11. Risk Management

- The high quality design of the risk management systems allows the Group to create a competitive edge and added value and caters for the monitoring of risk as well as profitability.
- The Group has a conservative risk culture and attitude, and uses state-of-the-art tools for comprehensive risk management.

The core business of an insurer is taking on the risks of business partners in exchange for an insurance premium. Risk management therefore represents a key element of corporate governance, business processes and employee guidelines in the Triglav Group. In addition to insurance risks, the Group is faced with other risk types, such as financial, operational and strategic risk. The Company's comprehensive risk management system is continuously adapted to the Group's growth and the expansion of its operations.

An integrated risk management system:

- defines the appetite for individual risk types in line with the adopted 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.

Risk management is further discussed in *Section 4 of the accounting part of the Annual Report.*

11.1 Main characteristics of the risk management system

The development and implementation of the risk management system 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 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 the Group is able to meet its obligations even if extreme risks should materialise;
- supporting decision making, based on thorough insight into the risks and their effects and consequences;
- providing safety and satisfaction for investors, employees, clients and all other stakeholders;
- raising awareness and spreading the risk management culture within the Group.

Risk management

Key goals of the risk management system

Protecting and augmenting the Group'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 Group	Protecting and maintaining the reputation of the Triglav Group	Maintaining the financial strenght of the Triglav Group and ensuring that obligations to clients are alyways fulfilled

11.1.1 Process and structure of the integrated risk management system[34]

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 aversion, limitation, reduction or acceptance.

The tenets of the Group's 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.

The Triglav Group strives for an optimum ratio between accepted risk and generated profit, which is why the limits of acceptable risk exposure are defined in accordance with the long-term strategic goals of the Group and the annual business plans drafted on the basis of the long-term business strategy.

In order to further limit excessive exposure, specific comprehensive risk exposure limits are defined for every key portfolio, accompanied by additional limits for individual risk types.

The Group's policies and internal rules specify which is the most suitable course of action to be followed in case an unacceptable risk arises:

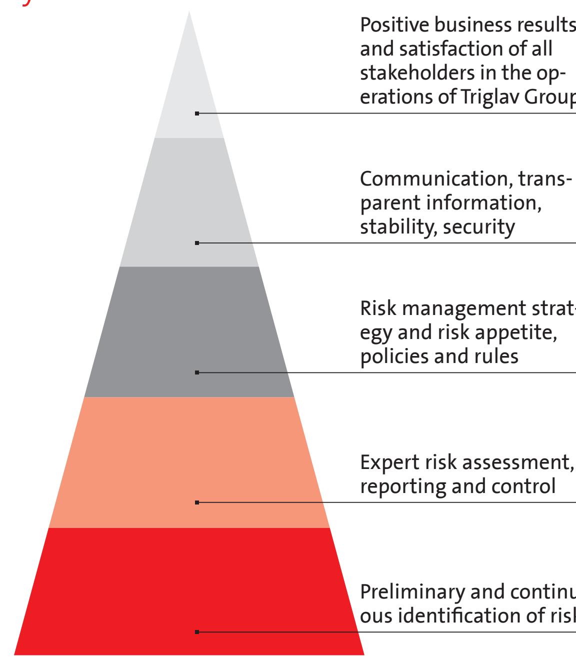
- adoption of measures for risk prevention and risk aversion;
- reduction of current risks by applying pre-defined limits and control procedures and partial risk acceptance;
- transfer of unwanted risk to other business partners, such as reinsurance companies and retrocessionaires.

11.1.2 Added value of the risk management system

The Group has a conservative risk culture and attitude towards risk, which is managed comprehensively, using state-of-the-art tools. Risk management allows the Group to create added value and a competitive edge by benefiting from early and continuous risk identification. Efficient and prudent risk taking and risk management also enhance the Group's financial strength.

All business departments and services apply clear criteria, limitations and a system of internal controls to monitor their operation. Interaction between risks is subject to in-depth analysis, control and reporting.

Added value of the Triglav Group risk management system



Up-to-date and transparent information is exchanged at all risk management levels. Clear and transparent information flows both top-down and bottom-up as well as within every level. This process is supported by IT systems compatible with the risk management system, which allows for a unified system of internal controls.

Thanks to this comprehensive approach, the operations of the entire Group are more transparent, stable and secure.

11.1.3 Risk management 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 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.

[34] GRI G4-14

Thanks to the appropriate organisation and centralisation of functions in the Group, the Triglav Group is also able to monitor concentration risks to which it pays particular attention.

Despite its complex structure and demanding overall tasks, the Triglav Group has managed to establish an effective and, most importantly, reliable risk management system. In doing so, it has brought together both concepts typical of such systems:

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

11.2 Capital and capital adequacy management

The primary goal of capital management is to guarantee that the Group maintains the required and suitable capital adequacy level, while also generating an appropriate profit in relation to risk for its owners. In 2013 as well as in previous years, the Group's capital has been at an adequate level and its capital adequacy ratio has continued to increase.

As required by applicable legislation, the Group regularly measures the amount of available capital 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 S&P rating agency and on the basis of the Directive 2009/138/EC of the European Parliament and of the Council (Solvency II). The efficient use of own capital sources is guaranteed through a system of exposure limits, capital allocation and strategic planning. The goals of capital management in relation to each above-mentioned capital model are explained below.

11.2.1 Regulatory requirements for capital adequacy

The level of available capital of an insurance company and particularly its fluctuation can be affected by a number of factors. These include the structure and nature of services, premium volume, assets and liabilities, market interest rates and other capital market parameters. Insurance companies in the Triglav Group maintain a surplus of available capital exceeding 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 of individual insurance companies and the Triglav Group.

The Group's primary goal is to ensure an adequate capital level in the Group and all its members. In order to evaluate solvency needs, the Group also regularly monitors the capital adequacy ratios of insurance-technical provisions for each insurance company in the Group.

As in previous years, Zavarovalnica Triglav complied with the regulatory capital adequacy requirements throughout 2013. As at 31 December 2013, the minimum required capital to available capital ratio in non-life insurance was 362% (compared to 323% as at 31 December 2012). On the same day, the minimum required capital to available capital ratio in life insurance was 183% (compared to 168% as at 31 December 2012).

See also *Section 4.2.1 of the accounting part of the Annual report*.

Capital adequacy

11.2.2 Capital adequacy of the Triglav Group as a financial conglomerate

Until December 2013, the Triglav Group, Abanka Vipa and its subsidiaries formed a financial conglomerate. Up to the termination of ownership as shareholder in Abanka Vipa d.d., the Group monitored the capital adequacy of the conglomerate in accordance with the EU Directive on the supplementary supervision of credit institutions, insurance undertakings and investment firms in a financial conglomerate and the relevant laws of the Republic of Slovenia.

11.2.3 Rating agency capital adequacy

Decisions concerning capital management are also based on the capital models underpinning credit rating. Capital adequacy is a crucial element in credit rating. The credit rating of the Triglav Group is evaluated by the rating agencies Standard & Poor's (S&P) and A.M. Best. As a rule, the capital adequacy requirements under the S&P model are higher than those prescribed by the applicable legislation.

Credit rating is discussed in greater detail in *Section 5.8 Credit rating of the Triglav Group and Zavarovalnica Triglav*.

Credit rating of the Triglav Group

Credit ratings of Zavarovalnica Triglav, the Triglav Group and Pozavarovalnica Triglav Re as at 31 December 2013

	Standard & Poor's	A.M. Best
Triglav Group	Financial strength rating »A–« / stable medium-term outlook	
Zavarovalnica Triglav d.d.	Financial strength rating » A–« / stable medium-term outlook	Financial strength rating »A–« and issuer credit rating »A–« / stable medium-term outlook
Pozavarovalnica Triglav Re d.d.	Financial strength rating » A–« / stable medium-term outlook	Financial strength rating »A–« and issuer credit rating »A–« / stable medium-term outlook

11.3 Overview of key risks faced by the Triglav Group

The most significant and extensive among the risk types managed by the Group are insurance and financial risks. The Group is also exposed to operational risk, strategic risk and reputation risk. The chart below shows the key risks faced by the Triglav Group, followed by a detailed description of how each risk type is managed.

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-liablility 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 reserves
- 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

11.4 Financial risk

In the management of long-term business funds and assets backing liabilities, in reinsurance operations and in all funding operations undertaken as part of capital management, the Group is exposed to the following financial risks:

- equity risk and interest rate risk,
- credit risk, and
- liquidity risk.

The investment policies of individual long-term business funds and assets backing liabilities take into account the nature and characteristics of the Group's liabilities and aim for an optimum asset diversification and optimum return.

The Group's investment policies are based on analyses of the sources of risk and returns, i.e. on the assessment of the relationship between risk and return for the main asset management categories (long-term business funds, assets backing liabilities, own resources). Investment policies are regularly updated and adapted to trends and changes on financial markets, which ensures that the Group's investment policies reflect the relationship between risk and return and are consistent with the Group's vision and strategic objectives. In 2013, the investment policies of all subsidiary insurance companies were updated and adapted to market trends in order to optimise their portfolios with a view to achieving lower capital requirements, providing more security and higher profitability and avoiding any mismatches with the liabilities of the Group subsidiaries.

Further details on financial risk assessment can be found in *Section 4.3 of the accounting part of the Annual report*.

Financial risk assessment

11.4.1 Market risks and assets-liability management in insurance portfolio

In assets and liabilities management, the Group is most exposed to interest rate and equity risks on the assets side. To a lesser extent, the Triglav Group is also exposed to the risk of potential regulatory changes in the minimum standard for the calculation of applicable technical interest rate for evaluating mathematical provisions for the existing insurance portfolio.

Advanced investment policies

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 monitors and 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 long-term business funds and assets backing liabilities, regular monitoring of capital adequacy on the basis of models and hedging against certain risks with derivative financial instruments. 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 lies in portfolio diversification which is applied to the portfolios of subsidiaries and of the entire Triglav Group. 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 11.4*) are another tool for successful market risk management.

Furthermore, the Group also conducts a range of different stress tests, sensitivity analyses and cash-flow matching, which are instrumental in the elaboration of investment policies, optimising portfolios and hedging market risks.

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 long-term business 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 long-term business funds and assets backing liabilities.

11.4.2 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 is 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 of the accounting part of the Annual report*.

11.4.3 Equity risk

The Triglav 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 only in order to hedge the risks and the profitability of its equity portfolio. To a large extent, the investment 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. Due to the diverse market-related (development of capital markets) and local statutory limitations in the Adria region, each subsidiary of the Group in the region pursues an investment policy that is adapted to its individual market. The portfolios of these subsidiaries contain smaller shares of equity securities compared to the portfolios of other subsidiaries, and collectively only represent a small percentage of the Group's portfolio.

Details on the exposure to equity risk are discussed in *Section 4.3.3 of the accounting part of the Annual report*.

Exposure to equity risk

11.4.4 Liquidity risk

The risk or threat of a liquidity mismatch, i.e. the mismatched maturity of assets and liabilities, may cause liquidity problems or a shortage in liquidity needed to settle due liabilities. 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 offset against the volume of highly liquid securities and the 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 of the accounting part of the Annual report*.

Liquidity risk

11.4.5 Foreign exchange risk

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

In terms of the foreign exchange risk structure, the highest exposures are to the currencies of the countries of the former Yugoslavia, which in total represent no more than 5% of the portfolio. Despite the limited exposure, the Group manages foreign exchange risk using derivatives.

11.4.6 Credit risk

The Group's main exposures to risk of loss due to a counterparty's failure to meet its obligations arise from debt security holdings and insurance operations (reinsurance credit risk, credit risk of default on receivables from insurance operations). The aim of credit risk management is to establish procedures for minimising the likelihood of loss resulting from a debtor's financial difficulties.

Interest rate risk

The Triglav Group manages its exposure to credit risk through a system of exposure limits. 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.

The aim of credit risk management is to achieve an optimum diversification of the credit portfolio and the desired credit rating for each individual company. For Zavarovalnica Triglav the target average portfolio credit rating is »BBB«, which is still an investment grade rating. At the level of subsidiaries, the target average portfolio credit rating is related to the credit rating of the country where the

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subsidiary is established. In all cases, the target average portfolio credit rating must exceed the credit rating of the country where the insurance company operates.

Credit risk

For further details on credit risk, see also *Section 4.3.6 of the accounting part of the Annual report*.

11.5 Insurance risk

The risks in this category are associated with insurance perils arising from individual insurance classes and specific work processes related to performing insurance operations. These 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 credit 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 individual insurance companies within the Triglav Group. Clearly structured competences and powers include the segregation of duties, underwriting limits and an authorisation system. In addition, underwriting risks are managed using a set of actuarial techniques applied in product pricing and allocations of insurance technical provisions. The Group also conducts regular performance monitoring, verifications of insurance technical provisions and optimisation of reinsurance schemes. Furthermore, insurance risk is managed through the establishment of an appropriate internal process for evaluating capital requirements for insurance risk.

Underwriting risk concentration

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;
- 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, enabling more stable business operations for the Group, which are reflected in more stable cash flows.

11.5.1 Underwriting risk concentration[35]

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

The concentration of underwriting risk is managed by adequate re-insurance 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 and floods. 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.

Based on the experience from previous years, an increase in the frequency of such disasters with high impact is expected and the Group's reinsurance schemes are being modified accordingly.

Over the past years, the Triglav Group has actively adapted its business to climate change by tailoring its products and exercising greater prudence in the process of risk underwriting.

In the future, reinsurance schemes of this kind are expected to become increasingly costly and coverage increasingly narrower.

See also *Section 4.5.1 of the accounting part of the Annual report*.

11.5.2 Geographical and sectorial concentration

The Triglav Group's business is concentrated in the Republic of Slovenia and countries of the former Yugoslavia, only a minor part of its business activities are located in the neighbouring EU countries. The Group also provides »fronting« services, ceding most of the business to the parent company.

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 risk concentration for the Group. However, a potential threat of segment concentration does exist in comprehensive car insurance. This insurance risk is suitably covered by catastrophe 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 20.9% market share, the Group is exposed to concentration risk. Furthermore, it is also one of two reinsurers in the country, holding 42.6% of the market (data for first three quarters of 2013). The concentration risk arising from the reinsurance portfolio is managed through geographical diversification

35 GRI G4-DMA, G4-EC2

of risk arising from transactions outside the Group and with adequate retrocession for transactions related to the Triglav Group. Supplemental health insurance risk, however, is well dispersed, so there is no exposure to insurance risk concentration in this segment.

11.5.3 Low frequency and high-severity risk

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 the Company 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 of the accounting part of the Annual report*.

11.6 Operational risk

Operational risk is defined as 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 attitude, etc.);
- inadequate and 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.).

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

For detailed explanations on operational risk, see *Section 4.6 of the accounting part of the Annual report*.

11.6.1 Fraud risk management[36]

In general, insurance companies have a large potential exposure to insurance fraud. The Triglav Group has a zero-tolerance policy against fraud. In Zavarovalnica Triglav, fraud prevention, detection and investigation is comprehensively managed at by a specialised department (Fraud Prevention, Detection and Investigation Department, hereinafter: FPDID) that reports directly to the Management Board. Services specialising in fraud also exist in Triglav Group subsidiaries abroad.

The FPDID deals with all types of fraud, which mostly manifests itself as the following types of conduct:
- unlawful appropriation of insurance company property;
- acts of corruption;
- falsification of accounts.

The FPDID operates in accordance with the guidelines of leading international anti-fraud organisations such as the Association of Certified Fraud Examiners and the International Association of Insurance Supervisors (ICP 27). FPDID employees have the appropriate expertise and certificates (e.g. CFE – Certified Fraud Examiner).

Regular fraud risk assessments and targeted controls allow the FPDID to identify existing risks and deficiencies in the system of key internal controls. Based on these findings, more efficient internal controls are designed in cooperation with other departments and other relevant recommendations are drafted.

The use of an advanced IT-solution that monitors key fraud indicators and notifications received via the fraud suspicion reporting line enable the Group to detect high-risk cases or transactions. These are investigated by analysts in the Fraud Analysis Centre who also turn to detectives, investigators, forensics and other experts for expertise. The findings of these investigations serve as a basis for proposing appropriate measures and making recommendations for systematic improvements, if necessary.

In addition to fraud risk assessment, targeted controls and the processing of detected suspicions of fraud, the tasks of the FPDID also entail:
- design and keeping of registers and regular testing of key fraud indicators and key internal controls;
- due diligence audits in the field of fraud in takeover procedures and candidate selection processes;
- participation in the drafting of the Code of Good Business Practices of the Triglav Group (see *Section 12.3*);
- maintaining and ensuring the operation of the hotline for notifying suspicions of fraud and fraud-related assistance;
- organising fraud-related education and training for Triglav Group employees;
- record-keeping on the increased fraud risk of individuals;
- drafting reports on conducted investigations and reporting on key findings of investigations into individual cases;
- reporting to the Management Board (quarterly) and the Audit Committee of the Supervisory Board (semi-annual) on the implementation of the annual work programme; reporting to the Risk Management Committee (semi-annual) on the register of key internal controls, the testing of these controls and the materialised fraud risks;
- drafting and implementation of the strategy for fraud prevention, detection and investigation in the Triglav Group;
- providing expertise and assistance in the field of fraud prevention, detection and investigation to companies within the Triglav Group;
- implementation of the tasks of the Anti-Money Laundering and Counter-Terrorism Financing Compliance

Low frequency and high-severity risk

Code of Good Business Practices

Operational risk

[36] GRI G4-DMA

Officer in relation to the subsidiaries of the company Triglav INT d.d.

Activities in 2013 were carried out in accordance with the annual work programme. Targeted controls were conducted in the field of confidential information and business secret handling and disclosure to the general public and in the field of procurement of property, plant, equipment, material and services. The FPDID prepared a project proposal for the implementation of an advanced IT-solution for fraud detection and investigation in subsidiary insurance companies of the Triglav Group. In cooperation with the Compliance Office, the FPDID has started drafting the Triglav Group Code of Good Business Practices (for further details, see *Section 12.3*). In 2013, 527 cases of suspected fraud were investigated in Zavarovalnica Triglav, of which 214 cases of fraud were confirmed (an increase of 44% compared to 2012). In Triglav Group insurance companies abroad, 139 cases of suspected fraud were investigated, of which 105 cases of fraud were confirmed.[37]

Internal controls enacted to monitor operational risks

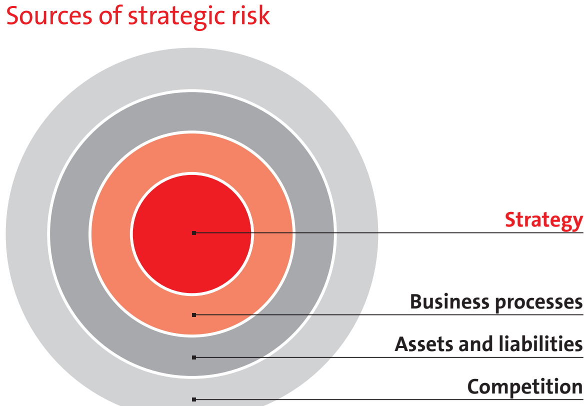
11.7 Strategic risk

The Triglav Group pays a great deal of attention to the management of strategic risk, as it can significantly influence the attainment of strategic goals of the Group. Strategic risk is identified and addressed at the very beginning of strategic planning. This approach was also applied when drafting the updated Triglav Group Strategy for the 2013-2017 period. The strategies of individual Group members are aligned with one another and with the strategy of the Triglav Group.

Strategic risk is monitored via internal controls, the competences and responsibilities of all bodies involved in strategic risk management are clearly defined. The Group monitors indicators related to the broader economic environment, the implementation of strategic goals and the compliance with capital requirements using state-of-the-art models and tools and good business practice.

In order to successfully manage strategic risk, the Group monitors indicators related to the broader economic environment and market, the implementation of its strategic objectives, the meeting of capital requirements, and uses state-of-the art models, tools and good business practice.

Sources of strategic risk



[37] GRI G4-SO3, G4-SO5

Strategy

The Strategy of the Triglav Group clearly defines objectives, tools and implementation processes. The same is true of the strategies all of other insurance companies. All strategies follow trends in the industry and reflect regulatory and legal developments as well as the micro- and macro-environments. 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.

Business processes

Integrated internal controls enacted to monitor operational and other risks (see *Section 11.6*) foster better employee decision-making and implementation and thus facilitate the attainment of insurance company and Group goals.

Assets and liabilities

Due to the nature of their operations, members of the Triglav Group employ different assets and liabilities management systems. The Triglav Group has progressively established a high quality asset and liabilities management system that encompasses the active monitoring of liabilities, premium inflow, and of the state of real property, investments and developments in financial and all other markets.

Competition

Risk type	Level	Situation
Buyer risk	Medium	The Group 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. The Triglav Group is focused not only on procurement-related cost effectiveness, but also on transparency and due implementation of procurement processes.
Competition risk	Medium	Insurance company 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, creating increasingly attractive and high quality products.
Regulatory risk	Low	For a long period of time, the Company has been preparing for the Solvency II Directive and phase 2 of the IFRS 4.

11.8 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 the set 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.

11.9 Internal audit

The Internal Audit Department (IAD) is an independent organisational unit directly accountable to the Management Board that is responsible for internal audits in Zavarovalnica Triglav. The IAD conducts systematic and methodical assessments and prepares recommendations for improvements in relation to risk management, control processes and corporate governance.

The IAD provides independent and impartial audit and advisory services, which help the Management Board achieve the set objectives. It acts in accordance with the Insurance Act and other statutory rules and adheres to the professional and ethical standards of internal audit adopted by the USA-based Institute of Internal Auditors and the Slovenian Institute of Auditors as well as internal audit-related acts.

In addition to audits of departments where major risks have been identified, the tasks of the IAD also include:

- drawing up IAD's medium-term and annual audit plans (based on the risk assessment of individual departments), which are submitted to the Management and Supervisory Boards for review and approval;
- providing advisory services in agreement with the management and the Management Board;
- regular monitoring of the implementation of recommendations made by internal and external auditors;
- cooperation with external auditors and other supervisory bodies;
- quarterly reporting to the Management and Supervisory Boards on the performed internal audit tasks and the implementation of recommendations made by internal and external auditors;
- annual reporting to the Management and Supervisory Boards on the implementation of its annual audit plan, the adequacy of internal auditing tools and significant findings of internal audits performed;
- quarterly and annual reporting to the Management and Supervisory Boards on its impartial assessment (assurance) of the adequacy and efficiency of the internal control system for the management of key risks arising in the business operations of the insurance company;
- adopting measures aimed at eliminating any deficiencies identified in regular internal audits and periodic external quality assessments;
- transferring internal auditing know-how and good practices to other Group members.

In 2013, the activities of the Internal Audit Department were carried out in accordance with its annual audit plan. The IAD conducted 17 audits of the operations of the parent company as well as 7 audits of the operations of other subsidiaries of the Triglav Group. The implementation or conclusion of 4 planned audits has been postponed to 2014.