12. Risk Management

- Risk management is a key component of corporate governance, which is why the Triglav Group continues to develop and expand its risk management system. This is reflected in the structure of the system as such.
- The Group continued with the adaptation of the risk management system to the requirements under the Solvency II Directive.
- Investment policies of all insurance companies within the Triglav Group have been updated.
- The number of investigated cases of suspected fraud has increased.

The risk management system is adapted to developments in business operations and the external environment through continuous upgrades. It is conceived so as to provide a **competitive edge** and generate added value, since the Group's core business revolves around the assumption of the risks of its business partners in exchange for an insurance premium and others risks arising in the investment process.

In addition to insurance risk and financial risk, the Group identifies and manages a number of other risk types, such as operational and strategic risk. The Group also closely monitors return rates to ensure optimum added value generation for all stakeholders.

Risk management is further discussed in *[➔Section 4. under Financial Statements]*.

12.1 Main characteristics and key goals of the risk management system

Key goals of the risk management system			
Protecting and augmenting the Company's value in terms of the owners' investment while ensuring an acceptable risk level	Establishing an integrated risk management system and culture at all organisational levels and in all department and services within the Company	Maintaining the financial strength of Zavarovalnica Triglav and ensuring that obligations to clients are always fulfilled	Protecting and maintaining the reputation of Zavarovalnica Triglav

In the development and implementation of the risk management system, the Group continued to pursue the following **objectives**:

- establishing an economic capital model for managing the Group's assets and liabilities that will serve as a basis for **more efficient capital allocation** while also ensuring due consideration of the defined **risk appetite**, profitability needs and regulatory capital requirements;
- providing an integrated and **effective risk management process** that is in line with the strategy and entails a clear segregation of duties and responsibilities while also complying with exposure limits that help maintain an appropriate risk level in accordance with the Group's risk appetite;
- providing **adequate capital, liquidity and profitability** levels, ensuring that Zavarovalnica Triglav and the Triglav Group are able to meet their obligations even if extreme risks should materialise;
- **supporting decision making at all levels**, allowing the management in particular to adopt appropriate business decisions based on adequate, reliable and timely information on risks;
- maintaining the reputation of Zavarovalnica Triglav and providing safety and satisfaction for investors, employees, clients and all other stakeholders;
- raising awareness and spreading the risk management culture within the Group.

Since the adoption of the EU Solvency II Directive in 2009, the insurance sector in Slovenia has been intensely preparing for new legislative requirements that will be effective as of 1 January 2016. The Directive applies to all insurance undertakings and insurance groups in the EU, as well as to all Triglav Group insurance companies operating within the EU.

The three new sets of regulations require of the Triglav Group that

- the level of capital requirement reflects the profile of risks to which the insurance company is exposed in its operations;
- an effective system of risk management is in place, able to identify and evaluate the impact of business decisions on the risk profile, the capital and the financial position of the company;
- detailed reports on risk exposures, capital adequacy and risk management are presented to both the supervisory agency and the public.

The Directive changes the capital requirement calculation in insurance undertakings. For that reason, for quite some time now the asset-liability management has been adapting to the legislative amendments. Higher requirements of the Directive in terms of reporting and data quality have resulted in increased investments in IT equipment (e.g. establishment of data warehouse). So far, Zavarovalnica Triglav has fulfilled the requirements regarding the upgrading of the actuarial and the internal audit functions, and the implementation of the compliance and risk management function.

The changed capital requirement calculation also changes the relationship between risks and profitability of individual products and, therefore, Zavarovalnica Triglav has been forced to adjust the form and content of some insurance products. Zavarovalnica Triglav wishes to provide its existing and potential policyholders a broad range of desired products and with a balanced risk profile to ensure long-term financial stability and operating profitability.

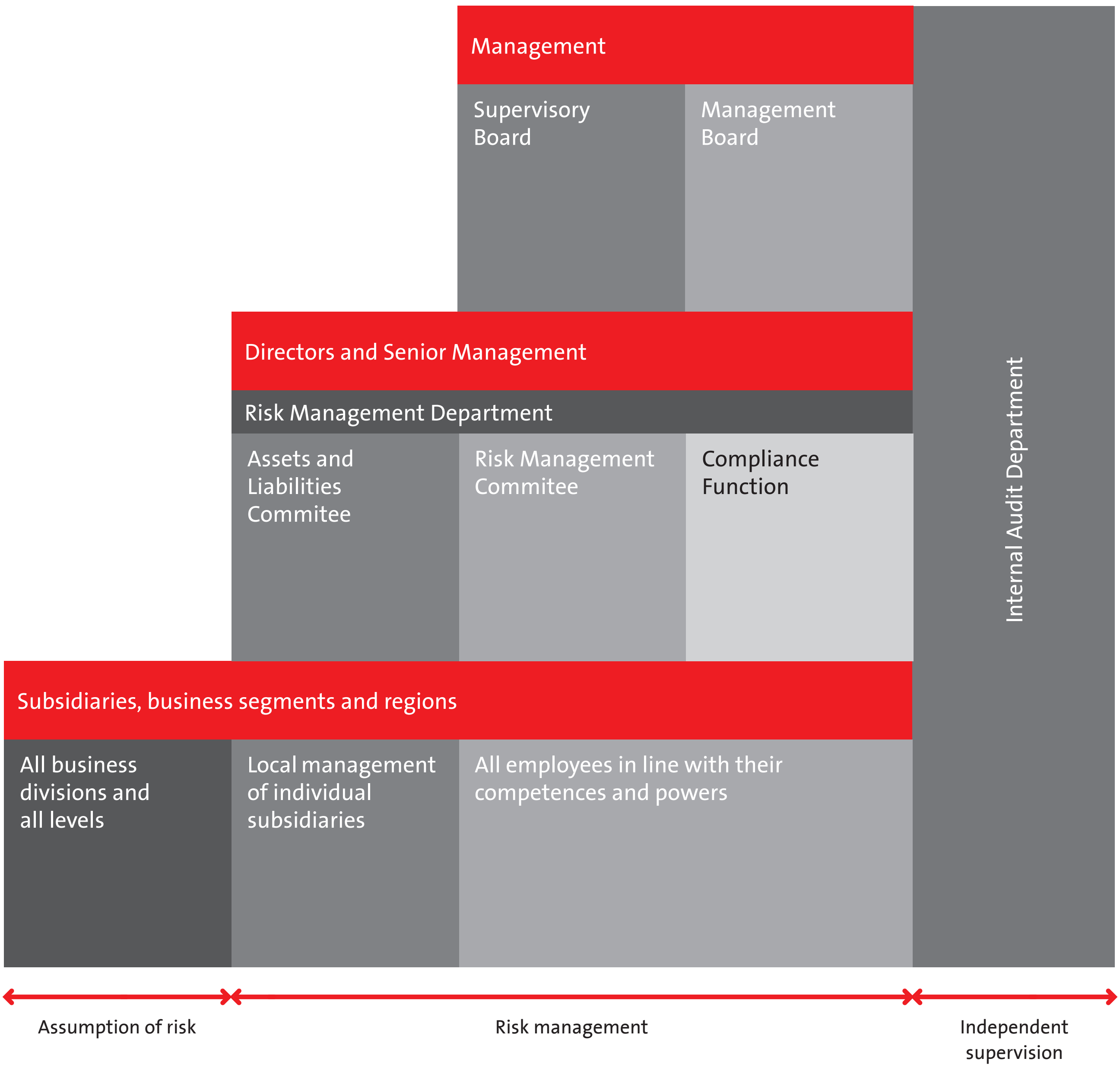
12.1.1 Process and structure of the integrated risk management system

The tenets of the Triglav Group risk management system are defined in the following documents: the Risk Management Strategy adopted in the framework of the Triglav Group Business Strategy, the Risk Management Policy and the Risk Register.

Rules and policies also define the most appropriate course of action in the event of unsustainable risk:
- adoption of risk avoidance measures;
- reduction of current risk through the application of pre-set exposure limits and control processes and through partial risk assumption;
- transfer of unwanted risk to other business partners, such as reinsurers and retrocessionaires.

The established processes and the structure of the risk management system allow for a reliable identification and evaluation of regular and potential risk events as well as the selection of appropriate activities, such as risk avoidance, limitation, reduction or acceptance. An integrated risk management system:
- defines the risk appetite for individual risk types in line with the Group's strategy;
- allows for verification as to whether lines of defence effectively include all major risks;
- enables the early identification, measurement and management of all risk types on a preventative basis;
- defines and ensures constant monitoring of the Group's risk exposure, which is evaluated according to risk appetite;
- implements a risk management system in compliance with Solvency II requirements;
- creates a favourable environment for the development of a risk management culture in line with the Group's business strategy.

Organisational structure of the risk management system



The risk management culture is the foundation of processes within the Group. In terms of organisation, the entire system is conceived to ensure risk management at all levels of operations. The structure of the system is regularly reviewed, developed and adapted to the business operations of the Group and to changes in various factors arising from the internal and external environment.

12.1.2 Risk management system at Group level

The **risk management system** at Group level is adequate, efficient and proportional to the structure, nature, volume, complexity and risk level of operations of individual subsidiaries and compliant with regulatory requirements. The system takes account of the differences in risk, depending on the country of operation, the specificities of the business environment of each company and the impact of the risks of any individual company on other Group members and the Group as a whole.

The **system** is **structured by hierarchy**. By adopting internal acts, Zavarovalnica Triglav and Triglav INT d.d. regulate the governance of subsidiaries by nominating decision-makers and defining their competences and responsibilities, management processes and other activities related to the management of subsidiaries (including regular reporting and audit). They also monitor the operations and development of subsidiaries with regard to risk management through supervisory boards. The cooperation, culture, policies and regulations in the area of subsidiary management foster the exchange of information, know-how and best practices between the members and structures of the Group. The detailed structure is shown above in [→*Section 12.1.1*].

The risk management system of the Triglav Group brings together both **concepts** typical of such systems:

- risk management at the Group level; and
- centralised risk management.

12.2 Capital and capital adequacy management

The primary goal of capital management is to guarantee the required and suitable capital adequacy level of companies within the Group, while also generating an appropriate profit in relation to risk for its owners. In 2014 as well as in previous years, the capital has been at an adequate level.

As required by applicable legislation, the amount of available capital is measured regularly to make sure it is in line with the regulatory capital requirements for individual insurance companies and for the Group. Capital adequacy is also monitored on the basis of the model of the Standard & Poor's rating agency (hereinafter: S&P) and on the basis of the Directive 2009/138/EC of the European Parliament and of the Council (Solvency II).

12.2.1 Regulatory requirements for capital adequacy

Insurance companies within the Triglav Group maintain a **surplus of available capital** in excess of the capital requirements of their core business and covering potential losses. This surplus provides a high level of protection against losses due to unforeseen unfavourable events. In addition to current capital adequacy, the Group also monitors compliance with planned capital levels and capital adequacy. This allows it to detect any influences from the environment affecting capital adequacy and to ensure the optimum capital allocation both within individual companies as well as at Group level, thereby ensuring that both the Group and its members have sufficient capital. For the purpose of assessing solvency needs, the Group also monitors the capital adequacy ratios of insurance technical provisions of individual insurance companies within the Group.

As in previous years, Zavarovalnica Triglav complied with the regulatory capital adequacy requirements throughout 2014. As at 31 December 2014, the minimum required capital to available capital ratio in non-life insurance was 383% (compared to 362 as at 31 December 2013). On the same day, the minimum required capital to available capital ratio in life insurance was 191% (compared to 183 as at 31 December 2013).

See also [→*Section 4.2.1 under Financial Statements*].

12.2.2 Rating agency capital adequacy

Capital adequacy represents a crucial element of credit rating. Decisions concerning capital management are therefore also based on the capital models underpinning credit rating. The credit rating of the Triglav Group is evaluated by the rating agencies S&P and A.M. Best.

Credit rating is discussed in greater detail in [→*Section 6.7 Credit rating of the Triglav Group and Zavarovalnica Triglav.*]

12.3 Overview of key risks faced by the Triglav Group

The most significant and extensive among the risk types managed by the Triglav Group are insurance and financial risks. The Group is also exposed to operational risk, strategic risk and reputation risk. Strategic and operational risk cannot be measured using Solvency II methodology.

Overview of key risks faced by the Triglav Group

Financial risk
- Interest rate risk
- Exchange rate risk
- Credit risk
- Equity risk
- Liquidity risk
- Risk of regulatory changes in interest rate calculation standards
- Asset-liability matching

Insurance risk
- Underwriting risk
- Risk of insurance product development and pricing
- Risk of changes in loss events
- Risk related to the formation of insurance-technical provisions
- Risk of changes in policyholders behaviour and changes in the broader economic environment
- Underwriting risk concentration
- Low-frequency and high-severity risk

Operational risk
- Risk of losses due to inadequate or inefficient internal procedures
- Risk of losses resulting from inappropriate or inefficient employee behaviour
- Risk of losses resulting from an inadequate and inefficient functioning of systems
- Risk of losses due to external events

Strategic risk
- Strategy-related risk
- Risk related to business processes
- Risk related to assets and liabilities
- Risk related to competition

Reputation risk

12.4 Financial risk

The *investment policies* of individual guarantee funds and assets backing liabilities take into account the nature of the liabilities of individual insurance companies within the Triglav Group, while aiming for an optimum return, risk profile and capital adequacy for individual investment grades. The Group strives to achieve the highest possible return rates and the lowest capital requirements given the risk profile of any instrument. This approach to efficient capital management allows the Group to focus its capital allocation on activities that will generate the maximum return on equity for its owners.

The Group's investment policies are regularly updated and adapted to developments and changes on financial markets, thereby ensuring that they aim for an optimum relationship between return, risk and capital adequacy and are consistent with the strategic objectives of the Triglav Group and the liabilities of its members. In 2014, the investment policies of all insurance companies within the Triglav Group were **updated** once more and **adapted to market trends**.

Further details on financial risk exposure can be found in *[→Section 4.3 under Financial Statements]*.

12.4.1 Market risk management and assets-liability management in insurance portfolios

In assets and liabilities management, the Group is most exposed to interest rate risks resulting from assets and liabilities as well as to equity risk.

The aim of **market risk management** is to ensure an appropriate profitability of the investment portfolio while maintaining an acceptable level of risk defined in terms of risk appetite.

Among other things, the exposure to market risks is determined by the net balance of assets and liabilities. The Group manages market risks by applying several **techniques**, such as optimum strategic asset allocation with regard to the nature of liabilities and the effect of the external economic environment, regular monitoring of the current ratios of guarantee funds and assets backing liabilities and regular monitoring of capital adequacy on the basis of models. These techniques also include hedging against certain risks with derivative financial instruments, which is used exclusively for risk reduction. The Group's life insurance portfolio includes unit-linked insurance policies, where most of the financial risk is borne by the policyholders; however, the very nature of these insurance policies and policyholders' views entail a reputation risk exposure.

One of the central tools used for managing market risk is the diversification of the Group's portfolios (this includes diversification across various industries, across different types of securities as well as across issuers of geographically diverse origin). In order to manage concentration risk, results of capital models are analysed at Group level. This analysis serves as the basis for measures such as exposure limits for individual business segments or changes to the Group's investment policies.

Appropriate and advanced investment policies *[→described in Section 12.4]* are **another tool** for successful market risk management. The application of pre-set limits allows the Group to optimise its portfolios with a view to minimising capital requirements and (market) risk while attaining the target profitability guaranteeing the fulfilment of all obligations and generating a surplus return. Furthermore, the Group also conducts a range of different stress tests, sensitivity analyses and cash-flow matching, which serve as a basis for the elaboration of investment policies.

The **goal of the asset-liability management** process is to ensure an optimum return on assets with respect to the nature of insurance liabilities. Regulatory requirements currently in force make insurance liabilities insensitive to the fluctuations of market parameters. Therefore, the process of optimising asset-liability management takes into account the static nature of insurance liabilities as an input parameter and aims at improving investment policies by optimising the ratio between the market sensitivity of the balance sheet and the return on assets. To the extent permitted by applicable legislation, this process also incorporates the results of other capital adequacy measurement models (Standard & Poor's, Solvency II).

By means of this optimisation process, investment policies are determined for guarantee funds and assets backing liabilities, specifying the strategic asset allocation for every portfolio. These policies are approved by the Assets and Liabilities Committee, which also regularly monitors the current ratios for all guarantee funds and assets backing liabilities.

12.4.2 Interest rate risk

Interest rate risk is the risk of changes in market interest rates affecting the value of interest-sensitive assets, as well as the risk that interest-sensitive assets and interest-sensitive liabilities reach their maturity at different times at different values.

Interest rate risk is **managed** by undertaking a thorough analysis of the credit ratings of security issuers for each investment. For the purpose of interest rate risk management, the Group also uses sensitivity analyses of interest rate risk which are applied to all interest-sensitive financial assets. In the case of interest-sensitive assets yielding coupons in the period up to maturity, the Group is also exposed to reinvestment risk.

A detailed presentation of interest rate risk including a sensitivity analysis can be found in *[→Section 4.3.2 under Financial Statements]*.

12.4.3 Equity risk

The Group manages the equity risk of securities in its portfolio through **exposure limits** as well as through geographical and sectorial **investment diversification**. It invests most of its assets within the European Union, and spreads its investments to other geographic areas in order to hedge the risks and the profitability of its equity portfolio. To a large extent, the portfolio consists of debt securities and this diversification results in a slightly lower equity risk. Another important factor affecting any investment decision is the liquidity of shares. The portfolios of individual subsidiaries are managed in line with relevant investment policies. Since the market-related (development of capital markets) and local statutory restriction in the Adria region vary, the Group pursues investments policies adapted to individual markets. The portfolios of these subsidiaries have a lower share of equity securities than those of other Group companies and represent a minor share of the investment portfolio.

Details on exposure to equity risk are discussed in *[→Section 4.3.3 under Financial Statements]*.

12.4.4 Liquidity risk

The aim of liquidity risk management is to ensure that at any point in time, the Group has sufficient liquid assets available to settle all outstanding obligations in due time.

Liquidity risk is managed by maintaining a sufficient volume of highly liquid securities and through regular monitoring of projected and actual cash flows from assets and liabilities. In order to obtain additional liquidity when needed, the Group makes use of a number of credit lines with domestic and foreign banks.

Liquidity risk is further discussed in *[→Section 4.3.4 under Financial Statements]*.

12.4.5 Foreign exchange risk

Since most of the Group's assets are denominated in euros, its exposure to foreign exchange risk is minor.

Total **exposure to currencies** of countries of the Adria region represents no more than 5% of the portfolio in terms of value. Despite the limited exposure, the Group manages foreign exchange risk using derivatives.

12.4.6 Credit risk

The aim of credit risk management is to establish procedures for minimising the likelihood of loss resulting from a debtor's financial difficulties. The Group's goal is to achieve an optimum diversification of the credit portfolio and the desired credit rating.

The main exposures to risk of loss due to counterparty's failure to meet its obligations arise from investments in debt securities and from insurance operations (reinsurance credit risk, credit risk of default on receivables from insurance operations).

The Group manages its exposure to credit risk by applying a **system of exposure limits** and by conducting **counterparty analyses** prior to the assumption of credit risk. In order to guarantee a timely and suitable response to any adverse developments in the financial markets, the Group's exposures to individual issuers and changes in their credit ratings are subject to constant monitoring.

For further details on credit risk, see *[→Section 4.3.6 under Financial Statements]*.

12.5 Insurance risk

Insurance risks are associated with insurance perils arising from individual insurance classes and specific work processes related to insurance operations. **Insurance risks are inherent in** the process of risk underwriting, i.e. in the assumption of risk, in the development of insurance products and their pricing, as well as in changes in loss events, in the allocation of insurance technical provisions, in changes in policyholders' behaviour and in changes in the broader economic environment. The main objective of insurance risk management is to achieve and maintain a high quality of the insurance portfolio that provides for stable and sound operations while also generating maximum returns.

The primary responsibility for **the active management of underwriting risk** lies with departments that are involved in core business activity. Clearly structured competences and powers include the segregation of duties, underwriting limits and an authorisation system. Furthermore, insurance risks are managed using a set of actuarial techniques applied in product pricing and the allocations of insurance technical provisions. The Group also conducts regular performance monitoring, verifications of insurance technical provisions and optimisation of reinsurance schemes.

Reinsurance is one of the basic hedging tools used for managing underwriting risk. Insurance companies within the Triglav Group are cosignatories of a joint reinsurance contract according to which net retained lines are based on the tables of maximum net retained lines of Zavarovalnica Triglav. Annual reinsurance schemes include:

- calculated retained lines by individual class of insurance;
- a table of maximum coverage based on retained lines; and
- procedures, bases and criteria for establishing the highest probable loss arising from individual risks underwritten.

The choice of suitable reinsurers depends to a great extent on their credit rating.

In addition to reinsurance, another basic tool for managing underwriting risk is **a high quality risk assumption process** that limits assumed risk to acceptable levels.

12.5.1 Underwriting risk concentration[27]

The aim of underwriting risk concentration management is establishing efficient procedures for reducing risk and limiting losses arising from underwriting risk concentration at the level of Zavarovalnica Triglav.

The concentration of underwriting risk is managed by adequate **reinsurance** schemes, used as the basis for the **tables** of maximum net retained lines. Underwriting risk concentration occurs due to the concentration of an insurance operation in a geographic area, an industry or an insurance peril. It may also occur as a result of a correlation between individual insurance classes. Even a single event in a business segment or industry may have a material impact on re-payment capacity.

Particular attention is paid to events with a low frequency and a high impact, such as storms, hail, floods or sleet in 2014. Over the previous five years, the Group sustained an average of two major natural disasters a year, which triggered reinsurance policies covering natural events. Past events have shown that the reinsurance scheme is suitable, as the Group has been able to discharge its obligations arising from insurance contracts without exposure to increased liquidity or capital adequacy risk.

Experience from previous years indicates that the frequency of such high impact disasters described above is likely to increase and reinsurance schemes are being modified accordingly.

Over the past years, the Group has actively adapted its business to **climate change** by tailoring its products and exercising greater prudence in the process of risk underwriting. This type of reinsurance is expected to become more expensive with coverage becoming increasingly limited.

For further details, see also *[→Section 4.5.1 under Financial Statements]*.

12.5.2 Geographical and sectorial concentration

The business operations of the Triglav Group are concentrated in the Republic of Slovenia and in the Adria region, while a minor part of its business activities is located in the neighbouring EU countries. The Group also provides "fronting" services, ceding most of the business to other insurers.

Based on past experience, the Group believes that **suitable reinsurance cover** is provided for all potential risk concentrations.

In terms of **business segments**, the Group's primary focus is motor vehicle insurance, with motor liability insurance accounting for the largest share in this insurance class. As motor liability insurance is characterised by high risk dispersion, this segment does not entail any underwriting risk concentration. However, a potential threat of segment concentration does exist in comprehensive car insurance. This insurance risk is suitably covered by disaster reinsurance coverage, which has previously proven to be adequate.

As one of the three insurance companies in Slovenia to offer supplemental health insurance, with a 22.8% market share, Zavarovalnica Triglav is exposed to concentration risk. Furthermore, it is also one of two reinsurers in the country, holding 43.4% of the market (data for first three quarters of 2014). The concentration risk arising from the reinsurance portfolio is managed through the geographical diversification of risk arising from transactions outside the Triglav Group and with adequate retrocession for transactions related to the Group. Supplemental health insurance risk, however, is well dispersed, so there is no exposure to underwriting risk concentration in this segment.

12.5.3 Low-frequency and high-severity risks

Reinsurance protection against earthquakes and other natural disasters is adequately arranged, given the high level of potential claims in the Republic of Slovenia. Thus far, no earthquake of catastrophic proportions has been recorded.

A potentially catastrophic loss occurrence could arise from the nuclear peril that Zavarovalnica Triglav has assumed from the Slovenian Nuclear Pool. Such a loss occurrence is characterised by an extremely low frequency, as no major loss event has been reported in 25 years, and a low or zero-rate correlation with other potential liabilities arising from the same loss event.

For further details on these risk types, see *[→Section 4.5.2 under Financial Statements]*.

12.6 Operational risk

The efficient management of operational risks requires efficient and high quality internal controls, which is a priority of the Triglav Group.

Active operational risk management allows the Group to reduce the risk of loss due to:

- inadequate or inefficient internal procedures (disruption of work procedures, client complaints, lack of reliable information for the management, disruptions to business continuity, improper cost management, poor change management, inconsistent or incomplete process documentation, etc.);
- inappropriate or inefficient employee behaviour (inadequate human resource management, key staff turnover, lack of know-how and skills, inappropriate employee behaviour, etc.);
- inadequate or inefficient functioning of systems (obsolete software and/or infrastructure, lack of documented audit trails in software, inadequate control of system operability, etc.);
- fraud (details on fraud risk are provided in the following section); or
- external events (changes in legislation, natural disasters, competition, fraud, etc.).

For detailed explanations on operational risk, see *[→Section 4.6 under Financial Statements]*.

12.6.1 Fraud risk management[28]

The insurance industry is faced with a number of adverse effects of fraud. In Zavarovalnica Triglav, the implementation of a comprehensive fraud management policy is the responsibility of the Fraud Prevention, Detection and Investigation Department (hereinafter: FPDID). Even though the Company is mostly exposed to insurance fraud, its fraud prevention, detection and investigation policy encompasses all business areas. It includes underwriting and the settlement of claims as well as areas such as relations with suppliers and insurance brokers, financial investments, human resources.

The need to establish a basic infrastructure for efficient fraud risk management led Zavarovalnica Triglav to introduce its fraud risk assessment project. This project entailed the assessment of exposure to 319 fraud schemes in all business areas. The first phase of the project was the implemented in 2012 in accordance with ACFE (Association of Certified Fraud Examiners) and IAIS (International Association of Insurance Supervisors) guidelines. Further activities focused on risks classified as high or moderate. Internal controls in high-risk areas were reviewed and the best suited and most efficient internal controls for the purpose of risk reduction were determined.

27 GRI DMA, G4-EC2
28 GRI G4-DMA

The efficiency assessment of key internal controls started in 2013 and was completed in 2014. In 2013, the Management Board adopted recommendations for improving internal controls for 19 high-risk fraud schemes; and these were followed by a proposal for the introduction of 12 additional internal controls for the management of moderate risk related to 65 fraud schemes in 2014. The initial fraud risk assessment was thus completed. Zavarovalnica Triglav now has a register of fraud risks for all business areas and an inventory of key internal controls aimed at the identification and prevention of fraud schemes identified in the register. The Company also has the possibility of monitoring exposure to these risks in the light of findings of individual investigations and targeted audits conducted by the FPDID and in relation to any changes in key internal controls or results of internal control testing.

A similar approach was adopted in all subsidiaries within the Triglav Group. The initial fraud risk assessment in the subsidiaries was also completed in 2014 and their FPDID services have prepared recommendations for improving key internal controls.

On the basis of a targeted audit of the purchasing of goods and services carried out in 2014, specialised and other relevant departments were given 14 recommendations for improving the internal control system. Targeted audits of receivable management were conducted in two subsidiaries. Both subsidiaries have already introduced corrective measures.

The Company has completely overhauled its **Rules on the Prevention of Conflict of Interest**. The Rules have been aligned to applicable legislation and stipulate stricter requirements than those required by legislation in areas that are considered to entail a relatively high level of risk. The implementation of the Rules is IT-supported, which is crucial for efficient risk management in this area. A slightly modified version of these Rules was also adopted by subsidiaries within the Group.

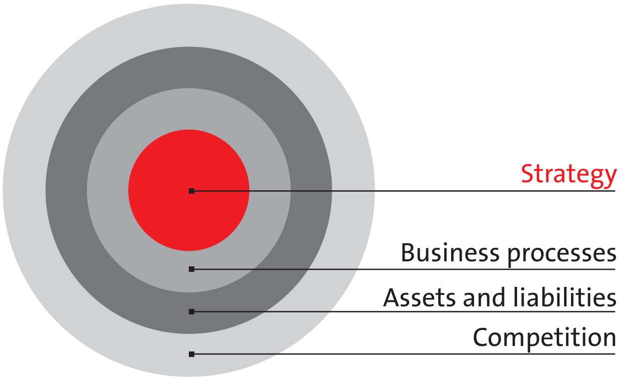
In 2014, 591 **cases of suspected fraud** were investigated, which is an increase of 12% over 2013. The confirmation rate was higher, too, as fraud was confirmed in 258 cases (a 21% increase over 2013). Subsidiaries of the Triglav Group outside Slovenia have recorded even greater progress. Of the 272 cases of suspected fraud (139 in 2013) that were investigated, 222 cases of fraud (105 in 2013) were confirmed.[29]

12.7 Strategic risk

The Triglav Group **addresses strategic risk throughout the course of strategic planning** within the Triglav Group as was also the case in the preparation of the Triglav Group Strategy for the period 2013-2017. The strategies of individual Group members are aligned with one another and with the strategy of the Triglav Group. The implementation of the Strategy is monitored through internal controls. The powers and responsibilities of individual bodies involved in strategic risk management are clearly defined.

The implementation of strategic goals is regularly monitored both at Group level as well as in individual companies. The implementation of capital requirements is also subject to regular monitoring using contemporary models and tools and good business practice, which is possible thanks to the exchange of best practices and information exchange between companies within the Group. As the attainment of strategic goals and performance can also be affected by external factors, the Group also monitors market indicators and indicators related to the broader economic environment.

Sources of strategic risk



Strategy

The Strategy of Zavarovalnica Triglav is defined in accordance with trends in the industry and regulatory and legal developments as well as developments in the micro- and macro-environments. The Strategy contains clearly defined goals, tools and implementation processes. Good business results achieved in spite of the economic crisis and effects of unpredictable weather and other events show that the implementation of the strategy has been successful and efficient in counteracting strategic risk. The Strategy is regularly reviewed and updated, if necessary.

Business processes

Integrated internal controls enacted to monitor operational and other risks [→see Section 12.6] foster better employee decision-making and implementation, thus facilitating the attainment of insurance company and Group goals. Business processes are regularly adapted to changes in the business environment or other circumstances as well as to any changes in strategy.

Assets and liabilities

Due to the nature of its operations, Group members employ a variety of different methods to monitor their assets and liabilities. The Group has gradually introduced a high-quality asset and liabilities management system that encompasses the active monitoring of liabilities, premium inflow, the state of real property, investments and developments in financial and other markets.

Competition

Risk type	Level	Situation
Buyer risk	Medium	The Company is affected by changes in consumer behaviour due to the influence of the economic situation on their purchasing power and due to technological development that is affecting the provision of information and resulting in new consumer behaviour models.
Supplier risk	Low	Enables transparency of the procurement process and suppliers. Zavarovalnica Triglav is focused not only on procurement-related cost effectiveness, but also on transparency and due implementation of procurement processes.
Competition risk	Medium	Zavarovalnica Triglav is successfully facing intensive competition, as proven by its market share.
Product risk	Low	By designing new and upgrading existing products, analysing competitive products and making a portfolio selection in line with its strategic orientation, the Triglav Group is continuously improving its product portfolio.
Regulatory risk	Low	For a long period of time, Zavarovalnica Triglav has been preparing for the Solvency II Directive.

29 GRI G4-S03, G4-SO5

12.8 Reputation risk

Reputation risk can be the **result** of a number of factors, ranging from the inability to provide a sufficiently high standard of product and service quality to unethical business practice, failure to attain financial objectives, employee strike, causing environmental pollution, to acts of unfair competition, any of which can have a detrimental effect on the reputation of the entire sector.

The key to efficient reputation risk management lies in a robust **system of corporate governance** which is **supported** by the following activities:

- collecting and analysing client feed-back;
- monitoring media reporting on the Triglav Group and Zavarovalnica Triglav;
- public relations management;
- management of investor relations;
- due diligence in ensuring compliance with applicable legislation and in the management of relations with supervisory bodies and agencies.

12.9 Internal audit

The Internal Audit Department (IAD) of Zavarovalnica Triglav is an independent organisational unit directly accountable to the Management Board. The IAD provides **independent and impartial audit and advisory services**, which support the Company in achieving its objectives through systematic and methodical assessments and recommendations for improving the efficiency of risk management, control procedures and corporate governance.

In its work, the IAD abides by the Insurance Act and other relevant regulations, the professional and ethical rules of internal auditing set by the Institute of Internal Auditors based in the USA, the Slovene Institute of Internal Auditors, as well as the internal rules which in detail define provisions on internal auditing.

In addition to regular and extraordinary audits of the departments where major risks have been identified, the IAD also carries out a number of other **activities**:

- draws up IAD's medium-term and annual audit plans and submits them to the Management and Supervisory Boards for comment and approval;
- provides consulting services in agreement with the Management Board and the management;
- monitors the implementation of recommendations made by internal and external auditors;
- cooperates with external auditors and other supervisory bodies;
- reports quarterly to the Management and Supervisory Boards on the internal audit tasks performed, their findings and the implementation of recommendations made by internal and external auditors;
- reports annually to the Management and Supervisory Boards on the implementation of its annual audit plan, the adequacy of internal auditing tools and major findings of internal auditors arising from internal audits performed;
- submits quarterly and annual declarations to the Management and Supervisory Boards, giving an impartial assessment of (assurance of) the adequacy and efficiency of internal controls aimed at managing key risk types arising in the Company's business operations;
- improves the quality of its work by carrying out appropriate measures aimed at eliminating any deficiencies identified in regular internal audits and periodic external quality assessments; and
- transfers the internal auditing know-how and good practices to other Group members.

Based on the annual audit plan for 2014, the IAD conducted 19 audits of the operations of the parent company as well as 6 audits of the operations of other subsidiaries of the Triglav Group. Two planned audits were postponed to 2015.