

**ANNUAL REPORT
OF THE INTERNAL AUDIT DEPARTMENT
OF ZAVAROVALNICA TRIGLAV, D.D.,
ON INTERNAL AUDITING
FOR THE YEAR 2020**

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Recipients: Management Board
Audit Committee
Supervisory Board
Shareholders' Assembly
Financial statements' auditor

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TABLE OF CONTENTS

1	PURPOSE OF THE REPORT.....	3
2	OVERVIEW OF WORK OF THE INTERNAL AUDIT DEPARTMENT AND IMPLEMENTATION OF PLANNED INTERNAL AUDIT ACTIVITIES	3
3	SUMMARY OF SIGNIFICANT FINDINGS BASED ON PERFORMED INTERNAL AUDITS.....	5
4	ASSESSMENT OF THE ADEQUACY OF RESOURCES FOR THE INTERNAL AUDIT DEPARTMENT OPERATIONS .	8
5	PROGRAMME AND FINDINGS REGARDING QUALITY ASSURANCE AND IMPROVEMENT OF THE INTERNAL AUDIT DEPARTMENT OPERATIONS.....	8
6	STATEMENT ON THE INDEPENDENCE AND OBJECTIVITY OF THE INTERNAL AUDIT DEPARTMENT AND INTERNAL AUDITORS.....	9

1 PURPOSE OF THE REPORT

Pursuant to Article 281a of the Companies Act, Article 165 of the Insurance Act and Articles 41 and 43 of the Internal Audit Policy of Zavarovalnica Triglav, d.d., the Internal Audit Department (hereinafter: the Department) must compile an annual report on internal auditing and submit it to the Management Board, the Audit Committee, the Supervisory Board and the financial statements' auditor, whereas the Management Board must inform the Shareholders' Assembly with this Report and with the Supervisory Board's opinion on the Report.

The Department also prepares more detailed reports on individual internal audits performed for the Management Board and the management of the audited areas, i.e., persons responsible for measure taking, as well as periodic (quarterly, semi-annual) reports on internal auditing for the Management Board, the Audit Committee and the Supervisory Board.

The purpose of the Annual Report on Internal Auditing for the year 2020 is to inform the above mentioned stakeholders on:

- the Department's activities and the implementation of planned internal audit activities in the reporting period;
- the summary of significant findings by internal auditors based on the internal audits in the reporting period, including the assessment of the adequacy and effectiveness of risk management and the internal control system of the audited areas;
- the assessment of the adequacy of the resources for the Department's operations in the reporting period;
- the content and conclusions of the quality assurance and improvement programme of the Department's operations;
- the statement on independence and objectivity of the Department's and internal auditors' activities.

The Report contains all information required under the Paragraph 2, Article 165 of the Insurance Act and Article 43 of the Internal Audit Policy of Zavarovalnica Triglav, d.d.

2 OVERVIEW OF WORK OF THE INTERNAL AUDIT DEPARTMENT AND IMPLEMENTATION OF PLANNED INTERNAL AUDIT ACTIVITIES

In 2020, the Internal Audit Department was performing activities on the basis of adopted plans for the Department's operations, mainly on the basis of the Annual Work Plan of the Internal Audit Department of Zavarovalnica Triglav, d.d., for the year 2020, adopted by the Management Board (on 10 December 2019) with the consent of the Supervisory Board (of 19 December 2019). In accordance with professional rules and best practice guidelines on the internal auditing, the Department was carrying out internal audits in Zavarovalnica Triglav (hereinafter: the Company) and other companies in the Triglav Group (hereinafter: the Group), along with several other inter audit activities.

The Department carried out **28 planned internal audits**, namely 1 audit that remained unfinished from 2019 and all of 27 audits from the 2020 plan. Of those, 22 audits were performed in the Company and 6 in the other Group companies. 26 audits were concluded by issuing of final reports, while 2 audits were still underway at the end of the calendar year and are to be concluded in the 1st quarter of 2021.

No extraordinary internal audits were carried out in 2020.

The Department also performed a series of **other internal audit activities**:

- formal consulting activities, including:
 - assistance to the Subsidiary Management Division in the implementation of the renewed system of minimum standards for the operation of subsidiaries;
 - assistance to the Legal Department at regular annual compliance review of the management of the Company and the Group with the strategy, internal acts and legal and other regulations;
- informal consulting activities, mostly involving consultations and advice relating to drawing up or updating internal acts of the Company, implementation of business processes, risk management and implementation of recommendations issued by internal and external auditors;
- monitoring of the implementation of recommendations issued by internal and external auditors;
- periodical reporting to the Management Board, the Audit Committee and the Supervisory Board on Department's operations, the findings of the internal audits and the implementation of recommendations issued by internal and external auditors;
- planning of the Department's operations for 2021 based on the risk assessment of the Company's business processes and with due consideration of risks important at the Group level;
- internal audit services at Triglav Osiguranje, Banja Luka (services were provided by the Department until the end of August 2020, when the company hired an internal auditor due to legal requirements);
- tasks related to quality assurance and improvement of the Department's operations as well as internal audit departments in other Group companies, which mainly included:¹
 - continuous supervision of work performed by internal auditors by the Department Director (over the implementation of internal audits and other internal audit activities);
 - monitoring of the Department's key performance indicators, also on the basis of the assessment of work of internal auditors and the Department as a whole by internal audit stakeholders (members of the Management Board, the Audit Committee, the Supervisory Board and directors of organisational units);
 - participation at in-house and external trainings;
 - keeping updated on the operations of other departments in the Company and exchanging of information within the Department;
 - preparation of the continuous auditing and combined assurance methodology;
 - activities related to the implementation of the TeamMate software for support of internal audit and risk management processes in the Company;
 - updating of templates for quarterly line reporting of the internal audit departments of subsidiaries;
 - monitoring of the operations of internal audit departments in other Group companies, advising to them and coordinating with them:
 - on the implementation of internal audits and other internal audit activities;
 - on the implementation of Minimum Standards for Internal Auditing in the Group (renewed in 2020);
 - on the planning of activities for the year 2021;
- other activities, mostly including administrative activities and management of the Department, cooperation with the external auditor, etc.

Due to the pandemic, internal audits and other activities in 2020 were mostly carried out remotely, with the Department also focusing on monitoring of measures of business areas aimed at managing risks under changed business circumstances due to the pandemic.

I, the Department Director, hereby estimate that in 2020 the Department performed the planned internal audit activities successfully and in expected extent.

¹ In 2020, the Department completed the majority of the tasks concerning quality assurance and improvement. Some activities that were carried out to a lesser extent or took longer than planned due to the pandemic (such as, activities related to the introduction of continuous auditing by means of analytical IT tools and to combined assurance) are to be continued and have been included in the annual work plan for 2021.

3 SUMMARY OF SIGNIFICANT FINDINGS BASED ON PERFORMED INTERNAL AUDITS

When conducting internal audits, the Internal Audit Department focuses mainly on checking and assessing the adequacy and effectiveness of risk management and functioning of the internal control system established in the Company in order to assure that:

- the risks are properly identified and managed;
- the financial information and the information needed for decision-making and operational functioning is correct, reliable and timely;
- the employees act in accordance with legal and other regulations, standards and policies as well as in line with internal rules regulating the operations of the Company;
- the assets are used economically, efficiently and are properly protected;
- the programmes, plans and objectives are achieved;
- the Company continuously improves the quality of its operations;

whereby, when conducting internal audits, the Department also dedicates specific attention to the role of the Company as the controlling company in the Group. Further, the Department also dedicates attention to the areas and risks relevant at the Group level and for that purpose monitors the work of internal audit departments in subsidiaries, provides them with assistance and, if necessary, also performs internal audits in these companies.

The Department regularly reports, in writing, to the managers in charge of audited areas, i.e., the recommendations addressees, on the findings of internal audits, and informs the Management Board on the reports as well. Based on the Department's reports, the managers in charge of audited areas or recommendations addressees must adopt adequate measures and implement proper activities to correct any detected violations, irregularities and deficiencies within the agreed deadlines, and report to the Department accordingly. The Department periodically monitors the implementation of the issued recommendations and reports to the Management Board, the Audit Committee and the Supervisory Board thereon. It also monitors and reports on the implementation of the recommendations issued by external auditors.

Based on the internal audits performed and the monitoring of the implementation of the recommendations in 2020, **the Department deems that, overall, risk management and functioning of the internal control system of the audited areas in the Company are adequate and continue to upgrade**, however did recognize the following opportunities for additional improvement of the system:

- in the area of management of the Company and the Group: an action plan should be drawn up for strengthening sustainable business activities; the rules of founding and functioning of operational committees (i.e. sub-committees) need to be defined; it is recommended to supplement the rules for managing conflicts of interest and dedicate additional attention to raising the awareness of employees in relation to this issue;
- in the area of insurance development, sales, underwriting and claims handling: activities for implementing some strategic initiatives need to be accelerated; some application controls in the insurance software need to be improved and more consistent use of embedded tools needs to be ensured; additional attention should be paid to thorough consideration of the insurance terms, conditions and work instructions when concluding insurance policies and handling claims, as well as to provide full and well-completed documentation, consistent input of data/documents in the insurance software and prompt implementation of procedures; on the basis of a more detailed analysis of non-life insurance claims settlement processes, decisions should be made on further optimization of these processes; periodic controls over operational claims settlement procedures executed by subsidiaries when handling corporate policyholders' claims abroad should be ensured; the criteria for monitoring the effectiveness of the integration of pension insurance business in the Group should be developed; the minimum standards of

the Company for the operation of subsidiaries need to be supplemented with the standards for pension insurance business;

- in the area of investment management: the procedure for verifying the compliance of transactions with personal authorisations/powers should be upgraded, so that the verification will be carried out before the transactions are executed; the procedure of monitoring the compliance of investments with the risk exposure limits should be upgraded by providing explanations for each exceeded limit and measures for elimination of overdrafts;
- in the area of IFRS 17 implementation: a plan of (communication) activities should be prepared to acquaint and more actively involve the management of the Company and subsidiaries into understanding the implemented changes and test-prepared financial statements, and to acquaint the external auditor and other stakeholders with activities related to the implementation of IFRS 17;
- in the area of procurement of fixed assets, material and services: an action plan must be drawn up for improving the supply contract management and regular monitoring of the activities must be ensured; within subsequent procurement development strategy the possibilities for further centralization of the procurement process should be examined and implemented accordingly;
- in the area of IT management and IT systems: the system of planning and monitoring the activities, costs and risks related to the IT centralization in the Group needs to be improved; the concept of founding and functioning of Security Operations Center (SOC) and Operations Center (OC) in the Group needs to be formally defined; the rules for software development, implementation and maintenance in the Company and the Group need to be updated and supplemented; changes to the application software in the production environment need to be installed on the basis of properly completed requests; more attention should be paid to developing clear concepts of IT systems integrations; indicators need to be defined to more comprehensively monitor the effectiveness and efficiency of the development and management of web and mobile applications;
- in the area of register and code list management: it is recommended to continue with the centralization of the management of business partner registers and to implement an appropriate technical solution for uniform partner data editing in different registers; key registers/code lists should be included in the data quality management system/process.

The Management Board and the management of the audited areas are aware of the potential impact of detected violations, irregularities and deficiencies on the achievement of the Company's and the Group's key objectives, and have adopted measures, i.e., have been performing appropriate activities for their remediation. The number of recommendations given in 2020 is comparable to the previous year, but on average somewhat longer deadlines for their implementation have been agreed. **The majority of recommendations was implemented within the agreed deadlines.**

Below we enumerate opportunities for improvement of risk management and functioning of the internal control systems in the subsidiaries, detected by the Department during internal audits in the subsidiaries or while monitoring the operations and findings of the internal audit departments of the subsidiaries². In general, **the control environment and control procedures in subsidiaries are at an appropriate level and are constantly improving**, while the listed opportunities apply to individual subsidiaries that were subject to audits:

² The internal audit function is established in all insurance and other financial subsidiaries. The function in an individual company is performed by the organisational unit within the company or a person employed inside or outside the company (external provider of internal audit services), which is functionally and organisationally separated from other parts of the company and is simply called the internal audit department. Internal audit departments in subsidiaries perform their tasks in accordance with legal regulations and professional and ethical rules of internal auditing that apply to an individual company. They also consider the minimum standards and detailed methodological guidelines for the internal audit function within the Group that have been formed by the Internal Audit Department of Zavarovalnica Triglav, taking into account the International Standards for the Professional Practice of Internal Auditing, ethical rules and good practice of internal auditing.

- in the area of insurance: more attention should be paid to thorough consideration of the insurance terms, conditions and work instructions when concluding insurance policies and handling claims, as well as to provide full and well-completed documentation, consistent input of data/documents in the insurance software and prompt implementation of procedures; up-to-date and documented estimates of probable maximum loss must be provided when conducting underwriting procedures; procedures for insurance policies control and handling objections to concluded policies should be further improved; timely calculation of long-term insurance premiums must be ensured; the notification of lienholders needs to be improved; timely updating of annuity factors in case of major changes in interest rates must be ensured; some application controls in the insurance software need to be improved;
- in the area of financial assets/investment management: procedures for monitoring payments and recovery of receivables from premiums and recourses need to be further improved; thorough consideration of the limits and authorisations/powers must be ensured in the course of investing;
- in the area of accounting: more attention should be paid to timely/prompt recording of business events and allocation of costs to business activities;
- in the area of human resources and general affairs: records of work attendance need to be improved; appropriate handover of tasks must be ensured in case of termination of employment; physical and technical security should be improved in some locations; internal acts in the area of occupational safety and health should be updated, incoming mail handling needs to be improved; procurement procedures need to be improved in order to achieve better purchasing conditions; invoice confirmation procedures should be further improved;
- in the area of IT management and IT systems: implementation of measures for improvement of information security should actively continue and more attention should be paid to adoption and upgrades of security policies and to improvement of identity management and change management procedures;
- in the area of business continuity management: more attention should be paid to regular updating of business continuity plans (also disaster recovery plans); regular and comprehensive testing of business continuity plans and system/data backups should be ensured;
- in the area of project management: project management needs to be improved; more attention needs to be paid to project risk and change management;
- in the area of anti-money laundering and counter-terrorism financing: consistent implementation of procedures for clients' identification and obtaining data on origin of clients' assets should be ensured; more attention should be paid to education of employees on the topics related to anti-money laundering;
- in the area of personal data protection: more attention should be given to education and awareness of employees about the duty and procedures for personal data protection.

Persons in charge in the subsidiaries have been informed on the findings, whereas implementation of recommendations for improvement of risk management and functioning of internal controls in these companies is being regularly monitored by internal audit departments of these companies. **The majority of recommendations was implemented within the agreed deadlines.**

With the purpose of constant improvement of risk management and functioning of internal control systems in the Group companies, the Company continued to transfer the common minimum standards of business functions operations (including the internal audit function) into subsidiaries and monitored their implementation also in 2020.

4 ASSESSMENT OF THE ADEQUACY OF RESOURCES FOR THE INTERNAL AUDIT DEPARTMENT OPERATIONS

In August 2020, the number of employees in the Internal Audit Department reduced by 1 person. As at 31 December 2020, the Department had 11 persons employed. Of those, 8 persons hold at least one of the professional certificates awarded by the Slovenian Institute of Auditors and equivalent professional institutions abroad following completed education in auditing and/or related disciplines:

- 1 person holds the professional certificates of »certified internal auditor« and »authorised auditor«;
- 4 persons hold the professional certificate of »certified internal auditor«;
- 1 person holds the professional certificates of »certified information systems auditor«, »CISA³« and »CGEIT⁴«;
- 1 person holds the professional certificates of »CIA⁵« and »CISA«;
- 1 person holds the professional certificate of »CISA«.

The reduction in the number of employees did not significantly impact the fulfilment of the planned internal audits and other activities. However, in order to ensure the appropriate volume/scope of internal audits in the future as well, in the annual work plan for 2021 (adopted by the Management Board, with the consent of the Supervisory Board) the Department also plans to employ 1 person with advanced knowledge in the use of analytical IT tools. The intention thereof is to ensure a more efficient approach to internal audits in the areas where advanced data analysis can reveal deficiencies in the functioning of internal controls.

If the internal auditors lack certain expertise or skills needed for the implementation of internal audits and/or other internal audit activities, the Management Board allows the Department to acquire help of adequately qualified experts from inside or outside the Company. In 2020, the Department did not use the services of external experts.

The Company enables the internal auditors to receive an appropriate extent of professional education and training. In 2020, the employees attended formal trainings within and outside the Company, which mostly took place in the form of webinars.

I, the Department Director, hereby estimate that the Management Board provides appropriate conditions and resources for the Department's operations. The conditions that enable independent and impartial functioning of the Department and internal auditors are presented in more detail in Chapter 6.

5 PROGRAMME AND FINDINGS REGARDING QUALITY ASSURANCE AND IMPROVEMENT OF THE INTERNAL AUDIT DEPARTMENT OPERATIONS

The Internal Audit Department develops/maintains and implements a quality assurance and improvement programme of its operations, with the aim of:

- compliance of operations with professional and ethical rules of internal auditing (particularly, with the International Standards for the Professional Practice of Internal Auditing);
- constant improvement of performance and efficiency of its operations, and also of operations of internal audit departments in subsidiaries.

³ CISA – Certified Information Systems Auditor

⁴ CGEIT – Certified in the Governance of Enterprise IT

⁵ CIA – Certified Internal Auditor

The quality assurance and improvement programme of the Department's operations comprises the following activities:

- internal quality assessments including:
 - constant supervision by the Department Director over the work of internal auditors;
 - interim and annual assessment of the work of internal auditors and the Department as a whole;
 - annual monitoring of the Department's key performance indicators;
 - periodic self-assessment of the Department's operations at least once in the period between two external assessments;
 - regular monitoring of the operation of internal audit departments in subsidiaries;
- external quality assessments at least once every five years by a qualified independent assessor from outside the Company;
- activities for eliminating deficiencies identified during assessments and other activities for quality improvement.

The last external quality assessment of the Department's operations was performed in 2016 by DELOITTE REVIZIJA, d.o.o. It established that the Department operated in compliance with the International Standards for the Professional Practice of Internal Auditing in all significant aspects, and provided some recommendations for further development and introduction of best global practices into the Department's operations, which the Department follows when planning and executing its activities.

On the basis of performed quality assurance and improvement activities of Department's operations in 2020, which are presented in more detail in Chapter 2, I, **the Department Director, hereby estimate that the Department operates in compliance with the International Standards for the Professional Practice of Internal Auditing in all significant aspects and fulfils the expectations of its stakeholders** (members of the Management Board, the Audit Committee, the Supervisory Board and directors of organizational units in the Company). However, there are opportunities for improvement which the Department will take into account when planning and executing its future activities.

6 STATEMENT ON THE INDEPENDENCE AND OBJECTIVITY OF THE INTERNAL AUDIT DEPARTMENT AND INTERNAL AUDITORS

The Management Board provides the Internal Audit Department with appropriate working conditions, as follows:

- from the aspect of its organizational and functional independence;
- from the aspect of the resources provided for its operations;
- from the aspect of access to information, properties and personell in the Company (including the members of the Management Board, the Audit Committee and the Supervisory Board);

thus allowing the internal auditors to perform their activities independently and objectively.

The Department is organised as an independent unit within the Company, which is directly subordinate to the Management Board, and is organisationally and functionally separated from other parts of the Company. The Department is independent in determining areas, objectives and the scope of internal auditing, performing of work and reporting on internal auditing. The internal auditors do not perform any development or operational tasks that might lead to conflict of interest and impair their objectivity, and do not decide on the activities in the areas subject to internal auditing.

The Department determines the areas, objectives and the scope of internal auditing based on the risk assessment of the Company's operations and risks important at the Group level. It reports directly to the

Management Board and the Supervisory Board. To this purpose, the Department Director reports on the Department's operations, findings of the performed internal audits, implementation of the recommendations and the assessment of adequacy and effectiveness of risk management and functioning of the internal control system in the audited areas directly (in writing and orally):

- to the Management Board, thus preserving the independence from other business areas and functions in the Company;
- to the Audit Committee and the Supervisory Board, thus strengthening the independence from the Management Board.

The responsibilities of the Department Director and other internal auditors concerning the assurance of independence and objectivity, avoiding conflict of interest and reporting on the occurrence of any circumstances that might impair the independence and objectivity of the Department or internal auditors are defined in the Internal Audit Policy of Zavarovalnica Triglav, d.d.⁶

I, the Department Director, hereby declare that in 2020 the Department operated independently and that no circumstances arose in the operations of the internal auditors that might have impaired their objectivity. The statement on the objectivity of the internal auditors is based on the statements signed by all internal auditors.

⁶ Together with the Management Board, the Department Director must inform the Audit Committee and the Supervisory Board on any restrictions regarding:

- the areas, objectives and the scope of internal auditing;
- the access to the records, physical properties and personnel in the Company needed by the internal auditors to successfully and effectively perform their job;
- the resources for the implementation of risk-based internal auditing.

Internal auditors must report on any circumstances that might lead to conflict of interest and thus impair their objectivity to the Department Director, who must in turn inform the Management Board, the Audit Committee and the Supervisory Board thereof. Circumstances that may lead to a conflict of interest mainly include:

- performing any development and operational tasks, deciding on the activities and/or directing the activities of the employees in the audited areas, especially within two years before the audit performed in such areas;
- family ties to the employees in the audited areas and employees at important or sensitive positions in the Company in general;
- any pecuniary advantage related to the operation of the audited areas and the Company in general;
- rewards, gifts and other benefits offered or received from the employees in the Company or persons outside the Company, which are assumed to be offered or given with the aim of impairing the objectivity of the Department Director and/or internal auditors.