stability of the healthcare system in autumn 2022. The aforementioned legislative changes had an additional impact on the increased volume of supplemental health insurance claims, but at the same time enabled the Company to release additional provisions for unexpired risks created in accordance with of the Act Determining Temporary Measures to Mitigate and Remedy the Consequences of COVID-19, which partially mitigated the negative consequences on operations in 2022. With respect to complementary health insurance, some insurance bases were adjusted to manage significant inflationary pressures and their impact on the prices of healthcare services and the amount of expected claims.

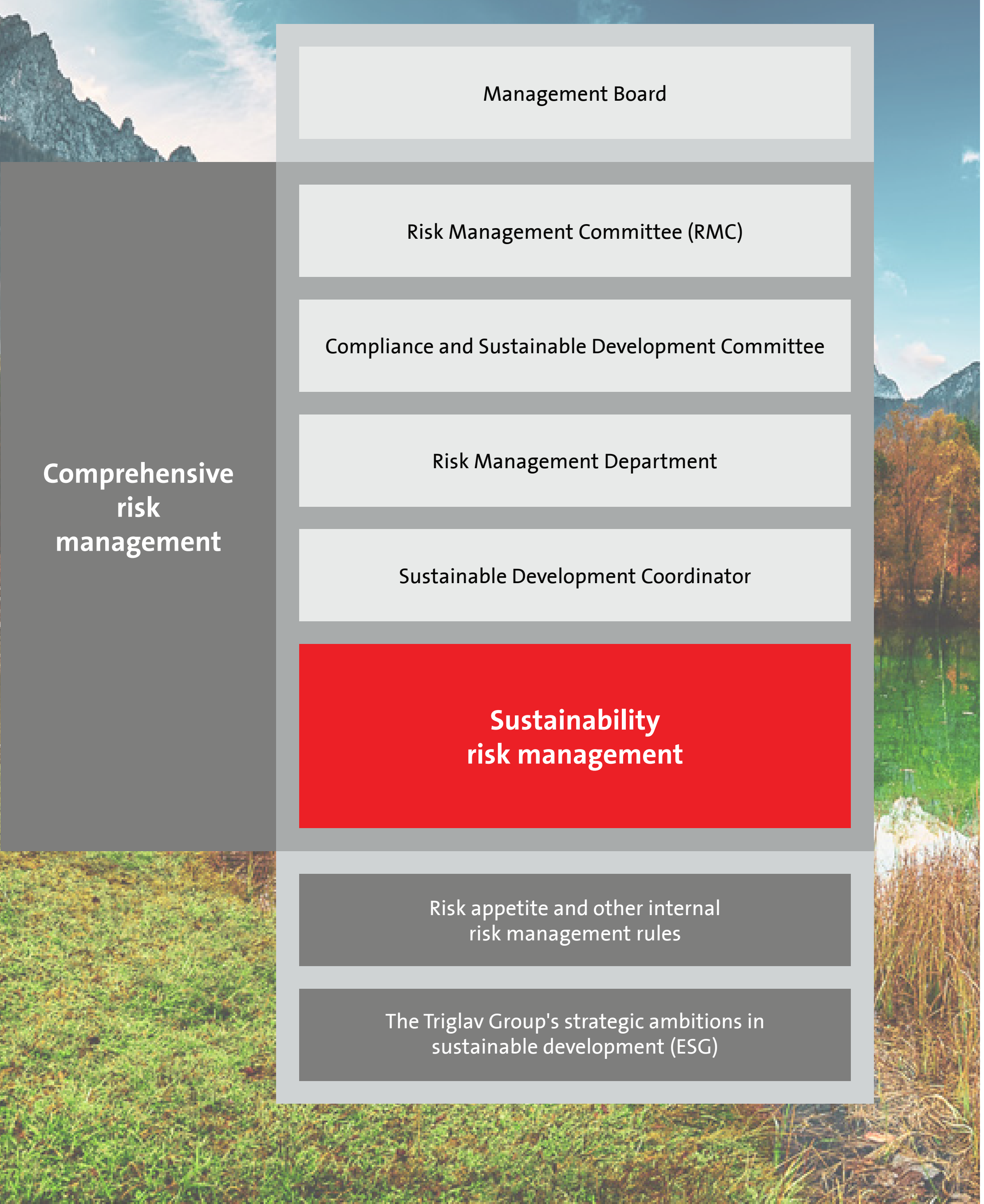
In 2022, the risks described in more detail in Section Challenges and opportunities of today in the Business Report were also relevant.

Material types of risks of the Triglav Group

Potential or emerging risks

- **Capital risk**
- **Underwriting risks**
  - **Non-life underwriting risks**: Premium and reserve risk; Lapse risk; Catastrophe risk
  - **Life underwriting risks**: Mortality risk; Longevity risk; Disability and morbidity risk; Lapse risk; Expense risk; Revision risk; Life catastrophe risk
- **Market risks**: Interest rate risk; Equity risk; Property risk; Spread risk; Currency risk; Market concentration risk
- **Credit risks**: Reinsurance risks; Bank risks; Receivables risk
- **Liquidity risk**: Risk of settling matured and contingent liabilities; Market liquidity risk
- **Operational risks**: 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; Project risks
- **Non-financial risks**: Strategic risks; Reputational risks; Group risks; Sustainability risks

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



Sustainability risk management has been greatly upgraded in recent years. The content related to sustainability and sustainability risks is discussed in the context of the Group's strategic ambitions in this field (see sections 12.1 Implementation of strategic guidelines and sustainable development goals of the Triglav Group and 4.2 Implementation of the Triglav Group strategy in 2022 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 1.3 of Risk Management). 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.

3.1 Presentation of the risk profile

The level of underwritten risks in 2022 was within the range defined in the risk appetite. Of the risks covered by the standard formula, the Group is most exposed to underwriting and market risks, followed by credit and operational risks. Within the Group, the Company assumes the bulk of the risks. See Section 1.3 of Risk Management for more information about the types of risks assumed by the Company.

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

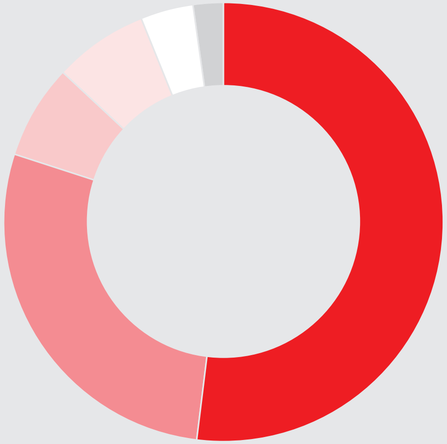
A well-integrated and uniform assessment method is needed to properly compare risks between business lines. Risks are assessed based on the standard formula defined by the applicable legislation and internal methodologies.

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, Section C, 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, which is 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.

Risk profile assessment* of the Triglav Group as at 31 December 2022



*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 2022

Risk	Risk assessment (current)	Risk trend (future)	Note
Capital adequacy and capital risk	Medium	stable	The Company's and the Group's capital adequacy remained within the target range throughout 2022. With the ORSA process, capital strength was confirmed even in stress scenarios.
Underwriting risks	Medium	stable	The Group maintains premium growth and achieves the target values of indicators in strategic markets. The impact of inflation on non-life underwriting risks is adequately managed by taking measures to adjust covers provided by products and their pricing backed by consistent cost management. Going forward, uncertainty remains regarding future claims and cost inflation. Due to inflation and a rapid increase in interest rates, the risk of failing to achieve the guaranteed return materialised during the year in the pension insurance segment, which the Company adequately managed by taking appropriate action.
Market risks	Medium	stable	The year 2022 was marked by elevated inflation, resulting in rising interest rates. Greater volatility was detected in the financial markets, which resulted in increased market risks. Nevertheless, the Group maintains market risks at defined levels and pays special attention to the matching of assets and liabilities and optimal investment policies developed on this basis. With respect to pension insurance investment portfolios, the Company responded to the situation by switching to a less risky investment policy.
Credit risks	Low	stable	Despite the increase in exposure, credit risks remain low. This is ensured by regular and systematic monitoring and management of individual exposures in all segments and a well-diversified portfolio of partners. The credit risk assessment in 2022 was affected by deterioration in the credit quality of partners due to the Russian-Ukrainian war.
Liquidity risk	Low	upward	The Company's strong liquidity position is maintained by regularly monitoring its liquidity; the Group subsidiaries also have adequate operational liquidity. In the context of the ORSA process, liquidity was checked with stress scenarios, which confirmed that the Group companies are well prepared for extraordinary events.
Operational risks	Medium	stable	The Group takes a proactive approach to operational risk management. It pays increasingly more attention to regular maintenance and additional upgrades of the information security management system, as cyber risks remain among the most relevant. In addition to these, operational risk is mainly increased by large-scale regulatory changes and the general human resource risk of employing workers in shortage occupations.

* 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

3.2 Underwriting risks

The Group assumes underwriting risks by underwriting various types of insurance policies. Its insurance portfolio is diverse in terms of products and so are its underwriting risks. Insurance is divided into non-life insurance, which includes health insurance and reinsurance, and life insurance, which includes pension insurance. Insurance claims or insurance liabilities stemming from insurance policies are classified as life insurance liabilities (that depend on biometric factors such as age, gender and health status of the person insured) and non-life insurance liabilities (that are independent of biometric factors).

Non-life insurance liabilities include all (potential) non-life insurance claims, including health insurance claims, and reinsurance claims, with the exception of non-life insurance claims paid out as an annuity. The latter 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 stemming from life insurance policies, but which 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. The latter also includes supplemental voluntary pension insurance provided by the Company in the context of the second pillar of the pension system. Life insurance liabilities include non-life insurance claims, which are paid out as annuities and which to the greatest extent stem from motor vehicle liability insurance.

The basic principle of the insurance business is 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 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 identified deviations, appropriate action is taken – each time by adjusting the design or criteria of an insurance product or the criteria for calculating insurance technical provisions.

Underwriting risks are directly related to underwriting insurance policies, the amount of premiums and insurance technical provisions. 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 strongly 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.

3.2.1 Non-life underwriting risks

3.2.1.1 Description of risk and its management

Non-life insurance underwriting at Group level creates 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 numerous or major 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 test of their adequacy for the insurance portfolio is performed annually in the context of own risk and solvency assessment; on average, it shows lower risks than predicted by the standard formula. Premium risk also depends on the diversification of their exposure by various insurance segment in the portfolio. Thus, the Group aims to ensure that the portfolio is appropriately diversified. 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 based on 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 which, in an annual period, (statistically) occurs once in 200 years and which, in accordance with the standard formula used to measure the amount of the Company's required capital 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. The reserve risk is higher in provisions with long maturities than in provisions with short maturities. 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 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.
- **Catastrophe risk** means the risk of an unexpected one-off event with a loss potential that is considerably higher than the estimated average loss of Group insurance companies. 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 for individual insured perils in some geographical areas or sectors/industries. Concentration also arises 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 various types of reinsurance protection, which is used to manage underwriting risks both at Group level and at the level of each Group insurance company.

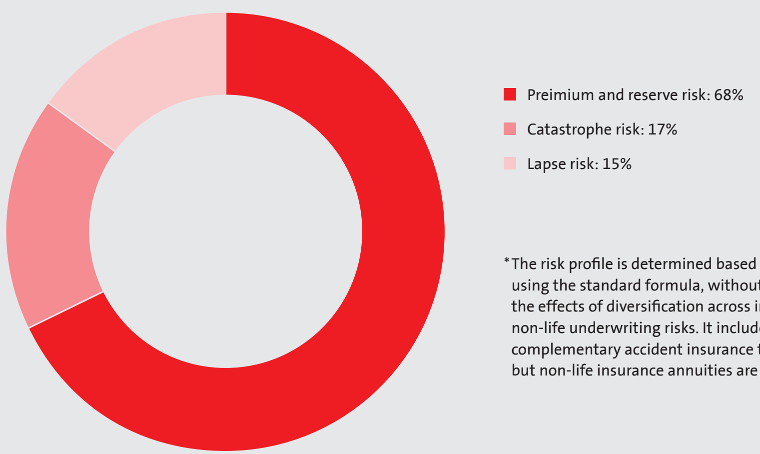
3.2.1.2 Risk in 2022

The profile of non-life underwriting risks changed somewhat in 2022. Due to the larger insurance portfolio and unfavourable claims experience, premium and reserve risks increased.

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

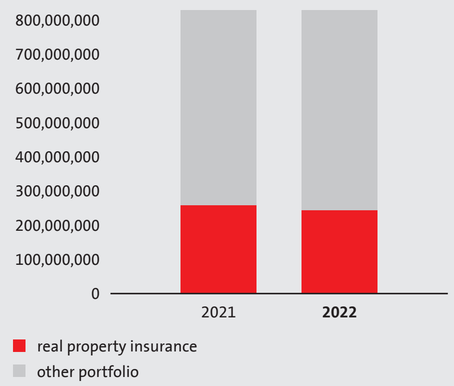
The Group is most exposed to premium and reserve risks, followed by catastrophe and lapse risks. At Group level, Zavarovalnica Triglav underwrites the bulk of the non-life underwriting risks, Triglav, Zdravstvena zavarovalnica underwrites most health underwriting risks, while Pozavarovalnica Triglav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

Risk assessment* for non-life insurance and inward reinsurance including health insurance for the Triglav Group as at 31 December 2022



*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.

Exposure of the Triglav Group to premium risk as at 31 December 2021 and 31 December 2022 (EUR)*



*Real property insurance comprises insurance from insurance classes 8 (fire and natural disaster insurance) and 9 (other damage to property insurance).

Exposure to premium risk increased the most in the real property insurance group in 2022. Most growth in this insurance group 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.

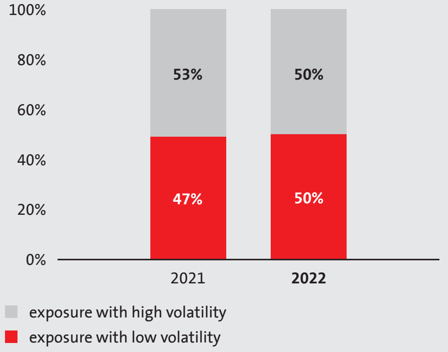
Premium risk is regularly monitored both at Group level and at the level of insurance segments. The adequacy of written premium in relation to actual claims and costs arising from underwritten insurance contracts is also measured with combined ratios. Combined ratios for the last three years are presented in Section 8. Financial result of the Triglav Group and Zavarovalnica Triglav of the Business Report.

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

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 2022 year-end, the created insurance technical provisions were adequate for both financial reporting and solvency purposes (see Section 3.16 and Section 3.18 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 2022, 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, with the highest volatility in the credit and suretyship insurance segment.

The ratio of exposure to reserve risk with low and high volatility for the Triglav Group as at 31 December 2021 and 31 December 2022



The Group's insurance companies regularly analyse the adequacy of insurance technical provisions, which are created by consistently using harmonised actuarial methods. The adequacy of provisions is assessed by comparing the difference between the originally estimated liabilities and the actual liabilities on a specific cut-off date, taking into account claims already paid in the reporting period. Analyses show that the difference in historical years is such that it confirms the adequacy of provisions as at 31 December 2022.

Lapse risk did not change significantly during the year.

Catastrophe risk

In 2022, three events were recorded that were defined as catastrophe events; all three were hailstorms. 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, as the Company regularly models the perils that pose the greatest exposure or high risk. 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 probable maximum loss (PML) for a 200-year return period[94] over a one-year period by peril.

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.

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

The Group's largest retention amounts to EUR 11.5 million per peril, with the exception of the nuclear peril. For the latter, the Group's largest exposure amounts to EUR 14 million, which the Group assumes from the Slovenian and the Croatian 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.

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

Modelled peril (EUR million)	31 Dec. 2022
Hail	77.7
Storm	138.3
Flood	47.7

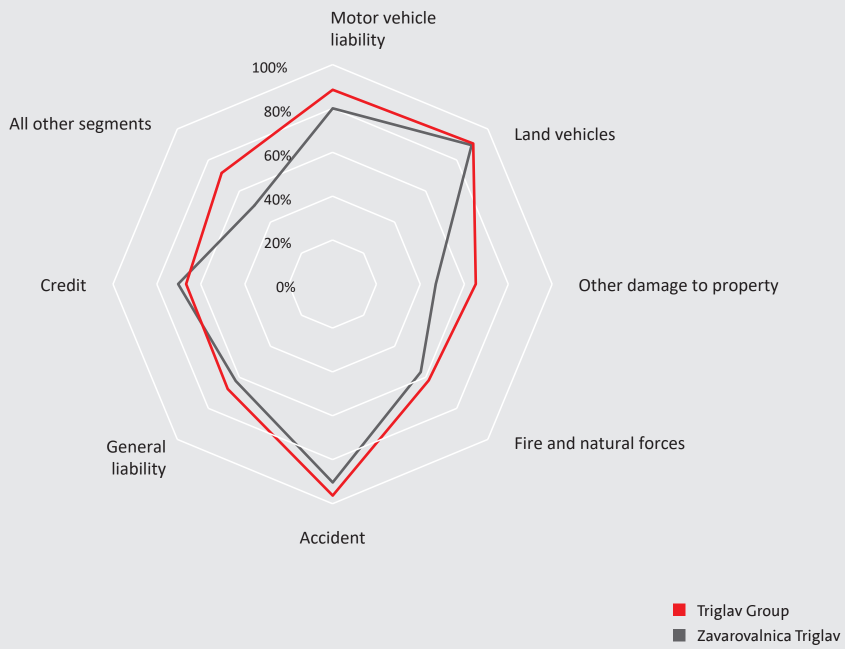
* In the case of availability of several models, the average of modelled results was taken into account.

Realised financial effect of catastrophe events at Zavarovalnica Triglav[95]*

	Modelled perils		Non-modelled perils	
	31 Dec. 2022	31 Dec. 2021	31 Dec. 2022	31 Dec. 2021
Gross financial impact (EUR million)	21.3	12.8	0	3.4
Net financial impact (EUR million)	16.6	11.2	0	3.3

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

Net written premium share in relation to gross written premium as at 31 December 2022



[94] SASB: FN-IN-450a.1 | [95] SASB: FN-IN-450a.2

Assumed capacity of nuclear perils for 2021 and 2022 at the Triglav Group

	Assumed capacity in EUR	
	2022	2021
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 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 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[96], the estimated financial impact of a major earthquake in Ljubljana would amount to EUR 24.8 million for the Company and EUR 25 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. As part of the own risk and solvency assessment process, the impact of a 200-year flood in Slovenia in 2022 was assessed, where according to stress scenario calculations the estimated financial impact would amount to EUR 18.6 million.

3.2.2 Life underwriting risks

3.2.2.1 Description of risk and its management

Life underwriting risks, which to the greatest extent stem from the life insurance segment, also include pension insurance and health insurance. The bulk originates from direct insurance business.

Life insurance liabilities largely arise from the life insurance portfolio. It comprises traditional insurance, mainly insurance with profit participation, and unit-linked insurance. Traditional insurance covers, which also include a savings component, are to the greatest extent linked to the life and health of the persons insured; they also include pure term insurance with mortality risk and several types of annuity insurance with longevity risk. Furthermore, longevity risk occurs in pension insurance, particularly in supplemental voluntary insurance. The vast majority of insurance covers include statutory or contractual rights of policyholders to modify the insurance or reinsurance cover, i.e. to either early terminate or increase it in whole or in part, making them subject to lapse risk.

Life underwriting risks, which also stem from pension insurance, include biometric and business risks. Biometric risks arise from the uncertainty of biometric assumptions in the calculation of the insurance liability, namely from mortality, longevity, health, morbidity and disability. Business risks stem from the uncertainty of assumptions regarding the amount of costs and the unfavourable realisation of policyholders' contractual options, the most important of which is early termination.

If the assumptions in the insurance liability calculation 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. Life insurance riders (additional coverage) are less dependent on biometric factors, as a result their risks are more similar to the risks of non-life insurance. For example, accident insurance is less dependent on biometric data, therefore their risks are similar to the risks of non-life insurance.

Life underwriting risks are described in greater detail below.

- **Mortality risk** is associated with insurance that covers the risk of death if at the time of the person insured's death the coverage is greater than the provisions created. Whole life insurance products, credit life insurance products and life insurance products with a savings component pose the highest exposure for the Group. 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 stems mainly from 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 life expectancy of the beneficiaries. If the overall life expectancy of the population insured increases significantly, 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. Longevity risk is not transferred to reinsurers, instead additional dedicated provisions are formed if necessary.
- **Disability and morbidity risk** is associated with the products, which are underwritten by the Group's insurance companies and cover critical and serious illnesses and disability.
- **Lapse risk** refers to products where the contractual provisions allow the policyholder to modify the policy, which includes the option of partial or full surrender, changing the amount of coverage or premium, capitalisation, etc. Whether this risk materialised 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 assumes **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 lasts many 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.
- **Revision risk** may affect non-life insurance claims paid out as annuity. 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.

[96] 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.

- **Life catastrophe risk** 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 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.

3.2.2.2 Risk in 2022

The profile of life underwriting risks changed somewhat in 2022. On the one hand, lapse risks increased, and on the other, mortality and expense risks decreased.

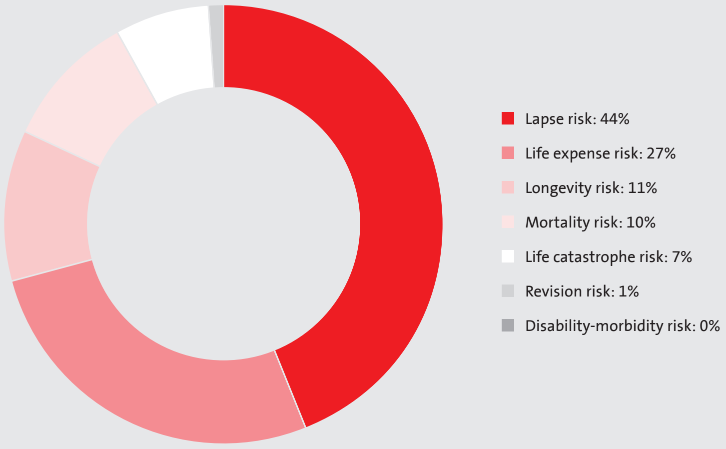
Among life underwriting risks, the Group is most exposed to lapse risk, life expense risk, longevity risk and mortality risk. Within the Group, Zavarovalnica Triglav underwrites the bulk of life underwriting risks. The largest share of the Group's guaranteed interest rate risk is assumed by Zavarovalnica Triglav and Triglav, pokojninska družba.

Gross written insurance, coinsurance and reinsurance premiums in 2022 by (re)insurance subsidiary of the Group is presented in Section 7.5 of the Business Report.

The adequacy of insurance technical provisions for life insurance is regularly checked, they are determined according to prudent assumptions. The adequacy of provisions is checked 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 year (see Section 3.17 of the Accounting Report for more information). The test results for 2022 showed that an adequate level of insurance technical provisions for life insurance was created for the Group and individual insurance companies. Additional 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.

Traditional life and pension insurance policies which include saving at a guaranteed interest rate cause potential asset-liability mismatch risk. 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 698.0 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 2022 stood at 1.5% (see Section 15.11 of the Business Report for more information).

Risk assessment* of life insurance for the Triglav Group as at 31 December 2022



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

Similar risks due to a special guarantee for the return arise from the SVPI policies during the saving period. These risks mostly arise from market risks, which are described in more detail in Section 3.3 of Risk Management. In 2022, due to the rapid rise in interest rates and the resulting required returns on debt investments, the risk of failing to achieve the guaranteed return materialised in supplemental voluntary pension insurance of Zavarovalnica Triglav and Triglav, pokojninska družba, d.d. As a result, a number of steps were taken to manage this risk, which were aimed at adjusting the investment policy to a less risky one (e.g. reducing the duration of debt investments, reducing exposure to equity investments). One of the key actions taken by Triglav, pokojninska družba d.d. was capital increase, which ensured capital strength and compliance with all legal requirements applying to pension companies.

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 82.4% of the whole life insurance portfolio and less than EUR 35,000 for 99.2% for the other life insurance portfolio. The sum insured of 98.7% of complementary accidental death insurance is lower than EUR 50,000, while the sum insured of 99.1% of complementary accidental disability insurance is lower than EUR 100,000. The aforementioned sums insured represent retention stipulated by a contract in line with the reinsurance contract for most insurance policies.

3.3 Market risks

3.3.1 Description of risk and its management

The Group invests written premium (in the framework of the insurance business) and subsidiaries' own assets. The value of the Group companies' investment portfolios 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. On this basis, the limit system was set up that 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 time matching of cash flows of assets and liabilities. 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 gap of 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 rise, the value of liabilities from the Group's insurance policies decreases more than 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, where such risks are primarily assumed by the policyholders. In this segment, the focus is therefore on achieving the greatest possible matching of assets and liabilities.

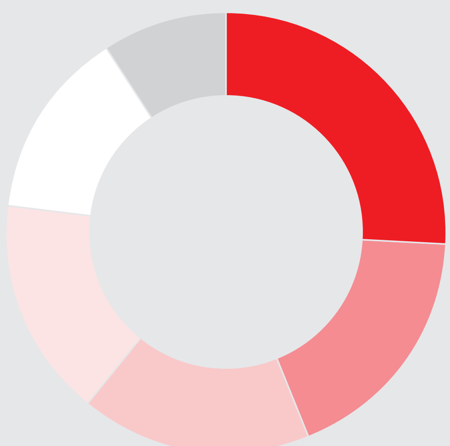
  The purpose of equity investments is to achieve high long-term returns and ensure adequate diversification of the investment portfolio. The Group manages equity risk in its portfolio by setting exposure limits as well as through geographical and sectoral diversification of equity investments. In addition, due to different levels of development of capital markets and local statutory limitations, the investment policy is adapted to individual markets.
- **Property risk** arises primarily 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, which means that it cannot be eliminated by matching the liabilities. 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 debt 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. Therefore, currency risk results from the mismatched currency position of assets and liabilities. It 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 concentration to issuers and groups of related issuers as well as geographical and sector concentration.

3.3.2 Risk in 2022

Despite major changes in the financial markets, the Group always kept market risks at predetermined levels, which required active management of these risks. The scope of market risks decreased, and their structure changed as a result of active risk management and redirecting investments to safer asset classes. The decline in market risks compared to the previous year is primarily a result of a decrease in equity risk and spread risk. In contrast, market concentration risk rose mainly due to greater excess concentration to the Triglav Group.

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 instruments, which mostly include debt securities and deposits with banks, followed by equity securities and real property. The highest market risk for the Group is spread risk, followed by currency risk, property risk, market concentration risk and equity risk. Interest rate risk is the lowest.

Market risk assessment* by subtype for the Triglav Group as at 31 December 2022



*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.

3.3.2.1 Spread risk

Spread risk is predominantly affected by debt securities, which account for around 68% 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 increased during 2022 due to the tense geopolitical situation and rising inflation with increases in interest rates and required returns. They initially raised risk-free interest rates, but at the same time credit spreads also increased as a result of an expected worsening economic situation. This can additionally affect the credit quality of debt securities issuers. The Company and the Group manage this risk proactively in accordance with investment policies.

The bulk (approximately 61%) of investments that are exposed to spread risk are related to exposure to countries, followed by exposure to the financial sector, which relates to 21% of investments in debt securities.

Exposure to spread risk is limited by the maximum allowed share in the capital, to which the investment policy is also adapted. Spread risk is a material risk, because a change in credit spread affects the amount of assets but not the amount of liabilities, therefore the risk cannot be reduced through asset-liability management. In its investment portfolio, the Group is exposed to investments with outstanding credit quality. A total of 58% of investments in debt securities have at least an "A" credit rating. The bulk (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 2022, as the average credit quality with an "A" credit rating was maintained.

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.

3.3.2.2 Equity risk

Equity risk arises from exposure to equity investments, excluding investments in subsidiaries and associates and unit-linked life insurance contract investments. These comprise 8.7% of the Triglav Group's investment portfolio. The majority of exposure to equity risk arises from exposure of the parent company.

The value of the aforementioned equity investments decreased in 2022. The reason for their decrease is primarily the sale of some investments. 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 excluding associates (EUR)

	Triglav Group		Zavarovalnica Triglav	
	31 Dec. 2022	31 Dec. 2021	31 Dec. 2022	31 Dec. 2021
Equities in the EU	206,450,200	276,478,222	140,724,000	184,660,063
Equities in the USA	9,730,015	31,728,927	9,723,308	18,463,891
Equities in Asia*	0	0	0	0
Equities in emerging markets	5,126,789	6,988,438	700,998	885,254
Global equities**	13,469,662	15,765,073	0	0
Total financial investments	**234,776,666**	**330,960,660**	**151,148,306**	**204,009,208**
Unit-linked life insurance contract investments***	546,964,429	594,267,073	484,822,314	529,598,379
TOTAL	**781,741,095**	**925,227,733**	**635,970,621**	**733,607,587**

* Equity investments in advanced Asia (Japan, Hong Kong).
** Globally dispersed equity investments.
*** Unit-linked life insurance contract investments include only equity securities excluding debt securities.

Sensitivity analysis of equity investments*, excluding associates (EUR)

	Triglav Group				Zavarovalnica Triglav			
	31 Dec. 2022		31 Dec. 2021		31 Dec. 2022		31 Dec. 2021	
	10%	**– 10%**	**10%**	**– 10%**	**10%**	**– 10%**	**10%**	**– 10%**
Equities in the EU	20,645,020	–20,645,020	27,647,822	–27,647,822	14,072,400	–14,072,400	18,466,006	–18,466,006
Equities in the USA	973,002	–973.002	3,172,893	–3,172,893	972,331	–972.331	1,846,389	–1,846,389
Equities in Asia**	0	0	0	0	0	0	0	0
Equities in emerging markets	512,679	–512.679	698,844	–698.844	70,100	–70.100	88,525	–88.525
Global equities***	1,346,966	–1,346,966	1,576,507	–1,576,507	0	0	0	0
Total financial investments	**23,477,667**	**–23,477,667**	**33,096,066**	**–33,096,066**	**15,114,831**	**–15,114,831**	**20,400,921**	**–20,400,921**
Impact on fair value reserves	13,650,271	–12,110,607	20,490,695	–20,394,885	13,290,041	–11,750,377	17,237,779	–17,141,969
Impact on profit or loss	9,827,396	–11,367,059	12,605,371	–12,701,181	1,824,790	–3,364,453	3,163,142	–3,258,952
Impact on equity	**23,477,667**	**–23,477,666**	**33,096,066**	**–33,096,066**	**15,114,831**	**–15,114,831**	**20,400,921**	**–20,400,921**

* The effects shown do not include the tax aspect and the indirect impact of the change in these assets on liabilities (for life insurance).
** 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 13.7 million, and on its profit in the amount of EUR 9.8 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 12.1 million and its profit by EUR 11.4 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.

3.3.2.3 Property risk

The Group's total exposure to property risk amounts to EUR 186.7 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 involves mostly long-term lease agreements. The Group's real property is primarily located in Slovenia.

Exposure to real property in relation to its purpose* (EUR)

	Triglav Group		Zavarovalnica Triglav	
	31 Dec. 2022	31 Dec. 2021	31 Dec. 2022	31 Dec. 2021
Right-of-use assets	10,367,625	10,933,109	3,940,725	4,548,297
Investment property not intended for the direct conduct of insurance business	68,377,495	75,110,973	43,377,173	43,840,055
Real property for own use**	107,998,470	108,655,212	67,285,007	65,143,310
Total	**186,743,590**	**194,699,294**	**114,602,905**	**113,531,662**

* 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. The fair value is calculated using valuation techniques. Valuation of property based on the existing methodology is performed by an authorised value.
** Own-use real property includes the item "property, plant and equipment" in the Accounting Report.

3.3.2.4 Currency risk[97]

The Group's currency risk arises predominantly from subsidiaries not operating in the euro area. These companies conduct most of their transactions in the local currency, thus being exposed to currency risk relating to the euro and other currencies to a lesser extent. A part of the Group's currency risk arises from the excess of assets over liabilities in US dollars, in respect of which the exposure is similar as in the preceding year.

To a lesser extent, the Group manages currency risks with derivatives. As at 31 December 2022, the Group had no currency derivative contracts.

Financial investments in euros represent 91% of the Group's financial investments, with the exposure to individual foreign currency not exceeding 3%. Compared to the previous year, the open currency position in Croatian kuna, which was managed in previous years with derivatives, increased slightly. Due to Croatia adopting the euro in early 2023, the open currency position as at 31 December 2022 was not reduced with derivatives.

[97] SASB: FN-IN-550a.1

Currency exposure of the Triglav Group's financial assets and liabilities (all figures are in EUR)*

Triglav Group as at 31 Dec. 2022	EUR	USD	BAM	RSD	HRK	MKD	Other	Total
Investment property	**67,360,152**	**0**	**595,820**	**262,041**	**159,482**	**0**	**0**	**68,377,495**
Investments in associates	**37,810,184**	**0**	**0**	**0**	**0**	**0**	**0**	**37,810,184**
Financial investments	**2,347,938,798**	**23,919,505**	**24,893,374**	**45,870,610**	**80,785,520**	**26,883,325**	**42,818,167**	**2,593,109,846**
Debt securities	2,066,524,463	19,733,028	12,437,085	38,700,115	45,121,211	14,896,016	38,896,041	2,236,307,959
Equity securities	212,213,418	6,597	8,077,212	9,043	13,933,393	536,457	0	234,776,667
Derivatives	0	0	0	0	0	0	0	0
Deposits and loans	64,305,727	4,179,880	3,764,519	6,511,746	21,730,916	11,129,564	3,922,126	115,544,478
Other financial investments	4,895,190	0	614,558	649,706	0	321,288	0	6,480,742
Insurance technical provisions transferred to reinsurers	**163,884,364**	**5,178,558**	**5,018,909**	**9,479,050**	**6,531,800**	**0**	**19,706,336**	**209,799,017**
Operating receivables	**225,500,238**	**8,645,511**	**6,746,512**	**17,453,238**	**22,348,990**	**5,835,338**	**23,582,266**	**310,112,093**
Cash and cash equivalents	**69,266,573**	**1,328,014**	**19,060,436**	**4,124,195**	**2,108,475**	**651,170**	**1,922,589**	**98,461,452**
Total	**2,911,760,309**	**39,071,588**	**56,315,051**	**77,189,134**	**111,934,267**	**33,369,833**	**88,029,358**	**3,317,670,087**
Unit-linked life insurance contract investments	**514,795,165**	**50,314,953**	**0**	**0**	**760,544**	**719,558**	**5,276,301**	**571,866,521**
TOTAL ASSETS	**3,426,555,474**	**89,386,541**	**56,315,051**	**77,189,134**	**112,694,811**	**34,089,391**	**93,305,659**	**3,889,536,608**
Subordinated liabilities	49,522,163	0	0	0	0	0	0	49,522,163
Insurance technical provisions	2,235,382,965	27,273,770	25,145,402	50,626,594	85,673,510	17,997,831	76,979,524	2,519,079,596
Insurance technical provisions for unit-linked life insurance contracts	523,873,183	50,314,953	0	0	760,544	719,558	5,276,301	580,944,539
Employee benefits	15,266,627	0	703,239	223,475	915,410	320,357	0	17,429,108
Other financial liabilities	1,293,690	–27	72,876	490,208	15,328	2,277	–792	1,873,560
TOTAL LIABILITIES	**2,825,338,628**	**77,588,696**	**25,921,517**	**51,340,277**	**87,364,792**	**19,040,023**	**82,255,033**	**3,168,848,966**
Net currency exposure	**601,216,846**	**11,797,845**	**30,393,534**	**25,848,857**	**25,330,019**	**15,049,368**	**11,050,626**	**720,687,642**

Triglav Group as at 31 Dec. 2021	EUR	USD	BAM	RSD	HRK	MKD	Other	Total
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**

*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.

3.3.2.5 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 could be exposed to interest rate risk on the liabilities side, mostly through insurance technical provisions for **life insurance**, and to a lesser extent, in insurance technical provisions for **non-life insurance**, especially 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 rose in 2022, the test showed that there was no significant need for such an increase. When interest rates rise, insurance technical provisions are further reduced and are below the level of accounting estimates.

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 the market value. In this regard, the cash flows of assets and liabilities are carefully matched and their duration gap is reduced.

The Company continued to shorten the maturity of its investment portfolio in 2022 due to rising inflation and the resulting increases in interest rates and required returns on debt investments.

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 73.2 million), while a sudden increase of 100 basis points would have a negative impact (in the amount of EUR 75.6 million). The impact of a rise in interest rates on the financial statements is lower than in the preceding year due to lower interest sensitivity of assets and liabilities. Assets are less sensitive to interest rates due to lower exposure and shorter maturity. Due to higher interest rates, insurance liabilities show low interest rate sensitivity.

The Company and the Group monitor the duration gap[98] 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 is measured through the duration gap of assets and liabilities, which measures the sensitivity of interest-bearing assets and liabilities to changes in interest rates. The gap shows the matching of cash inflows and outflows. The market matching assessment as at 31 December 2022 was comparable to that as at 31 December 2021. This was achieved primarily by actively managing interest rate risk and adjusting the portfolio to rising interest rates. The duration gap of assets and liabilities at Group level is negative and stands at –1.2 year (compared to –1.0 year as at 31 December 2021). The most important impact originates from the Company, where the duration gap of assets and liabilities is –1.9 years (compared to –-1.8 years as at 31 December 2021). The duration gap of assets and liabilities in the Company's life insurance portfolio (excluding supplemental voluntary insurance and the unit-linked life insurance segment) is –2.8 years and in its non-life insurance portfolio 0.5 year.

Sensitivity analysis of assets and liabilities to interest rate changes* (EUR)

	Triglav Group				Zavarovalnica Triglav			
	31 Dec. 2022		31 Dec. 2021		31 Dec. 2022		31 Dec. 2021	
	+100 bp	–100 bp	+100bp	–100bp	+100 bp	–100 bp	+100 bp	–100 bp
Debt securities issued by countries	–58,030,809	64,188,532	–95,209,665	109,701,001	–37,726,493	43,067,408	–72,058,154	84,374,724
Debt securities issued by financial institutions	–8,088,344	8,417,840	–11,781,910	12,466,525	–5,874,733	6,153,647	–8,987,158	9,510,788
Debt securities issued by companies	–9,605,769	9,964,273	–13,766,502	14,581,999	–6,193,354	6,491,901	–8,721,396	9,259,840
Compound securities	18,736	–13,885	4,851	1,427	18,736	–13,885	4,851	1,427
Other	0	0	0	0			0	0
Total financial investments	**–75,706,186**	**82,556,760**	**–120,753,227**	**136,750,952**	**–49,775,844**	**55,699,071**	**–89,761,857**	**103,146,779**
Insurance technical provisions for life insurance	0	0	–7,114,800	89,556,173	0	0	–7,114,800	56,984,924
Insurance technical provisions for non-life insurance	–100,847	9,374,115	0	23,687,975	0	9,293,421	0	23,255,269
Total insurance technical provisions	**–100,847**	**9,374,115**	**–7,114,800**	**113,244,149**	**0**	**9,293,421**	**–7,114,800**	**80,240,192**
Impact on capital	**–75,605,340**	**73,182,647**	**–113,638,426**	**23,506,803**	**–49,775,844**	**46,405,650**	**–82,647,057**	**22,906,587**
Impact on fair value reserves	–74,225,337	81,009,938	–102,271,823	116,707,229	-48,294,995	54,152,249	-82,277,092	95,072,550
Impact on profit or loss	–1,380,003	–7,827,291	–11,366,604	–93,200,426	–1,480,850	–7,746,599	–369.965	–72,165,963

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

[98] In addition to the duration of assets and liabilities, the duration gap also takes into account the value of assets and liabilities as at calculation date (weighted duration gap).

3.3.2.6 Market risk concentration

The largest share of the Group's assets is accounted for by debt securities. Approximately 61% is accounted for by government bonds, followed by financial bonds (21%) and corporate bonds (19%). Among individual issuers of debt securities, excluding unit-linked life insurance contract investments, the Group is most exposed to issuers from Germany, followed by Slovenia. See Section 7.9 of the Business Report for more information on the concentration of financial investments.

3.4 Credit risks

3.4.1 Description of risk and its management

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 individual counterparties and the concentration of risks of these parties.

There are three sources of the Group's credit risk by partner type:

- **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 to partners, which also takes into account own criteria in addition to public information or credit ratings. 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. This 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:** Credit risks at Group level also arise from 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.

3.4.2 Risk in 2022

Compared to the 2021 year-end, the credit risk assessment as at 31 December 2022 increased predominantly due to higher exposure to banks and growth in receivables from policyholders.

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 the Company and other Group companies.

Credit risk exposure by partner type (EUR)

	Triglav Group		Zavarovalnica Triglav	
	31 Dec. 2022	31 Dec. 2021	31 Dec. 2022	31 Dec. 2021
Banks	98,787,801	82,321,630	23,065,241	13,912,991
- Cash from unit-linked life insurance contract investments	8,891,955	2,042,836	8,411,716	1,967,631
- Other cash	89,895,846	80,278,794	14,653,525	11,945,360
Reinsurers	248,232,922	201,967,510	200,895,093	149,562,360
Persons insured and other partners*	59,754,456	44,905,588	26,685,926	16,881,127
Total	**406,775,179**	**329,194,728**	**250,646,260**	**180,356,478**
Total excluding cash from unit-linked life insurance contract investments	**397,883,224**	**327,151,892**	**242,234,544**	**178,388,847**

* 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 a "BBB" credit rating or are without a credit rating. In addition, the Group is exposed to banks in the countries where its subsidiaries operate, 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. In 2022, the credit ratings of banks to which the Group is exposed did 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. 2022	31 Dec. 2021	31 Dec. 2022	31 Dec. 2021
AAA	0.0%	0.0%	0.0%	0.0%
AA to BBB	73.9%	75.9%	76.2%	76.3%
Below BBB	7.6%	9.4%	6.7%	16.6%
Not rated	18.5%	14.8%	17.1%	7.1%
Average credit rating	BBB	BBB	BBB	BBB

The Group is most exposed to reinsurers with an "A" credit rating. The proportion of partners with an "AA" credit rating is also high. The proportion of non-rated reinsurance partners at Group level is 18.5%, The bulk stems from insurance claims of insurance companies in strategic markets, which are covered by non-rated reinsurers. The proportion of non-rated reinsurers in the Company is slightly lower, i.e. 17.1%. The reason for such a major change compared to 2021 are provisions and reinsurance claims from already existing old claims reinsured with Russian reinsurance partners, which lost their credit rating in 2022.

The geographical concentration of reinsurers at Group level is the highest in Germany. Compared to 2021, it changed mainly due to the increase in the concentration of exposure to reinsurers in Kazakhstan, which predominantly arises from the Company's businesses and is the result of new reported claims reinsured in Kazakhstan. Due to its exposure to the subsidiary Pozavarovalnica Triglav Re, Zavarovalnica Triglav is geographically most exposed in Slovenia.

Concentration of five largest exposures to reinsurers by country

Triglav Group			
	31 Dec. 2022		31 Dec. 2021
Germany	14.8%	Germany	19.2%
Kazakhstan	10.2%	Russia	12.6%
Serbia	8.4%	Serbia	8.6%
Russia	8.1%	Bosnia and Herzegovina	7.0%
Great Britain	6.8%	Great Britain	6.1%

Zavarovalnica Triglav			
	31 Dec. 2022		31 Dec. 2021
Slovenia	47.8%	Slovenia	52.5%
Kazakhstan	11.9%	Russia	16.1%
Russia	9.4%	Barbados	4.3%
Cyprus	6.7%	Kazakhstan	3.4%
Great Britain	5.9%	Great Britain	3.2%

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. 2022	31 Dec. 2021	31 Dec. 2022	31 Dec. 2021
Receivables due from policyholders	67.5%	66.4%	88.1%	88.6%
Subrogation receivables	42.3%	41.2%	49.7%	45.4%

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 2022 as well.

3.5 Liquidity risk[99]

3.5.1 Description of risk and its management

Liquidity risk is the risk of loss when the company is unable to meet its obligations arising from the timing mismatch of inflows and outflows, or when it is able to meet them only at higher costs. It includes risk of settling matured and contingent liabilities and market liquidity risk.

- **Risk of settling matured and contingent liabilities** is the risk of the company's inability to dispose of a liquidity position that enables it to settle its liabilities (including incurred unexpected liabilities) upon maturity.
- **Market liquidity risk** is the risk of loss due to the inability to sell an asset without major impact on the market price due to inadequate market depth or market disruptions.

The Company's expected cash flows, i.e. inflows and outflows, are kept and managed proactively. Most cash flows of liabilities arise 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 aiming to generate surplus assets to ensure the repayment of liabilities even when liquidity needs are higher. Thus, when necessary, the Group adjusts the liquidity of its portfolio in order to meet all expected and unexpected cash outflows and overdue liabilities at any given moment.

To manage liquidity risk, a process was set up based on the liquidity coverage ratio (LCR), which is used to provide for adequate liquidity reserves on an ongoing basis. The LCR is determined for both expected and predetermined liquidity stress scenarios. These are determined based on **various stress scenarios** adjusted to the Company's liquidity risk, which includes adverse insurance and financial events. Furthermore, the sources of liquidity are regularly adjusted, as the available funds must always exceed the needs.

When measuring liquidity, 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 managed, while optimising excess liquidity by investing in alternative sources with higher returns on the market.

Liquidity at Group level is assessed based on the liquidity of the Company and the subsidiaries. The liquidity of the Group companies is planned on an annual basis by estimating the volume and scope of business in the coming year. In the framework of own risk and solvency assessment, it is planned for at least three years; the planning includes future potential liquidity needs and effectively provides for available liquidity sources.

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.

3.5.2 Risk in 2022

Zavarovalnica Triglav and the Group companies had adequate liquidity in 2022. Also, as part of own risk and solvency assessment in 2022, the liquidity scenarios carried out confirmed the Company's liquidity strength and that the subsidiaries were properly prepared for stress scenarios.

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

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

Triglav Group as at 31 Dec. 2022	Not defined	Up to 1 year	1 to 5 years	5 to 10 years	Over 10 years	Total
FINANCIAL ASSETS						
Financial investments	**206,588,948**	**380,947,184**	**1,390,509,876**	**373,384,715**	**241,679,124**	**2,593,109,847**
Debt securities	0	293,611,097	1,328,382,834	372,634,903	241,679,124	2,236,307,958
- held to maturity	0	10,459,762	271,956,745	110,939,522	63,113,407	456,469,436
- at fair value through profit or loss	0	37,767,073	92,082,668	5,552,767	434,233	135,836,741
- available for sale	0	245,384,262	964,343,421	256,142,614	172,149,046	1,638,019,343
- loans and receivables	0	0	0	0	5,982,438	5,982,438
Equity securities	199,392,945	423,210	34,951,618	8,894	0	234,776,667
- at fair value through profit or loss	63,480,799	0	0	0	0	63,480,799
- available for sale	135,912,146	423,210	34,951,618	8,894	0	171,295,868
Derivatives	0	0	0	0	0	0
Loans and receivables	715,260	86,912,877	27,175,424	740,918	0	115,544,479
Other financial investments	6,480,743	0	0	0	0	6,480,743
Unit-linked life insurance contract investments	546,964,429	6,445,414	13,692,299	3,958,181	806,198	571,866,521
- at fair value through profit or loss	546,964,429	1,800,595	13,692,299	3,958,181	806,198	567,221,702
- available for sale	0	0	0	0	0	0
- loans and receivables	0	4,644,819	0	0	0	4,644,819
Insurance technical provisions transferred to reinsurers	600,000	123,023,763	62,482,943	18,839,732	4,852,580	209,799,017
Operating receivables (including tax receivables)	4,210,654	302,277,560	783,797	2,833,680	6,402	310,112,093
Cash	64,977,662	33,483,790	0	0	0	98,461,452
Total financial assets	**823,341,693**	**846,177,711**	**1,467,468,915**	**399,016,308**	**247,344,304**	**3,783,868,185**
FINANCIAL LIABILITIES						
Subordinated liabilities	0	0	0	0	49,522,163	49,522,163
Insurance technical provisions	2,832,730	830,300,253	712,169,018	291,095,892	682,681,703	2,519,079,596
Insurance technical provisions for unit-linked life insurance contracts	471,954,899	1,595,718	10,787,145	18,973,015	77,633,761	580,944,538
Other financial liabilities	490,206	1,322,103	0	61,230	19	1,873,558
Total financial liabilities	**475,277,835**	**833,218,083**	**722,956,163**	**310,130,137**	**809,837,646**	**3,151,419,858**

*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. 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 financial assets	**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 financial liabilities	**530,986,674**	**815,789,929**	**732,021,342**	**355,400,313**	**817,031,002**	**3,251,229,260**

The Group's total financial assets exceeded its total financial liabilities also in 2022. 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.

Financial assets and liabilities of Zavarovalnica Triglav by contractual maturity (EUR)

	Not defined	Up to 1 year	1 to 5 years	5 to 10 years	Over 10 years	Total
FINANCIAL ASSETS						
Financial investments	**154,412,843**	**180,127,401**	**863,631,863**	**237,789,321**	**189,226,441**	**1,625,187,870**
Debt securities	0	162,218,573	858,319,994	237,048,403	189,226,441	1,446,813,411
- held to maturity	0	3,972,138	142,330,844	53,855,301	27,498,690	227,656,974
- at fair value through profit or loss	0	12,339,169	54,658,756	1,246,440	434,233	68,678,599
- available for sale	0	145,907,265	661,330,393	181,946,662	155,311,080	1,144,495,399
- loans and receivables	0	0	0	0	5,982,438	5,982,438
Equity securities	151,148,306	0	0	0	0	151,148,306
- at fair value through profit or loss	18,247,899	0	0	0	0	18,247,899
- available for sale	132,900,407	0	0	0	0	132,900,407
Derivatives	0	0	0	0	0	0
Loans and receivables	0	17,908,828	5,311,870	740,918	0	23,961,616
Other financial investments	3,264,537	0	0	0	0	3,264,537
Unit-linked life insurance contract investments	484,822,314	1,055,933	2,271,907	2,467,150	1,544	490,618,848
- at fair value through profit or loss	484,822,314	1,055,933	2,271,907	2,467,150	1,544	490,618,848
- 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	109,819,057	53,644,423	13,527,531	3,151,930	180,142,941
Operating receivables (including tax receivables)	0	198,462,281	0	0	0	198,462,281
Cash	23,065,242	0	0	0	0	23,065,242
Total financial assets	**662,300,400**	**489,464,672**	**919,548,193**	**253,784,002**	**192,379,916**	**2,517,477,183**
FINANCIAL LIABILITIES						
Subordinated liabilities	0	0	0	0	49,522,163	49,522,163
Insurance technical provisions	0	533,549,983	549,994,070	178,032,154	416,172,259	1,677,748,466
Insurance technical provisions for unit-linked life insurance contracts	449,399,980	866,336	5,260,288	8,694,816	31,461,383	495,682,803
Other financial liabilities	0	16,615	0	0	0	16,615
Total financial liabilities	**449,399,980**	**534,432,933**	**555,254,358**	**186,726,970**	**497,155,806**	**2,222,970,046**

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 financial assets	**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 financial liabilities	**499,681,626**	**518,594,886**	**567,588,842**	**230,336,724**	**515,462,393**	**2,331,664,472**

3.6 Operational risks

3.6.1 Description of risk and its management

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.

As part of the risk appetite, which is the main guideline for operational risk management, high standards for ensuring compliance with the law and zero tolerance for internal criminal acts and fraud, including corruption, were set. The Company aims to ensure an appropriate level of information security (confidentiality, integrity and availability) for all information as it represent Company's business asset, and in doing so follows good practices in information security, taking into account the levels of information security risks defined as acceptable for each type of information.

The Group's operational risks are ever-present; therefore it is of key importance to identify and manage the most material in a timely manner, limiting them cost-effectively according to the defined tolerance. The aim of operational risk management is to prevent their occurrence, quickly and effectively remedy the consequences of realised operational loss events, as well as mitigate and prevent business damage in a professional, diligent and ethical manner. Here, the greatest emphasis is placed on key business processes and types of operational risks. Recently, cyber, regulatory and human resource risks have come to the fore. Operational risks are assessed based on all available information, such as estimates of potential risks by business process groups, realised operational loss events, key indicators of these risks and other relevant information from employees and key functions. In 2021, the Company implemented *GRC/IRM software (governance, risk, compliance/integrated risk management)* to collect and manage data as well as report on operational risks more comprehensively. This tool also supports compliance and internal audit processes for an even more coordinated operation of key functions in risk management processes and a more responsive overview. The Operational Risk Committee plays an important role in monitoring operational risks; it deals with any identified (potential or realised) material risks and takes appropriate action.

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, all of which regularly report on realised operational loss events and other material operational risks.

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

As part of operational risk management, **the business continuity management system** was set up to ensure continuity of key business processes. It comprises all key components relevant to business continuity, particularly ensuring key staff, work locations and resources, which includes the operation of information and communication technology with key applications. Business continuity plans for critical business processes and IT disaster recovery plans are regularly revised, upgraded and tested. Among others, the business continuity management system also defines measures to be taken in the case of extraordinary events that cause or could cause interruptions or disruptions in business processes. The Company has set up:

- a crisis management team, 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 ICT services;
- recovery teams for the Company's head office and regional units, which are activated in the event the accessibility or operation in an individual commercial building or regional unit is interrupted.

As part of operational risks, events related to business interruptions and disruptions are also monitored.

3.6.2 Risk in 2022

Through proactive management of operational risks, any shortcomings, changes and trends in the internal and external environments that may affect their increase are promptly identified. Such an approach allowed the Company to respond quickly and effectively even in emergency situations such as the COVID-19 pandemic and the war in Ukraine. More attention was paid to the perceived growing risks and, when necessary, appropriate measures were taken to prevent them from materialising. The risks were mainly: the absence of key employees or simultaneous absence of many employees due to illness, the need to quickly adjust organisation of work and execution of business processes, additional information risks due to working from home and the war in Ukraine, regulatory changes due to government emergency measures, as well as the expansion and implementation of additional restrictive measures against Russia and Belarus at EU and OFAC levels.

The Company has not yet suffered a loss due to **cybersecurity incidents**; however, it is aware of their growing threat and being exposed to them. Changes brought about by the pandemic, remote work, the war in Ukraine and increasing regulatory requirements contributed to this. Accordingly, the information security system is regularly maintained and further upgraded. In order to step up the identification of our vulnerability 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 2022. Measures to improve information security were designed to further reduce the aforementioned risks and ensure their even more proactive monitoring and treatment.

The Group is also exposed to **regulatory changes risk** in other areas. Such an example is the significant expansion and implementation of additional restrictive measures at EU and OFAC levels as a result of the war in Ukraine, as well as the risks due to rapid adjustment of remote business with (potential) clients. Also, the Group 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 taking into account legislative changes in business processes, regular monitoring of business practices, the positions of supervisory and other state bodies, and participating in regular and extraordinary Slovenian Insurance Association procedures.

In addition, attention is paid to the general human resource risk of recruiting workers in shortage occupations (see Section 4. Triglav Group strategy and plans (Challenges and opportunities of today) and Section 12.4.2 Responsibility to employees in the Business Report for more information).

Zavarovalnica Triglav has an effective **risk management system for outsourcing**. This ensures that operational and other risks related to outsourcing do not increase excessively. Internal rules require that risks are identified and assessed before concluding a new business with outsourcer, regularly monitored and, if necessary, action is taken to mitigate them. The Company has two outsourced businesses: 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 providing a network of contractors (agents and agency companies) – ensures the provision of insurance distribution services and carries out, using own and external resources, claim settlement procedures and own general insurance administration. Furthermore, some Company activities are currently defined as partly outsourced, meaning they have certain elements of outsourced activities, while the remaining (not outsourced) part of the business process is managed with own resources. In terms of content, these businesses relate mainly to contractual insurance agency services (selling via agencies) and the provision of hardware and software (the maintenance of software and IT systems). A revision of outsourcing rules is underway, which will include, in addition to the management of outsourced activities, the management of other key and important outsourced services.

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

In the reporting year, the Company focused on the management of information security risks and business disruption and interruption. In past years, the business continuity management system was already upgraded, as after the pandemic, information of employee substitution was added because human resource risks were recognised as very relevant (especially the possibility of a high number of absent employees, absence of key employees and employee overload). Risk concentration was examined in terms of key processes and their smooth and continuous implementation. The latter requires a sufficient number of available employees, locations and resources, among which ICT resources are key. In order to identify such risks in detail, an overview was made of the connections between key processes, employees, external ICT and other providers, ICT resources that support the operation of part or the entire process or several processes, and locations. Most subsidiaries have also already developed or are planning to develop such an overview to identify the largest concentrations, which will be followed by findings at Group level.

Business continuity plans were upgraded with current scenarios and then tested, which also applies to IT disaster recovery plans.

3.7 Non-financial risks

3.7.1 Description of risk and its management

Non-financial risks important to the Triglav Group's operations include strategic risks, reputational risk, Group risk and sustainability risks. Non-financial risks usually originate from the external environment and are very closely linked to other risks, especially operational. Usually they occur due to several realised factors both inside and outside 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 opinion 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.
- *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* (also ESG risks) are a set of risks of the Group arising from environmental, social and governance factors, and may have a negative impact on the financial position or solvency of the Group.

  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 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 Section 12. Sustainable development 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.

To manage reputational risk, an assessment method is used which takes into account additional aspects that may negatively affect the Group's reputation. They are divided into internal and 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 score is key, as the Group set high goals in this area.

3.7.2 Risk in 2022

In order to assess reputational risk and the adequacy of the Group's actions, key stakeholders' views of the Group are regularly surveyed. 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 monitored with various indicators. Employee satisfaction is measured using the ORVI index (see Section 12.4.2.4 Care for employee satisfaction 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, 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). Assessments of all aforementioned indicators for 2022 show a low reputational risk.

In 2022, the Group's sustainability risk management system continued to be upgraded, mainly by improving data quality and defining methodologies, indicators and reporting on environmental risks. It is assessed that environmental risks are the most material among sustainability risks for the Group. They mainly include emerging risks that may have long-term effects. They were particularly carefully examined in the framework of own risk and solvency assessment. In order to assess climate risks (covering both transition risks and physical risks), a qualitative and quantitative assessment of the effects of climate change on the business operations of the Company and the Group was performed. According to the qualitative analysis, specific climate change impacts could be material for the Company and the Group. This applies especially to transition risk on the investment side and to physical risks on the liabilities side, where only floods in Slovenia were identified as a significant event. Based on these findings, a quantitative impact assessment of effects on the capital adequacy of both the Company and the Group was carried out. The Company assessed that action needs to be taken in due time, primarily with respect to improving the quality of data on active reinsurance and real property transactions. Regular measurement, management and monitoring of these risks must also be set up. See Challenges and opportunities of today in the Business Report for more information.

3.8 Future risks

In terms of risks and capital adequacy, Zavarovalnica Triglav and the Triglav Group ended 2022 within the framework set out in the Risk Appetite Statement. The Company also remains highly liquid.

Regarding inflation, it is currently assumed that it will return to the target range within two years. However, the Company is aware of the possibility that elevated inflation may persist longer than anticipated. In this case, central banks could respond by further raising interest rates and pursuing a tight monetary policy. Excessive responses, however, could lead to the cooling of the economy and a recession. As a result, a debt crisis could develop with increased credit spreads, lower growth or falling market prices of equity investments. The cooling of the economy and increased volatility in the financial markets would adversely affect the Company's operations, as it could lead to market risks materialising.

With higher inflation, there are also risks associated with higher prices of services and rising costs, which could affect the profitability of insurance, especially in the segments where premium change is not possible. As a result, the combined ratios and the number of surrenders of life insurance policies with a savings component may increase.

A deep recession could have a negative impact on insurance demand and insurance premium, which would affect performance and increase **liquidity risk** – both due to the potential reduction of inflows from the insurance business and due to lower market liquidity of the investment portfolio.

In the coming year, market, underwriting and credit risks could materialise with a significant potential impact on the Group's operations. With regard to **market risks**, particularly an increase in spread risk could arise due to the aggravated economic situation or deteriorating credit ratings of issuers of securities. Negative developments in stock markets and a possible decline in the value of real property may also be expected. An increase in interest rate risk due to expected rising interest rates would have a negative impact on both the Company and the Group. This could then manifest in a decrease in the value of investments. In the context of **underwriting risks**, the Company will consistently monitor 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.

As part of testing the sensitivity of the credit portfolio of both the Company and the Group, the parameters that would have a material impact on the Company's and the Group's business in the coming years were examined. According to the analysis, the credit ratings of partners (banks and reinsurance companies) and the share of payments of insurance and subrogation receivables can have a significant impact on business. In the event of a deterioration in the credit rating of our largest bank partner by one notch at the same exposure, the average credit rating of all bank partners would not change. The same applies in the event of a deterioration in the credit rating of our largest reinsurance partner.

The Company's sensitivity to the payment discipline of receivables was tested by reducing the expected share of payments for 2023. This share was defined according to its lowest level in the last fifteen years (during the 2012 debt crisis). This reduction would not have a significant impact on the Company's operations, as expected payments would be EUR 1.1 million lower.

A sensitivity analysis shows potential current impacts on the Group's capital in the case of a loss event, which would translate into as a sudden rise in interest rates by 150 basis points, a drop in equity and real property exposures, and the deterioration of the claims and expense ratios by 1 percentage point. Should this adverse scenario be realised, the Group's capital would decrease by EUR 148.2 million, i.e. by EUR 124.2 million as a reduction of fair value reserves and EUR 24 million as a reduction due to the impact on profit or loss.

In the coming year, the risk management system will be developed further. The primary focus will be on the areas where increased risk trends will be identified. Some development activities will also be shaped by legislative and accounting changes.

Sensitivity analysis as at 31 December 2022* (EUR)

	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
Spread risk (50 bp)	–37,891,369	–748.462	–38,639,831	–24,815,992	–748.462	–25,564,454
Interest rate risk (+100 bp)	–74,225,337	–1,380,003	–75,605,340	-48,294,995	–1,480,850	–49,775,844
Equity risk (–10%)	–12,110,607	–11,367,059	–23,477,666	–11,750,377	–3,364,453	–15,114,831
Property risk (–5%)	0	–1,173,430	–1,173,430	0	–1,099,860	–1,099,860
Combined ratio risk (+1 pp)	0	–9,298,075	–9,298,075	0	–4,298,206	–4,298,206
Total	**–124,227,313**	**–23,967,029**	**–148,194,342**	**–84,861,364**	**–10,991,831**	**–95,853,195**

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