4. Risk Report

We define risk as the threat or possibility that an action or event will adversely or beneficially affect our ability to achieve our strategic objectives. We understand risk management as a process that encourages well-considered and responsible risk taking as a legitimate response to opportunity and uncertainty and enables us to achieve better results for the Group through improved decision-making and targeted risk mitigation and control.

The established risk management system is used to verify whether the second line of defence effectively covers all major risks, and to identify measure and manage financial, insurance and operational risks. Simultaneously, the Triglav Group:

- defines its risk appetite and monitors risk exposure;
- implements an integrated risk management system in compliance with Solvency II requirements; and
- • creates a favourable environment for the development of risk management culture in line with the Company's business strategy.

4.1 Main characteristics of the risk management system

4.1.1 Objectives of the risk management system

Objectives of the risk management system:

- increase in the Group's value by added attention paid both to return and risks;
- care for the appropriate capitalisation, liquidity and profitability of the Group;
- support for better decision-making, as it enables in-depth insight into risks and their effects and/or consequences;
- care for the security and satisfaction of investors, employees, clients and other stakeholders.

The risk management system is made of three lines of defence with clearly defined responsibilities as described below.

The first of the three lines of defence in the system is spread over individual divisions, which are primarily responsible for active risk management per division. They are also responsible for the effective functioning of internal controls and the implementation of business activities within the set limits and in accordance with the strategic objectives.

The second line of defence consists of the Risk Management Committee, the Assets and Liabilities Committee (ALCO) (see chart below) and the Risk Management Department. The two committees supervise the functioning of the integrated management system and the proper communication of activities. Each committee includes at least one Management Board member, the relevant executive directors and the directors of departments directly accountable to the Management Board of Zavarovalnica Triglav.

The Risk Management Department draws up a risk management framework (methodologies used for risk identification, measurement and management, minimum requirements for the internal control system, development of assets and liabilities management models, setting investment policy limits and operational risk limits, verifying compliance with the risk management framework).The Director of the Risk Management Department, who is directly accountable to the Management Board, is also a member of the Risk Management Committee and Chairman of the ALCO. This and other parts of the organisational structure clearly reflect the Company's awareness on the importance of risk management.

An important component of the risk management system is the compliance function, which was set up in order to provide advice on all areas of regulatory principles, to monitor regulatory compliance, and to develop and monitor anti money-laundering and terrorist financing measures with respect to regulatory requirements.

Internal audits represent the third line of defence in the scope of the risk management system. The internal audit constantly test the quality of the internal control framework in compliance with the regulatory requirements. It also performs an assessment of the risk governance and risk management system on a periodic basis.

Risk-related decision-making competences and authorities are shown in the figure below:

Management Board	• Defines the risk management strategy in line with the business strategy of Zavarovalnica Triglav; • Approves the risk management policy; • Approves individual components of the risk management system; • Approves the internal documents with reference to risk management.
Risk Management Committee	• Gives preliminary approval to the Management Board's decisions relating to individual components of the risk management system, including the target risk exposure; • Defines risk management standards; • Defines methodologies of risk measurement and management for all risk categories; • Defines operational risk exposure limits and monitors the operational risk exposure levels; • Monitors the implementation of IT security polices; • Monitors the implementation of the compliance system; • Monitors the outsourcing risk exposure levels.

Assets and Liabilities Committee (ALCO)	• Gives preliminary approval to the Management Board's decisions relating to assets and liabilities management; • Approves investment policies for individual long-term business funds and assets backing liabilities; • Gives preliminary approval to the Management Board's decisions relating to bonus allocations • Monitors risk exposures arising from assets and liabilities management to the insureds; • Monitors changes in the external environment relating to assets and liabilities management (e.g. changes concerning measurement methods, the legislative environment, external reporting).
Risk Management Department	• Develops the risk management system of Zavarovalnica Triglav, including the methods, processes, models and framework of the internal control system; • Regularly carries out risk analyses and reports on exposure levels to the Management Board; • Drafts the Management Board's decisions on risk reduction; • Coordinates preparations for Solvency II; • Provides operational support to the Risk Management Committee and the ALCO • Promotes good practices in the risk management culture through workshops, seminars and the like.
Individual divisions	• Actively manage risks in their business segments by adhering to the set limits and strategic guidelines; • Develop internal controls within the framework of the internal control system; • Cooperate with the Risk Management Department in risk analyses and/or model development.

The scope of risk management activities is defined in the global risk management strategy statement. Accordingly, risk management policies have been developed that define risk governance, risk management competencies and authorities with respect to the stated risk appetite. Core development activities are focused on Zavarovalnica Triglav; however, the framework is gradually phased throughout the Triglav Group in line with its strategic objectives as well as Solvency II requirements.

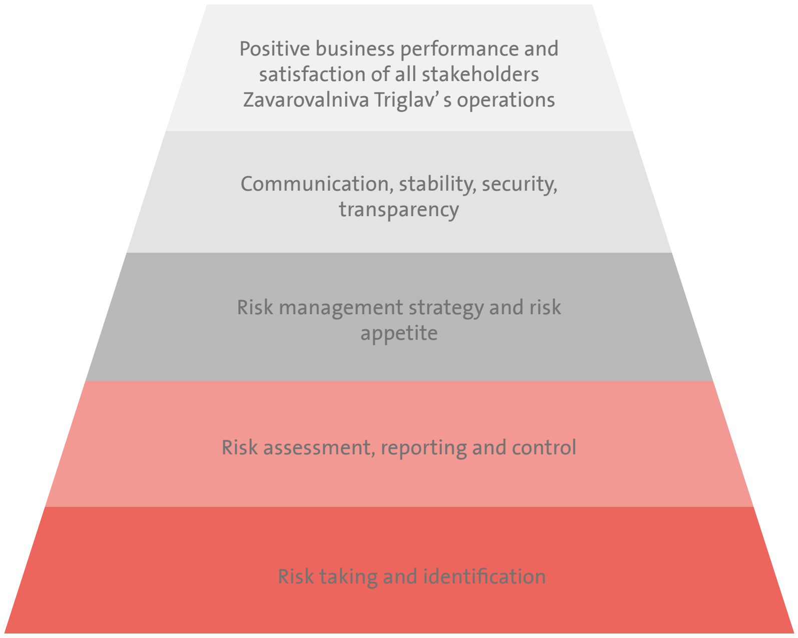
The risk exposure limits are:

- overall portfolio limits,
- supplementary limits for individual risk types.

4.1.2 Added value of the risk management system

Risk management provides the opportunity to efficiently turn risk into value. It enables the Group to control and adjust its entire risk profile and to limit its amount of exposure to certain risks. The successful and prudent assumption and management of risks give the Company financial strength and, consequently, the ability to fulfil its obligations to its clients and meet their expectations, at the same time creating sustainable value for its investors.

The Group has developed a conservative culture and approach to risks which it controls with modern risk management tools. Since risk management is one of the most important functions of the Company, it requires adequate resources in terms of organisational structure, strategic orientation, staff training, and regular or continuous risk review. Monitoring and identification of risks constitute the foundation of the risk management system. The Group uses a set of advanced tools for efficient risk assessment, which among other things also analyse the interconnectedness of risks at the Group level. The same applies to reporting and control, supplemented with various rules and regulations. Common to all these, however, is a transparent sharing of information on which the risk management system for the Group as a whole is based. Consequently, the operation of the entire Group is more transparent, stable and secure. All together, this leads to favourable results and raises the satisfaction of all the participants in the business process.



***Picture:** Added value of Zavarovalnica Triglav's risk management system*

To enable efficient risk taking and risk identification, which form the essence of the Company's risk management system, all business divisions have clearly defined limits and apply an internal control system for monitoring their operations.

The Risk Management Strategy is defined in a clear and precise manner, in line with the Group's business strategy. Its goals are to reinforce the Group's financial stability and strength, to cater to the clients' needs and to fulfil the obligations towards them as well as to increase the value of the Group for its shareholders. Moreover, the Strategy sets out the risk appetite, i.e., the framework and level of risks the Group is willing to assume and manage. The system is designed to allow transparency and efficient communication.

4.1.3 Risk management at the Group level

Risk Management at the Group level is more extensive than risk management system at the level of individual companies. At the Group level, the risk management system must be adequate, efficient and in proportion to the structure, nature, volume and complexity of transactions and the risks related. The system pays special attention to risks at the Group level and analyses the risks at the level of individual Group members, the interconnectedness of those risks and, of course, the concentration of risks. Because of the diversity of structures and systems within the Group, any decision made at the level of either the Group or an individual company must take into account the specifics of the situation and the impact of the decision at both levels. The Group reorganisation and centralisation of functions, including the establishment of the Subsidiary Management Committee, made such risk management possible.

In spite of its size and complexity, the Triglav Group succeeded in setting up an efficient and, most importantly, a reliable system of risk management. Two concepts are characteristic of systems at the Group level. The first requires consistent risk management at the broad level of the entire Group, while the second is the concept of centralised risk management. The Triglav Group applies both concepts and considers them complementary rather than contradictory to one another.

The Group itself has designed a strategy and policies that define, categorise and control the risks to which the Group is exposed. On this basis, the strategy of risk management has also been devised through policies distributed to all Group members, who then take care of the appropriate implementation of both strategies in the day-to-day operations at the level of Group member.

The efficiency of the system is secured by the hierarchy structure and through the cooperation of all employees, as well as thanks to a strong corporate culture which stresses the importance of risk management at all levels. Moreover, the system is supported by clear and transparent top-down and bottom-up information flow. The efficient flow of information and the transparency of the decision-taking process are possible thanks to compatible IT systems which at the same time enable uniform internal control systems.

Major development activities concerning the risk management system in 2011 included:

- definition of the minimum internal control standard to ensure the regularity and reliability of financial and accounting reporting for the insurance companies within the Group;
- development of ALM models for long-term business funds and assets backing liabilities of Zavarovalnica Triglav.
- other preparatory activities for the implementation of the Solvency II Directive and of IFRS 4 Phase II.

4.2 Capital management and capital adequacy management

The amount of available capital for meeting capital adequacy requirements is measured in compliance with the legislation in force at the level of individual subsidiaries as well as at the Group level. In parallel, capital adequacy is monitored by applying the Standard & Poor's model in accordance with the Directive 2010/138/EC of the European Parliament and of the Council (Solvency II). Decisions concerning capital management are supported by the results of all capital models.

While capital requirements imposed by regulators constitute a binding constraint, meeting rating agencies' capital requirements represents one of our strategic business objectives. Typically, the rating agencies' requirements are stricter.

4.2.1 Group Capital Adequacy

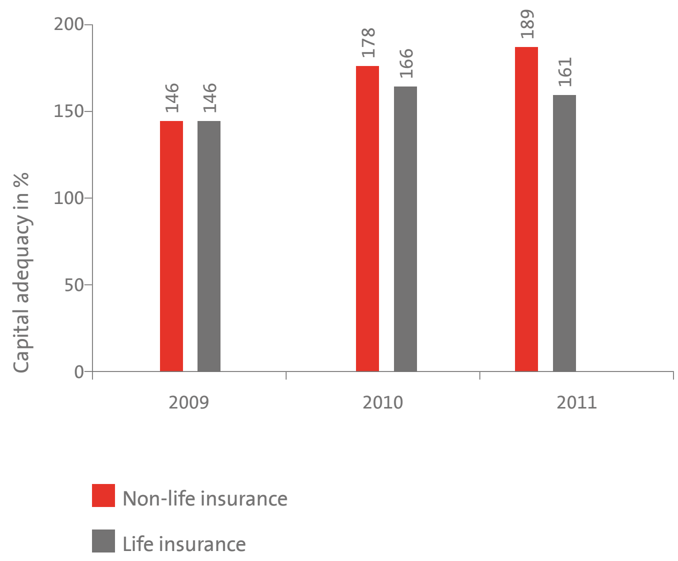
Each Group member is required to measure the amount of the available solvency margin against the relevant local or sectoral capital requirement on a regular basis. The amount of required capital and, above all, the fluctuation in the level of the capital available to insurance companies of the Triglav Group, are subject to various factors, mostly the structure and nature of services, the volume of premium, assets and liabilities, as well as the impact of interest rates and capital markets parameters on changes in the said items. The Group members regularly monitor their capital adequacy in line with the applicable legislation, whereby they are required to maintain a surplus of the available solvency margin over the capital requirement in order to maintain their core business and ensure coverage of potential losses. Capital surplus offers high coverage of losses due to unexpected adverse events, with regard to the previous and current developments in the environment of the Group and future expectations. In addition to measuring current capital adequacy levels, the Group members monitor their planned capital adequacy levels, which enables them to monitor the effects of the extended and narrow environment on capital adequacy. Furthermore, this enables optimal distribution of capital both at the level of the Group and in its individual members.

Regulators impose minimum capital requirements on the level of the Group as well as on the level of individual Group members. The main objective is to maintain a suitable capital level in the Group and in all its members.

Furthermore, the capital adequacy ratios of insurance technical provisions are continually monitored for the purpose of assessing the solvency needs of individual Group members.

As at 31 December 2011, in Zavarovalnica Triglav the minimum required capital to available capital ratio in non-life insurance was 189% (vs. 178% as at 31 December 2010), whereas in life insurance the ratio was 161% (vs. 166% as at 31 December 2010). Throughout 2011, as in previous years, Zavarovalnica Triglav maintained the required capital adequacy.

Minimum required capital to available capital ratio



Picture: *Index of minimum required capital to availabe capital ratio*

4.2.2 Capital adequacy of the Triglav Group as a financial conglomerate

Within the scope of the directive on the supplementary supervision of credit institutions, insurance undertakings and investment firms in a financial conglomerate and related Slovene law, the Triglav Group, Abanka Vipa and its subsidiaries form a financial conglomerate. The law requires that a financial conglomerate regularly monitors its capital adequacy by calculating consolidated available capital, taking into account sectoral regulatory solvency requirements for all three financial sectors represented in the conglomerate (insurance, banking, asset management).

4.2.3 Rating agency capital adequacy

Under Standard & Poor's (hereinafter: S&P) capital adequacy model, measuring capital adequacy remains the essential component of the credit rating process.

As at 31 December 2011, Zavarovalnica Triglav was rated "A – stable outlook" (FSR, ICR), which reaffirms its high level of capital adequacy. Despite lowering the sovereign rating on the Republic of Slovenia, S&P not only maintained its »A« credit rating on Zavarovalnica Triglav, but also took the Company off credit watch, which was initially issued due to a potential short-term downgrading of its credit rating. The rating agency maintained the negative medium-term outlook assigned to Zavarovalnica Triglav's credit rating.

4.3 Financial risk and sensitivity analysis

All financial instruments are exposed to market risks, i.e. the risk that future market conditions will affect the value of financial instruments, as well as to credit risk, i.e. counterparty default risk. Financial risks therefore arise in the assets and liabilities management of long-term business funds and assets backing liabilities, in reinsurance operations and in all funding operations within the scope of capital management.

The main types of financial risk to which the Group is exposed are:

- equity and interest rate risk related to the operating activities (core business) of Group members,
- credit risk
- liquidity risk.

Financial risks are managed through a system of clearly defined competences and powers that includes a scheme of exposure limits and a reporting process, both on the Group level and in individual group members. The investment policies of individual Group members are approved by the Assets and Liabilities Committee (ALCO), which regularly monitors the group members' exposure against investment limits.

Investment policies are structured so as to account for the nature and characteristics of individual members' liabilities, optimise asset spread and maximise return.

The breakdown of the Triglav Group's financial assets portfolio by industry is shown in the table below.

Industry	31 December 2011 (in EUR)	Percentage*	31 December 2010 (v EUR)	Percentage*
(Raw) materials	29,012,238	1.25%	20,288,527	0.89%
Communications	46,189,478	1.99%	45,356,311	1.99%
Cyclical activities	35,951,877	1.55%	15,278,176	0.67%
Non-cyclical activities	84,411,100	3.63%	58,523,430	2.56%
Highly diversified activity - conglomerates	7,383,155	0.32%	0	0.00%
Energy	85,317,770	3.67%	42,554,031	1.86%
Finance	837,199,318	35.99%	871,464,589	38.18%
Manufacturing	55,471,424	2.38%	52,370,632	2.29%
Technologies	57,317	0.00%	76,176	0.00%
Goods and services of public interest	47,503,621	2.04%	34,248,165	1.50%
EMU countries	564,425,439	24.27%	591,954,690	25.94%
EU countries (except EMU)	104,730,454	4.50%	112,241,272	4.92%
Other countries	108,366,355	4.66%	65,715,480	2.88%
Small businesses and households	1,607,986	0.07%	1,382,726	0.06%
No data	318,396,290	13.69%	370,995,304	16.25%
TOTAL	**2,326,023,822**	**100.00%**	**2,282,449,510**	**100.00%**

* Percentages are calculated on the basis of carrying amounts.

4.3.1 Market risk and asset-liability management of insurance portfolios

In assets and liabilities management we are most exposed to interest rate and equity risks on the assets side. To a lesser extent we are also exposed to the regulatory risk of potential changes in the minimum standard for setting the applicable technical interest rate for calculating mathematical provisions on the existing insurance portfolio.

In order to monitor and manage market risks to which the Triglav Group members are exposed, a wide variety of techniques is applied, 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 by applying the models described in section 4.2 and hedging against certain risks arising from derivative financial instruments. Moreover, the life insurance portfolio includes unit-linked insurance policies, where most of the financial risk is borne by the insureds.

The goal of the asset-liability management process is to ensure an optimal return on investments with respect to the nature of insurance liabilities. Due to regulatory constraints, insurance liabilities are not sensitive to market parameter changes under the current legislation. Thus, the optimisation process aims at producing a set of investment policies that take into account the static nature of insurance liabilities and optimise the relationship between the sensitivity of the balance sheet to market parameters and investment return. In order to maximise the effect, this process also considers the results of other capital adequacy measure-

ment models (Standard & Poor's, Solvency II), but only to the legally acceptable limit.

By means of the optimisation process, investment policies are determined specifying the strategic asset allocation for every portfolio. These policies are approved by ALCO, which regularly monitors the current ratios for all long-term business funds and assets backing liabilities and the compliance of investment structure with the Group's investment policies.

Sections 4.3.2 and 4.3.3 show the results of the sensitivity analysis of the Group's financial assets for both major risks and their impact on comprehensive income and the income statement of the Group.

4.3.2 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. Reinvestment risk arises for interest-sensitive assets yielding coupons in the period up to maturity, depending on the structure of the individual instruments.

The interest rate risk sensitivity analysis includes all financial assets exposed to interest rate risk, i.e. debt securities, classified into »measured at fair value through profit and loss« and »available-for-sale« categories and derivative financial instruments. The value of these assets as at 31 December 2011 amounted to EUR 1,064,169,778 and as at 31 December 2010 to EUR 1,069,818,712. The share of debt securities in the total portfolio is shown in the detailed overview of financial assets per groups of assets in Section 6.5.

The table below shows a sensitivity analysis of the Group's portfolio to interest rate risk and its impact on comprehensive income and the income statement.

in EUR

Type of security	31 December 2011		31 December 2010	
	+100bp	-100bp	+100bp	-100bp
Government securities	-13,879,083	13,879,084	-39,735,631	39,735,631
Securities issued by financial institutions	-3,632,285	3,632,285	-8,837,737	8,837,737
Securities issued by companies	-12,617,178	12,617,178	-9,679,015	9,679,015
Composite securities	-6,220,840	6,220,840	-8,197,577	8,197,577
Other			-1,137,177	1,137,177
TOTAL	**-36,349,386**	**36,349,387**	**-67,587,137**	**67,587,137**
Impact on comprehensive income	-32,643,346	32,643,346	-61,677,611	61,677,611
Impact on the income statement	-3,706,040	3,706,040	-5,909,525	5,909,525

4.3.3 Equity risk

Equity risk is the risk of fluctuation in share prices, which affects the carrying value of securities within the Group's portfolio that are sensitive to such fluctuations. These risks are managed through investment limits as well as through geographical and sectoral diversification. The Group invests most of its assets within the European Union and only spreads the 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: this diversification causes a slightly lower equity risk.

The structure of the equity portfolio per type of exposure is shown in the table below. The amounts shown are based on the carrying values of assets.

in EUR

	31 December 2011	31 December 2010
Equities in the EU	427,081,235	391,956,919
Equities in the USA	33,460	1,812,824
Equities in Asia*	3,393	3,703
Equities in emerging markets	54,829,800	123,349,490
Global equities**	79,145,836	68,574,526
TOTAL	**561,093,724**	**585,697,462**

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

** Globally diversified equity investments

The equity portfolio's sensitivity to equity price fluctuations and their impact on comprehensive income and/or the income statement of the Group is shown in the table below.

in EUR

	31 December 2011		31 December 2010	
	10%	-10%	10%	-10%
Equities in the EU	42,708,124	-42,708,124	39,195,692	-39,195,692
Equities in the USA	3,346	-3,346	181,282	-181,282
Equities in Asia	339	-339	370	-370
Equities in emerging markets	5,482,981	-5,482,981	12,334,949	-12,334,949
Global equities	7,914,584	-7,914,584	6,857,453	-6,857,453
TOTAL	**56,109,374**	**-56,109,374**	**58,569,746**	**-58,569,746**
Impact on comprehensive income	19,939,944	-13,632,743	19,468,522	-19,468,522
Impact on the income statement	36,169,430	-42,476,631	33,677,004	-33,677,004

The above analysis demonstrates the sensitivity of the equity portfolio to equity price fluctuations. If the prices of the equities in the portfolio as at 31 December 2011 were 10% above their disclosed values, the comprehensive income and profit of the Group would be EUR 19.9 million and EUR 36.2 million higher, respectively. In contrast, if the prices of the equities in the portfolio as at 31 December 2011 were 10% lower, the comprehensive income and profit of the Group would be EUR 13.6 million and EUR 42.5 million lower, respectively.

Due to the established long-term decrease in the fair value of equity securities, the Triglav Group, in accordance with International Financial Reporting Standards, impaired certain equity securities. The impacts of impairments are disclosed in Section 7.3.

4.3.4 Liquidity risk

Liquidity risk is the risk or threat of a liquidity mismatch, i.e., the mismatched maturity of assets and liabilities. Such a mismatch can cause liquidity problems or a shortage in liquidity needed to settle due liabilities. Liquidity risk is offset against the volume of highly liquid securities and 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.

The following tables show the maturity structure of the Group's financial assets and liabilities.

Maturity structure of financial assets and liabilities in EUR

31 December 2011	Not defined	Under 1 year	From 1 to 5 years	From 5 to 10 years	Over 10 years	TOTAL
FINANCIAL ASSETS						
Investments in associates	20,504,563	0	0	0	0	20,504,563
Financial assets	495,131,141	335,614,391	664,673,714	534,315,284	296,289,292	2,326,023,822
Reinsurers' share of technical provisions	482,240	25,893,097	11,481,694	4,526,098	1,599,954	43,983,083
Receivables	5,503,317	199,350,508	178,131	9,695	7,619	205,049,270
Cash and cash equivalents	17,553,389	5,218,278	0	0	0	22,771,667
TOTAL FINANCIAL ASSETS	**539,174,650**	**566,076,274**	**676,333,539**	**538,851,077**	**297,896,865**	**2,618,332,405**
FINANCIAL LIABILITIES AND PROVISIONS						
Subordinated liabilities	0	0	10,998,000	29,934,090	0	40,932,090
Insurance technical provisions	368,800,112	690,276,031	395,169,444	292,975,857	486,921,328	2,234,142,772
Other financial liabilities	0	29,231,960	10,259,160	0	0	39,491,120
TOTAL FINANCIAL LIABILITIES	**368,800,112**	**719,507,991**	**416,426,604**	**322,909,947**	**486,921,328**	**2,314,565,982**

Maturity structure of financial assets and liabilities in EUR

31 December 2010	Not defined	Under 1 year	From 1 to 5 years	From 5 to 10 years	Over 10 years	TOTAL
FINANCIAL ASSETS						
Investments in associates	117,067,739	0	0	0	0	117,067,739
Financial assets	546,480,998	182,333,283	516,233,632	735,936,383	301,465,214	2,282,449,510
Reinsurers' share of technical provisions	0	26,319,593	12,485,687	3,989,017	1,427,018	44,221,316
Receivables	0	214,269,173	2,361,523	13,264	0	216,643,960
Cash and cash equivalents	0	34,108,090	0	0	0	34,108,090
TOTAL FINANCIAL ASSETS	**663,548,737**	**457,030,139**	**531,080,842**	**739,938,664**	**302,892,232**	**2,694,490,615**
FINANCIAL LIABILITIES AND PROVISIONS						
Subordinated liabilities	0	0	10,998,000	29,934,090	0	40,932,090
Insurance technical provisions	364,755,023	693,613,838	291,589,363	240,770,641	680,187,024	2,270,915,889
Other financial liabilities	0	21,476,980	13,393,444	0	0	34,870,425
TOTAL FINANCIAL LIABILITIES	**364,755,023**	**715,090,818**	**315,980,807**	**270,704,731**	**680,187,024**	**2,346,718,404**

4.3.5 Foreign exchange risk

Our exposure to foreign exchange risk is minor, as most of our assets are denominated in euros. In terms of the foreign exchange risk structure, the highest exposures are to the currencies of the countries that emerged from the former Yugoslavia, which in total represent no more than 5% of the portfolio.

4.3.6 Credit risk

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

The Group manages its exposure to credit risk through a system of exposure limits, which constitute part of the investment policies for different types of assets. The aim is to achieve optimum diversification of the credit portfolio and achieve the desired »A« credit rating. Exposures to individual issuers and changes in their credit ratings are continually monitored in order to ensure timely and suitable responses to potential adverse developments on the financial markets.

Credit risk exposure arising from insurance business operations is regularly monitored by analysing:

- The maturity structure of receivables from insurance operations (see Section 2.11 for guidelines and Section 6.7 for analysis of receivables by maturity) and
- Reinsurers' and co-insurers' credit ratings. The Group monitors the financial standing of reinsurers and, as a rule, enters into retrocession reinsurance agreements for liability insurance only with A- rated reinsurers, and for all other insurance classes only with at least BBB+ rated reinsurers (70% of reinsurers are A-rated).

The Group's financial assets that may be exposed to credit risk (i.e. financial investments, assets from reinsurance contracts, operating

receivables and cash or cash equivalents) as at 31 December 2011 amounted to EUR 2,618,332,403 (vs. EUR 2,694,490,615 as at 31 December 2010).

The table below shows the credit-rating structure of debt securities.

Credit rating	31 December 2011 (in EUR)	Percentage	31 December 2010 (in EUR)	Percentage
AAA	133,986,431	9.39%	133,895,788	9.60%
AA	405,105,707	28.39%	592,502,034	42.47%
A	299,579,162	20.99%	255,087,967	18.28%
BBB	298,354,327	20.91%	237,912,752	17.05%
BB	107,408,814	7.53%	87,944,398	6.30%
B	18,428,007	1.29%	977,491	0.07%
No credit rating	164,140,370	11.50%	86,856,459	6.23%
TOTAL	**1,427,002,818**	**100.00%**	**1,395,176,889**	**100.00%**

In 2011, the single largest exposure of the Triglav Group was to Abanka Vipa amounting to EUR 94,601,082, same as the year before (EUR 79,175,397).

Total exposure of the Triglav Group to Greece, Portugal, Spain, Ireland, Italy and Hungary on the reporting date amounting to EUR 73.9 million.

Due to adverse developments in the global financial markets and increased credit risk, certain debt securities were impaired. The impact of impairments is described in detail in Section 7.3.

4.4 Underwriting risk

Zavarovalnica Triglav assumes underwriting risks through the insurance contracts it underwrites. The risks in this category are associated with both insurance perils covered by individual insurance classes and specific work processes related to performing insurance operations. Underwriting risks arise 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 loss development changes, the allocation of insurance technical provisions, changes in policyholders' behaviour and general changes in the external economic environment.

Divisions in charge of the core business are primarily responsible for active management of the underwriting risk. This type of risk is managed by clearly structured competences and powers, which include suitable delimitation of powers, underwriting limits and an authorisation system. To manage risks related to the development of insurance products, Zavarovalnica Triglav has established two product forums for life and non-life insurance, which are in charge of product development, pricing and terms and conditions. In addition, insurance risks are managed with a set of actuarial techniques applied in product pricing and insurance technical provision allocations, as well as by means of regular performance monitoring, optimisation of reinsurance schemes and regular supervision of the adequacy of insurance contract provisions.

Reinsurance is one of the basic tools used to mitigate underwriting risks. For each business year a plan of reinsurance is adopted that contains:

- 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 (see also Section 4.3.6). This provides even more stable operations, which result in more stable cash flows.

4.4.1 Underwriting risk concentration

Underwriting risk concentration occurs due to the concentration of an insurance operation in a geographic area, or an industry or an insurance peril. It may also occur as a result of a correlation between individual insurance classes. In case an underwriting risk concentration arises in a business segment or industry, a single event may have a material impact on re-payment capacity.

Insurance risk concentration is managed by adequate re-insurance schemes, which are based on the tables of maximum net retained lines.

Particular attention is paid to events with a low frequency and a high impact, for example natural disasters such as earthquakes, storms, hail and floods. Over the previous four years, on average we sustained two major natural disasters annually, which triggered reinsurance policies covering natural events. Our catastrophe reinsurance programme is designed as excess of loss reinsurance with four layers with a total limit of EUR 100,000,000 over the priority of EUR 7,500,000. Moreover, we have an aggregate reinsurance cover with an annual aggregate of EUR 15,000,000 and is thus protected also against a possible increased occurrence of natural disasters in a particular year.

Past events showed that the reinsurance scheme is suitable and that we were able to discharge our obligations arising from our insurance contracts despite adverse loss event developments, whilst liquidity risk and capital adequacy risk did not increase. Experience from previous years suggests that an increased number of mass loss events represent one of the main risks to which we are exposed. Whereas a single event does threaten the Company's operations, several such events can pose a serious threat.

For the Group earthquakes are events with the biggest potential loss risk. The re-insurance scheme is designed accordingly. In the case of an earthquake with a return period of 1,000 years, the retained loss of the Group increased by 20% would account for two thirds of the maximum risk that the Group is still able to assume according to the tables of maximum net retained lines.

Natural events predominantly affect fire, technical and car insurance classes (comprehensive car insurance). Crop insurance is also subject to the occurrence of natural events. In the previous two years we began to

intensely adapt our business to climate change. In the future reinsurance schemes of this kind are likely to become increasingly costly and coverage increasingly narrower. In an attempt to minimise climate change impacts, the Group started to adapt its products accordingly and exercise greater prudence in the process of underwriting insurance contracts.

The concentration of life underwriting risk is low, as the risk sum insured is below EUR 35,000 and accounts for 99.6% of the life, annuity and unit-linked portfolio. For additional accidental death insurance, the risk sum insured is lower than EUR 50,000 and represents 99.3% of the respective portfolio. Both sums insured represent the stipulated retention in line with the reinsurance agreement for most insurance policies.

4.4.2 Geographical and sectorial concentration

Triglav conducts insurance business mainly in the territory of the Republic of Slovenia and the countries of the former Yugoslavia, with limited operations in the Czech Republic. On the basis of previous experience, the Group believes that all potential risk concentrations is adequately reinsured.

The table below summarises the gross written premium in the countries in which the insurance companies of the Group operate.

	Gross written premium in EUR		Share (in %)	
Country	2011	2010	2011	2010
Slovenia	816,330,978	836,565,987	82.51	82.54
Croatia	53,226,451	55,628,110	5.38	5.49
Montenegro	30,670,813	32,338,112	3.10	3.19
Czech Republic	27,431,720	26,879,014	2.77	2.65
Bosnia and Herzegovina	20,835,500	21,113,034	2.11	2.08
Serbia	20,796,183	19,358,650	2.10	1.91
FYROM	20,107,159	21,677,318	2.03	2.14
TOTAL	**989,398,804**	**1,013,560,225**	**100.00**	**100.00**

In terms of business segments, the Triglav Group is most active in car insurance, as shown in 7.1. Zavarovalnica Triglav is one of only three insurance companies that offer supplementary health insurance in Slovenia, with a 17.7% market share, and one of only two companies offering reinsurance, with a 44% market share. In both segments, Triglav is exposed to concentration risk in the existing insurance market. Regarding the reinsurance portfolio, Triglav manages the concentration risk by geographical spread of inwards reinsurance risks and with adequate retrocession of outwards reinsurance risks. As supplementary health insurance is characterised by high risk dispersion, this segment does not entail any risk concentration for the Group.

Motor liability insurance represents the bulk of the insurance portfolio. As motor liability insurance is characterised by high risk dispersion, this segment does not entail any risk concentration for the Group. A potential risk of sector concentration exists in comprehensive motor vehicle insurance. However, it is covered by a catastrophe reinsurance programme, which has proved to be adequate in recent years.

4.4.3 Low-frequency and high severity risk

The threat of earthquakes represents the highest potential risk in this segment for the Group. Reinsurance protection against earthquakes and other natural disasters is arranged accordingly. Thus far, no earthquake of catastrophic proportions has occurred. The earthquake models available show that earthquakes with a return period of 1,000 years and an implied 20% margin of error in estimating the amount of potential claims do not represent a greater threat than the other natural disasters with which Triglav is faced almost every year.

Another 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, since no major loss event has been reported in 25 years and the correlation between such a potential loss event and the arising liabilities is low or null. In the worst-case scenario, a net claim arising from nuclear risk would not exceed claims arising from a single natural event (see also Section 4.4.1). The earthquake in Japan that struck in March 2011 and damaged nuclear reactors should be noted, as well as the subsequent exposure of Zavarovalnica Triglav to Japanese nuclear risks. The participation of the Japanese Nuclear Pool is the largest in the Slovene nuclear pool portfolio. The share of Zavarovalnica Triglav amounts to EUR 105,640,192 and is divided among 42 risks. In underwriting nuclear risks the rule is that if several risks (nuclear reactors) exist on a single location, the share of aggregate exposure may not exceed Zavarovalnica Triglav's own share for such risks.

4.5 Operational risks

Operational risk is defined as the risk of loss due to:

- Inadequate or failed internal processes (process disruptions, customer complaints, lack of reliable management information, business continuity issues, mismanagement of business-related costs, inefficient change management, inconsistent or incomplete process documentation, etc.);
- Inappropriate or inefficient human behaviour (inadequate human resource management, loss of key personnel, lack of knowledge and competences, employee misconduct, etc.);
- Inadequate or failed systems (outdated software applications and/or infrastructure in use, lack of audit trails in software, inadequate backup and recovery times, etc.);
- External events (changes in regulation, natural disasters, competition, fraudulent activity, etc.).

Zavarovalnica Triglav has determined a framework to identify and measure operational risks, their reasons and their consequences, assessment methodology and identification of internal controls. To provide a unified standard, an extensive analysis of the internal controls system was performed at Zavarovalnica Triglav in 2011, focused on the regularity and reliability of financial reporting in Zavarovalnica Triglav. On the basis of the analysis results, the Risk Management Department suggested miti-

gation measures for the identified risks and specified minimum standards for internal controls.

In the scope of operational risks, insurance companies have a large potential exposure to insurance fraud. To manage this exposure, a special department was established and put in charge of the development and implementation of fraud indicators, research of potential fraudulent activity and reporting to the Management Board on the findings and initiated procedures. In the scope of the aforementioned internal control system, activities to prevent fraudulent behaviour will to the extent reasonable be transferred to all members of the Triglav Group in the year to come.

Another important segment of operational risks are compliance risks which are managed in the framework of the compliance function (see also Section 4.1).

4.6 Strategic risk

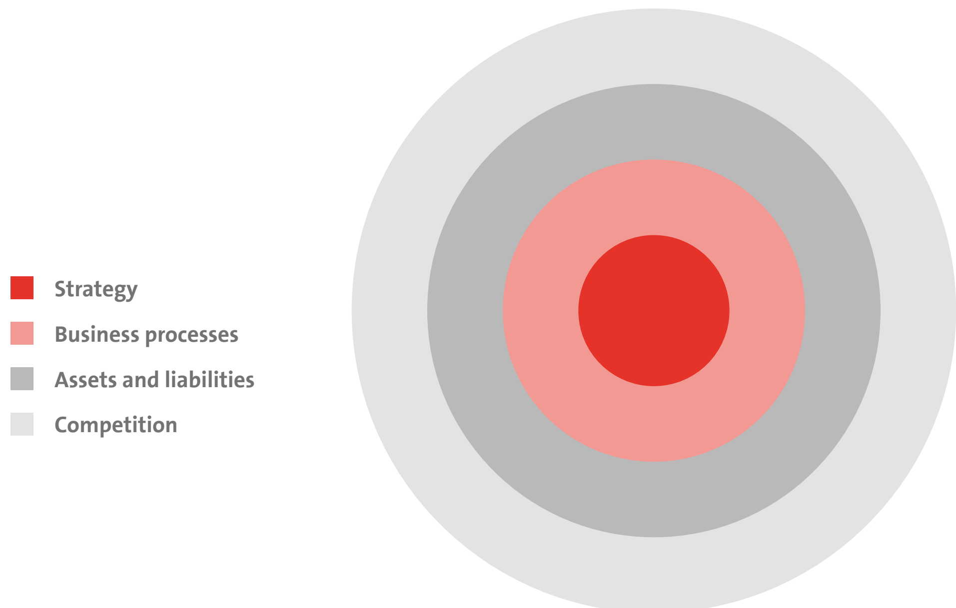
Strategic risk is the probability or possibility that an event will adversely or beneficially affect the Triglav Group's ability to achieve its strategic objectives and thus the Group's value. Achieving strategic goals and managing strategic risks is a responsibility of all three lines of defence against risk. Strategic risk management is directly and most actively managed by: the Management Board of Zavarovalnica Triglav, the Subsidiary Governance Committee, the Project Steering Committee, the Life Insurance Product Forum, the Non-life Insurance Product Forum, the Risk Management Committee and the Assets and Liabilities Committee.

Strategic risks are addressed upon their creation, i.e. during the strategic planning process. The strategy implementation process is monitored with internal controls, while competences and responsibilities of the above-mentioned bodies in managing strategic risk are clearly defined. A clear organisational structure of functions and committees provides for an effective strategic risk control as well as the achievement of short-, mid- and long-term goals. At Group level, special attention is paid to the synergies between individual Group members' strategies, their mutual harmonisation as well as compliance with the strategy of the Triglav Group.

Continuous training for employees as well as the application of state-of-the-art models, tools and good business practices enable the Group to effectively manage strategic risks.

Strategy

The Strategy of the Triglav Group is devised in a clear manner with precisely defined goals, tools and implementation processes. The same is true for the strategies of other insurance companies, which have been harmonised with the strategy of the Group. All strategies follows trends in the industry, legislative and legal matters as well as the micro- and macro-environment. They enable fast and efficient adaptation to the changes in the environment. Good business results achieved despite the economic crisis and effects of unpredictable weather events show that the implementation of the strategy has been successful and efficient.



Sources of strategic risks

Business processes

Internal controls set up to monitor operational risks enable employees to adopt and implement more appropriate and correct decisions and enhance the Group's general ability to adapt to the changes in the environment.

Assets and liabilities

Due to the nature of their operations, members of the Triglav Group employ different assets and liabilities management systems. Nevertheless, all systems are designed to allow optimum and efficient management of assets and liabilities. In this regard, synergies and information and expertise sharing are used to facilitate and improve the Group's operations. The Group effectively manages assets risks by active monitoring of its liabilities, premium inflow, real property situation, investments and developments in financial and all other markets, which positively affects its financial results.

Competition

The Group is faced with strategic risks, arising from various factors. The table below shows their impact:

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.
Supplier risk	Low	The procurement process provides for the transparency of procurement and suppliers. Zavarovalnica Triglav is focused not only on procurement-related cost effectiveness, but also on transparency and due implementation of the 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 and making a portfolio selection in line with its strategic orientation, the Company increases the appeal and quality of its products and lowers the amount of claims paid.
Regulatory risk	Low	For a long period of time, Zavarovalnica Triglav has been preparing for the Solvency II Directive and phase 2 of the IFRS 4.