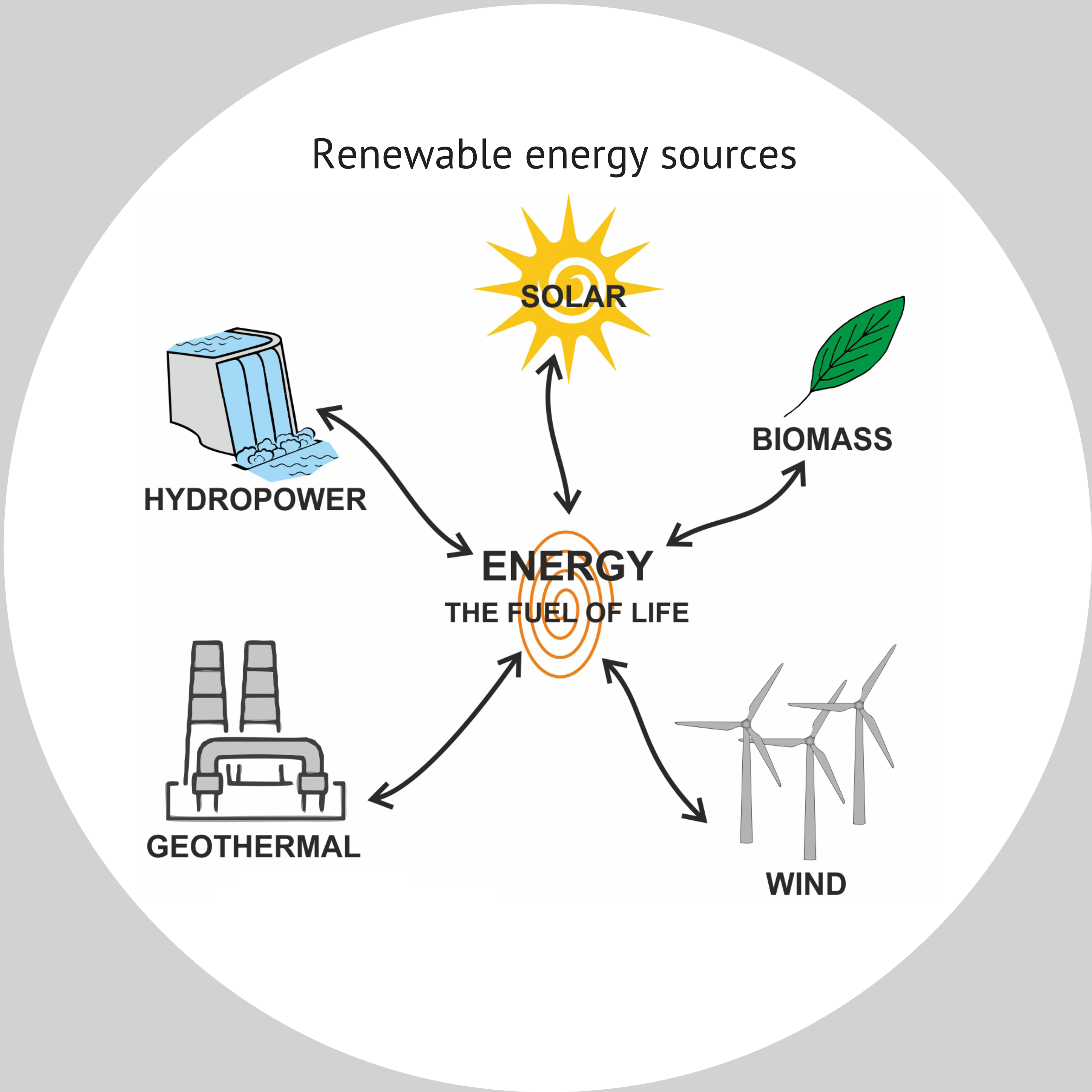
ANNUAL REPORT 2022

triglavre



SUMMARY OF THE ANNUAL REPORT

2022

ANNUAL REPORT 2022 triglavre

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Statement of Management's Responsibilities

The Management Board hereby confirms that the Annual Report of Triglav Re, d.d. with all its integral parts is written in accordance with the Companies Act and the International Financial Reporting Standards as adopted by the EU.

The Management is responsible for the preparation of the Annual Report so that it gives a true and fair view of the Company's financial position and its operating results for the year ending 31 December 2022.

The Management Board hereby confirms that the appropriate accounting policies have been consistently applied and that the accounting estimates have been prepared with due care and prudence. Furthermore, the Management Board confirms that the financial statements and explanatory notes have been prepared on the basis of assumption of the Company's continued and sustainable operations, and in accordance with the applicable law and International Accounting Standards as adopted by the EU.

The Management Board is also responsible for keeping proper and adequate accounting, for taking appropriate measures to secure its assets and for prevention and detection of fraud and other irregularities or illegalities.

The tax authorities may, at any time within five (5) years from the date on which the tax was charged, check the Company's operations, which may result in additional tax liabilities, interest on arrears, penalties under corporation tax or other taxes and duties. The Management Board further states that they are not aware of any circumstances that may give rise to any potential material liability in this respect.

Ljubljana, 14 March 2022

Member of the Management Board Stanislav VRTUNSKI	Member of the Management Board Tomaž ROTAR	President of the Management Board Gregor STRAŽAR MBA (Econ)

Deloitte.

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1000 Ljubljana
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www.deloitte.si

REPORT OF THE INDEPENDENT AUDITOR ON THE SUMMARY FINANCIAL STATEMENTS
to the owners of Triglav RE, d.d.

Opinion

The summary financial statements, which comprise the summary statement of financial position as at 31 December 2022, and the summary income statement, the summary statement of other comprehensive income, the summary statement of changes in equity and the summary cash flow statement for the year then ended, and related notes to the financial statements, including a summary of significant accounting policies, are derived from the audited financial statements of Triglav RE d.d. ('the Company') for the year ended 31 December 2022.

In our opinion, the accompanying summary financial statements are consistent, in all material respects, with the audited financial statements, prepared in accordance with International Financial Reporting Standards as adopted by the EU (hereinafter 'IFRS').

Summary Financial Statements

The summary financial statements do not contain all the disclosures required by IFRS. Reading the summary financial statements and the auditor's report thereon, therefore, is not a substitute for reading the audited financial statements and the auditor's report thereon. The summary financial statements and the audited financial statements do not reflect the effects of events that occurred subsequent to the date of our report on the audited financial statements.

The Audited Financial Statements and Our Report Thereon

We expressed an unmodified audit opinion on the audited financial statements in our report dated March 10, 2023.

Deloitte.

Responsibilities of Management for the Summary Financial Statements

Management is responsible for the preparation and fair presentation of the summary financial statements in accordance with IFRS.

Auditor’s Responsibilities for the Report on the Summary Financial Statements

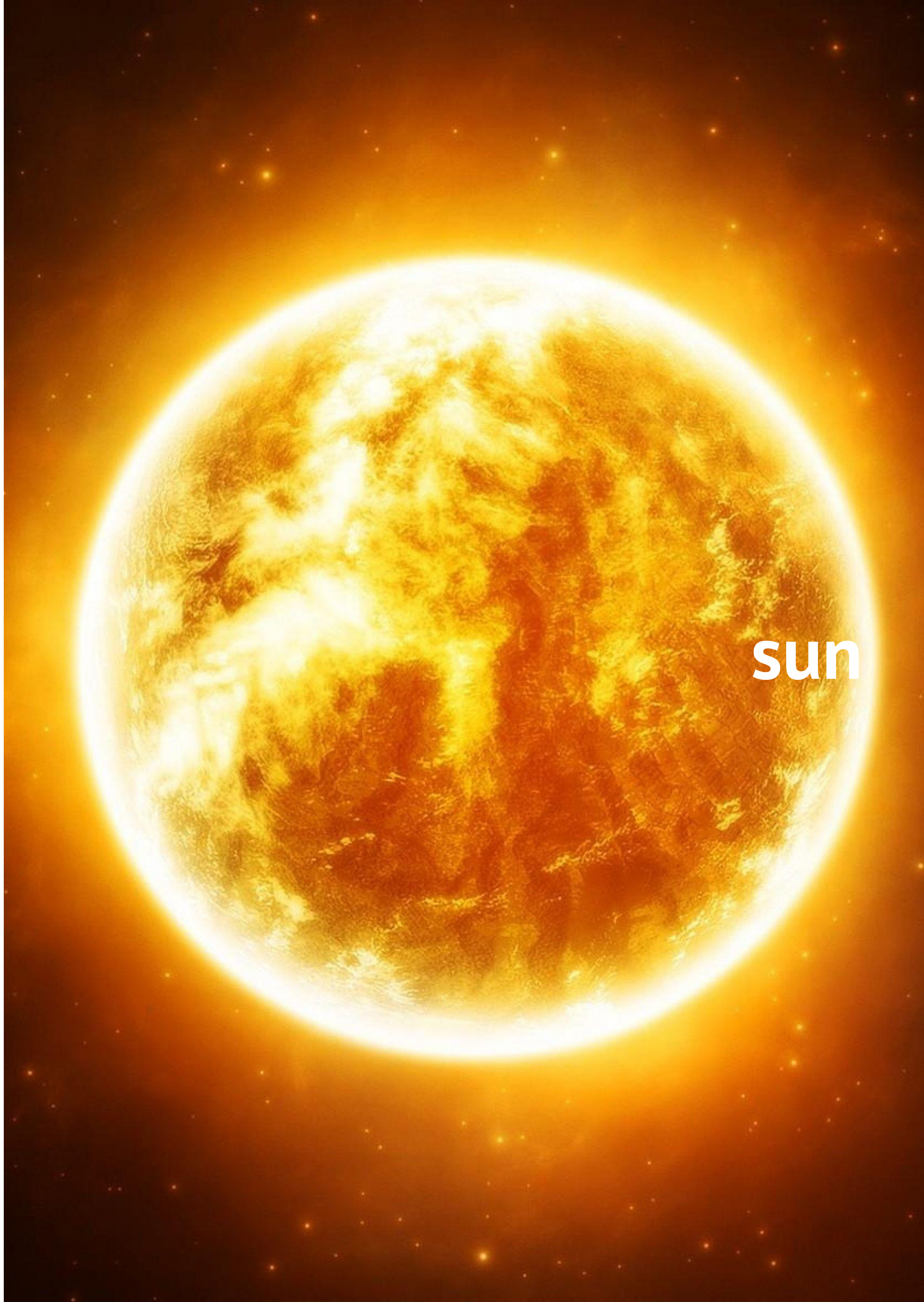
Our responsibility is to express an opinion on whether the summary financial statements are consistent, in all material respects, with the audited financial statements based on our procedures, which were conducted in accordance with International Standard on Auditing (ISA) 810 (Revised), *Engagements to Report on Summary Financial Statements*.

DELOITTE REVIZIJA d.o.o.

Barbara Žibret Kralj
Certified auditor

Ljubljana, May 19, 2023

Deloitte.
DELOITTE REVIZIJA D.O.O.
Ljubljana, Slovenija 3



1. OPERATING PERFORMANCE AND EVENTS IN 2022

1.1. Financial Highlights of Triglav Re, d.d.

in EUR

	YEAR 2022	YEAR 2021	INDEX
Gross reinsurance premium written	250,292,376	202,282,034	124
Gross claims paid	105,532,665	88,241,309	120
Gross operating expenses*	4,453,164	3,952,740	113
Return on investment	302,006	3,585,054	8
Technical provisions	250,821,486	221,447,741	113
Equity	86,699,657	95,551,720	91
Return on Equity	7.6%	12.4%	62
Net profit	6,956,723	11,324,430	61
Number of employees at the year-end	59	54	109

*Gross operating expenses by functional groups

1.2. Significant Events in 2022

The year 2022 was marked by the consequences of Russia's military aggression against Ukraine. This was strongly reflected in rising inflation and in the increase in energy and food prices. On an annual basis in the euro area, inflation stood at 9.2% in 2022. A more detailed analysis of the impact of inflation on the business in 2022 is presented in Section 6.8. Climate Change is also increasingly affecting the business of (re)insurance companies.

FEBRUARY
The Russia-Ukraine crisis, which escalated into an armed attack on 24 February 2022, has severely shaken political, economic, financial and social stability around the world. The Management of Triglav Re, d.d. immediately adopted a ban on concluding new or renewing existing reinsurance contracts with the cedants and reinsurers domiciled in Russia. An analysis of the Company's exposure to business with Ukraine, Russia and Belarus was carried out. The Company replaced all Russian reinsurers already in the first quarter of 2022, the same applies to the active contracts with the Russian cedants. A more detailed analysis of the impact of the war on the business in 2022 is presented in Section 6.7.

JULY
In accordance with the dividend policy, Triglav Re d.d. paid on 25 July 2022 a dividend of EUR 2.3 million to its owner, Zavarovalnica Triglav, d.d. for the financial year 2021.

SEPTEMBER
Following its regular annual review on 5 September 2022, S&P Global Ratings reaffirmed Triglav Group's credit rating and financial strength rating of 'A' with a stable medium-term outlook, and thus also to the parent company Zavarovalnica Triglav d.d. and its subsidiary Triglav Re, d.d.

On 28 September 2022, the rating agency A.M. Best reaffirmed the credit rating of financial strength 'A' (excellent) and the long-term issuer credit rating of 'a' (excellent) for Zavarovalnica Triglav d.d. and Triglav Re, d.d. at the time of the regular annual review. Both ratings have a stable medium-term outlook, reflecting the agency's expectation that Zavarovalnica Triglav d.d. and its subsidiaries will deliver strong operating results over the medium term and maintain a very strong financial position and a leading market position in Slovenia and the wider region.

NOVEMBER
On 15 November 2022, the term of office of the member of the Supervisory Board, Tomaž Žust, ended based on his resignation statement.

DECEMBER
On 15 December 2022, the 36th General Meeting of Triglav Re, d.d. was held, at which the shareholders extended the term of office of the member of the Supervisory Board, Janko Šemrov, and appointed a new member of the Supervisory Board, Nataša Veselinovič.

1.3. Address by the President of the Management Board

Dear Business Partners and Colleagues,

2022 was not a favourable year for our sector in many respects. While the restrictive measures on the Covid-19 pandemic have been considerably eased, the ongoing military conflict that began in February has brought new uncertainty to the world. At the same time, and probably because of the above-mentioned circumstances, the world economies faced high inflationary pressure, which eroded the capital levels of reinsurance companies. Despite the challenging circumstances, we can be very satisfied with the results achieved, with a 24.0 % growth in premiums and a net profit of EUR 7.0 million. The Company's realised combined ratio is 93.2% and the return on equity (ROE) is 7.6%. However, the year was very unfavourable on the investment side, as the situation on the financial markets depressed the value of financial investments.

The year has not spared us in terms of losses either. According to the first data of the world's largest reinsurer, natural catastrophes caused USD 120 billion of insured losses in 2022, roughly the same as in 2021 but well above the average of the last five years (USD 97 billion). Hurricane Ian, which devastated the southeast of the US at the end of September, is the largest single catastrophic loss of the year with the costs of USD 100 billion, but our business was not affected by this loss, as we generally do not reinsure US perils. The storm that had the greatest impact on our business performance in 2022 was the storm named by British meteorologists as Dudley, Eunice and Franklin and by German meteorologists as Ylenia, Zeynep and Antonia. Between 16 and 21 February, western and central Europe was hit by a series of three intense storms which caused considerable property damage. The storms even caused some deaths and economic damage was estimated at USD 5.6 billion. Germany, the Benelux countries, and the United Kingdom were the most affected. We were also badly affected by the South African floods following unusually heavy rains. The floods and landslides that followed the rains killed over 450 people, damaged over 13,000 homes, more than 600 schools and 66 health facilities, and caused extensive damage to infrastructure and economic facilities. The first estimate of the economic damage is USD 2.0 billion, and it is probably the worst natural catastrophe in the Republic of South Africa. The estimated damage to the insurance market reached several hundred million of euros.

Although it is difficult to identify the indirect economic consequences due to climate change beyond these direct ones, we are aware of the opportunities and risks of sustainable development. We have

introduced measures to reduce our carbon footprint and have reduced our electricity consumption, which is entirely from renewable sources. We have reduced waste per employee and office paper consumption, and we are increasing the share of investments in social impact bonds, so called green and sustainable bonds.

The year was also marked by high inflation that averaged 9.2% for the euro area in 2022 and has become one of the main factors in the tightening conditions in the reinsurance market. The negative impact of inflation on the reinsurance business was reflected in natural catastrophe claims as well as in an increase in material and labour costs.

Economic growth in Slovenia is expected to slow next year, from 5.4% in 2022 to 1.8% in 2023. Inflation is projected to moderate gradually and, in the absence of external shocks, to gradually ease further in the following year, but could fall towards 2% only after 2024.

The estimated capital adequacy ratio at the end of 2022 was within the target range (between 200.0% and 250.0%) and, on an unaudited basis, stood at 229.0%. We have demonstrated that we can maintain a solid financial and capital position even in such challenging environment. We have absorbed mass claims while maintaining a strong capital position. This is confirmed by the renewed excellent 'A' credit ratings with a stable medium-term outlook from both international rating agencies.

The year 2022 has brought many obstacles and challenges, and demanding circumstances have led to tough conditions in the reinsurance market for the 1 January 2023 renewal; inflation has also pushed up interest rates, which, when reinvested, promise solid returns. With a team of satisfied and motivated colleagues, we have successfully got through 2022 and I am confident that we will realise our ambitious plans in 2023 as well.

Gregor Stražar (MBA)

SOLAR

2. REPORT OF THE SUPERVISORY BOARD ON THE VERIFICATION OF THE ANNUAL REPORT OF TRIGLAV RE, D.D. FOR 2022

1. Introduction

In 2022, the Supervisory Board of Triglav Re d.d. (hereinafter referred to as "the Company") continuously monitored and supervised the operations of the Company. It regularly examined the reports on the various aspects of the Company's business operations, adopted the appropriate decisions in this respect and monitored their implementation.

The Supervisory Board performed its tasks within the scope of its powers and competencies set out in the statutory provisions, the Company's Articles of Association and the Rules of Procedure of the Supervisory Board. It was acting in accordance with the guidelines of the Corporate Governance of Zavarovalnica Triglav d.d., as the parent company of the Triglav Group.

Pursuant to the provision of Article 282 of the Companies Act, the Supervisory Board has verified the Annual Report of Triglav Re d.d. for the year 2022 and subsequently submitted the Report on the Verification of the Annual Report of Triglav Re, d.d. The Supervisory Board also reviewed and adopted the Annual Report on Internal Auditing of Triglav Re, d.d.

2. General Information

In 2022, the Supervisory Board was made up of the following members:

- **Shareholder's representatives:**
  - Tadej Čoroli - President
  - Tomaž Žust (term of office until 15 November 2022)
  - Janko Šemrov
  - Nataša Veselinović (term of office began on 15 December 2022)

- **Employees' representative:**
  - Katja Modec

In 2022, the Supervisory Board held eight meetings. The Audit Committee was formed within the Supervisory Board.

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2. REPORT OF THE SUPERVISORY BOARD ON THE VERIFICATION OF THE ANNUAL REPORT OF TRIGLAV RE, D.D. FOR 2022

3. Supervisory Board Performance and Scope of the Corporate Governance Verification in 2022

The Supervisory Board's activities and the scope of monitoring and verification of the Company's operations in 2022 are based on the Supervisory Board's supervision of the Company's operations in accordance with its competencies. The Supervisory Board's task is to supervise the management of the Company's business and the performance of other tasks in accordance with the Companies Act, the Insurance Act, the Articles of Association and the Rules of Procedure of the Supervisory Board's work. In relation to its core responsibilities, the Supervisory Board in 2022:

- reviewed the Business Plan of Triglav Re, d.d. for 2023,
- adopted the audited Annual Report of Triglav Re, d.d. for the financial year 2021 and took note of the Independent Auditor's Report,
- adopted the Report of the Supervisory Board of Triglav Re, d.d. on the verification of the Annual Report of Triglav Re, d.d. for financial year 2021,
- submitted a proposal on the distribution of the net profit and on the dismissal of the Company's Management Board for the financial year 2021,
- was briefed on the Business Report of Triglav Re, d.d. for the period from 1 January 2021 to 31 December 2021 and was also briefed on the quarterly business reports for 2021 on a regular basis,
- gave its consent to the Solvency and Financial Condition Report (SFCR) for 2021 and was briefed on the Independent Auditor's Opinion,
- was briefed on the Auditor's Report on the relationships with the related companies, including the Auditor's Opinion on the Report on the relations with the related companies as of 31 December 2021,
- was briefed on the Key Actuarial Function Report as of 31 December 2021,
- was briefed on the regular quarterly Risk Reports of Triglav Re d.d. and gave its consent to the Risk Appetite Statement for 2021,
- was briefed on the Report on the Own Risk and Solvency Assessment of Triglav Re, d.d. for the year 2021,
- was briefed on the Annual Internal Audit Report for 2021 and monitored the semi-annual internal audit reports,
- gave its opinion on the Annual Internal Audit Report 2021,
- gave its consent to the key acts and the amendments to acts relating to the Company's governance.

3.1. Audit Committee

In 2022, the members of the Audit Committee were Tomaž Žust (President - term of office until 15 November 2022), Katja Modec, Janko Šemrov, Jana Polda and Mojca Lahajner (external independent expert). The members of the Committee held eight meetings.

The tasks and responsibilities of the Audit Committee are defined by the Companies Act, the Rules of Procedure of the Supervisory Board, the Rules of Procedure of the Audit Committee and the decisions adopted by the Supervisory Board. The Audit Committee shall, *inter alia*:
- monitor the financial reporting procedures,
- monitor the effectiveness of the Company's internal controls, internal audit and risk management systems,
- monitor the statutory audits of the annual and consolidated financial statements,
- monitor and review the independence of the auditor in relation to the Company's annual report, especially the performance of other types of control and other advisory services,
- propose a candidate to the Supervisory Board as the auditor of the Company's annual report,
- monitor the integrity of the financial information provided by the Company,
- assess the drafting of the annual report, including the proposal to the Supervisory Board,
- participate in the identification of the most important audit areas,
- report on its work at the Supervisory Board meetings.The Audit Committee has carried out a self-assessment of its work to ensure the continuous improvement and quality of its performance.

The Audit Committee has carried out a self-assessment of its work to ensure the continuous improvement and quality of its tasks.

3.2. Self-Assessment

The Supervisory Board has established the Audit Committee in accordance with the Companies Act. The President of the Audit Committee has regularly reported on their work at the Supervisory Board meetings. The Supervisory Board considered the proposed decisions, recommendations and opinions and, after diligent consideration, adopted the relevant resolutions.

All the members are actively involved in the Supervisory Board's performance and contribute to the effective execution of the tasks under the Board's responsibility. The Rules of Procedure of the Supervisory Board includes the rules of conduct in the event of a potential conflict of interest. Within the scope of its activities, the Supervisory Board has also adopted the Rules on the Management of Conflicts of Interest of Triglav Re, d.d., which relate to the Supervisory Board and its members.

The Supervisory Board is of the opinion that its cooperation with the Management Board was appropriate, adequate and in line with the applicable legislation and good practice, and that it was informed to its own knowledge of all significant events necessary both to assess the Company's business operations and the consequences, and to exercise control over the Company's operations. The Supervisory Board regularly monitored the implementation of its own decisions and those of the Audit Committee. The Supervisory Board also carried out a self-assessment of its work in 2022.

The Supervisory Board is of the opinion that its composition in 2022 was appropriate, both with regard to the Company's size, activity and objectives, as well as with regard to the independence or dependence of its members within the meaning of the Code of Corporate Governance of Public Joint-Stock Companies.

In view of the above, the Supervisory Board is of the opinion that its work and that of the Audit Committee in 2022 was successful.

4. Annual Report of Triglav Re d.d.

The Supervisory Board has verified all the legal aspects relating to the Company's Annual Report for 2022.

The Supervisory Board confirmed that the Annual Report for the financial year 2022 was produced within the legal deadline. Based on the assurance provided by the Management Board, the appointed external auditor (audit firm Deloitte revizija, d.o.o.) and the actuarial function holder, Milan Stjepanović (M.Sc.), the Supervisory Board concluded that the annual report contains all the elements required by the Companies Act, the Insurance Act, and the sub-legislative acts.

The Annual Report includes:

- the financial report: the financial statements which contain the balance sheet, the income statement, the statement of changes in equity, the cash flow statement, and the explanatory notes to the financial statements,
- the business report.

The Annual Report is accompanied by:

- Independent Auditor's Report,
- Report of the Actuarial Function Holder as of 31 December 2022.

All the elements required, as a minimum, by law are contained in the Annual Report.

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2. REPORT OF THE SUPERVISORY BOARD ON THE VERIFICATION OF THE ANNUAL REPORT OF TRIGLAV RE, D.D. FOR 2022

The Company has made the insurance technical provisions and other provisions from the profit. The accuracy of the insurance technical provisions has been certified by the actuarial function holder and the external auditor.

The external auditor (Deloitte revizija, d.o.o.), based on the decision of the General Meeting of Triglav Re d.d. on the appointment of the auditor for the financial years 2022, 2023 and 2024, has audited the balance sheet as of 31 December 2022, the income statement, the statement of changes in equity and the cash flow statement for the year then ended, and a summary of the significant accounting policies and other explanatory notes. On this basis, the Independent Auditor's Report was issued on 10 March 2023.

In accordance with the requirements of the Insurance Act, the actuarial function holder, Milan Stjepanović (M.Sc.), actuarially verified the Company's operations for the year 2022. He prepared the Report of the Actuarial Key Function Holder as of 31.12.2022 on 10 March 2023.

In accordance with the provisions of the Companies Act, the Management Board submitted the Annual Report with the Auditor's Report and the Report of the Actuarial Function Holder as of 31 December 2022 to the Supervisory Board for the review.

5. Proposal for Distribution of the Balance Sheet Profit as of 31 December 2022

The Supervisory Board has formally examined the Management Board's proposal for the use of the balance sheet profit as of 31 December 2022.

The Supervisory Board agrees with the Management Board's proposal on the use of the balance sheet profit and will therefore propose to the General Meeting to adopt a decision on the use of the balace sheet profit as of 31 December 2022.

6. Opinion on the Annual Report of the Internal Audit Service

At its meeting on 27 March 2023, the Supervisory Board consideredand then adopted the Annual Report on Internal Audit in 2022, which was prepared by the Internal Audit on the basis of the work performed in 2022. The Supervisory Board is of the opinion that the Internal Audit of the Company performed its work in accordance with the Annual Work Plan of the Internal Audit for the year 2022, and thus made a significant contribution to the improvement of the functioning of the internal control system and to a more appropriate risk management system of Triglav Re, d.d..

7. Reporting by the Management Board

The Supervisory Board is of the opinion that, on the basis of the Management Board's reports, it has been able to adequately monitor and supervise the Company's management and operations. The cooperation with the Company's Management Board is adequate and in compliance with the law.

8. Independent Auditor's Report and Auditor's Opinion on the Report on Related Entities Transactions as of 31 December 2022

In compliance with its statutory powers and with the Company's Articles of Association, the Supervisory Board has reviewed the Independent Auditor's Report, in which the independent auditor confirms that the Company's financial statements for 2022 give a true and fair view, in all respects, of the financial position of Triglav Re, d.d. and that they have been prepared in accordance with the International Financial Reporting Standards.

The Supervisory Board has taken note of and reviewed the Report on Relations with Related Entities and the Statement made by the Company's Management Board in the context of this report. The Supervisory Board had no comments to make on the Management Statement. The Supervisory Board also took note of the Auditor's Opinion on the Report on Related Entities Transactions as of 31 December 2022, in which the auditor provides assurance that the information given in the Report on Related Entities Transactions is accurate and true in all material respects.

9. Report of the Actuarial Function Holder as of 31 December 2022

The Supervisory Board, in compliance with its statutory powers and with the Company's Articles of Association, took note of the report of the actuarial function holder, who confirmed that the amount of premium written in 2022 and the amount of the insurance technical provisions established by Triglav Re, d.d. as of 31 December 2022 are adequate to ensure, on a reasonable actuarial expectations, the Company's fulfillment of all liabilities under the reinsurance contracts on an ongoing basis. The underwriting policy and the reinsurance programme of the Company are adequate. The Actuarial Function Holder has presented his view on the Company's performance in 2022 in his report to the Supervisory Board.

10. Comments of the Supervisory Board on the Annual Report 2022

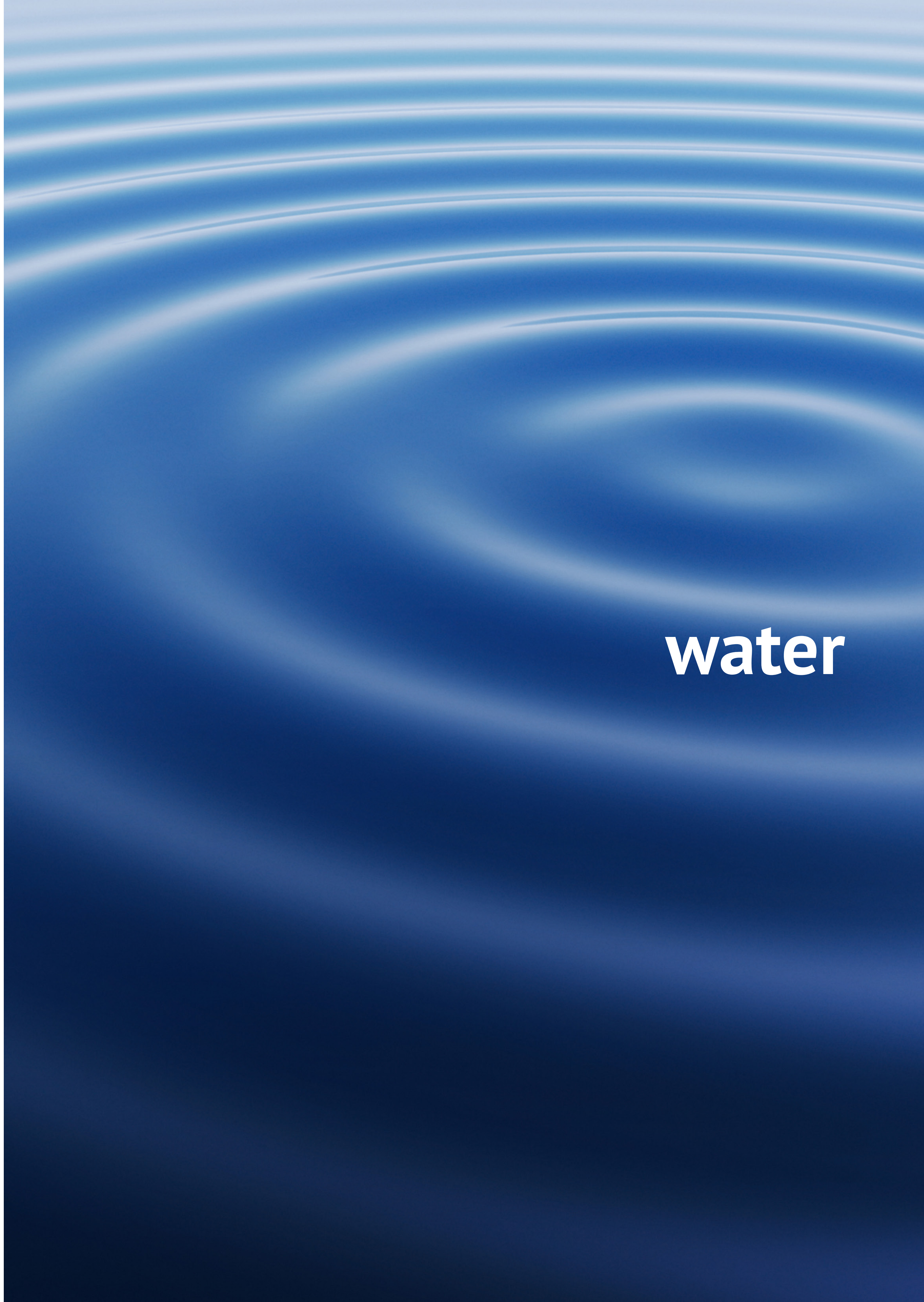
The Supervisory Board has no comments on the Annual Report 2021, which could prevent the decision on the approval of the Annual Report of Triglav Re, d.d from being adopted.

11. Approval of the Annual Report 2022

The Supervisory Board adopted the Annual Report 2022 within the prescribed time limit, that is before the expiry of one month from the submission of the Annual Report 2022 to the members of the Supervisory Board.

Tadej Čoroli
President of the Supervisory Board
of Triglav Re, d.d.

Ljubljana, 27 March 2023



3. GENERAL INFORMATION ON TRIGLAV RE D.D.

3.1. Company profile

Company Name:	Pozavarovalnica Triglav Re, d.d.
Short name:	Triglav Re, d.d.
Legal form:	Company limited by shares
Registered office:	Miklošičeva 19, 1000 Ljubljana, Slovenia
Website:	www.triglavre.si
E-mail address:	mail@triglavre.si
Company identification number:	13 62 992
Tax number:	16465423
Entry into the Companies Register:	District Court in Ljubljana, Entry No. 1/31/403/00 on 31 December 1998
Share capital:	EUR 4,950,000.00
President of the Management Board:	Gregor Stražar, M.Sc. (Econ)
President of the Supervisory Board:	Tadej Čoroli
Activity according to the Standard Classification of Activities:	K65.200 - Reinsurance
Credit rating:	Standard & Poor's: A (Stable medium-term outlook) A.M. Best: A (Stable medium-term outlook)
Ownership structure:	Zavarovalnica Triglav d.d. (100 %). Triglav Re is an integral part of the Triglav Group.

3.2. Overview of the Company's Development

3.2.1. Development of Triglav Re, d.d.

Triglav Re d.d. was founded in 1998 and celebrated its 24th anniversary in 2022. In the first year of its operations, the Company reinsured only the portfolio of Zavarovalnica Triglav, d.d. and achieved a positive operating result. The Company thus fulfilled the expectations of its founders by achieving a positive operating result, and at the same time, made a significant impact on risk equalisation and risk management in the Slovenian market. However, the Company started operating in the international reinsurance market for the first time in the 2000 financial year.

With a prudent and conservative risk assumption policy, an effective risk management system and recapitalisation in 2001, the Company has in the following years become a reliable partner in the European reinsurance market, especially in Central European region.

2008 was a turning point for the Company in terms of its future business, as the credit rating agency Standard & Poor's (hereafter S&P) assigned it a credit rating of "A -". This brought an increase in business with Cedants outside the Triglav Group. In 2009, S&P upgraded the rating to "A", which was maintained in 2011 despite the tight economic market conditions. In 2012, S&P downgraded the rating of the Company to "A –" due to the downgrade of the credit rating of the Republic of Slovenia.

At the beginning of 2013, S&P downgraded Triglav Re's long-term rating by one notch from "A -" to "BBB +" and lifted the warning of a possible downgrade, but a few months later it raised it again by one notch to "A –" and issued a stable medium-term outlook. In 2013, the Company also obtained an "A –" rating from A.M. Best with a stable medium-term outlook. In 2014 and 2015, both rating agencies gave the Company an "A " rating. In 2016, both rating agencies upgraded the financial strength rating from "A " to "A" and affirmed it in the next five years.

As mentioned in the Section 1.2 Significant Events in 2022, the Company was reassigned a financial strength rating of "A " by the two rating agencies. Besides fulfilling the requirements as a reinsurance provider for the whole Triglav Group, in 2022, the Company concluded 821 contracts with 362 Cedants outside the Group, coming from 94 countries around the world.

Expected Development of Triglav Re, d.d. in 2023

Despite the risks related to the continuation of the Ukrainian-Russian military conflict, inflationary pressures and the expected slightly lower economic growth than in the previous years, the Company expects a successful further development. One of the Company's objectives in 2023 will be to maintain its "A" rating from S&P and A.M. Best. This is because the "A " rating allows access to reinsurance markets which in the past have made participation conditional on having an appropriate rating level, either due to the requirements of the local insurance market regulator or due to the internal rules of the ceding companies.

In accordance with the Company's business plan for 2023 and strategic projections for the period 2023 - 2026, the Company as a provider of comprehensive reinsurance services not only for the Triglav Group companies, will continue to focus on obtaining reinsurance business from Cedants outside the Group. In this respect, the Company is recognised as a responsive and highly professional business partner with a clear customer focus. In the future, premium growth will continue to be based on prudent underwriting policy and on further maintaining a stable and profitable portfolio.

3.3. Mission, Vision, Values and Strategy to 2025

In 2022, together with other Triglav Group entities, the Company has set a refreshed strategy until 2025, which will be reviewed and adjusted on an ongoing basis. The Company's dedicated and highly skilled employees continue to co-create a modern, digital and dynamic insurance and financial group that remains firmly at the forefront in Slovenia and the wider region.

The mission of Triglav Group, which also includes Triglav Re, d.d., as set out in its strategy until 2025, is:

We are building a safer future.

The companies and the employees of the Triglav Group are united by the following values:

- **Reliability**
- **Responsiveness**
- **Sustainability**
- **Care for employees**
- **We want to be an employer of choice**

As a sustainable oriented company, we are promoting and implementing the strategy to reduce a negative environmental impact resulting from our operations.

We are committed to providing a simple, comprehensive, transparent, high quality, prompt and flexible reinsurance service. We treat our partners individually and holistically, with an appropriate cost and risk management system. These are the key elements of our business model, which incorporates the principles of social responsibility (economic, legal, ethical and accountability) and of sustainable development (balancing human, natural and created assets for long-term development) at strategic and all other levels when deciding on objectives and activities.

Reinsurance is one of the segments of the Triglav Group Strategy. We have identified the following strategic directions as key:

1. Use of reinsurance as a tool in the management of Triglav Group's risk and capital requirements.
2. Geographical diversification of Triglav Group's portfolio.
3. Developing, training and retaining key employees.
4. Achieving risk-adjusted operating profitability.

3.3.1. Company's Policies, Activities and Measures to achieve the Goals in the Financial Year 2023

As foreseen in the 2023 plan, the Company will continue to upgrade the reinsurance system for the processing of surplus contracts of Triglav Group companies in line with the agreed project timeline. The Company will also start applying the new accounting standard IFRS 17, where the main objective will be to carry out calculations, controls and to finalise the financial statements all within the prescribed time limits; additionally, adapting the processes and procedures to the requirements of the standard.

In reinsurance underwriting, the main objectives remain to ensure adequate reinsurance protection for Triglav Group and to underwrite profitable business with the cedants outside Triglav Group. At the same time, we will establish ESG guidelines for reinsurance underwriting.

In the area of human resources, we will implement a strategy to attract and retain reinsurance professional personnel.

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3. GENERAL INFORMATION ON TRIGLAV RE D.D.

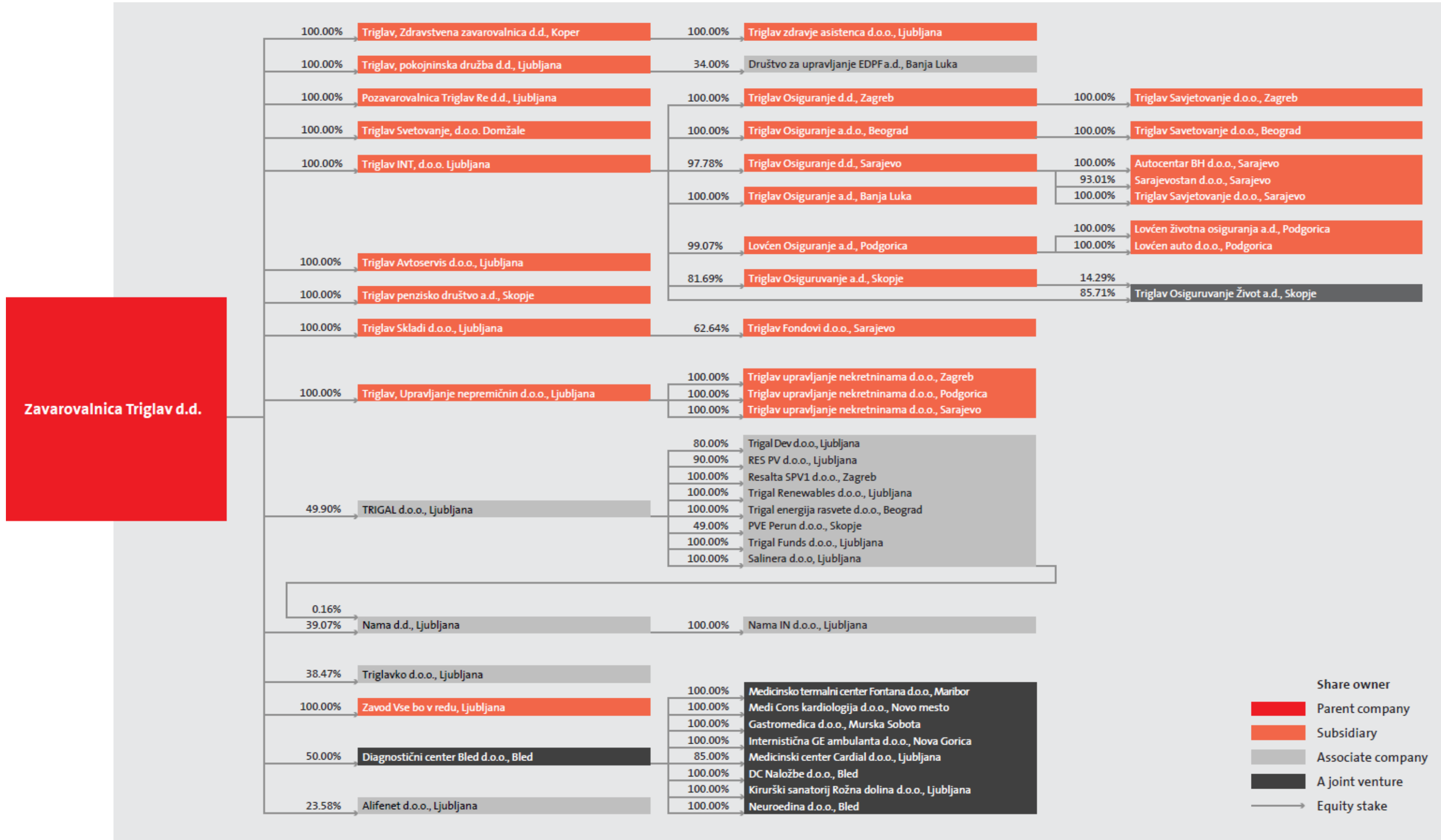
3.4. Information on Triglav Group

Pozavarovalnica Triglav Re, d.d. is a subsidiary of Zavarovalnica Triglav, d.d., Ljubljana, Miklošičeva 19.

The Table shows a breakdown of the subsidiaries and associated companies in Triglav Group as of 31 December 2022.

Triglav Re, d.d. does not have any subsidiaries.

Table 2: **Organisation Chart of Triglav Group as of 31 December 2022**



3.5. Share Capital and Shareholders of Triglav Re, d.d.

As of 31 December 2022, the capital of Triglav Re, d.d. amounted to EUR 86,699,657. The share capital of EUR 4,950,000 is divided into 15,000 ordinary no-par value registered shares. Each share has an equal value and corresponds to EUR 330 in the share capital.

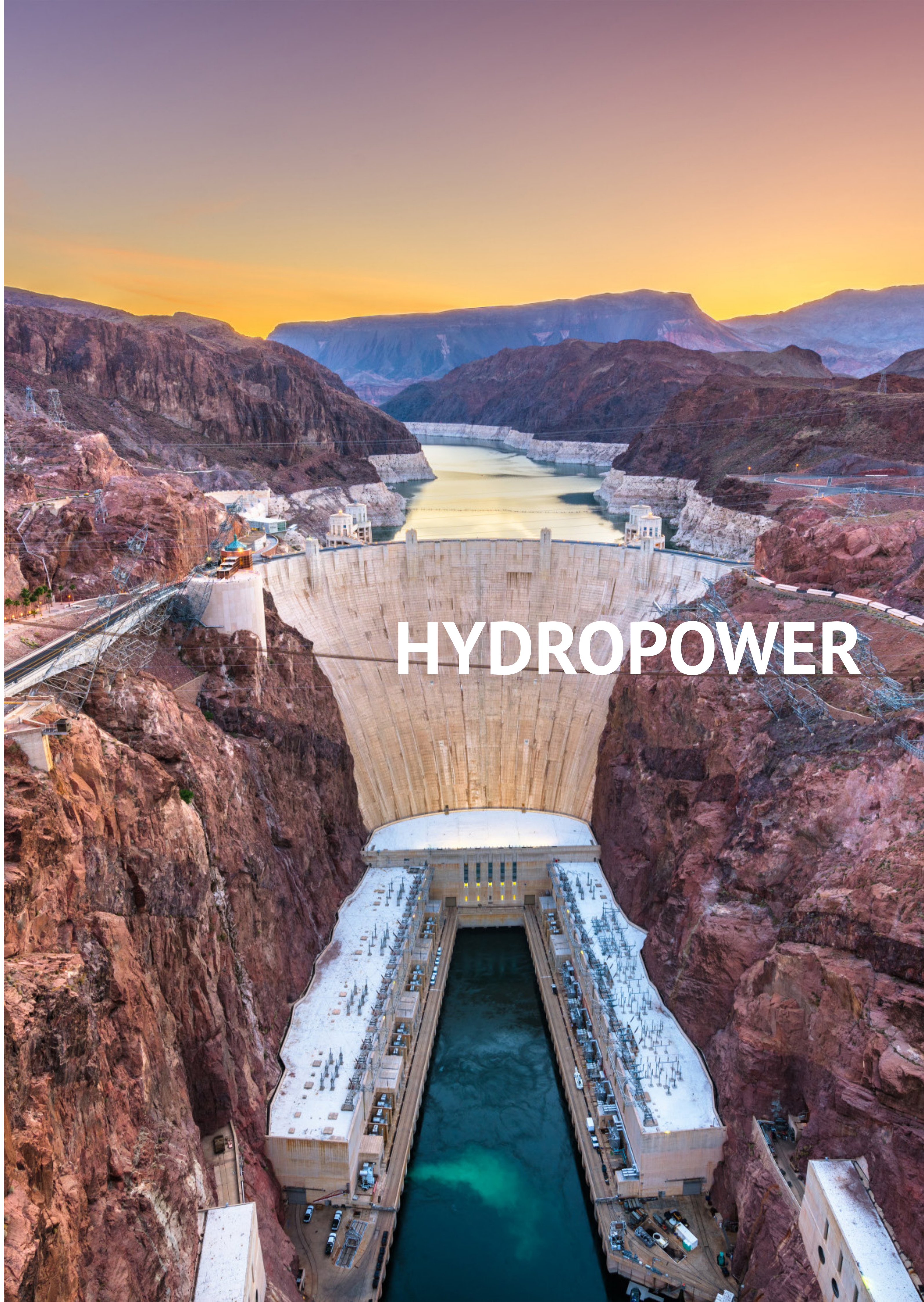
Table 3: **Shareholders of Triglav Re, d.d. as of 31 December 2022**

	OWNERSHIP STRUCTURE (in %)	NUMBER OF SHARES
Zavarovalnica Triglav, d.d.	100.00	15,000
TOTAL	**100.00**	**15,000**

3.6. Credit Rating of Triglav Re, d.d.

Following its regular annual review on 5 September 2022, S&P Global Ratings reaffirmed Triglav Group's credit rating and financial strength rating of 'A' with a stable medium-term outlook, and thereby the parent company Zavarovalnica Triglav d.d. and its subsidiary Triglav Re, d.d.

On 28 September 2022, the rating agency A.M. Best reaffirmed the financial strength rating of 'A' (excellent) and the issuer's long-term credit rating of 'a' (excellent) for Zavarovalnica Triglav d.d. and Triglav Re, d.d. at the time of the regular annual review. The ratings have a stable medium-term outlook, reflecting the Agency's expectation that the companies shall achieve favourable operating results over the medium term and maintain a very solid financial position and a leading market role in Slovenia and the wider region.



4. MANAGEMENT STATEMENT

4.1. Governance Policy

The Management System and Policy of Triglav Re, d.d., adopted by the Management Board and the Supervisory Board, determine the main guidelines for the Company's management, considering the set long-term goals and values. They represent the foundation for the establishment and implementation of a solid and reliable management system based on effective risk management, enabling the realisation of the business strategy of Triglav Re, d.d.

4.2. Statement of Compliance with the Code of Corporate Governance of State Invested Companies and Commitment to other Codes

Triglav Re, d.d. is a subsidiary of the controlling company Zavarovalnica Triglav, d.d, which is a company with capital investment by the state, and therefore Triglav Re, d.d. in its day-to-day business operations shall follow the Code of Corporate Governance of Companies with Capital Investments by the State (hereinafter: the Code). The Code is publicly available on the Slovenian Sovereign Holding website (http://www.sdh.si).

Triglav Re, d.d. derogates from the Code in the following provisions:

- **The Supervisory Board prepares a competency profile for the members of the Supervisory Board in terms of the optimal size and composition of the Supervisory Board and publishes it on the company's public website.**

The Company partially deviates from the Code in this respect, as it has not published a competency profile for the members of the Supervisory Board on its website. The procedure for the appointment of the members of the Supervisory Board is defined in the Rules of Procedure on the Work of the Supervisory Board. The procedure for selecting candidates for members of the supervisory bodies and the criteria for members' competences and suitability are defined by the subsidiary's supervisory body in accordance with the subsidiary's internal acts, which are aligned with the Policy on assessing the competences and suitability of members of the management and supervisory bodies in the Triglav Group and the Diversity Policy of the controlling company, as well as with the recommendations of the Insurance Supervisory Agency and good practice.

- **Most of the members of the Supervisory Board are independent.**

The Company with a single shareholder partially deviates from the Code in this respect because, in order to achieve better and more cost-effective management, the Supervisory Board members are members of the management bodies or employees of the parent company. However, the employee representative has an employment contract with the Company.

- **The Company shall disclose the earnings of the members of the Supervisory Board, the employees' representatives.**

The Company partially deviates from the Code by not disclosing the remuneration of a member of the Supervisory Board who is an employee representative, in accordance with the legislation governing the personal data protection.

In its business operations, the Company is also committed to the principles of the Insurance Code, which is available on the website of the Slovenian Insurance Association http://www.zav-zdruzenje.si.

As a member company in the Triglav Group, Triglav Re, d.d. is also bound by the Triglav Group Code, which is published on the website http://www.triglav.eu and represents the fundamental values and principles of business conduct for the lawful and ethical achievement of business objectives, strategic directions and competitive advantages, while respecting the principles and standards of fair and transparent business conduct.

In order to operate in a sustainable and successful manner, maintaining the highest standards of business ethics in its relations with its employees, (re)insurance partners and suppliers, as well as with its shareholder, members of the wider society, the public and other stakeholders, individuals, groups of persons, organisations, institutions, corporations and state authorities, the Company's Management Board adopted the Code of Good Business Conduct of Triglav Re, d.d. on 25 April 2015.

4.2.1 Policy of Diversity

The Company has not yet adopted a separate Policy of Diversity, but the diversity requirements are laid down in other rules of the governance system (Policy on assessing the competences and suitability of the members of the Management Board and the Supervisory Board, Rules of Procedure on the work of the Supervisory Board). Diversity principles are taken into account in the nomination procedures for the selection of candidates for the members of the Management Board and the Supervisory Board and shall be also ensured in the composition of these bodies. The Company intends to adopt the Policy of Diversity in 2023.

Member of the Management Board
Stanislav VRTUNSKI

Member of the Management Board
Tomaž ROTAR

President of the Management Board
Gregor STRAŽAR, MBA (Econ)

Ljubljana, 10 March 2023

5. GENERAL ECONOMIC ENVIRONMENT IN 2022

5.1. Economic Environment[1]

In 2022, the world economy was hit by several shocks that slowed the economic growth and will continue to have a negative impact on the global economic outlook. The Russian war against Ukraine continues to shake energy and food commodity markets, and energy prices remain volatile, although they have declined since the previous projections. In addition, the war is increasing the food insecurity, especially in emerging market economies. In China, the zero-tolerance policy towards coronavirus implemented at least until recently, and the downturn in the housing sector continue to dampen economic activity. In the major advanced economies, the economic activity slowed during 2022 as demand eased and the central banks started to tighten monetary policy in early 2022. On the other hand, the gradual easing of anti-pandemic restrictions, bottlenecks in supply chains and the decline in energy prices supported the economic activity until the third quarter of 2022.

World real GDP growth (excluding the euro area) is projected to slow down in 2023 before recovering gradually in 2024 and 2025. In 2022, global GDP growth has fallen to 3.3%. It is projected to slow further to 2.6% in 2023 which is below the long-term average (3.6%), as a sharp contraction is expected in the advanced economies, including the US and the UK. Some emerging market economies are projected to face the current drag factors better, as they are less macro-financially vulnerable than in the previous monetary tightening cycles, mainly due to lower inflation, lower exposure to US dollar-denominated debt and lower exchange rate misalignment.

Global inflationary pressures remain strong and widespread, as demand is still relatively strong, supply lagging behind demand in the labour market, food prices remaining high and inflationary pressures from the energy group starting to ease as the prices are coming down.

Global financing conditions are broadly unchanged from previous projections and remain tight. In early 2022, the financing conditions tightened in both emerging market and advanced economies. Due to the unexpected further increase in inflation, the central banks continued their rapid pace of monetary tightening, with bond yields rising and risk asset prices falling steadily. However, after the lower-than-expected US CPI, the market conditions changed as markets started to expect the US Federal Reserve to raise interest rates more gradually, which improved risk perceptions around the world. As a result, the financing conditions have eased somewhat, long-term bond yields have fallen, spreads have narrowed and share prices have turned up again. In the end, the financing conditions have remained practically unchanged over the period under review but are being tightened.

The economic climate in Slovenia improved at the end of 2022 and, according to the available indicators, demand dynamics in the last quarter were mainly in favour of activities linked to the domestic market. The value of the economic climate indicator turned positive in December for the first time since June 2022. Compared to the lowest value reached in October, it was higher by 6.1 percentage points. An increase in confidence was achieved on average in November and December in all industry sectors and among consumers. Confidence in the economy, however, remained lower than in the previous year. The current average of the technical forecasts for quarterly GDP growth for the last quarter of 2022 is 0.1%. If these estimates were to be realised, it would imply annual GDP growth of 4.7% in 2022, given previous year's quarterly dynamics.

1 Source: Bank of Slovenia: Summary of Macroeconomic Trends, January 2023; ECB Economic Bulletin No. 8 January 2023; https://www.stat.si/StatWeb/News/Index/10815

Inflation was 10.3% year-on-year and broad-based, but the main contributors to overall price increases were the increases in energy and food prices, which are considered the basic categories of consumer goods. All households were thus exposed to the price increases. Over the year 2022, the prices of goods rose by 11.5% while services by 7.7%.

Labour market conditions remained robust in 2022, with a severe shortage of workers, but wage growth remains moderate for the time being. The number of persons in employment reached a new high in November 2022 at 911,003, while year-on-year growth remained at the level of October at 2.1% and approximately one percentage point lower than at the beginning of the year. In December 2022, registered unemployment did increase due to the seasonal effects of the termination of fixed-term contracts at the end of the year, but on average for the year it was the lowest so far at 56,665 persons and 23.8% lower than in 2021. The registered unemployment rate also remains low, at 5.4% in October 2022, which is 1.4 percentage points less than the year before and only 0.1 percentage points higher than in September, when it reached a historic low.

Export trends moderated towards the end of last year, mainly due to weaker demand in the EU markets, imports also weakened, partly due to the falling import price growth. The general government deficit decreased significantly in 2022, especially in the first half of the year. At the end of the year, revenue growth moderated sharply, while expenditure growth accelerated, reflected in a deterioration of the balance in October and November. The deficit on the consolidated balance of public finances reached EUR 750 million on a cash-flow basis by November, which is significantly less than in the same period of the previous year (2021: EUR 2.2 billion). The year-on-year improvement was mainly in the first half of the year, due to lower epidemic-related expenditure and strong revenue growth.

Table 4: **Forecast of Economic Trends**

	Real GDP Growth			Inflation			Unemployment rate		
	2021	2022	2023	2021	2022	2023	2021	2022	2023
Advanced Economies	5.2	2.4	1.1	3.1	7.2	4.4	5.6	4.5	5.0
Euro Area	5.2	3.1	0.5	2.6	8.3	5.7	7.7	6.8	7.0
Spain	5.1	4.3	1.2	3.1	8.8	4.9	14.8	12.7	12.3
Slovenia	**8.2**	**5.0**	**1.4**	**1.9**	**8.9**	**6.0**	**4.7**	**4.2**	**4.1**
Israel	8.6	6.1	3.0	1.5	4.5	3.6	5.0	3.9	3.8
Republic of South Korea	4.1	2.6	2.0	2.5	5.5	3.8	3.7	3.0	3.4
Germany	2.6	1.5	-0.3	3.2	8.5	7.2	3.6	2.9	3.4
Italy	6.7	3.2	-0.2	1.9	8.7	5.2	9.5	8.8	9.4
Austria	4.6	4.7	1.0	2.8	7.7	5.1	6.2	4.5	4.6
China	8.1	3.2	4.4	0.9	2.2	2.2	4.0	4.2	4.1
Croatia	10.2	5.9	3.5	2.6	9.8	5.5	8.1	6.9	6.6

Source: IMF, World Economic Outlook, October 2022

5.2. Capital Markets[2]

In spring 2022, risk-free interest rates in the euro area rose significantly in anticipation of monetary tightening. The long-term bond yields increased globally over this period as inflationary pressures fuelled expectations that monetary policy normalisation would accelerate. European equity and corporate bond markets went through two distinct phases: first recovering from war-related losses, then weakening in the face of lower long-term profit expectations and higher risk-free interest rates.

In the third quarter of 2022, asset prices in the euro area were volatile as the market participants weighed the implications of strong inflationary pressures and recession risks against the expected future direction of the ECB's monetary policy on interest rates. Risk-free interest rates in the euro area rose because the market participants anticipated a more rapid and pronounced tightening of monetary policy.

The period September-December 2022 was thus marked by expectations of a faster and more pronounced tightening of monetary policy in the euro area. Despite a high market volatility, short-term risk-free interest rates increased markedly during this period, while longer-term interest rates generally increased only slightly. Euro area government bond yields broadly followed the long-term risk-free rates, while spreads on government bond yields narrowed. Despite the higher risk-free interest rate and in contrast to developments in the US, the spreads on European corporate bonds narrowed, while equity prices increased, most notably the share prices of banks in the euro area.

5.3. Insurance Market[3]

The growth in reinsurance premiums is expected to continue in the following years and consequently the underwriting profit would increase, but on the other hand, developments on the bond side (impairments of Russian and Ukrainian securities) are reducing capital. Premium growth is mainly expected in cyber insurance and CAT programmes (higher claims frequency due to climate change). However, a new risk is the loss of the Russian reinsurance market. It seems that the economy in 2023 and thus the insurance industry will cope better than initially expected with the consequences of the war in Ukraine, high inflation, and higher interest rates.

According to the first data, natural disasters caused USD 270 billion in damages in 2022, which is slightly less than the previous year (2021: USD 320 billion), of which USD 120 billion were insured. These figures show approximately the same loss position as in 2021 but well above the average of the last five years (USD 97 billion). In addition to high claims, the (Re)Insurers are also facing a high inflation rate and a shrinking capital base due to rising interest rates. The positive effect of higher interest rates on investments can only be expected in the following years. The focus on climate disclosures (ESG) is also expected in the future due to the high frequency and intensity of losses resulting from climate change.

The initial estimates for the renewal of contracts with an effective date of 1 January 2023 indicate a positive trend in reinsurance prices, which should compensate for significantly higher claims estimates in some segments or markets, mainly due to inflation. Price increases (albeit to varying degrees) have been observed in the global reinsurance market.

2 Source: Bank of Slovenia, Economic Bulletin of ECB, No. 4,6,8/2022
3 Source: Munich Re: Natural disaster losses 2022, 10. 1. 2023; Munich Re's Economic Outlook 2023, Munich Re surpasses profit guidance despite challenging times; February 2023

5.4. Insurance Market in Slovenia[4]

In 2022, there were 12 insurance companies and 5 foreign branches operating in the Slovenian insurance market. Among the 17 traditional insurance companies, there were 10 composite companies and 7 specialised companies (life, health, pensions and property insurance). In October, a minor change in the insurance market has occurred, namely the insurance portfolio of Coface PKZ insurance company d.d. since then belongs to the newly established Coface insurance company, a branch in Slovenia. The total premium of the Slovenian insurance market in 2022 amounts to EUR 2.8 billion, slightly more than in the previous year (index 107.0), of which 72.3% is non-life and 27.7% life. Non-life premiums (index 108.5) increased compared to the previous year, but life premiums increased slightly less. The data also includes insurance business directly written in Slovenia by the Insurers from other EU Member States (FOS), whose share is 3.4% in 2022, according to the Slovenian Insurance Association.

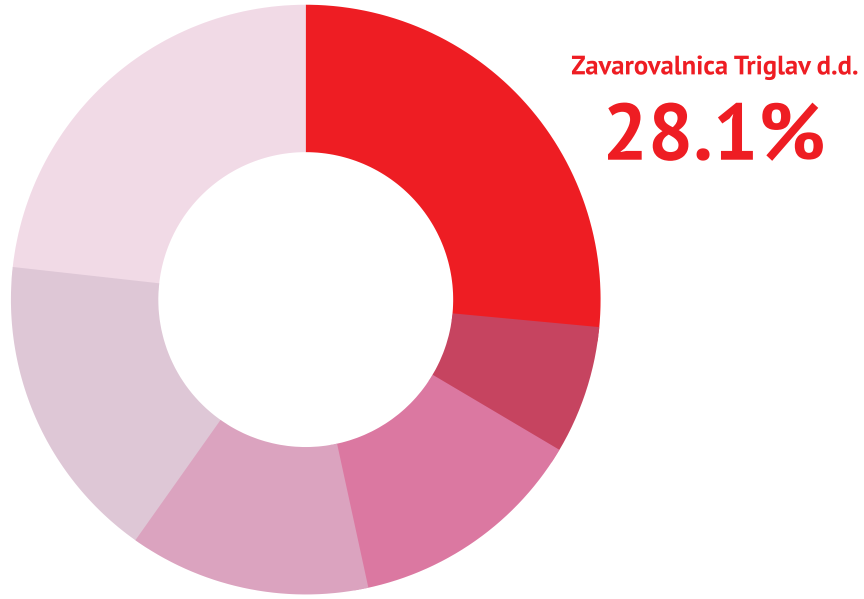
The four largest Insurers (Triglav, Generali, Sava, Vzajemna) controlled 74.0% of the traditional insurance market (in 2021: 73.3%). Zavarovalnica Triglav, d.d. retains its leading position with a 28.1% share.

The competitive position of Triglav Re, d.d. in Slovenia can be compared with that of Sava Re, d.d. which is of limited significance given that the Slovenian insurance market is open to foreign Reinsurers and that the two Slovenian Reinsurers also write business outside their Groups.

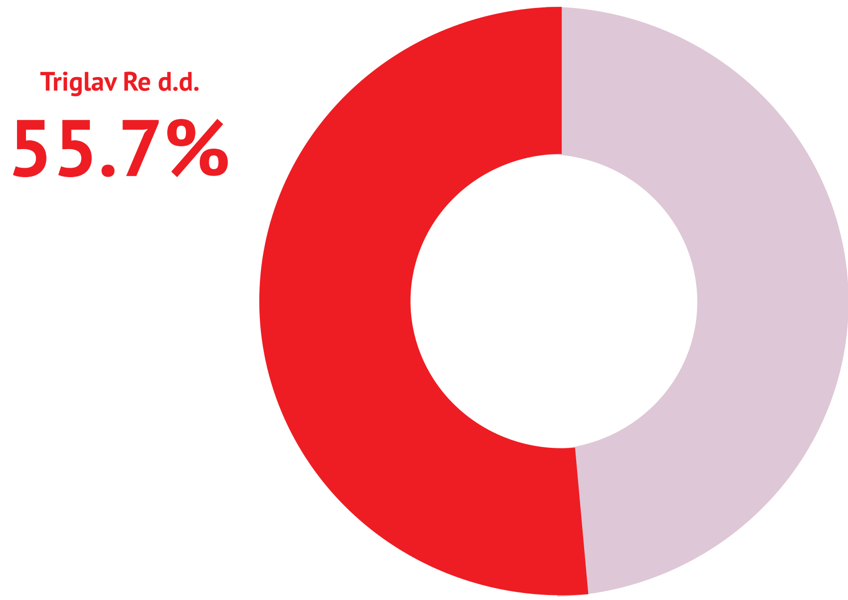
Triglav Re's market share has fluctuated between 46% and 49% over the last few years and exceeded a 50% share for the first time in Q1 2021. On 31 December 2022, it stood at 55.7 % and compared to 2021, it increased by 4.1 percentage points.

4 Slovenian Insurance Association: Premium volumes for 2022 by class of insurance.

Market shares of insurance companies operating in Slovenia in 2022



Market shares of reinsurance companies operating in Slovenia in 2022



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6. RISK MANAGEMENT

Comprehensive, effective and independent risk management is an important part of the operations of every financial institution to help achieve its strategic and business goals.

The Company's risk management system is transparent, comprehensive, documented and implemented in the day-to-day operations. It complies with the basic principles of the Triglav Group's risk management system.

In 2022, the Company has identified the following key risks:
- Geopolitical risks, driven in particular by the uncertainty of the resolution of the Russian-Ukrainian crisis, which is having a negative impact on the global financial and economic system,
- Macroeconomic risks – the global macroeconomic outlook has deteriorated, we are witnessing high inflation and the consequent increase in interest rates by the central banks,
- Climate change risk, which remains one of the key risks for property (re)insurers, reflected in an increase in the intensity and frequency of extreme weather events and consequently higher claims,
- Cyber risks, which remain an increasingly important risk for European property (re)insurers, have been reinforced by the Russian military operation.

The year 2022 was most marked by the Russian-Ukrainian crisis, which escalated into an armed conflict at the end of February. Political, economic, financial and social stability around the world has been severely shaken. The major powers responded with tough sanctions aimed at weakening Russia's economic and financial position. Triglav Re, d.d. reacted immediately to the changed situation and stopped writing new reinsurance business and renewing existing business with the Russian partners. It carefully followed the restrictive measures taken. It was able to replace Russian reinsurers with other reinsurers of high credit quality. It made an impairment of Russian securities in the amount of EUR 1.7 million and an impairment of financial receivables on maturing securities of a Russian issuer of EUR 0.3 million.

The covid-19 pandemic triggered several inflationary factors, such as bottlenecks in supply chains. Inflation expectations have been worsened by the Russian invasion of Ukraine, which had an impact on increased uncertainty in the financial markets and, consequently, of lowering the global economic outlook. The threat of stagflation became one of the potential and significant risks. In response to inflation, central banks started to introduce a restrictive monetary policy (raising risk-free interest rates, reducing securities purchases). The Company took steps to reduce the duration of its investment portfolio, thus reducing the negative effects of rising interest rates on its assets value.

Increasing trend in the incidence and severity of natural disasters related to climate change has an impact on the performance of (re)insurers. The insurance financial industry is exposed to market and insurance risks, in particular due to possible inadequate adaptation to climate change. Physical risks arising from the effects of climate change, which are divided into chronic and acute risks, have been identified as the most pressing challenges. The transition risks that arise in the transition to a low-carbon society that is resilient to climate change will be increasingly relevant. In 2022, the Company has upgraded the monitoring of its portfolio from a climate change perspective, studied regulatory requirements in the area of sustainable business operations, and adopted determinations towards more sustainable business.

Risk appetite has remained unchanged, and thus business activities continued to be conducted in line with a prudent risk-assumption policy. Risk methodologies have been upgraded, retro CAT reinsurance protection has been improved, additional eligibility checks on reinsurers have been introduced, the management of policyholders by NACE codes to identify the reinsurance portfolio in terms of environmental detriment has been launched, the business continuity process has been updated and additional monitoring of business performance under the solvency principles has been introduced.

Despite the Russian-Ukrainian war, increased inflation, rising interest rates, and several natural catastrophes in 2022, Triglav Re, d.d. operated very successfully and maintained good capital adequacy.

The Company has met all regulatory requirements by carrying out comprehensive and regular monitoring of capital adequacy using the standard Solvency II formula, including the implementation of its own risk and solvency assessment, a solid and reliable risk management system, regular and extraordinary supervisory reporting and public disclosure of data.

6.1. Risk Management System

The Company's risk management system includes internal rules, powers and authorities, processes and activities that, based on the risk identification, provide the assessment and control over the assumed and potential risks and enable appropriate action to be taken to ensure that the risk profile remains within the levels set out in the Appetite. The risk management system of the Company includes several areas, especially those that have a significant impact on its business and set goals, capital adequacy or capital risk.

The Company's key principles of risk assumption and risk management are:
- assumption of risks according to the organization, nature, scope, and complexity of its operations,
- balance in relation to the expected return and the assumed risks,
- systematic, comprehensive, structured and documented operations,
- professionalism and accountability to all participants involved in the business,
- integration into the overall organizational structure and culture, and embedded in decision-making processes,
- business operation in compliance with the legislative and regulatory requirements and the Risk Appetite set by the Management Board,
- consistent, effective and comprehensive risk management at the Triglav Group level.

The essential documents of the Company's risk management system are the Risk Management Strategy (hereinafter: Strategy) and the Risk Appetite Statement (hereinafter: Risk Appetite) which establish the framework for internal acts concerning the policies, methodologies and instructions for risk management.

The Strategy defines the competencies and responsibilities in the risk management process and the main principles of risk management system. The risk appetite or risk tolerance, represents the maximum level of risks, measured by the level of potential losses, that the Company is still able and willing to assume to achieve the set business and strategic goals, taking into account its own capital strength.

Risk management is a system of corporate management that ensures that the Company's risk profile is within the limits set out in the Risk Appetite. The risk management system is based on the Three-Line Model of Defence:

• **The first line of defence** is represented by the business functions that actively manage specific business risks through their business decisions. They are primarily responsible for identifying and assuming risks, establishing and operating internal controls and carrying out business activities in accordance with the prescribed limits, policies and set business objectives.

• **The second line of defence** consists of the risk management function, the actuarial function, the compliance function and the Risk Management Committee. The role of the second line of defence is to establish an effective risk management system, which includes the coordination of risk management activities, the development of methodologies for risk identification, measurement and assessment, the exposure limit system, controlling and monitoring the exposure to a risk and verifying the compliance with the applicable regulations.

• **The third line of defenc**e in the risk management system is internal audit, which is independent of all other organizational units in the Company. Its main task is to provide independent opinions on the form and functioning of the risk management system and to assess the adequacy and effectiveness of the internal controls in place. The role of internal audit is to verify the functioning of the first and the second line of defence.

The Management and Supervisory Boards are not directly part of the three lines of defence, but their role in the risk management system is important. They are the primary participants served by all three lines of defence and are responsible for the functioning of the three lines of defence system.

The second and third lines of defence are key functions that are integrated into the organisational structure in such a way that none of them is subject to influences that may jeopardize their own ability to carry out tasks in an objective, fair and independent manner. They shall have unrestricted access to all the information they need to exercise their responsibilities. They shall cooperate with each other and exchange the necessary information.

The risk management function is responsible for the establishment and coordinated and continuous operation of an integrated risk management system in line with the requirements of the Risk Management Strategy, the guidelines and decisions of the Risk Management Committee, the parent company and supervisory expectations. Together with other business functions operating within the second line of defence in the risk management system, it develops methodologies for the identification (including emerging risks) and measurement of risks and is responsible for the development of risk monitoring. It is also responsible for the coordination of the calculation of capital requirements and needs (ORSA), the monitoring of the risk profile and reporting to the Management Board, the Supervisory Board and the Parent Company on actual and potential material risks.

The compliance function is responsible for assessing the potential impact of changes in the legal environment on the Company's business and informing the management of the Company, as well as other areas, departments and functions, identifying and assessing the risks of non-compliance of the business with the law and the internal rules of the Company, informing the Management Board on the compliance of the business, including the risks of non-compliance, and providing guidance or recommendations, participating in the establishment and updating of the compliance programmes of the Company's business in the specific areas, including the internal controls.

The internal audit function exercises continuous and comprehensive control over the Company's operations in order to maximize the benefits of its business by making an independent, systematic and methodical assessment of the adequacy and effectiveness of the Company's governance, risk management and control system and providing recommendations for their performance. It also provides advisory services, cooperates with the external auditors and other supervisory bodies and monitors the implementation of recommendations given by external auditors. It reports on its activities and findings at least half-yearly to the Management Board, the Audit Committee and the Supervisory Board. The internal auditors shall be independent and competent in their work and shall avoid conflicts of interest. They are therefore not allowed to perform any developmental or operational tasks that could result in a conflict of interests or are likely to weaken their impartiality. They shall not take decisions on activities in the areas subject to internal audit.

The actuarial function coordinates and calculates the insurance technical provisions. It also ensures that appropriate methods, models and assumptions are used in the calculations, verifies the adequacy of the general underwriting policy and gives opinions on the adequacy of the reinsurance premium to cover all liabilities under the reinsurance contract and the adequacy of the reinsurance programme or the transfer of risks to a specific company. In addition, the actuarial function is involved in the implementation of the risk management system, in particular in the development, application and monitoring of the adequacy of the models for the calculation of capital requirements and in carrying out its own risk and solvency assessment (ORSA). The actuarial function is significantly involved in the implementation of the new IFRS 17.

The Supervisory Board of Triglav Re, d.d. gives its consent to the key rules of the risk management system. The Supervisory Board shall be regularly briefed on the reports on the Company's risk exposure, its capital adequacy and the report on the own risk and solvency assessment and gives its consent to the Management Board on the solvency and financial position report. The Supervisory Board has appointed the Audit Committee as a working body to provide expert assistance in formulating its opinons also on the adequacy of the risk management system. The Audit Committee monitors the adequacy and effectiveness of the established risk management system and controls the Company's overall risk profile.

The principal responsibility of the **Management Board** is to achieve the optimal operating profitability within the accepted risk appetite. It is responsible for the establishment and implementation of a sound and reliable internal governance system, including an effective process for the assumption and management of risks in accordance with legislation. It regularly reviews the Company's risk profile, approves the internal acts and major risk management reports, including the Risk Exposure Report, the Own Risk and Solvency Assessment Report, the Capital Adequacy Report and the Solvency and Financial Position Report.

The Management Board has appointed the **Risk Management Committee** as a professional advisory body to which it has transferred part of its risk management responsibilities. The main objectives of the Committee are to assist the Management Board in identifying key risk exposures, to control the functioning of the risk management system, pre-examine internal risk management acts, approve risk measurement methodologies, identify and monitor material risk exposures and risk concentrations, formulate a risk appetite proposal, regularly review the effectiveness of the risk management system, monitor the functioning of the data quality assurance system, supervise the effectiveness of the ring-fencing system, and ensure the appropriate spreading of the risk management culture.

6.2. Process of Risk Management

Effective risk management consists of the parts described below:

Risk identification is the process of identifying and understanding all the existing and potential risks to which the Company may be exposed. It is an ongoing process for which the business functions are primarily responsible as the first line of defence in the management system. The process is also carried out in the preparation of the business and financial plan, at the regular meetings of the Risk Management Committee and when potential operational risks are periodically identified.

For this purpose, the Company has set up a Risk Catalogue, which contains a description of each type of risk, the potential risk factors and the established internal controls for risk mitigation. The Risk Management Department provides professional support to individual business areas in the identification of risks and key stress scenarios to which the Company is most vulnerable.

Risk measurement and assessment is carried out through determining and monitoring of risk measures, which are generally accepted in the insurance industry and financial institutions. The primary purpose of the risk measurement system is to monitor the risk profile of the Company according to the levels defined in the Risk Appetite, to detect significant changes in a timely manner and on that basis, to prepare warnings and proposals for measures to be taken.

The identified risks are managed by:
- the reinsurance contracts which protect the Company against insurance risks (retrocession),
- established risk-specific limits (e.g., investment limits, personal mandates, counterparty exposure limits, interest rate and currency limits, minimum liquidity limits, etc.)
- certain derivatives, which the Company may use solely for the hedging purposes. In 2022, the Company did not use any derivatives.

Risk monitoring and early notification in case of deviations and/or violations should be carried out on a regular basis and according to the overall risk profile of the Company, as well as the frequency and type of changes in the business environment. Risk monitoring is carried out by the Risk Management Department. In the event of detected violations, the Company has set up a monitoring system for notification, deciding and tracking the measures taken to diminish the risk exposure to acceptable level.

The reporting system shall provide efficient and timely access to information on risks to ensure the optimal performance of the Company and its prompt and appropriate reaction. Reports shall be submitted to the management and supervisory bodies and other competent authorities that are involved in the decision-making process. The results of the risk exposure shall be included in the regular risk report, the Own Risk and Solvency Assessment Report (ORSA) and the Solvency and Financial Condition Report (SFCR). The risk report shall include the risk indicators, including trends in their developments and information on the utilization of limits. It may also contain the recommendations prepared by the Risk Management Service.

6.3. Own Risk and Solvency Assessment (ORSA)

The purpose of the ORSA process is to determine whether the Company has sufficient capital in relation to external circumstances, its own risk profile and business strategy. It is essential to assess the adequacy of the capital buffer that protects the Company against potential adverse effects of a future financial, economic or any type of crisis.

Based on changed internal and external factors, the approved business strategy and future expectations, the Company identifies the key risks and stress test scenarios that could have a material impact on the achievement of the planned objectives and the limits determined in the Risk Appetite. All organizational units are involved in the ORSA process and are regularly informed of the results.

In carrying out the ORSA process, the Company shall rank the identified risks and stress scenarios by the size of an impact. At the same time, it shall assess the adequacy of the standard formula for calculating regulatory capital requirements. If the standard formula is found to be insufficient to cover the key risks identified, the Company shall develop additional (internally determined) capital requirements. The results of the ORSA process are presented in the ORSA Report, which is communicated to the Management Board with senior management, the Audit Committee and the Supervisory Board of Triglav Re, d.d.

In autumn 2022, the Company carried out a regular self-assessment of its risks and solvency, which was performed in parallel with the preparation of the business plan.

In the evaluation of the stress tests scenario, the starting point was the risk profile of the Company and the current and expected external conditions. The Company tested the potential stress effects in the event of various external shocks, which separately assume a crisis in the financial markets, the aggregation of natural catastrophes with an impact on the deterioration of the creditworthiness of reinsurers, liquidity problems, climatic changes and assess the concentration of operational risks. The implementation of the ORSA process in 2022 confirmed that the Company had a strong capital base, also with respect to internally identified risks, despite the exceptional circumstances.

6.4. Capital Management

Capital represents the prime criterion for assessing the Company's solvency, as in its operations the Company needs to constantly hold the adequate capital to protect the owner's and the contractual partners' assets. Adequate capital base shall ensure a safety margin for various risks that the Company is exposed to and shall protect the Company against any unexpected adverse events. The Company is obliged to keep sufficient assets corresponding to the Company's exposure and business strategy.

The Company has determined the following three criteria for the assessment of its capital strength, which are also taken into account when determining its dividend policy:
- regulatory capital adequacy;
- capital adequacy based on own risk and solvency assessment;
- credit ratings assigned by the rating agency S&P.

In 2022, the Company was sufficiently capitalized.

Capital Adequacy Risk and Compliance with Capital Requirements

Capital and Capital Adequacy Management

Triglav Re, d.d. pursues its primary objective of safe and stable business through appropriate capital management. It strives to operate within the set risk appetite and to provide the desired return to the owner. Capital is managed through regular monitoring of the volume, availability and quality of own funds against the risk profile reflected in the capital requirements. An important element of the capital management is the observance of the dividend policy and the regular monitoring and planning of capital adequacy. Within the assessment of capital adequacy through its own risk and solvency assessment (ORSA), the Company uses its own methodologies to assess its exposure to a variety of risks and compares with the volume and amount of own funds available.

As of 31 December 2022, the available capital significantly exceeded the capital requirements reflecting the risk exposure. The Company's capital adequacy is presented in more detail in the Solvency and Financial Condition Report for the year 2022.

As of 31 December 2022, the Company's available own funds amounted to EUR 131,471 thousand, taking into account the expected dividend to be paid in the financial year 2023. In 2022, the Company paid out a dividend of EUR 2.3 million.

According to the Solvency II standard formula, the capital adequacy ratio was estimated at 229.0% on 31 December 2022, which is within the set strategic targets (between 200% and 250%).

Table 5: **Capital Adequacy**

	31 December 2022	31 December 2021
Total appropriate capital to cover SCR (in EUR)	131,471,118	122,856,488
Total appropriate capital to cover MCR (in EUR)	131,471,118	122,856,488
SCR – Solvency capital requirement (in EUR)	57,447,917	51,443,056
MCR – Minimum capital requirement (in EUR)	23,009,353	21,225,693
Capital adequacy in relation to SCR (appropriate capital to cover SCR/SCR)	**229%**	**239%**
Capital adequacy in relation to MCR (appropriate capital to cover MCR/MCR)	571%	579%

As shown in the table above, the Company maintains its strong capital position, as confirmed by its own risk and solvency assessment and the ratings of S&P and A.M. Best. On 31 December 2022, the Company had a credit rating of A (excellent) with a stable medium-term outlook.

6.5. Types of Risks and their Management System

The Company is exposed to a variety of risks in its business operations, the most important of which are: insurance risks, market risks (including interest rate risk, currency risk, equity risks, credit spread risk and market concentration risk), credit risk, liquidity risk, operational risk as well as non-financial risks, including strategic, sustainability and reputational risk.

In addition to these risks, there are also emerging risks that are difficult to predict, identify and measure, although they may have a significant impact on the Company's business.

The types of risks as defined by IFRS standards are insurance, market, credit, liquidity and other risks. The risk classification of the Company may be translated into the risk classification followed by IFRS as follows:

- The most common market risks under IFRS, according to the Company's own risk classification, are currency, interest rate and other price risks (equity and real estate risk)
- Credit risks under IFRS, according to the Company's own risk classification, include the risk of changes in credit spreads, the risk of market concentration and the risk of counterparty default. Of the latter, a significant part is represented by the reinsurance exposures and other receivables (cash given, receivables from reinsurance contracts).
- There are no differences between insurance risk and liquidity risks.
- Other risks under IFRS, according to the Company's own risk classification, include operational, strategic, reputational and capital risks.

The Company monitors and reports the exposures and risk assessments to the Management based on regulatory requirements and the defined internal risk classification. Due to the differences in the valuation method under IFRS and Solvency II, the values of the individual balance sheet items may differ significantly, which is also reflected in the differences in the exposures of individual risks. In addition, this also has an impact on the sensitivity of the items and thus on the risk assessment. A more detailed illustration of the differences between the two valuations is presented in the Report on the Solvency and Financial Position of Triglav Re, d.d.

A brief description of the most important types of risks, indicating how they are managed is presented below. The more important exposures are also presented in more detail according to the classification used in the Company's risk management system.

Underwriting Risk

Underwriting risks are risks that arise from the (re)insurance operations. They refer to the risk of loss or increase in insurance liabilities due to inappropriate premiums and assumptions taken into account in the calculation of insurance technical provisions, inappropriate risk assumption, changes in claims experience and changes in the natural, economic, political, technological and socio-cultural environment. Underwriting risks include the risk of insufficient insurance technical provisions, premium risk, claims risk and catastrophe risk.

Risk of Insufficient Insurance Technical Provisions

The Company shall establish adequate insurance technical provisions to cover all future liabilities under reinsurance contracts and potential losses arising from reinsurance business assumed. The risk associated with the insurance technical provisions is the risk of insufficient insurance technical provisions. This risk is managed primarily by comparing the previous claims provisions with subsequent actual liabilities, by applying the appropriate actuarial methods in setting up the individual insurance technical provisions, and by the prudent formation of claims provisions.

According to the International Accounting Standards, the Company shall make the following insurance technical provisions: the provisions for unearned premiums, the claims provisions, provisions for bonuses, discounts and cancellations and other insurance technical provisions, such as the provisions for unexpired risks. The sufficiency of the established insurance technical provisions is verified by the liability adequacy test (the co-called LAT test).

For the calculation of capital adequacy, the Company shall make a best estimate of the insurance technical provisions based on the applicable regulations, which shall be equal to the sum of the best estimate and a risk premium. These shall be calculated separately for non-life and life (re)insurance. The key actuarial function holder is responsible for coordinating the calculation of the insurance technical provisions, ensuring that the appropriate methods, models and assumptions are used, for assessing the adequacy, sufficiency and quality of the data required to calculate the insurance technical provisions, and comparing the amount of insurance technical provisions using his experience.

Due to the nature of reinsurance business, the Company cannot use the claims paid triangulation method which is prepared on a loss occurrence basis for the actuarial valuation of the claims provisions, but instead it prepares data on paid claims by underwriting year and then uses the appropriate actuarial methods to estimate the future expected liabilities for each underwriting year. The claims provisions are not discounted. The surplus of net provisions in the total amount of all underwriting years is positive, which reflects that the risk of adequacy of the insurance technical provisions is well managed also in 2022.

As of 31 December 2022, the Company reports a total balance of net insurance technical provisions of EUR 180,080.210. The net insurance technical provisions on the last day of the financial year 2022 by types of provisions are shown in the table below.

Table 6: **Structure of Net Insurance Technical Provisions**

in EUR

	YEAR 2022	YEAR 2021
Net provisions for unearned premium	34,622,199	28,318,351
Net provisions for bonuses, rebates and cancellations	542,092	542,173
Net provisions for outstanding claims	143,637,549	127,378,562
Provisions for unexpired risks	1,278,370	2,903,085
TOTAL	**180,080,210**	**159,142,171**

The net insurance technical provisions increased by 13.2% in 2022 and are fully covered by the investments of the covered assets on 31 December 2022.

Premium and Loss Risk

Premium and loss risk is the risk that the reinsured claims would be higher than expected or that the earned premium would be lower than expected.

The management of premium and loss risk is the responsibility of the directors of the reinsurance underwriting divisions. They have well-defined powers and responsibilities for underwriting and shall ensure that all reinsurance underwriting procedures are carried out to a high professional standard. They are also responsible for setting the reinsurance portfolio's exposure strategy for individual catastrophe events and regions.

A key risk faced by the Company is the risk of a significant loss arising from a particular event or series of events. Such a concentration arises where multiple reinsurance contracts have the same geographical area of coverage and multiple classes of insurance may be affected. Such risks may arise from less frequent loss events (e.g., natural catastrophes), unexpected changes in trends (e.g., unexpected changes in human mortality), or unexpected changes in legislation that could affect the amount of premiums or claims. The Company shall offset, through an appropriate reinsurance programme, the parts of risks assumed in reinsurance which exceeds the own maximum retentions, as set out in the Tables of maximum retentions. The Company shall manage the risk through professional underwriting, monitoring the exposures by geographical area for individual natural perils and in particular, through appropriately set maximum retentions and an adequate reinsurance programme.

Risk of Major Loss due to Natural Disasters

The Company underwrites reinsurance business with the (Re)Insurers in different regions of the world. According The Company underwrites reinsurance business with the (re)insurers from different regions of the world. According to the guidelines, the Company is focused mainly on the short-term property reinsurance business. The property reinsurance contracts also cover losses caused by various natural perils. The most exposed classes are fire and engineering insurance, followed by motor and crop insurance.

A reinsurance company assumes the risk of major losses caused by natural perils from insurance companies. These are low-frequency but high-impact events such as earthquakes, floods, windstorms, hail and sleet. The risk is influenced by various factors, such as: the exposure of a particular region to more frequent natural catastrophes, number of concluded insurance contracts in a particular region, the extent of insurance cover in a particular region, the geographical dispersion of the insured portfolio, the terms and conditions of the reinsurance contract in relation to the natural catastrophes being reinsured.

In assessing the claims potential of natural catastrophes, there are also models and methods that simulate different catastrophes to estimate the loss amount with different return periods for a given portfolio. For the Company, the reference event against which it monitors its exposure is an event with a return period of 200 years.

The Company shall regularly monitor its exposure to natural catastrophes by individual peril and by geographical region. For part of the risks reinsured by the Company, the outward reinsurance contracts (retrocession contracts) are concluded to better manage its exposure and protect its own assets. The Company's previous reinsurance programmes have proved to be appropriate, as the Company continuously fulfilled all the liabilities arising from insurance contracts without any increased liquidity risk. Furthermore, the Company regularly monitors the credit rating of other reinsurers and thus takes care of the counterparty default risk.

Market Risks

Market risks are the risks of loss due to adverse changes in the market risk factors, including equity prices, interest rates, exchange rates, credit spreads, real estate prices, etc. These risks could affect the Company's value of financial assets and liabilities and may have a negative impact on its financial position.
The portfolio of financial instruments is most exposed to the risk of loss from adverse changes in the market risk factors that may adversely affect the value of financial investments.
The objective of market risk management is to ensure the appropriate diversification, liquidity and profitability of financial investments, taking into account the prudent person principle, to adjust the interest rate and currency structure of assets and liabilities in such a way that the structure of the balance sheet is optimal in relation to the risk appetite of the Company, which includes:

- setting the trading position limits for exposure to the risks or groups of risks,
- setting the maximum permissible mismatch on the currency and interest rate of the assets and liabilities structure,
- setting the liquidity limits,
- balanced Company's investment policy with the above limits.

Triglav Re, d.d. follows the "prudent person principle" in managing its investments.

The main tool for managing market investment risk are trading limits, which represent restrictions on assuming market risk. The limits are based on the risk appetite and consider the Company's capital position, strategic business objectives and current financial market conditions. The exposure to specific investment categories is limited, taking into account the type of financial instrument, the issuer and its credit quality. The limits shall specify the acceptable types of investments and prohibit the use of financial instruments for speculative purposes. They shall also regulate the maximum acceptable exposure to a single person or a group of related persons.

The Company regularly identifies its vulnerability to the changes in various risk factors by monitoring market risk indicators and by stress testing scenarios and then adapts accordingly.

Interest Rate Risk is the risk of a loss due to changes in the value of interest rate sensitive assets and liabilities arising from adverse changes in interest rates and interest rate mismatch between assets and liabilities.

The Company primary mitigates the interest rate risk by matching the duration of its assets and liabilities. Based on the assessment of the duration of the liabilities from reinsurance contracts, the interest rate structure of the investments is adjusted accordingly by investing in instruments of appropriate maturity.

In addition, the Company identifies its vulnerability to changes in interest rates through interest rate risk indicators, sensitivity analyses and stress test scenarios and adjusts accordingly.

Risk of Interest Rate Changes

Table 7: **Structure of Debt Securities**

in EUR

	31. 12. 2022	31. 12. 2021
Debt securities	**209,894,237**	**205,750,471**
- Government securities	134,490,595	136,773,807
- Securities of financial institutions	38,911,971	37,818,728
- Corporate securities	36,491,671	31,157,936
- Compound securities	0	0
Financial derivatives	**0**	**0**
TOTAL EXPOSED ASSETS	**209,894,237**	**205,750,471**
TOTAL OTHER ASSETS	**342,146**	**2,466,772**
TOTAL FINANCIAL ASSETS	**210,236,383**	**208,217,243**

Considering the interest rate sensitive assets that pay coupons during the period until maturity, the Company is also exposed to the reinvestment risk, which is particularly significant in the periods of low market interest rates. The Company maintains a partial mismatch between the duration of assets and the duration of liabilities in order to generate additional profit.

Interest rate risk is managed through an appropriate strategic allocation of investments of different durations. In 2022, the Company responded to rising market interest rates by reducing the duration of its debt portfolio, thereby reducing its exposure to interest rate risk. The Company could also manage its interest rate risk through interest rate derivatives but in 2022 did not have any such financial instruments in place.

The Company's exposure to market risk due to the changes in interest rates also arises from its interest rate sensitive investment portfolio. The interest rate sensitivity depends on the characteristics of the financial form which are determined by the maturity, size and timing of cash flows and the type of contractual interest rate. The

Company is also exposed to the risk of changes in future cash flows due to changes in market interest rates. In 2022, the Company tied up only cash in callable deposits at interest rates ranging from zero per cent to 0.0001 per cent. All deposits were pegged to a fixed interest rate. The Company also bore the layaway costs on some of the bank accounts.

The Company shall monitor its exposure to interest rate risk by regularly assessing the impact of changes in interest rates on the value of capital due to the exposure of the assets and liabilities to interest rate risk. The internal assessment of interest rate risk shall be calculated by using the duration spread method.

The shortening of the duration of the bond portfolio in 2022 had the effect of closing the interest rate spread, thus avoiding even higher negative financial effects, which generally hit the financial institutions in a period of sudden and strong interest rate hikes by the central banks in response to rising inflation.

Sensitivity Analysis of Financial Assets to Interest Rate Risk

The interest rate sensitivity of financial assets is expressed as the effect on the fair value of all interest rate sensitive financial assets of a parallel shift in the interest rate curve of +/- 100 basis points. These are debt securities classified in the 'available-for-sale' group.

The table below shows that the sensitivity to interest rate changes decreased considerably at the end of 2022 compared to 2021 due to the shorter duration of the debt portfolio. The hypothetical positive and negative changes in interest rates have the greatest impact on the government securities which represent the largest part of the Company's portfolio. Should the interest rates rise by 100 basis points, the Company's capital would decrease by EUR 4,143 thousand.

Table 8: **Sensitivity Analysis of Financial Assets to Interest Rate Risk**

in EUR

	31. 12. 2022		31. 12. 2021	
	+100bp	-100bp	+100bp	-100bp
Government securities	-2,602,856	2,715,704	-4,620,766	4,898,533
Securities of financial institutions	-690,119	722,931	-925,196	978,993
Corporate securities	-850,372	884,889	-833,673	877,425
Compound securities	0	0	0	0
Other	0	0	0	0
TOTAL	**-4,143,346**	**4,323,524**	**-6,379,635**	**6,754,951**
Impact on equity	-4,143,346	4,323,524	-6,379,635	6,754,951
Impact on profit/loss	0	0	0	0

Share Price Risk

Table 9: **Structure of Equity Securities**

in EUR

	31. 12. 2022	31. 12. 2021
Equity securities and investment funds	**114,146**	**2,125,772**
Shares in EU	0	2,015,333
Shares in emerging markets	114,146	110,439
TOTAL EXPOSED ASSETS	**114,146**	**2,125,772**
TOTAL OTHER ASSETS	**210,122,237**	**206,091,471**
TOTAL FINANCIAL ASSETS	**210,236,383**	**208,217,243**

The equity portfolio represented only 1.00% of the total financial assets at the end of 2022 and is carried at fair value in the statement of financial position. Equity risk, which is the risk that the value of equity financial instruments will fluctuate due to changes in factors specific to the individual instrument or its issuer, or reflect the general equity market conditions, is immaterial for the Company. The portfolio of equity investments at the end of 2022 amounted to only EUR 114 thousand.

The Company had no position in investment funds in 2022.

An analysis of the Company's sensitivity to a change in the price of equity investments shows that a 10.0% increase in the market prices of shares in the portfolio would have a positive impact on the Company's capital in the amount of EUR 11 thousand.

Table 10: **Sensitivity Analysis of Financial Assets to Risk of Changes in Share Prices**

in EUR

	31. 12. 2022		31. 12. 2021	
	+10%	-10%	+10%	-10%
Shares in EU	0	0	201,533	-201,533
Shares in emerging markets	11,415	-11,415	11,044	-11,044
TOTAL	**11,415**	**-11,415**	**212,577**	**-212,577**
Impact on equity	11,415	-11,415	212,577	-212,577
Impact on profit/loss	0	0	0	0

Currency Risk

Currency risk is the risk of loss due to changes in foreign currency exchange rates and currency mismatches between assets and liabilities. An adverse change in exchange rates may cause a decrease in the value of foreign currency assets or an increase in the value of foreign currency liabilities. The main elements of currency risk are the size of the open foreign currency positions per a foreign currency, the volatility of an exchange rate and the liquidity of the markets for each foreign currency.

The Company is exposed to currency risk due to the nature of its business, and therefore it makes sense to match claims and liabilities in each foreign currency, especially by investing reasonably in investments in the foreign currency in which it has liabilities under reinsurance contracts.

The Company has currency limits in place, which represent a key tool for currency risk management.

Transactions in foreign currency are converted into euros at the European Central Bank's reference exchange rate for that day. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated into euro at the reference exchange rate of the European Central Bank valid at the balance sheet date. This applies to all currencies except the Russian ruble (RUB). Due to the fall in trading activity between the Euro and the Rub, the European Central Bank (ECB) assessed at the beginning of the year that it could no longer set a reference interest rate that would be representative of prevailing market conditions. The ECB has therefore decided to suspend the publication of the reference rate of the euro to the Russian ruble until further notice. The ECB last published the EUR/RUB reference rate on 1 March 2022. As the EUR/RUB reference rate published on 1 March 2022 no longer reflects the market rate, the Company has adopted the policy of using the Russian ruble rate published on the Bloomberg platform for the conversion of transactions in Russian rubles into euro. The profit or loss on monetary items denominated in a foreign currency is the difference between the amortized costs in the functional currency at the beginning of the period, adjusted for the actual interest and payments during the period, and the amortized cost in foreign currency, translated at the European Central Bank's mid exchange rate at the end of the period. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are translated into euro at the European Central Bank's reference rate valid at the date when the fair value was determined. Exchange rate differences arising from the translation are recognized in the profit or loss or in equity, depending on the accounting classification of the individual non-monetary asset.

Assets in euro represent 67.0% of the Company's total assets. The exposure of assets in a single foreign currency does not represent more than 10.0% of total assets.

Table 11: **Currency Structure of Assets and Liabilities of the largest Currency Positions**

31. 12. 2022

Currency	EUR	USD	HKD	GBP	JPY	OTHER	TOTAL
Financial investments	151,493,169	19,733,028	0	3,880,160	3,907,632	31,222,395	210,236,383
Deposits at Cedants	5,927,626	4,179,958	129,746	49,539	6,222	3,751,886	14,044,977
Reinsurers' share of technical provisions	55,987,260	4,172,803	153	19,963	3,077	10,558,020	70,741,276
Receivables from reinsurance operations	41,073,767	8,697,241	2,036,089	63,234	1,907,893	34,402,611	88,180,834
Other receivables	73,889	224,231	34	0	0	83,938	382,092
Other assets	6,454,279	447,291	0	4,231	233,645	875,191	8,014,637
TOTAL ASSETS	**261,009,990**	**37,454,551**	**2,166,023**	**4,017,126**	**6,058,469**	**80,894,040**	**391,600,199**
Equity	86,699,657	0	0	0	0	0	86,699,657
Insurance technical provisions	137,151,569	27,866,866	5,123,548	2,825,860	6,736,886	71,116,757	250,821,486
Liabilities from reinsurance operations	27,658,906	2,407,146	31,042	4,047	438,709	19,690,331	50,230,182
Other operating liabilities	0	0	0	0	0	0	0
Other liabilities	2,562,998	0	0	0	0	0	2,562,998
Funding liabilities	179,296	957,085	6,290	24,644	2,549	116,013	1,285,876
TOTAL LIABILITIES	**254,252,426**	**31,231,097**	**5,160,880**	**2,854,551**	**7,178,144**	**90,923,102**	**391,600,200**

31. 12. 2021

Currency	EUR	USD	HKD	CNY	THB	OTHER	TOTAL
Financial investments	158,120,464	16,010,033	0	4,539,960	0	29,546,785	208,217,243
Deposits at Cedants	6,541,720	3,672,864	121,017	0	695,497	2,309,262	13,340,360
Reinsurers' share of technical provisions	55,348,304	3,315,395	53	1,842,783	0	1,799,034	62,305,570
Receivables from reinsurance operations	32,899,459	6,135,801	1,502,033	3,530,709	517,015	29,420,542	74,005,558
Other receivables	117,979	2,114	22	0	-12	86,735	206,838
Other assets	3,027,121	391,811	0	0	0	972,677	4,391,609
TOTAL ASSETS	**256,055,048**	**29,528,018**	**1,623,124**	**9,913,453**	**1,212,499**	**64,135,034**	**362,467,177**
Equity	95,551,720	0	0	0	0	0	95,551,720
Insurance technical provisions	130,854,549	22,956,137	4,708,424	8,900,959	1,776,466	52,251,206	221,447,741
Liabilities from reinsurance operations	20,227,686	2,162,440	27,841	1,665,240	38,967	15,597,321	39,719,495
Other operating liabilities	2,042,877	0	0	0	0	0	2,042,877
Other liabilities	2,842,588	0	0	0	0	0	2,842,588
Funding liabilities	90,262	629,871	14,596	0	19,484	108,542	862,756
TOTAL LIABILITIES	**251,609,683**	**25,748,448**	**4,750,861**	**10,566,199**	**1,834,916**	**67,957,070**	**362,467,177**

Table 12: **Currency Sensitivity for Five Largest Open Currency Positions**

in EUR

31. 12. 2022	ASSETS	LIABILITIES	Open foreign currency position	Appreciation of foreign currency vs. EUR by 10 %	Appreciation of foreign currency vs. EUR by 10 %
USD - US dollar	37,454,551	31,231,097	6,223,455	622,345	-622,345
HKD - Hong Kong dollar	2,166,023	5,160,880	-2,994,857	-299,486	299,486
GBP - British pound sterling	4,017,126	2,854,551	1,162,575	116,257	-116,257
JPY - Japanese yen	6,058,469	7,178,144	-1,119,675	-111,968	111,968
INR - Indian rupee	4,978,259	5,860,298	-882,039	-88,204	88,204

in EUR

31. 12. 2021	ASSETS	LIABILITIES	Open foreign currency position	Appreciation of foreign currency vs. EUR by 10 %	Appreciation of foreign currency vs. EUR by 10 %
USD - US dollar	29,528,018	25,748,448	3,779,570	377,957	-377,957
HKD - Hong Kong dollar	1,623,124	4,750,861	-3,127,737	-312,774	312,774
CNY- Chinese yuan	9,913,453	10,566,199	-652,746	-65,275	65,275
THB -Tai baht	1,212,499	1,834,916	-622,416	-62,242	62,242
DOP - Dominican peso	286,227	717,358	-431,131	-43,113	43,113

At the end of 2022, the Company recorded the largest currency mismatch between assets and liabilities in USD (US dollar). The reason for the higher USD currency mismatch is the investment in USD denominated financial investments, thus reducing the Company's currency exposure also in foreign currencies that are highly correlated to the USD value movements (e.g., HKD, VND, BSD, XCD, etc.) and in which the Company has a net short currency position. These arise as a result of gross insurance technical provisions in foreign currencies. The Company had EUR 6,223,000 more assets than liabilities in USD and is therefore sensitive to the depreciation of the USD against the EUR. In the case of a 10.0% depreciation of the USD against the EUR, the Company would record a negative effect of EUR 622,000 at the end of 2022. Sensitivity to appreciation of the HKD against the EUR comes in second place.

Liquidity Risk

Liquidity risk is the risk of loss if the Company is unable to meet all expected and unexpected liabilities as they fall due or is forced to provide the necessary funds at a significantly higher than normal costs. Liquidity risk is also the risk of difficulty in accessing the financial resources necessary to meet obligations under reinsurance contracts and other commitments.

The primary objective of liquidity risk management is to ensure that the Company has sufficient liquid assets available at any time to pay its current liabilities in a timely manner.

The Company manages liquidity risk by planning the short- and medium-term liquidity and monitoring the short-, medium- and long-term liquidity indicators. Liquidity risk is mitigated mainly by highly liquid cover assets, which can be redeemed quickly and at low cost in normal market conditions, as well as by the diversified maturity of deposits, which ensure that the daily liquidity needs are covered. To provide liquidity sources, the Company could set up a system of credit lines that would allow cash to be drawn down in the event of liquidity needs.

The Company has a portfolio of highly liquid assets which represents a part of its own liquidity risk management strategy to ensure that it can pay its financial liabilities even in a stressed situation without incurring significant additional costs.

The liquidity risk exposure shall be managed by:

- regular monitoring of cash flows from assets and liabilities,
- daily and weekly liquidity risk management,
- monitoring the internal short-, medium- and long-term liquidity ratios,
- monitoring the liquidity risk in the investment portfolio,
- monitoring the costs and gains to provide liquidity,
- monitoring the liquidity position in the relevant financial markets.

In 2022, the Company maintained a strong liquidity position and met all its contractual liabilities on time.

The table below shows the structure of undiscounted expected cash flows of assets and liabilities.

Table 13: **Structure of Undiscounted Expected Future Cash Flows of Assets and Liabilities**

31. 12. 2022 in EUR

FINANCIAL ASSETS AND LIABILITIES TO REINSURERS	NOT DEFINED	LESS THAN 1 YEAR	1 TO 5 YEARS	5 TO 10 YEARS	OVER 10 YEARS	TOTAL	Book value
Total financial investments	124,146	76,823,926	145,417,432	22,076,398	753,525	**245,195,427**	224,281,361
Debt securities	0	62,560,948	145,417,432	22,076,398	753,525	**230,808,303**	209,894,237
- held to maturity	0	0	0	0	0	**0**	0
- at fair value through profit or loss	0	0	0	0	0	**0**	0
- available-for-sale	0	62,560,948	145,417,432	22,076,398	753,525	**230,808,303**	209,894,237
- loans and receivables	0	0	0	0	0	**0**	0
Equity securities	114,146	0	0	0	0	**114,146**	114,146
- at fair value through profit or loss	0	0	0	0	0	**0**	0
- available-for-sale	114,146	0	0	0	0	**114,146**	114,146
Financial derivatives	0	0	0	0	0	**0**	0
Loans and receivables	10,000	14,262,977	0	0	0	**14,272,977**	14,272,977
Technical provisions ceded to Reinsurers	0	45,461,747	17,040,377	5,224,071	3,015,081	**70,741,276**	70,741,276
Operating receivables	0	88,180,834	0	0	0	**88,180,834**	74,136,942
Cash and cash equivalents	0	1,863,110	0	0	0	**1,863,110**	1,863,109
TOTAL FINANCIAL ASSETS AND LIABILITIES TO REINSURERS	**124,146**	**212,329,617**	**162,457,809**	**27,300,469**	**3,768,606**	**405,980,647**	**371,022,687**

FINANCIAL ASSETS AND PROVISIONS	NOT DEFINED	LESS THAN 1 YEAR	1 TO 5 YEARS	5 TO 10 YEARS	OVER 10 YEARS	TOTAL	Book value
Insurance technical provisions	0	159,789,563	73,870,900	12,388,901	4,772,123	**250,821,486**	250,821,486
Other provisions	0	183,741	14,371	27,061	103,929	**329,102**	329,102
Operating liabilities	0	50,230,181	0	0	0	**50,230,181**	50,230,181
Other liabilities	0	1,658,158	575,738	0	0	**2,233,896**	2,233,896
TOTAL FINANCIAL ASSETS AND PROVISIONS	**0**	**211,861,643**	**74,461,009**	**12,415,962**	**4,876,052**	**303,614,665**	**303,614,665**

31. 12. 2021 in EUR

FINANCIAL ASSETS AND LIABILITIES TO REINSURERS	NOT DEFINED	LESS THAN 1 YEAR	1 TO 5 YEARS	5 TO 10 YEARS	OVER 10 YEARS	TOTAL	Book value
Total financial investments	2,135,772	13,671,360	143,989,193	62,939,891	4,046,838	**226,783,053**	221,557,602
Debt securities	0	0	143,989,193	62,939,891	4,046,838	**210,975,922**	205,750,471
- held to maturity	0	0	0	0	0	**0**	0
- at fair value through profit or loss	0	0	0	0	0	**0**	0
- available-for-sale	0	0	143,989,193	62,939,891	4,046,838	**210,975,922**	205,750,471
- loans and receivables	0	0	0	0	0	**0**	0
Equity securities	2,125,772	0	0	0	0	**2,125,772**	2,125,772
- at fair value through profit or loss	0	0	0	0	0	**0**	0
- available-for-sale	2,125,772	0	0	0	0	**2,125,772**	2,125,772
Financial derivatives	0	0	0	0	0	**0**	0
Loans and receivables	10,000	13,671,360	0	0	0	**13,681,360**	13,681,360
Technical provisions ceded to Reinsurers	0	34,979,149	20,864,284	4,897,618	1,564,519	**62,305,570**	62,305,570
Operating receivables	0	73,936,223	200,720	0	0	**74,136,943**	74,136,942
Cash and cash equivalents	0	1,742,977	0	0	0	**1,742,977**	1,742,977
TOTAL FINANCIAL ASSETS AND LIABILITIES TO REINSURERS	**2,135,772**	**124,329,709**	**165,054,197**	**67,837,509**	**5,611,356**	**364,968,543**	**359,743,092**

FINANCIAL ASSETS AND PROVISIONS	NOT DEFINED	LESS THAN 1 YEAR	1 TO 5 YEARS	5 TO 10 YEARS	OVER 10 YEARS	TOTAL	Book value
Insurance technical provisions	0	140,591,935	66,014,756	11,189,061	3,651,989	**221,447,741**	221,447,741
Other provisions	0	125,831	16,610	30,246	120,757	**293,443**	293,443
Operating liabilities	0	41,567,216	195,157	0	0	**41,762,373**	41,762,373
Other liabilities	0	1,379,604	754,381	0	0	**2,133,984**	2,133,984
TOTAL FINANCIAL ASSETS AND PROVISIONS	**0**	**183,664,585**	**66,980,904**	**11,219,307**	**3,772,746**	**265,637,541**	**265,637,541**

The liabilities and assets are not discounted but only estimated by summing the expected future cash flows. In 2022, the gross provisions for reinsurance contracts amounted to EUR 250,821,486 (in 2021: EUR 221,447,741).

The Company maintains a partial maturity mismatch between assets and liabilities, and thus generates part of its return. It settles its short-term liabilities from the current income and allows the possibility of selling financial instruments, thus maintaining a highly liquid investment portfolio.

Of the total bonds, the amount of EUR 35,445,000 (2021: EUR 29,621,000) represents the bonds that can be called earlier by the issuers.

Credit Risk

Credit risk or default risk is the risk of a loss resulting from a debtor's or counterparty's default. It is the risk that the debtor is not able to pay its contractual obligations within the agreed time and/or up to the agreed amount.

It can also be defined as the risk of a loss in the event of default or deterioration in the credit quality of a debtor due to fluctuations in the credit standing of the issuers of securities, counterparties (e.g., Reinsurers) and the potential debtors to which the Company is exposed in the form of counterparty default, the risk of changes in the credit spread and concentration risk.

The Company is exposed to credit risk arising from:

- financial investments. This risk reflects the potential losses due to default or deterioration of the credit standing of the issuers of financial investments, banks and counterparties in derivative transactions and cash deposits. It also includes a concentration credit risk arising from any exposure to a debtor and a country that is large enough to threaten the solvency or financial position of the Company.
- outward reinsurance business (retrocession). This is the risk of a potential loss due to default or deterioration in the credit standing of Reinsurers (Retrocessionaires). It also includes the concentration credit risk arising from any exposure to the average credit rating of the group to which the Reinsurer belongs that is large enough to threaten the solvency or financial position of the Company.
- claims against other debtors (e.g., claims against Cedants for premiums from inward business, other claims)

According to the internal rules, the credit risk on ceded reinsurance contracts is managed by the selection of reinsurers (retrocessionaires), whose credit ratings should as a general rule not be lower than "BBB+" by Standard and Poor's and "bbb+" by A. M. Best, except for outward liability reinsurance contracts, where the credit rating shall as a general rule not be lower than "A-" by Standard and Poor's or "a-" by A. M. Best.

The maximum exposure to banks is determined by using the internal credit quality assessment methodology that takes into account their financial position and the ratings of internationally recognised credit rating agencies.

In managing the investment portfolio, great attention is taken to select issuers with an appropriate credit rating and to ensure that there is no overexposure to any single issuer or a group of related parties.

Credit risk also includes concentration risk. Concentration risk relates to an excessive concentration of exposures to a single counterparty or group of related parties, to a particular industry or to a geographical region. The Company shall monitor the appropriate diversification of its investment portfolio through a limit system.

Table 14: **Structure of Assets exposed to Credit Risk**

in EUR

ASSETS	YEAR 2022	YEAR 2021
Debt securities	209,894,237	205,750,471
Technical provisions ceded to Reinsurers	70,741,276	62,305,570
Loans and receivables	14,272,977	13,681,360
Receivables	88,990,154	74,136,942
TOTAL EXPOSED ASSETS	**383,898,645**	**355,874,343**

Table 15: **Credit Risk of Debt Securities Portfolio (carrying amount of bonds is taken into account)**

in EUR

CREDIT RATING	YEAR 2022	in %	YEAR 2021	in %
AAA	81,564,940	39%	54,757,952	27%
AA	19,941,377	10%	19,229,408	9%
A	48,512,621	23%	68,135,342	33%
BBB	52,823,462	25%	53,902,441	26%
BB	5,076,199	2%	8,463,276	4%
B	801,033	0%	0	0%
without credit rating	1,174,604	1%	1,262,051	1%
TOTAL	**209,894,237**	**100%**	**205,750,471**	**100%**

In managing credit risk, the Company follows the principle of appropriate diversification of investments of better credit quality. The average credit rating of the bond portfolio at the end of 2022 was "A+". The table above shows that the Company also holds debt securities that are not rated. These are corporate bonds issued by a domestic issuer. The largest part of "AAA" rated bonds are German government bonds or bonds guaranteed by the Federal Republic of Germany.

The table below shows the credit quality of counterparties from reinsurance contracts, deposits with banks and other receivables and liabilities.

Table 16: **Credit Risk of Loans and Receivables, including the Company's Deposits with Banks and Investments under Reinsurance Contracts**

in EUR

CREDIT RATING	YEAR 2022	in %	YEAR 2021	in %
A	1,236,019	9%	1,346,571	10%
BBB	1,886	0%	335,191	2%
BB	218,000	2%	0	0%
without credit rating	12,817,072	90%	11,999,598	88%
TOTAL	**14,272,977**	**100%**	**13,681,360**	**100%**

Receivables are also exposed to credit risk. Credit risk is significantly mitigated by the characteristic of reinsurance contracts that allows the claims and liabilities relating to the same reinsurer to be netted against each other (netting of claims for premiums and liabilities for claims and commissions in inward reinsurance and netting of claims for premiums and liabilities for claims and commissions for outward reinsurance). The table below shows the age structure of the netted claims and liabilities from outward and inward business, which illustrates the actual dynamics of payments and collection of claims and liabilities in the Company.

Table 17: **Maturity Structure of Receivables and Liabilities by Type of Business**

in EUR

YEAR 2022	Not matured yet	Maturity up to 180 days	Maturity over 180 days	Total
Inward operations	**41,232,986**	**3,021,353**	**-373,022**	**43,881,317**
- receivables for premium from reinsurance assumed	61,773,084	9,531,577	1,667,536	72,972,197
- liabilities to Reinsurers for shares in claims	-20,540,098	-6,510,224	-2,040,558	-29,090,880
- other liabilities from coinsurance and reinsurance	0	0	0	0
Outward operations	**-7,342,208**	**326,028**	**1,085,517**	**-5,930,663**
- liabilities to retrocession premium	-19,416,685	-1,623,599	-99,017	-21,139,301
- receivables for Reinsurers' shares in claims	12,074,477	1,949,627	1,184,534	15,208,638
TOTAL	**33,890,778**	**3,347,381**	**712,495**	**37,950,654**

in EUR

YEAR 2021	Not matured yet	Maturity up to 180 days	Maturity over 180 days	Total
Inward operations	**34,909,394**	**2,411,283**	**280,517**	**37,601,194**
- receivables for premium from reinsurance assumed	53,302,534	6,172,346	1,297,532	60,772,412
- liabilities to Reinsurers for shares in claims	-18,393,140	-3,761,063	-1,017,015	-23,171,217
Outward operations	**-2,894,700**	**-822,186**	**401,755**	**-3,315,131**
- liabilities to retrocession premium	-14,325,887	-1,915,454	-306,936	-16,548,277
- receivables for Reinsurers' shares in claims	11,431,187	1,093,269	708,691	13,233,146
TOTAL	**32,014,694**	**1,589,098**	**682,272**	**34,286,064**

Table 18: **Age Structure of Receivables**

in EUR

YEAR 2022	Not matured yet	Maturity up to 180 days	Maturity over 180 days	Total
Receivables from coinsurance and reinsurance	**73,847,561**	**11,481,204**	**2,852,070**	**88,180,834**
- receivables for premium from reinsurance assumed	61,773,084	9,531,577	1,667,536	72,972,197
- receivables to Reinsurers for shares in claims	12,074,477	1,949,627	1,184,534	15,208,638
Other receivables	809,320	0	0	809,320
TOTAL	**74,656,881**	**11,481,204**	**2,852,070**	**88,990,154**

in EUR

YEAR 2021	Not matured yet	Maturity up to 180 days	Maturity over 180 days	Total
Receivables from coinsurance and reinsurance	**64,733,720**	**7,265,615**	**2,006,223**	**74,005,558**
- receivables for premium from reinsurance assumed	53,302,534	6,172,346	1,297,532	60,772,412
- receivables to Reinsurers for shares in claims	11,431,187	1,093,269	708,691	13,233,146
Other receivables	131,384	0	0	131,384
TOTAL	**64,865,104**	**7,265,615**	**2,006,223**	**74,136,942**

Credit risk also arises from reinsurance (retrocessions) if a reinsurer (retrocessionaire) fails to pay its obligations in full and/or on time. To mitigate such risk, the Company has established business and financial standards for the assessment of reinsurers based on the credit ratings provided by internationally recognized credit rating agencies and applicable market information. The Company monitors the financial position of reinsurers and as a rule, retrocession reinsurance contracts are only concluded with the reinsurers rated at least "A-" by S&P or equivalent by other rating agencies for liability reinsurance, and at least "BBB+" by S&P or equivalent for other types of reinsurance and at least "BBB+" by S&P or equivalent for other types of insurance.

At the end of 2022, the average rating of the reinsurers to which the Company has ceded part of its insurance risks was 'AA-' for liability reinsurance contracts and 'A' for the remaining contracts.

Table 19: **Structure of Company's Exposure to the Reinsurers (Counterparties) by Credit Rating**

in EUR

Reinsurers credit rating (S&P's)	YEAR 2022	YEAR 2021
AAA	0	0
AA	37,787,748	30,729,423
A	24,259,876	22,881,082
BBB	3,033,133	3,180,249
BB	848	3,324,403
B	3,663,206	0
CCC	69,640	0
without credit rating	1,926,825	2,190,414
TOTAL	**70,741,276**	**62,305,570**

The Company's largest exposure is to "AA" rated Reinsurers.

Operational Risk

The Company pays special attention to the management of operational risk, which is present in all aspects of the business. Operational risk is defined as the risk of a loss resulting from inadequate or ineffective:
- performance/implementation of internal processes (or product),
- conduct of the employees,
- performance of already established systems, or
- control and management of external circumstances or events.

The definition of operational risk includes information security risks (information risk), including cyber risks and major business interruptions arising from the use and transmission of electronic data, including technology such as the internet and telecommunications networks. Legal risks, business compliance risk, project efficiency and effectiveness risk, planning failure risk, conduct risk, model risk and outsourcing risk are also included in operational risk. However, strategic and reputational risks are not operational risks. Exceptionally, operational risks also include strategic decision risks in cases when strategic decisions have not been taken in line with the legislation in force, regulatory rules, internal rules, or ethical norms.

The essential element of effective operational risk management is an adequate system of internal controls, which is updated and improved year on year. The risk of organisation and business processes is managed by the Company by adapting the internal organisation, demarcation of responsibilities and gradual computerisation of business processes. Human resources risks are managed through a system of knowledge transfer between employees, planned training and cooperation with the parent company in the recruitment of new staff. A key part of legal risk management is the continuous monitoring of applicable legislation and the active involvement of legal expert in business decisions.

A key factor of successful operational risk management is a good-quality business continuity plan, which was particularly evident during the Covid-19 epidemic, and which the Company updated in 2022.

Capital risk

Capital risk is the risk of loss due to inadequate composition of the Company's capital in relation to the size and nature of its business or the difficulties the Company faces in raising fresh capital, in particular in the event of a need to raise capital quickly or in the unfavourable operating conditions. It also includes changes in accounting standards, regulations and supervisory decisions which affect the payment of dividends and the transferability of available capital.

Non-Financial Risks

The key non-financial risks are strategic risks, reputational risk, group risk and sustainability risks.

Non-financial risks are strongly correlated with other risks, mainly with operational risks, and usually arise from several realised risk factors outside and inside the Company.

Strategic risk is the risk of a loss arising from inappropriate strategic decisions, inadequate implementation of strategic decisions and insufficient responsiveness to the changes in the business environment. The Company's Board of Management and Senior Management shall exchange information on an ongoing basis which is relevant for making business decisions, for achieving the set short-term and long-term objectives and for making decisions regarding the strategic risk management.

The identification and assessment of strategic risk is carried out regularly by identifying and evaluating the actual and potential strategic risks to which the Company is exposed.

Reputational risk, often called reputation risk, is the risk of loss due to future or existing business publicity, public perception or uncontrollable events to have an adverse impact on the Company's reputation, thereby affecting its revenue. Thus, it is the risk of loss of existing or future business due to a negative image of the Company. The management of reputational risk is a duty of all employees, including its supervisory bodies.

The identification of reputational risk is carried out through reporting of loss events arising from operational risk and through regular risk self-assessment.

Triglav Group's risks arise from the business model of Zavarovalnica Triglav d.d. acting as the parent company and the group of related entities. They include risks that may jeopardise the achievement of strategic objectives due to the Group's ineffective governance system and insufficient knowledge of the business environment in which the Group companies operate.

Sustainability risks (ESG risks) represent a set of risks to the Company arising from environmental, social and governance characteristics that may have a negative impact on the financial position or solvency of the Company. They are presented in more detail in Section 6.6.

- **Environmental risks** are divided into physical risks and transition risks. Physical risks represent the risks of financial losses as a result of extreme weather events or other environmental impacts due to climate change. Transition risk relates to risks arising from changes in business operations or in the environment caused by measures to promote the transition to a low carbon economy to reduce the impact of climate change.

- **Social risks** comprise mainly risks arising from the way the Company conducts its business in relation to the requirements of the wider social environment and key stakeholders. Common social risks include diversity and equality of opportunity between different stakeholders, workplace safety conditions, wage equity, human rights violation, data privacy, customer relations, relations with contractual partners and suppliers and the wider social environment.

- **Governance risks** cover risks arising from inadequate or inappropriately established governance systems, especially in the environmental and social aspects. They include the legality of operations, corporate governance standards, including the risk management and internal control systems, the remuneration of the company's management, the diversity of management and supervisory bodies, the business practices applied and the investor relations policy.

6.6. Sustainability Risks

Sustainability risks are gaining in importance due to the consequences of human activity, in the form of climate change, which is having a negative impact on life on Earth. The positive trend of reinsurance companies' losses due to extreme weather events such as floods, storms, forest fires and other natural catastrophes around the world is more than evident. Large losses are a major burden on the reinsurance industry. Towards the end of 2022, a rise in reinsurance premiums for CAT property insurance has already been seen as some reinsurance companies have decided to exit the market due to the extreme weather conditions in recent years. In fact, the insurance market has been hit hard by hurricanes and storms, which have pushed up the cost of reinsurance cover.

Our Company is also increasingly focusing on sustainable risks, in particular climate risks. It has appointed a Sustainability Coordinator who regularly works with the Sustainability Business Development Manager of Triglav Group.

A strategic project has been adopted to establish an appropriate way of managing sustainability risks, to provide appropriate decision-making tools for risks assumption in the light of sustainability requirements, to comply with regulatory requirements and best practices in the reinsurance industry, and to implement measures regarding the sustainable development of the Company. Monitoring of policyholders by NACE codes has been established to identify the policyholders operating in more sensitive sectors from a sustainability perspective. The new risk category was added to the internal acts and to the regular risk exposure reports.

In the management of investment assets, part of the investments is also directed to the sustainable financial investments. Thus, at the end of 2022, ESG bonds accounted for 12.0% of the investment portfolio (EUR 26.0 Mio), most of them are green bonds (EUR 18.0 Mio). In terms of sectoral definition, the largest share of ESG bonds comes from the financial sector (EUR 12.0 Mio), followed by sovereign bond issues (EUR 10.0 Mio).

In the process of its own risk and solvency assessment, the Company upgraded its assessment of sustainability risk in 2022, which is however not included in the standard formula for calculating capital requirements. This is because property (re)insurance is particularly vulnerable to physical risks associated with climate change. Therefore, more attention has been paid to the identification of these risks in the context of ORSA, where the risks are assessed through additional analyses. The Company has carried out an assessment of climate risks, both physical and transition risks. Based on the sectoral and geographical definition of counterparties, the materiality of physical and transition risks was assessed, separately for the reinsurance and investment portfolios.

Considerable attention has been paid to the development of a climate change stress scenario, which assumes an increase in the frequency and severity of extreme weather events, an increase in the costs of reinsurance protection and a fall in the value of financial investments due to the transition risk. The evaluation of these stress scenarios and the application of the shock to the hypothetical capital adequacy confirmed that the Company is still sufficiently well capitalised, which is within its risk appetite.

In 2022, Triglav Re, d.d. introduced fluid offices and the possibility to work remotely. Printers have been removed from the offices and purchasing decisions are also made considering the environmental impact. All these activities reduce the Company's carbon footprint, which is measured comprehensively from 2021.

The calculation of the carbon footprint is based on a methodology that is consistent with the Greenhouse Gas Protocol (GHG Protocol). GHG emissions include direct emissions from natural gas and fuel oil heating as well as emissions from the company's own fleet. Indirect emissions consider electricity consumption for cooling, lighting, operation of electrical and electronic equipment, heating and emissions from district heating and air conditioning. Emissions from office paper consumption and employee travel by own vehicles and public transport (train, bus, plane) are also included. Employee commuting is also included in the calculation.

Table 20: **Environmental Aspect of Company's Activities**

in EUR

Environmental aspects	YEAR 2022	YEAR 2021
Carbon footprint per employee (tonnes of CO2 equivalent)	1,3	1,3
Electricity consumption per employee (in GJ)	6	6
Share of electricity consumption from renewable sources (in %)	100%	100%
Total waste per employee (kg)	11	17
Average daily consumption of office paper per employee	6	9
Investments in social impact bonds, green and sustainable bonds (in EUR thousand)	26.022	21.423

Below we present two more risks that have a significant impact on the Company's business performance in 2022.

6.7. Risks and Impact of the War in Ukraine on the Business of Triglav Re, d.d.

When the Russian-Ukrainian conflict broke out in February 2022, the Company immediately reacted to the changed business situation and stopped writing new reinsurance business and renewing existing business with the cedants and reinsurers domiciled in Russia. The Company carefully follows all the restrictive measures taken. These concern both existing business relationships and entering new business relationships with Russian entities or their related entities against which restrictive measures have been imposed. A prohibition has been adopted on all transactions related to the management of the provisions and assets of the Central Bank of Russia, including transactions with any legal person, entity and body acting on behalf of or at the direction of the Central Bank of Russia.

According to the decision of the Management Board of Triglav Re, d.d., there is a prohibition to conclude reinsurance contracts (including the renewal of existing ones) with the cedants and the reinsurers domiciled in Russia. A measure was also taken to actively monitor existing Russian counterparties with which the Company has outstanding contractual liabilities. A double check (by the compliance function of the Company as well as the compliance function of the parent company, Zavarovalnica Triglav d.d.) of existing and potential counterparties and clients with any international element on the sanction lists has been introduced prior to the conclusion of a contract as well as prior to any payment. In addition to the screening of business partners, a screening of the substance of the business/insurance in terms of goods or services has also been introduced, as the restrictions are also set according to the nature of the business. Particular attention has been paid to operate in compliance with adopted sanctions in terms of financial and payment transactions.

In 2022, the Company has fully succeeded in replacing retrocession reinsurance contracts originally written with Russian reinsurers with other non-Russian reinsurance companies of high credit quality. The amount of insurance technical provisions related to the Russian reinsurers at the year-end amounted to EUR 130,000.

In the active reinsurance business, the Company succeeded to negotiate early termination of the contracts with most of the cedants. The amount of gross technical provisions made against Russian cedants at the end of the year amounted to EUR 2,156,000. As of 1 January 2023, there are no reinsurance contracts in force with Russian cedants.

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At the end of 2022, the total amount of receivables from active reinsurance business with the Russian counterparties amounted to EUR 207,000 (all of which is already due) and from passive business amounted to an additional EUR 50,000 (of which EUR 31,000 is already due).

In 2022, the Company made an impairment of Russian securities in the amount of EUR 1.7 million and an impairment of receivables on past due securities of a Russian issuer of EUR 0.3 million.

6.8. Risks and the Impact of Inflation on the Business of Triglav Re, d.d.

In 2022, the risk of financial stability for the European insurance sector has increased, due to a sharp rise in inflation and interest rates, coupled with concerns about a global recession and increased volatility in financial markets, the Russian invasion of Ukraine, supply chain disruptions and high energy prices. Inflation persists at a global level, with energy prices being a major driver of inflation in Europe.

The impact of inflation on the Company's business has already been reflected in the increase in the costs of construction and other materials as well as labour costs in the event of losses, especially major mass losses. The biggest impact of inflation is being felt in the European market.

The reinsurance market has recognised inflation and adapted its approach to the renewal of reinsurance contracts accordingly. In addition to the increasing incidence and intensity of natural catastrophes, inflation has been a major factor in the tightening of conditions in the reinsurance market, as reflected in the increase in retentions, the purchase of higher reinsurance cover by cedants and the increase in reinsurance prices. We assess that the reinsurance market has adequately recognised the risk posed by inflation and reacted accordingly.

Inflation also has an impact on the higher costs of the Company. Some suppliers have increased the prices of their services, others have included indexation clauses into new contracts, and inflationary pressures have also increased labour costs.

Triglav Re, d.d. shall take into account estimated future inflation in its calculation of insurance technical provisions and will continue to do so in the future calculations. As the Company has on average a portfolio of short-term (re) insurance contracts, it is less sensitive to changes in the level of expected inflation and to changes in the expected discount rate. It will continue to carry out stress tests to check its sensitivity to current changes or future inflation forecasts, and to check for any increases in costs or commissions and, in the event of unexpected increases, take these into account in the forecast of future cash flows in the calculation of the insurance technical provisions.

The low interest rate has had a positive impact on bond prices over the past decade. However, with interest rates rising in 2022, the past bond gains are starting to diminish. In response to the rapid and significant rise in interest rates, the Company has shortened the duration of its bond portfolio to reduce interest rate risk. The discount curves for all maturities are firmly in positive zone and therefore the yields on reinvested bonds are also higher, which has a positive impact on the company's financial position.

The Company uses market valuation of the investment portfolio, except for one share, which represents 0.1% of the investment portfolio. Therefore, the adjustment of alternative valuation methods to inflation is not relevant for the Company.

The impact of rising inflation on capital adequacy was assessed by the ORSA stress scenarios for 2022, which assume a period of prolonged inflation and stagflation. The analysis of the inflation stress scenarios confirmed that Triglav Re, d.d. is adequately capitalised and prepared for a period of high inflation. The Company will continue to examine the impact of inflation on the Company's financial position through stress scenarios.

6.9. Future Challenges in Risk Management System

Given the increasing trend in the incidents and intensity of natural catastrophes related to climate change as well as new regulations relating to sustainable risks, Triglav Re, d.d. will continue its activities to implement an appropriate sustainable risk management system in the corporate governance system. It will pay particular attention to improving data for the identification of adverse climate impacts arising from both the reinsurance and investment portfolios and to developing appropriate reinsurance guidelines that reflect the perspective of current and expected climate change, to which the property reinsurance companies are particularly exposed. The Company will continue to prudently assume insurance risks, with appropriate geographical diversification and diversification of the risks underwritten, and to maintain a comprehensive and efficient reinsurance programme.

The transition to the new accounting standard IFRS 17 will require the definition of new ways of obtaining data for solvency valuation. A number of adjustments to the new accounting standard will be necessary to properly assess the capital position and capital requirements.

Triglav Re, d.d. will continue to upgrade its risk management system to provide accurate and timely information for business decision-making. It will closely monitor changes in the external and internal environment and adapt accordingly. A major challenge is to upgrade the risk measurement methodologies to adequately reflect the existing and new risks.

The coordination of the risk management system with the parent company, which includes the reasonable harmonisation of the risk measurement methods, the conduct of own risk and solvency assessments and the reporting of risk exposures, shall ensure a better alignment of the Group's key risk management, measurement and reporting processes. In doing so, the Company takes into account the specific features of the reinsurance business, its own risk profile, the size and complexity of the business that the Company carries out.


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7. FINANCIAL RESULTS

In 2022, Triglav Re, d.d. posted a net profit of EUR 7.0 million, which is above the plan and below the previous year's result. The higher-than-plan profit is mainly due to the insurance technical underwriting result achieved. The realised combined ratio for Triglav Re's total business is 93.2%. In 2021, in addition to a better insurance technical underwriting result, we also realised a significantly higher return on investments, as the return in 2021 was EUR 3.6 million, while in 2022 it amounted to EUR 302,000. The return on equity (ROE) is 7.6% (in 2021: 12.4%).

7.1. Gross Reinsurance Premiums

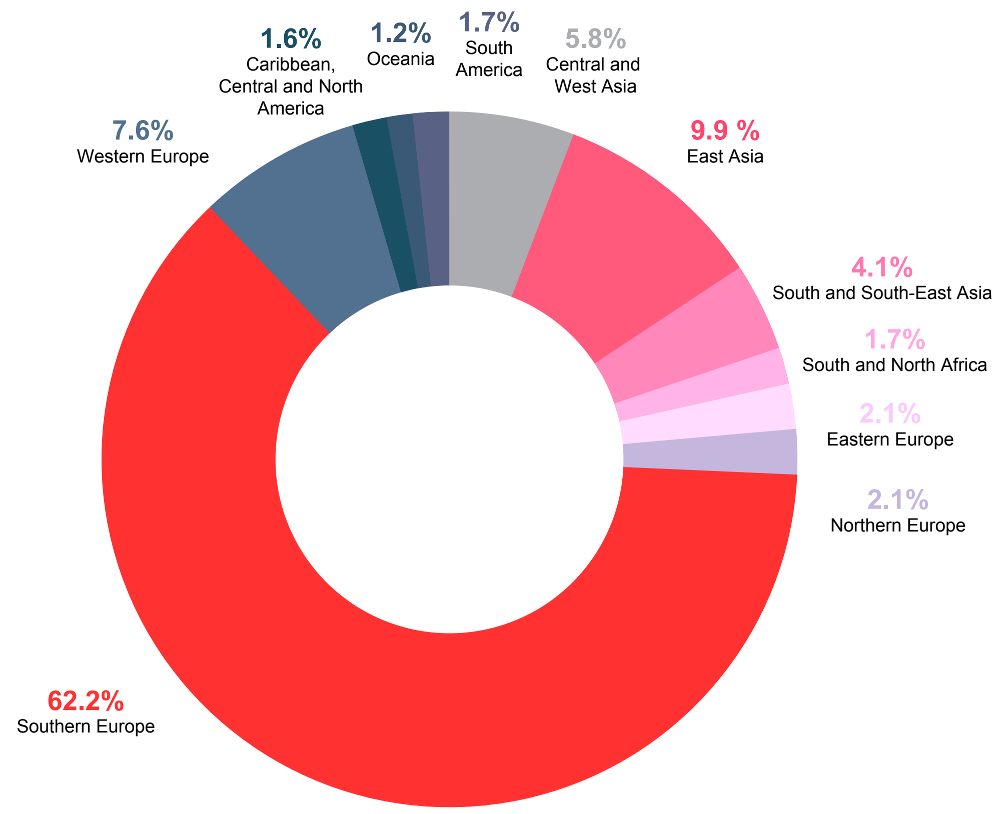
The gross premium volume in 2022 amounted to EUR 250,292,376, which is an increase of 23.7% compared to 2021.

Table 21: **Gross Reinsurance Premium in 2022 and 2021**

in EUR

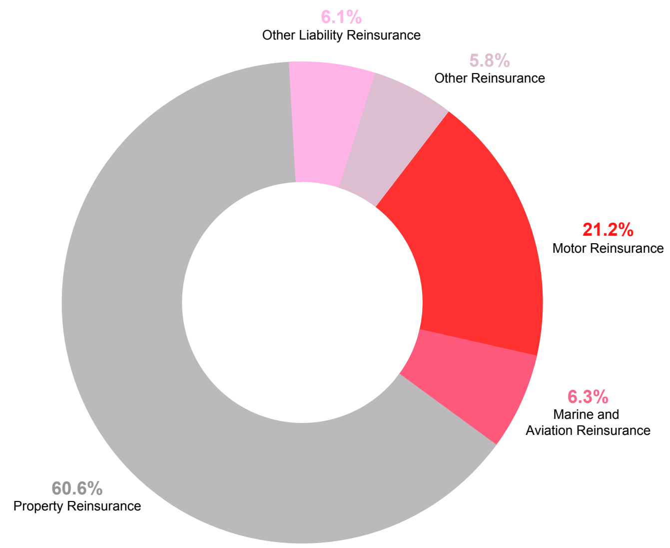
	YEAR 2022	YEAR 2021	INDEX
GROSS PREMIUM TOTAL	250,292,376	202,282,034	123.7
NET PREMIUM TOTAL	144,607,742	118,539,248	122.0

Breakdown of Gross Reinsurance Premium by Territories

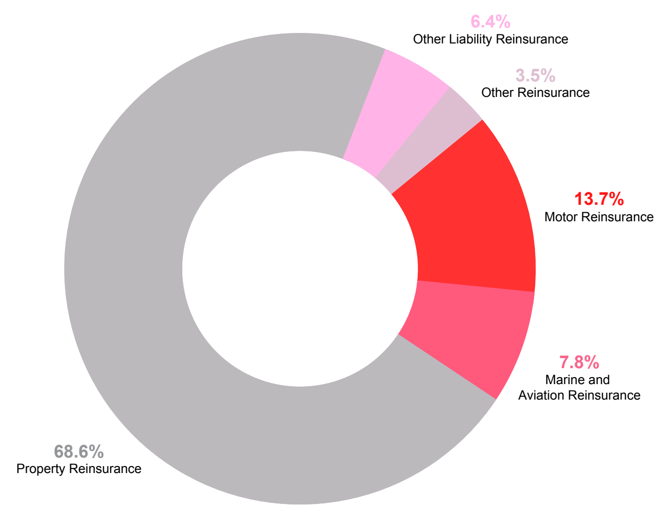


Compared to 2021, the net premium volume increased by 22.0% which is slightly less than the gross premium.

Structure of Gross Reinsurance Premium in 2022



Structure of Net Reinsurance Premium in 2022



Property reinsurance accounts for the largest share of gross premiums. The share of these reinsurances in 2022 has decreased by 3.4 percentage points compared to 2021. In 2022, the share of motor reinsurances increased the most, by 3.1 percentage points. The shares of other liability reinsurances and other reinsurance increased by 0.3 percentage points. On the other hand, the share of marine and aviation reinsurance decreased by 0.3 percentage points.

The share of property reinsurance in net premium volume decreased by 2.9 percentage points compared to the previous year. The shares of other liability reinsurances increased by 1.3 percentage points, motor reinsurances by 1.2 percentage points and other reinsurances by 0.4 percentage points. The share of marine and aviation reinsurance remained unchanged compared to 2021.

The net reinsurance premium income (calculated from the gross reinsurance premium less the reinsurance part and adjusted for the change in gross unearned premium, adjusted for the reinsurers' share in the unearned premium) reached EUR 138,303,894 in 2022, an increase of 19.1% compared to 2021.

7.2. Gross Reinsurance Claims

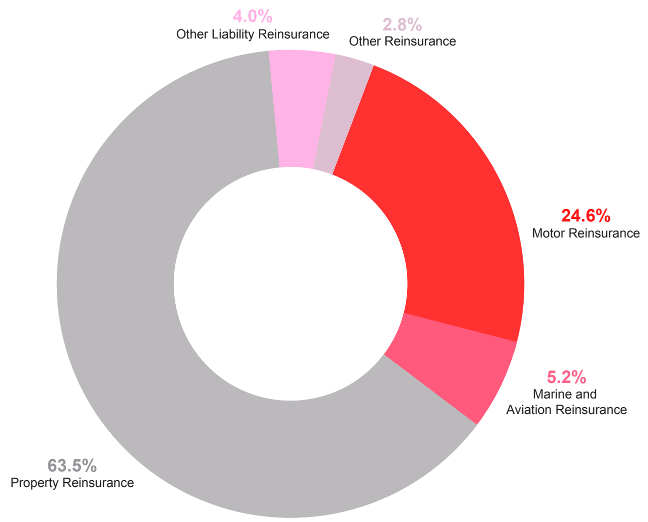
Gross claims in 2022 increased by 19.6% compared to the previous year and amounted to EUR 105.532.665. Net claims increased by 27.5% compared to 2021, amounting to EUR 71.696.645.

Table 22: **Settled Claims in 2022 and 2021**

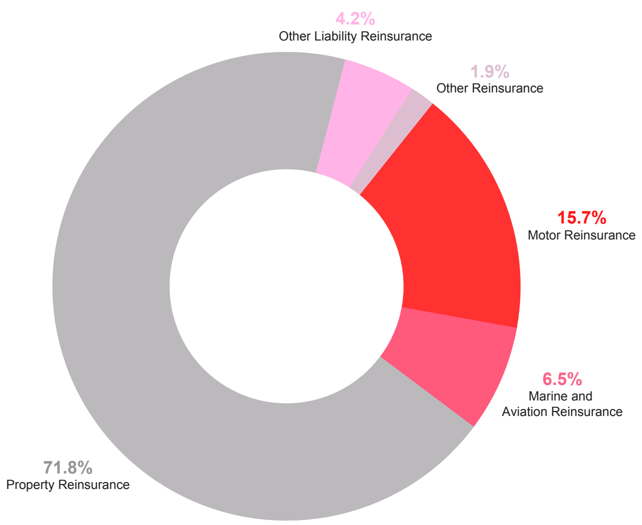
in EUR

	YEAR 2022	YEAR 2021	INDEX
GROSS CLAIMS TOTAL	105,532,665	88,241,309	119.6
NET CLAIMS TOTAL	71,696,645	56,244,111	127.5

Structure of Gross Reinsurance Claims in 2022



Structure of Net Reinsurance Claims in 2022



In 2022, the largest share of gross claims affected the property and motor reinsurance business. Compared to 2021, the largest increase in gross claims of 1.4 percentage points was recorded in motor reinsurance. On the other hand, the largest decrease in gross claims was in marine and aviation reinsurance, by 1.1 percentage points.

The structure of net claims in 2022 is similar to that in 2021, with property reinsurance also accounting for the largest share of net claims (71.8%), while motor reinsurance accounts for 15.7%. Compared to the previous year, the share of net claims in property reinsurance increased by 3.0 percentage points, which is higher than of gross claims.

The net claims expense (gross claims less the reinsurance part and adjusted for the change in gross claims provisions corrected for the reinsurers' share of these provisions) in 2022 is shown at EUR 87,955,633, which is 19.8% higher than the net claims expense in 2021.

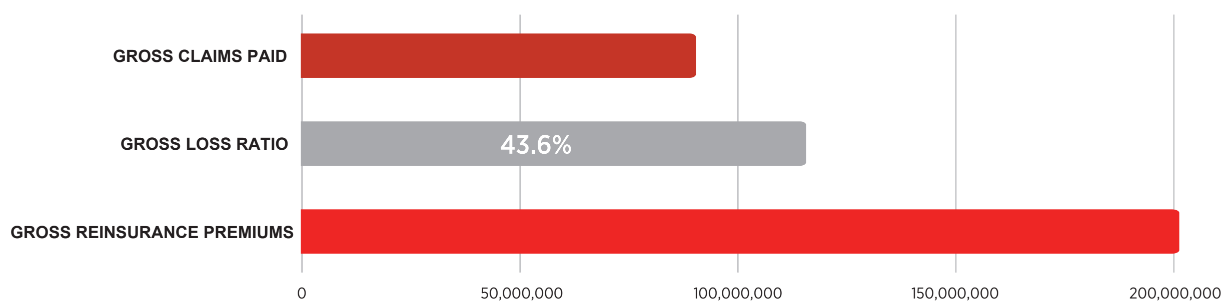
7.3. Gross Loss Ratio

The gross loss ratio, which is the ratio of the gross claims to the gross premiums, decreased by 1.4 percentage points in 2022 compared to the previous year.

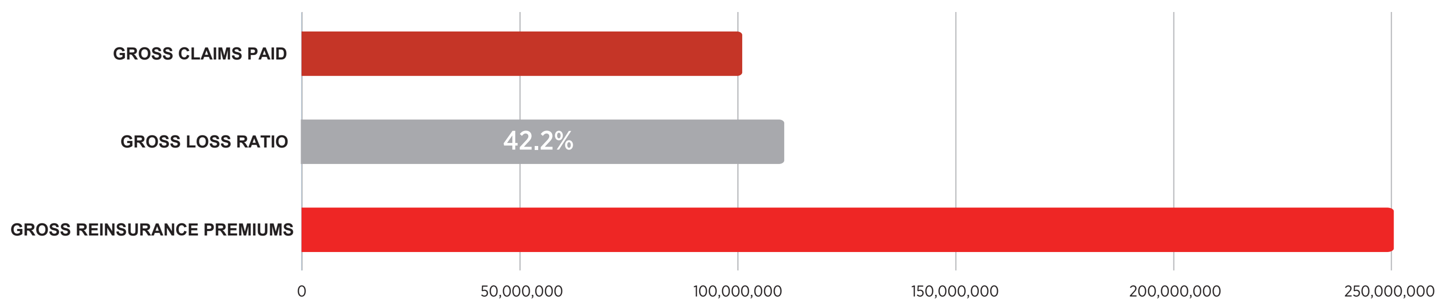
Table 23: **Gross Loss Ratio**

in EUR

2021



2022



7.4. Commission Income and Expenses

Commission income in 2022 amounted to EUR 28,029,252 and compared to the previous year, they increased by EUR 7.4 million or 35.8%. On the other hand, commission expenses increased by 37.4%, amounting to EUR 65,455,510 in 2022, resulting in the net commission expenses in 2022 amounted to EUR 37,426,259.

7.5. Financial Income and Expenses

The balance of investments on 31 December 2022 amounted to EUR 224,281,361, which shows an increase of 1.2% or EUR 2.7 million compared to the previous year.

Table 24: **Structure of Financial Investments**

in EUR

	31. 12. 2022	STRUCTURE 2022	31. 12. 2021	STRUCTURE 2021	INDEX
Shares and other variable yield securities	114,146	0.1%	2,125,772	1.0%	5.4
Debt and other fixed yield securities	209,894,238	93.6%	205,750,470	92.9%	102.0
Shares in investment funds	0	0.0%	0	0.0%	/
Bank deposits	218,000	0.1%	331,000	0.1%	65.9
Financial derivatives	0	0.0%	0	0.0%	/
Other financial investments	10,000	0.0%	10,000	0.0%	100.0
Reinsurers' investments from reinsurance contracts	14,044,977	6.3%	13,340,360	6.0%	105.3
TOTAL FINANCIAL INVESTMENTS	**224,281,361**	**100%**	**221,557,602**	**100%**	**101.2**

As of 31 December 2022, the Company reports the following investment balances by maturity:

- long-term investments of EUR 186,453,804,
- short-term investments of EUR 23,782,580,
- retained deposits with Cedants under reinsurance contracts amounting to EUR 14,044,977.

Debt securities account for the largest part of total investments, followed by the reinsurers' investments under reinsurance contracts. Shares and other variable-yield securities, as well as deposits with banks and other financial investments each account for 0.1% of the investment share.

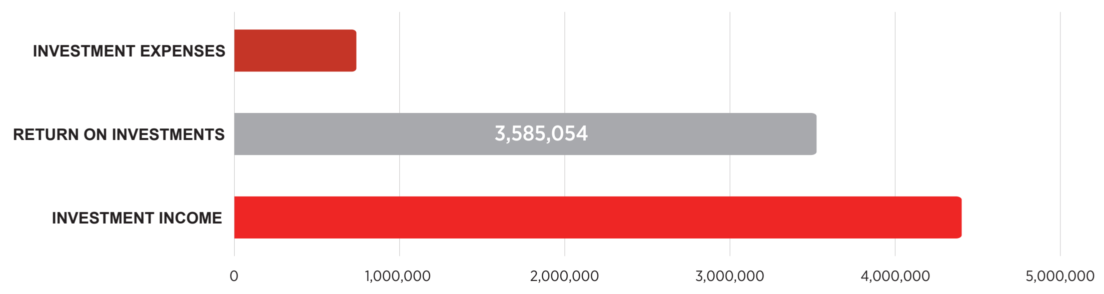
The structure of individual type of investment is almost unchanged compared to the previous year. The largest increase, by 0.7 percentage points, was recorded in the share of debt and other fixed-income securities. The reinsurers' financial investments under reinsurance contracts increased by 0.3 percentage points. The part of shares decreased by 0.9 percentage points. Deposits with banks, other financial investments and derivatives remained at the same level as in 2021.

The book return on the entire investment portfolio is 0.13% in 2022, while in the previous year it amounted to 1.7%.

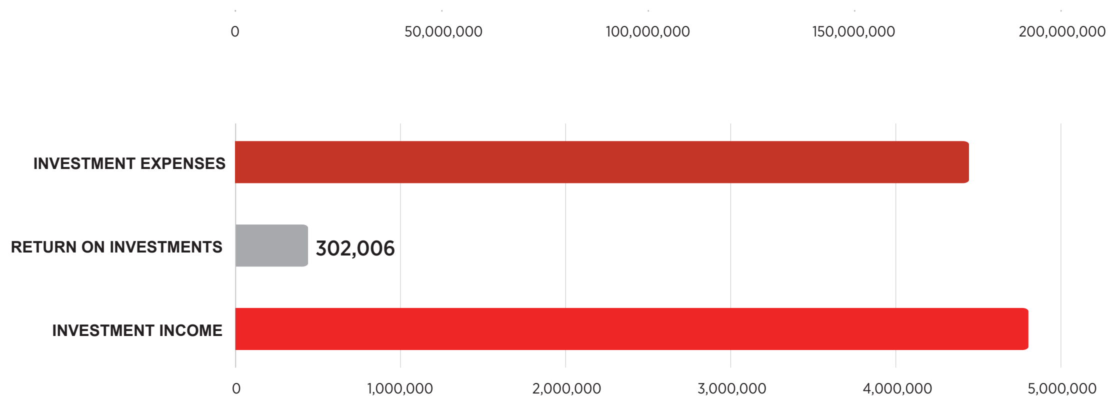
Table 25: **Investment Income and Expenses and Return on Investments**

in EUR

2021



2022



Investment income in 2022 amounted to EUR 4,737,234, while the investment expenses to EUR 4,435,228. The total return in 2022 was EUR 302,006, but in the previous year it amounted to EUR 3,585,054.

The Company shall actively manage its assets in accordance with the following guidelines:

- Security - to ensure the sound and prudent management of assets to cover the liabilities arising from the existing reinsurance contracts.
- Liquidity - to maintain sufficient liquidity to pay in a timely manner the liabilities that may arise under existing reinsurance contracts, financial liabilities, and other operating expenses.
- Diversification - diversification of investment risks by investing in different investment classes and types.
- Profitability - maximisation of risk-adjusted excess return over liabilities: to generate a return that ensures coverage of contractual liabilities and, in the long term, allows for competitive performance in the reinsurance market and creates shareholder value.
- Flexibility - to implement the medium-term strategic vision and to take advantage of temporary business opportunities.

7.6. Operating Costs

Gross operating costs in 2022 increase by 13.2% compared to the previous year. Other operating costs show the largest increase of 40.2% compared to 2021. Work-related reimbursements increased significantly due to more official business visits abroad which were practically impossible in the previous two years due to the epidemic and higher prices for services.

The cost of personal services also increased by 18.7% compared to the previous year, while the labour cost by 9.0%. Depreciation and amortisation costs remained at the same level as in 2021. Asset management costs for 2022 amount to EUR 362,395 (2021: EUR 301,374) and are shown in the Income Statement under the item "Expenses on financial assets and liabilities".

Table 26: **Breakdown of Operating Expenses**

in EUR

	YEAR 2022	YEAR 2021	INDEX
Depreciation of operating assets	483,441	479,856	100.7
Labour costs	3,344,475	3,068,483	109.0
Costs of services provided by individuals not engaged in business activity, including contributions	11,725	9,877	118.7
Other operating expenses	975,918	695,898	140.2
TOTAL OPERATING EXPENSES	**4,815,559**	**4,254,114**	**113.2**

7.7. Financial Result Indicators

Table 27: **Financial Result Indicators**

in EUR

	YEAR 2022	YEAR 2021
Retention rate	57.8%	58.6%
Share of net operating expenses to gross premium	1.9%	2.1%
Loss ratio	62.4%	64.3%
Expense ratio	30.8%	26.2%
Combined ratio	93.2%	90.5%

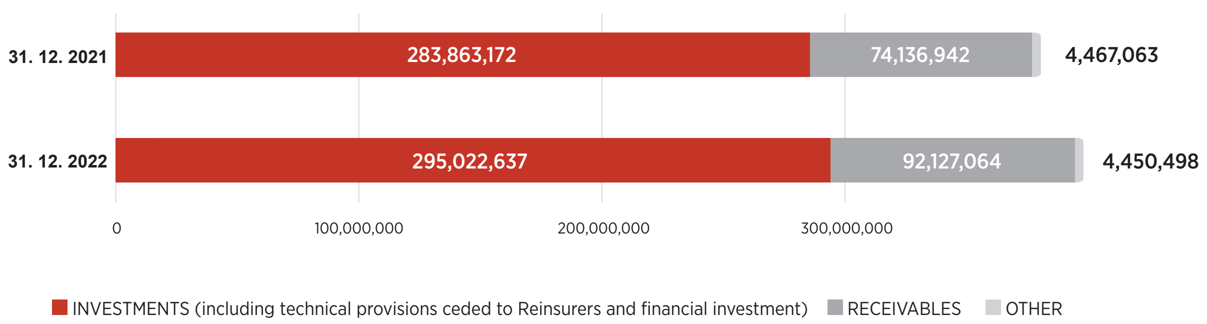
8. FINANCIAL POSITION

As of 31 December 2022, the Company's balance sheet total amounts to EUR 391,600,199, which is an increase of 8.0% compared to 31 December 2021.

8.1. Financial Assets

Investments, which represent 75.3% of assets, increased by 3.9% at 31 December 2022 compared to 31 December 2021. Receivables, which represent 23.5% of assets, also increased. Other assets, representing 0.6% of assets, increased by 13.4%.

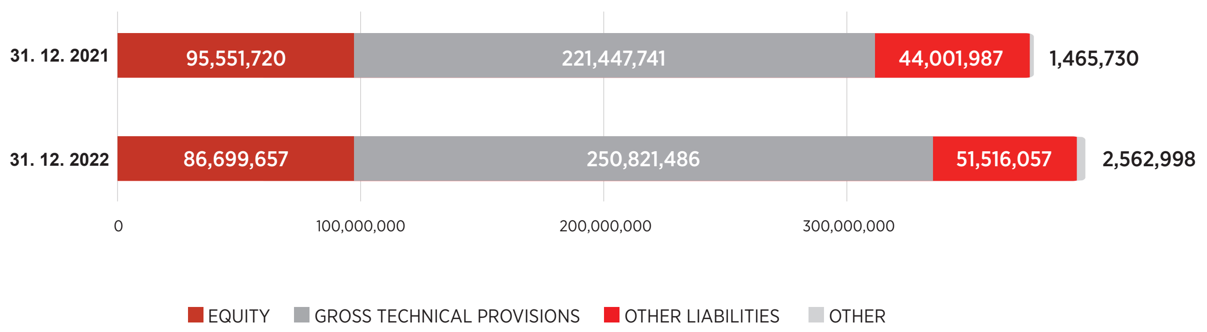
Table 28: **Structure of Assets**



8.2. Financial Liabilities

The gross insurance technical provisions represent the largest part of the liabilities, at 64.1%. The capital of the Company as at 31 December 2022 amounted to EUR 86,699,657 and decreased by 9.3 % compared to 31 December 2021. A significant share of liabilities (13.2%) is represented by other liabilities, which amounted to EUR 51.516.057 as at 31.12.2022 and relate mainly to the reinsurance liabilities and other financial liabilities. Other liabilities amount to EUR 2,562,998 and relate to lease commitments, other provisions and other liabilities.

Table 29: **Structure of Liabilities**



8.3. Financial Position Indicators

Table 30: **Financial Position Indicators**

in EUR

	YEAR 2022	YEAR 2021
Share of capital in total liabilities	22.1%	26.4%
Return on equity	7.6%	12.4%
Share of gross technical provisions in total liabilities	64.1%	61.1%
Share of financial assets in total assets	57.3%	61.1%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9. SIGNIFICANT EVENTS AFTER THE END OF THE FINANCIAL PERIOD AND TRANSPARENCY OF FINANCIAL RELATIONSHIPS

9.1. Significant Events after the End of the Financial Period

There were no significant events after the end of the accounting period.

9.2. Transparency of Financial Relations

Triglav Re, d.d. is listed as a public company and a public credit institution under the Act on Transparency of Financial Relations and Separate Recording of Different Activities (ZPFOLERD-1).

In 2022, Triglav Re, d.d. received:

- reimbursements of sick leave and quarantines in connection with Covid-19 aid measures amounting to EUR 10,669 (in 2021: EUR 5,656),
- no other State support or funding received (in 2021: European grants for worker training of EUR 11,490).

10. FINANCIAL STATEMENTS AND EXPLANATORY NOTES

The financial statements of Triglav Re, d.d. are prepared in accordance with the International Financial Reporting Standards (IFRS) as adopted by the European Union and the interpretations of explanatory notes adopted by the International Financial Reporting Interpretations Committee (IFRIC) and by the European Union. The financial statements are also drawn up in line with the provisions of the Companies Act.

At the balance sheet date, considering the standards-approving process in the European Union, there are no differences in the Company's accounting policies between the IFRSs applied by the Company and the IFRSs adopted by the European Union.

The accounting policies applied by the Company in the preparation of its financial statements are the same as those applied in the preparation of the financial statements of the previous financial year. Exceptions are newly adopted or amended standards and interpretations that are effective for annual periods beginning on or after 1 January 2022.

The full Annual Report of Triglav Re, d.d. for 2022, which is accompanied by the Independent Auditor's Report is available in Slovenian at http://www.triglavre.si/arhiv-sporocil-za javnost.

The Summary of the Annual Report contains selected information from the Annual Report of Triglav Re, d.d. for 2022.

10.1. Statement of Financial Position

in EUR

	31 December 2022	31 December 2021
ASSETS	**391,600,199**	**362,467,177**
Intangible assets	1,387,892	1,509,057
Property, plant & equipment	342,412	201,421
Right of use assets	760,078	938,155
Financial investments in Group's companies	0	0
Financial investments in other companies	224,281,361	221,557,602
- loans and deposits	14,272,978	13,681,360
- available for sale	210,008,383	207,876,242
Technical provisions ceded to Reinsurers	70,741,276	62,305,570
Receivables	88,990,154	74,136,942
- receivables from reinsurance and co-insurance operations	88,180,834	74,005,558
- current tax receivables	422,468	0
- other receivables	386,852	131,384
Deferred tax receivables	3,136,910	0
Other assets	97,008	75,454
Cash and cash equivalents	1,863,109	1,742,977
Off balance sheet items	*218,000*	*331,000*
EQUITY AND LIABILITIES	**391,600,199**	**362,467,177**
Equity	86,699,657	95,551,720
- share capital	4,950,000	4,950,000
- share premium	1,146,704	1,146,704
- reserves from profit	1,139,723	1,139,723
- fair value reserve	-10,264,893	3,278,893
- retained earnings	82,771,400	73,711,970
- net profit for the year	6,956,723	11,324,430
Insurance technical provisions	250,821,486	221,447,741
- unearned premiums	54,569,758	42,335,229
- claims provisions	194,431,266	175,667,254
- other insurance technical provisions	1,820,462	3,445,258
Other provisions	329,102	293,443
Deferred tax liabilities	0	415,162
Other financial liabilities	1,285,877	862,756
Operating liabilities	50,230,181	41,762,372
- liabilities from reinsurance and co-insurance operations	50,230,181	39,719,495
- current tax liabilities	0	2,042,877
Lease liabilities	770,754	961,697
Other liabilities	1,463,142	1,172,286
Off balance sheet items	*218,000*	*331,000*

Explanatory notes to the financial statements are part of the financial statements and should be read in conjunction with them. The above Statement of Financial Position is presented in accordance with the regulations of the Insurance Supervision Agency. The part showing off-balance sheet items is not part of the Statement of Financial Position as required by the International Accounting Standards.

10.2. Income Statement

in EUR

	YEAR 2022	YEAR 2021
NET PREMIUMS EARNED	**138,303,894**	**116,111,202**
- gross reinsurance premiums written	250,292,376	202,282,034
- premiums written ceded for retrocession	-105,684,634	-83,742,786
- change in unearned premiums	-6,303,848	-2,428,046
TOTAL INCOME FROM FINANCIAL ASSETS	**4,737,235**	**4,296,937**
- income from financial assets in related companies	292	22
- income from financial assets in other companies	4,736,943	4,296,915
OTHER REINSURANCE INCOME	**28,029,252**	**21,473,681**
- commission income	28,029,252	20,641,425
- other reinsurance income	0	832,256
OTHER INCOME	**443**	**27,325**
NET CLAIMS INCURRED	**-87,955,633**	**-73,445,104**
- gross claims paid	-105,532,665	-88,241,309
- retrocessionaires' share of claims paid	33,836,020	31,997,198
- change in provisions for outstanding claims	-16,258,988	-17,200,993
CHANGE IN OTHER INSURANCE TECHNICAL PROVISIONS	**1,624,715**	**-1,246,810**
EXPENSES FOR BONUSES AND REBATES	**81**	**45,270**
OPERATING EXPENSES	**-4,453,164**	**-3,952,740**
- insurance acquisition costs	-1,827,902	-1,597,694
- other operating expenses	-2,625,262	-2,355,046
EXPENSES FROM FINANCIAL ASSETS AND LIABILITIES	**-4,435,228**	**-711,884**
- Expenses from financial assets in related companies	-233,438	-304,610
- Expenses from financial assets in other companies	-4,201,790	-407,274
- losses on disposal of investments	-2,021,970	-7,995
- other financial expenses	-2,179,820	-399,279
OTHER REINSURANCE EXPENSES	**-66,140,106**	**-47,908,426**
- commission expenses	-65,455,510	-47,646,023
- other reinsurance expenses	-684,596	-262,403
OTHER EXPENSES	**-1,142,738**	**-727,174**
PROFIT BEFORE TAX	**8,568,751**	**13,962,277**
TAX EXPENSES	**-1,612,028**	**-2,637,847**
NET PROFIT FOR THE PERIOD	**6,956,723**	**11,324,430**

Explanatory notes to the financial statements are part of the financial statements and should be read in conjunction with them.

10.3. Statement of Other Comprehensive Income

in EUR

	YEAR 2022	YEAR 2021
Net profit for the year after tax	**6,956,723**	**11,324,430**
Other comprehensive income after tax	**-13,543,786**	**-2,814,838**
a) Items which will not be transferred in income statement in future periods	**0**	**0**
b) Items which could be transferred into income statement in future periods	**-13,543,786**	**-2,814,838**
Fair value gains/losses on available-for-sale financial assets	-16,720,722	-3,475,109
- net gains/losses recognized directly in fair value reserve	-15,303,336	-2,377,645
- transfers from fair value reserve to income statement	-1,417,386	-1,097,464
Tax on other comprehensive income	3,176,937	660,271
Comprehensive income for the year after tax	**-6,587,063**	**8,509,592**

Explanatory notes to the financial statements are part of the financial statements and should be read in conjunction with them.

10.4. Cash Flow Statement

in EUR

		YEAR 2022	YEAR 2021
A.	OPERATING CASH FLOW		
a.	**Net profit for the period**	**6,956,723**	**11,324,430**
b.	**Adjustments:**	**20,488,946**	**20,512,732**
	– depreciation and amortisation	483,441	479,856
	– changes in fair value of investments	0	0
	– other investment income and expenses	-3,398,001	-3,537,698
	– interest expenses and other expenses	158,927	111,606
	– revaluation of investment properties and receivables	319,378	0
	– changes in technical provisions	20,938,039	20,830,280
	– corporate income tax excluding deferred taxes	1,987,163	2,628,688
c.	**Net income before changes in operating assets (a+b)**	**27,445,669**	**31,837,162**
	Changes in operating receivables	-14,430,744	15,516,593
	Changes in other assets	0	0
	Changes in liabilities	10,808,332	-21,624,705
	Paid corporate income tax	-4,292,908	-397,171
d.	**Changes in net operating assets**	**-7,915,320**	**-6,505,283**
e.	**Net cash from/ (used in) operating activities (c+d)**	**19,530,350**	**25,331,879**
B.	CASH FLOWS FROM INVESTING ACTIVITIES		
a.	**Cash inflows from investing activities**	**96,972,518**	**71,743,218**
	Cash inflows from interest from investing activities	3,008,393	3,637,079
	Cash inflows from dividends received and profit sharing	114,371	96,894
	Cash inflows from the disposal of intangible assets	0	0
	Cash inflows from the disposal of property, plant and equipment	0	15,172
	Cash inflows from the disposal of financial investments	93,849,753	67,994,073
	– Cash inflows from the disposal of investments in subsidiaries and associates	0	0
	– Other cash inflows from disposal of financial investments	93,849,753	67,994,073
b.	**Cash outflows from investing activities**	**-113,909,040**	**-96,230,081**
	Cash outflows for the purchase of intangible assets	-68,713	-26,308
	Cash outflows for the purchase of property, plant and equipment	-235,446	-91,017
	Cash outflows for the purchase of financial investments	-113,604,881	-96,112,756
	– Cash outflows for the purchase of investments in subsidiaries and associates	0	0
	– Other cash outflows to acquire financial investments	-113,604,881	-96,112,756
c.	**Net cash from/ (used in) investing activities (a + b)**	**-16,936,522**	**-24,486,863**
C.	CASH FLOWS FROM FINANCING ACTIVITIES		
a.	**Cash inflows from financing activities**	**0**	**0**
	Cash inflows from paid-in capital	0	0
	Cash inflows from long-term loans received and issued	0	0
	Cash inflows from short-term loans received	0	0
b.	**Cash outflows from financing activities**	**-2,473,694**	**-199,954**
	Cash outflows for paid interest	-10,274	-6,591
	Cash outflows for purchase of treasury shares	0	0
	Cash outflows for capital repayment	0	0
	Cash outflows for payments of long-term financial liabilities	-198,421	-193,363
	Cash outflows for payments of short-term financial liabilities	0	0
	Cash outflows from dividends paid and profit sharing	-2,265,000	0
c.	**Net cash from/ (used in) financing activities (a + b)**	**-2,473,694**	**-199,954**
D.	**Closing balance of cash and cash equivalents**	**1,863,110**	**1,742,977**
E1.	**Net cash flow for the period**	**120,133**	**645,063**
E2.	**External acquisition**	**0**	**0**
E3.	**Foreign exchange differences**	**0**	**0**
F.	**Opening balance of cash and cash equivalents**	**1,742,977**	**1,097,914**

Explanatory notes to the financial statements are part of the financial statements and should be read in conjunction with them.

10.5. Statement of Changes in Equity

in EUR

	Share capital	Share premium	Reserves from profit			Fair value reserve	Net profit brought forward	Net profit/ loss	TOTAL EQUITY
			Legal and statutory resereves	Credit risk reserves	Other reserves			Net profit/ loss for the year	
As at 1 January 2021	**4,950,000**	**1,146,704**	**519,762**	**0**	**619,961**	**6,093,732**	**70,893,986**	**2,817,983**	**87,042,128**
Comprehensive income for the year after tax						**-2,814,838**		**11,324,430**	**8,509,592**
a) Net Profit or Loss								11,324,430	11,324,430
b) Other comprehensive income						-2,814,838			-2,814,838
Dividend payment									**0**
Transfer of net profit to retained net profit or loss							2,817,983	-2,817,983	**0**
As at 31 December 2021	**4,950,000**	**1,146,704**	**519,762**	**0**	**619,961**	**3,278,894**	**73,711,969**	**11,324,430**	**95,551,720**
As at 1 January 2022	**4,950,000**	**1,146,704**	**519,762**	**0**	**619,961**	**3,278,894**	**73,711,969**	**11,324,430**	**95,551,720**
Comprehensive income for the year after tax						**-13,543,786**		**6,956,723**	**-6,587,063**
a) Net Profit or Loss								6,956,723	6,956,723
b) Other comprehensive income						-13,543,786			-13,543,786
Dividend payment							-2,265,000		**-2,265,000**
Transfer of net profit to retained net profit or loss							11,324,430	-11,324,430	**0**
As at 31 December 2022	**4,950,000**	**1,146,704**	**519,762**	**0**	**619,961**	**-10,264,892**	**82,771,399**	**6,956,723**	**86,699,657**

Explanatory notes to the financial statements are part of the financial statements and should be read in conjunction with them.

10.6. Assessment of the Impact of the Transition on the Application of IFRS 17 and IFRS 9

The Company will apply IFRS 17 - Insurance Contracts and IFRS 9 - Financial Instruments for the first time from 1 January 2023 and will restate the figures for the comparative period. Below we present the assessment of the impact of both standards on the financial statements of Triglav Re, d.d.

10.6.1. Transition to the Application of IFRS 17 - Insurance Contracts

For annual periods beginning after 1 January 2023, IFRS 17 will replace IFRS 4 which means significant changes in the classification, measurement and disclosure of items in the financial statements, as explained below.

Definition and Classification of Reinsurance Contracts

The new IFRS 17 establishes the principles for recognition, measurement, presentation and disclosure of (re) insurance contracts.
An insurance contract is defined as a contract under which one party (the Insurer) accepts a significant insurance risk from another party (the Policyholder) by agreeing to compensate the Policyholder if a specified uncertain future event (the insured event) adversely affects the Policyholder.
The key principles of IFRS 17 are that the Company:

- identifies insurance contracts as those under which the company accepts significant insurance risk from another party (the Policyholder) by agreeing to compensate the Policyholder if a specified uncertain future event (the insured event) adversely affects the Policyholder,
- separates specified embedded derivatives, distinct investment components and distinct (i.e., non-insurance) goods or services from insurance contracts,
- divides the contracts into groups that it will be recognized and measured,
- recognizes and measures groups of insurance contracts by:
- a risk-adjusted present value of the future cash flows (the fulfilment cash flows) that incorporates all available information about the fulfilment cash flows in a way that is consistent with observable market information, and
- an amount representing the unearned profit in the group of contracts (the contractual service margin or CSM).
- recognizes profit from a group of insurance contracts over the period the company provides insurance and other services. If a group of contracts is expected to be onerous (i.e., loss making) over the remaining coverage period, an company recognizes the loss immediately,
- presents insurance income, insurance service expenses and financial income or expenses separately.
- discloses information to enable financial statement users to assess the effect that contracts within the scope of IFRS 17 have on a company's financial position, financial performance and cash flows.

The Company does not expect any significant changes in the portfolio classification.

Aggregation

A portfolio of insurance contracts is defined as "insurance contracts subject to similar risks and managed together". The level of aggregation is applied by grouping contracts together at initial recognition, considering all relevant features that are part of a contract, applying the following criteria:

- similar risks are managed together (i.e., part of one portfolio of contracts),
- split to annual cohorts.
- similar profitability, distinguishing at inception the contracts that are expected to be onerous from those that are expected to be profitable.

Contract Limits

The measurement of a group of contracts includes all future cash flows within the limits of each contract in the group, determined as follows.

Cash flows are within the contract limits of a reinsurance contract if they arise from substantive rights and obligations that exist during the reporting period in which the Company shall pay premiums to the reinsurers or has a substantive right to receive services from the reinsurer.

A substantive right to receive services from a reinsurer ends when the reinsurer:
- has the practical ability to reassess the risks transferred to him and can set a price or level of benefits that fully reflects those reassessed risks; or
- has a substantive right to terminate the coverage.

The Company does not expect any significant changes in terms of contracts limits compared to the IFRS 4 accounting.

Measurement of Insurance Contracts

IFRS 17 introduces three possible approaches to contact treatment and its accounting:
- General model, also known as Building Block Approach (BBA) or the approach of building blocks – this is a default model, applicable to all long-term (re)insurance contracts.
- Simplified approach, also known as Premium Allocation Approach (PAA) – the standard allows using this simplified model for the measurement of (re)insurance contracts with short-term coverage (usually applicable to non-life reinsurance contracts with short-term coverage)
- Variable Fee Approach (VFA) or flexible earnings approach – usually applies to life insurance with profit sharing (unit-linked contracts). It does not apply to reinsurance contracts.

The PAA is permitted if and only if, at the inception of the group of contracts:
- the company reasonably expects that such simplified approach for a measurement of the liability for residual coverage (LRC) for the group would not differ materially from the one that would be produced applying the requirements for the General model (i.e., cash flows at fulfilment related to future services including the contractual service margin); or
- the coverage period of each contract in the group (including coverage arising from all premiums within the contract limits determined at that date) is one year or less.

For the measurement of passive reinsurance contracts, the standard imposes a modified Building Block Approach in which a negative CSM can be recognised instead of a loss component. The choice of method will reflect the characteristics of the reinsurance contract and the underlying active reinsurance contracts. Alternatively, a simplified approach (PAA) may be used.

In line with the requirements of the standard, the Company will measure its active and passive business using the PAA method, as most reinsurance contracts provide cover for up to one year. Some exceptions to this rule are non-life insurance contracts with longer coverage (so-called risk attaching contracts). If adequate justification is provided based on the materiality assessment and the PAA eligibility test, the PAA method will also be applied to these contracts.

On initial recognition, the reinsurance contracts are measured as the total of:

- cash flows at completion, which comprise estimates of future cash flows adjusted to reflect the time value of money and the associated financial risks,
- adjustments due to non-financial risk; and
- the contractual service margin (CSM).

The cash flows are discounted and weighted by the estimated probability of that outcome to derive an expected present value. Discounting is performed by using risk-free yield curves adjusted to reflect the cash flow characteristics as well as the liquidity characteristics of the contracts. Cash flows that vary with the returns on any underlying items shall be adjusted for the effect of that variability using risk-insensitive measurement techniques and discounted using illiquidity-adjusted risk-free interest rates.

The non-financial risk adjustment for a group of contracts is the compensation required by the Company to assume the uncertainty in the amount and timing of cash flows arising from the non-financial risk.

The contractual service margin (CSM) is a component of the asset or liability for the group of reinsurance contracts that represents the surplus of premiums over claims and other expenses expected to be paid over the life of contracts within the group. The idea of creating the CSM is to recognize profits over time instead of showing one-off gains at the contract recognition. The CSM is measured as the difference between expected cash inflows less expected cash outflows within the contractual limits, adjusted for risk and for the time value of money. IFRS 17 requires the CSM to be measured on initial recognition of the group of reinsurance contracts, subsequently adjusted and recognized in profit or loss over the coverage period. CSM is recognized in both the General Model and the Variable Fee Approach. CSM is not created when using the Premium Allocation Approach (PAA).

For PAA contract, on initial recognition, the carrying amount of the liability for residual coverage is measured by the premiums received on initial recognition, less any insurance acquisition cash flows at that date. Reinsurance acquisition cash flows will be expensed when they incur. Subsequently, the carrying amount of the liability for residual coverage is increased by any further premiums received and decreased by the amount recognized as insurance revenue for services provided. According to the standard, liability for residual coverage will not be adjusted to reflect the time value of money and the effect of financial risk.

Significant Judgements and Estimations

Estimates of Future Cash Flows

Estimates of future cash flows will include all reasonable and supportable information available at the reporting date without undue cost or effort. Updated historical data and claims experience from internal and external sources will be used to reflect current expectations of future events.

Cash flows within the contract limits are those that relate directly to the fulfilment of the contract, including those for which the Company has discretion over the amount or timing. These cash flows include payments to (or on behalf of) the cedants, insurance acquisition cash flows and other costs that are incurred in fulfilling contracts. Cash flows from reinsurance underwriting and other costs that are incurred in fulfilling contracts comprise both direct costs and an allocation of fixed and variable overheads.

Cash flows attributable to underwriting and other contract fulfilment activities will be allocated to groups of contracts using systematic and rational methods and will be consistently applied to all costs that have similar characteristics. The Company will generally allocate insurance acquisition cash flows to groups of contracts based on the total premiums for each group.

Risk Adjustment

Non-financial risk adjustment is the compensation that the Company requires for assuming the uncertainty about the amount and timing of the cash flows arising from the non-financial risk as the Company fulfils the reinsurance contracts.

For non-life insurance portfolios, the risk adjustment for liability for incurred claims is calculated as the excess of the value at risk over the best estimate of future cash flows at a confidence level determined by the Company. The calculation is performed at the level of homogenous groups and the diversification is evalued using a correlation matrix and allocated back to the groups.

The risk adjustment of liabilities for residual coverage is derived from basic solvency capital requirements of the relevant risks from the Solvency II standard formula, reduced by 99,5 % to the predetermined confidence level that coincides with the one used in the calculation of the liability risk adjustment for incurred claims. Diversification between the portfolios for both liabilities is determined again by using an appropriate correlation matrix and allocated back to portfolios.

Discount Rates

In estimation of the current value of future cash flows, discount rates that reflect the characteristics of the cash flows, should be used. When defining the appropriate discount rate, the liquidity characteristics of a reinsurance contract should also be taken in consideration. The Company will use a bottom-up approach with a risk-free interest rate and an illiquidity premium. The illiquidity premium is applied to the risk-free interest rate as a parallel shift to the last liquidity point.

Base risk-free interest rates are obtained from the EIOPA database according to the recognition date. These are based on data from interest rate swaps.

Contractual Service Margin (CSM)

The contractual service margin (CSM) is a component of the asset or liabilities for the group of insurance contracts that represents the surplus of premiums over claims and other expenses expected to be paid over the life of contracts within the group. The idea of creating the CSM is to recognize gains over time instead of showing one-off gains at the contract recognition. The CSM is measured as the difference between expected cash inflows less expected cash outflows within the contract limits, adjusted for risk and considering the time value of money. IFRS 17 requires the CSM to be measured on initial recognition of the group of insurance contracts, subsequently adjusted and recognized in profit or loss over the coverage period.

CSM is recognized in both the General Model and the Variable Fee Approach (VFA). CSM is not created when using the Premium Allocation Approach (PAA). As the Company will measure its contracts using the PAA method, it does not recognise the CSM in its calculations.

Presentation and Disclosure of Insurance Contracts

IFRS 17 will significantly change the Company's financial statements.

All rights and obligations arising from the portfolio of active reinsurance contracts will be valued on the basis of expected and actual cash flows and shown in the statement of financial position as assets or liabilities from insurance contracts. Receivables from reinsurance premium, liabilities for claims, insurance-technical provisions and other insurance-related items will no longer be shown in separate balance sheet items. Any assets or liabilities recognized for cash flows arising prior to the recognition of the related group of contracts (including any assets for insurance acquisition cash flows) will also be presented in the same line item as the related portfolios of the contracts.

The Income Statement will now present the result from reinsurance underwriting, which will be divided into income and expenses from reinsurance operations (the Company will show active reinsurance business here) and the result from reinsurance operations (the Company will show passive reinsurance here). Financial income or expenses from reinsurance includes the effects of discount release and the effects of changes in interest rates. A change in interest rates may also be recognized in other comprehensive income if a company chooses that option. The Company has decided to present the change in interest rates in other comprehensive income.

Insurance Service Result

For contracts measured using the PAA, insurance revenue for the period will be recognized based on the amount of expected premium receipts allocated to the period based on the passage of time.

Expenses that relate directly to the fulfilment of contracts will be recognized in profit or loss as insurance service expenses, generally when incurred. The Company expects that most expenses will be attributed to the insurance contracts. The minority will be shown as the expenses not attributable to any insurance contracts and presented outside the insurance service result.

Passive reinsurance will now be presented as net income or expenses from reinsurance as a separate line in the Income Statement. Consequently, the income and expenses will be shown as higher than current practice. Active reinsurance will be presented as a direct business or as an insurance business.

The Company has decided not to disaggregate the changes in the risk adjustment for non-financial risk between the insurance service result and the financial income or expenses. All changes in the risk adjustment for non-financial risk recognized in the Income Statement will be included in the insurance service result.

Financial Income or Expenses from (Re)Insurance

Under IFRS 17, changes in the carrying amounts of groups of contracts arising from the impact of changes in economic and financial assumptions can be disaggregated into the Income statement or other comprehensive income to reduce accounting mismatch with investment part under IFRS 9.

The Company will use the option to present the financial effect in the Statement of other comprehensive income because most investment portfolios under IFRS 9 will also be classified at fair value through other comprehensive income.

Estimated Impacts of Transition to Application of the new IFRS 17 Standard

Triglav Re, d.d. will publish the first financial statements using IFRS 17 as of 31 December 2023. A full retroactive approach will be applied, therefore the data for comparable period will also be restated. The Management has assessed the impact of the initial application of IFRS 17 on the financial statements of Triglav Re, d.d. as at the transition date, 1 January 2022. The information presented below was prepared based on the best estimate and interpretation of the standard, which will be subject to review. Officially published financial statements may therefore contain different information in comparison to the estimate presented below.

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10. FINANCIAL STATEMENTS AND EXPLANATORY NOTES

Most of the Company's reinsurance contracts are short-term and therefore, in accordance with the option allowed by IFRS 17, a simplified method, the Premium Allocation Approach (PAA) will be used for the valuation of the contracts. In accordance with IFRS 17, discounting of cash flows is required for claims incurred longer than one year. Discounting will have the effect of reducing the amount of the liabilities. The Company has opted for the choice of presenting changes in interest rates through the statement of comprehensive income, which will lead to a more consistent presentation of liabilities and assets in the financial statements. In accordance with the standard, a risk adjustment will be introduced resulting in an increase in the Company's liabilities. Company's expenses will be delimited using a different methodology than under the old accounting standard, resulting in the lower related underwriting expenses. Company's investments from reinsurance contracts with cedants (deposits with cedants) will no longer be shown as financial investments but will be considered as unpaid receivables or payables in the calculation of insurance liabilities under IFRS 17.

The estimated liabilities will therefore be lower at transition on 1.1. 2022 than the claims provisions under IFRS 4, which affects the increase in the carry-forward profit of old years on transition to 1.1.2022, the effects of which are shown in the table below.

Estimated Impact of Transition to IFRS 17 on 1 January 2022:

in EUR thousand

	Change in retained profit or loss	Change in Other comprehensive income	Change in net deferred tax liabilities
IFRS17 calculation at 1. 1. 2022	550	-95	107

Triglav Re, d.d. did not recognise the value of the contractual service margin (CSM) at the time of the transition, as it measured the reinsurance contracts using the PAA method. The balance of net risk adjustments for the Company on 1 January 2022 amounts to EUR 9,440 thousand.

10.6.2. Estimation of Impact on Transition to IFRS 9 – Financial Instruments

IFRS 9 replaces IAS 39 standard and is effective for annual periods beginning on or after 1 January 2018, with early adoption permitted. However, Triglav Re, d.d. has implemented the temporary exemption from the application of IFRS 9 for annual periods before 1 January 2023. The deferral condition is that the carrying amount of liabilities arising from the insurance business is at least 90% of total carrying amount of liabilities. The fulfilment of the conditions was verified on 31 December 2015. There have been no changes after 31 December 2015 that would significantly impact the fulfilment of the conditions.

Classification

The classification of assets under IFRS 9 depends on defined business models of the Company along with contractual cash flows characteristics. Accordingly, the Company has three possibilities of classification: amortized cost (AC), fair value through other comprehensive income (FVOCI) and fair value through profit and loss (FVTPL). Compared to the previous IAS 39 categories, held-to-maturity financial assets and loans and receivables are merged to amortised cost category, available-for-sale financial assets are now presented as financial assets at fair value through other comprehensive income, while there are no changes to financial assets at fair value through profit or loss.

Financial Assets measured at Amortised Cost

A financial asset is measured at amortized cost if it meets both of the following conditions:

- The financial assets are held for the purpose of collecting cash flows according to the business model of collecting cash flows
- The contractual cash flows represent only principal repayments and interest on the outstanding principal amount.

Under IAS 9 and IFRS 4, the Company reported the reinsurers' investments from reinsurance contracts with cedants (deposits with cedants) under financial investments in the group of loans and receivables. Under the new standard, the Company will consider and report deposits with cedants in the calculation of insurance liabilities under IFRS 17.

Financial Assets measured at Fair Value through Other Comprehensive Income

Financial asset is measured at fair value through other comprehensive income if both of the following conditions are met and it is not classified in other measurement categories:

- financial assets are held for the purpose of collecting cash flows and selling them according to the cash flow collection and sale business model,
- contractual cash flows represent only principal repayments and interest on the outstanding principal amount.

Under this category, Triglav Re, d.d. also measures equity instruments (non-monetary) that are not held for sale and are measured at fair value through other comprehensive income. These are equity instruments of companies with a solid dividend yield and expected long-term growth potential.

Financial Assets measured at Fair Value through Profit and Loss

If the financial asset is not measured at amortized cost or at fair value through other comprehensive income, it is measured at fair value through profit or loss. This applies to either financial assets that do not pass the contactual cash flow adequacy test (the SPPI test, i.e., Solely Payment of Principal and Interst test) or to equity securities that do not meet the conditions for measurement at fair value through other comprehensive income or are not intended for trading. Financial assets from other business models, which are managed at fair value or held for trading, are also measured under fair valuer through profit and loss.

Impairment

IFRS 9 replaces the incurred loss model under IAS 39 with the forward-looking expected credit loss approach. Expected credit losses are a probability-weighted credit loss estimate (i.e., the present value of all cash flow losses) in the 12-month period after the reporting date or during the expected lifetime of the financial instrument, depending on the group into which the financial asset is classified.

The general approach to impairment modelling under IFRS 9 consists of a three-stage model. Depending on the development of the credit risk of the assets, a financial instrument may migrate from the Stage 1 to the Stage 3, but it is also possible to revert to the previous stage. A move from Stage 1 to Stage 2 causes a significant increase in credit risk, while a move to Stage 3 is triggered by objective signs of impairment. The impairment calculation is based on expected credit losses.

All financial assets (except upon initial recognition of credit-impaired financial assets) are classified into Stage 1 upon initial recognition, for which 12-month expected credit losses are formed. 12-month expected credit losses are the portion of lifetime expected credit losses that refer to the possibility of default within the next 12 months after the reporting date or a shorter period if the remaining maturity of the financial asset is less than 1 year. In Stage 1, interest income is recognised at the effective interest rate applied to the total gross amount of the asset (without reduction for loss allowance of the created value).

The new methodology is applied to debt instruments classified at amortised cost and fair value through other comprehensive income. It is not used for other debt instruments in other balance sheet categories (receivables, lease receivables) due to their insignificance.

Stage 2 includes financial assets where there has been a significant increase in credit risk compared to the credit risk since initial recognition of the financial asset, but the asset does not show objective evidence of impairment. Lifetime expected credit losses are created for financial assets in Stage 2. Lifetime expected credit losses are the expected credit losses arising from all possible default events during the lifetime of the financial asset. Based on a qualitative analysis, which is a comparison of the credit rating at the reporting date and the credit rating at initial recognition, the Company determines whether the risk of default has increased significantly since initial recognition and requests a transfer from initial Stage 1 to a lower stage. In Stage 2, interest income is recognised at the effective interest rate applied to the total gross amount of the asset (without reduction for expected credit losses).

Stage 3 includes financial assets that show objective evidence of impairment. Objective indicators of impairment are:

- non-payment of coupon interest due to inability to pay,
- non-payment of principal due to inability to pay,
- initiation of insolvency proceedings.

Lifetime expected credit losses are calculated for financial assets in Stage 3. Interest income is recognised using the effective interest rate applied to the net value of the asset (less expected credit losses).

Credit loss is the difference between discounted contractual cash flows and discounted expected cash flows using the effective interest rate as a discount factor. The main factors for calculating a credit loss are probability of default, loss due to default and exposure at default. The Company will use information from all available external and internal sources to ensure the best estimates for these major factors. The main source of information will be Bloomberg and rating agencies.

The Company expects additional loss allowances due to the use of the expected credit loss model according to IFRS 9. The recognition of additional loss allowances upon adoption of IFRS 9 mainly relates to debt investments measured at fair value through other comprehensive income (FVOCI). Impairments of assets in the FVOCI group do not have an impact on the total equity because loss allowances will not reduce the (fair value) carrying amount of the investments. Recognition of impairment losses in profit or loss will result in an equal and opposite gain in other comprehensive income.

Effects of the Transition to new IFRS 9

In accordance with the new requirements, IFRS 9 will affect the classification of financial instruments as follows:

- reclassification of equity instruments from available-for-sale financial assets to financial assets measured at fair value through profit or loss (FVTPL),
- debt securities and other investments that fail the SPPI test will also be measured at fair value through profit or loss,
- most debt instruments that have been classified as available-for-sale until now will be classified as financial assets measured at fair value through other comprehensive income.

The effect of transition is as follows:

in EUR thousand

	At fair value through other comprehensive income (FVOCI)	At fair value through other comprehensive income (FVOCI) -selected	At fair value through profit or loss (FVTPL)	At amortised cost (AC)	Other*	Total
Available for sale	201,423	1,706	4,747	0	0	207,876
Loans and receivables	0	0	0	331	13,350	13,681
Total	201,423	1,706	4,747	331	13,350	221,558

*Deposits with Cedants amounting to EUR 13,340 thousand were recognised as investments under "Loans and receivables" in accordance with IFRS 4 and IAS 39, but at transition period they are valued in accordance with IFRS 17 and are recognised under insurance contracts.

Most financial assets of the Company are measured at fair value under IAS 39, and the classification under IFRS 9 will not change this guideline. As a result, the reclassification has no significant impact on the total equity of the Company as of 1 January 2022. However, the allocation between the fair value reserve and retained profit will change, which also means additional tax liabilities.

The Company estimates that the effects of the transition to IFRS 9 on 1 January 2022 will be as follows:

in EUR thousand

	Change in retained profit or loss	Change in Other comprehensive income	Change in net deferred tax liabilities
IFRS9 calculation at 1. 1. 2022	231	-231	0

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