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ANNUAL REPORT OF THE INTERNAL AUDIT DEPARTMENT OF ZAVAROVALNICA TRIGLAV, d.d., ON INTERNAL AUDITING FOR 2023



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Recipients of the report: Management Board
Audit Committee
Supervisory Board
General Meeting
Financial statements' auditor

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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 in Zavarovalnica Triglav, d.d, the Internal Audit Department (hereinafter: the Department) is required to draw up the annual report on internal auditing and submit it to the Management Board, the Audit Committee, the Supervisory Board and the financial statements' auditor, and the Management Board must inform the General Meeting with the Report and with the Supervisory Board's opinion on the Report.

The Department also prepares more detailed reports on specific internal audits performed for the Management Board and the management of the audited areas or the persons in charge of taking actions, as well as periodic (quarterly, semi-annual) internal audit reports for the Management Board, the Audit Committee and the Supervisory Board.

The purpose of drawing up the annual internal audit report for 2023 is to inform the Management Board, the Audit Committee, the Supervisory Board, the General Meeting and the financial statements' auditor:

- on the work of the Department and the implementation of internal audit activities in the reporting period;
- on the summary of significant findings of internal auditors based on the internal audits in the reporting period, including the assessment of the appropriateness and efficiency of risk management and functioning of the internal control system of the audited areas;
- on the overall assessment of the appropriateness and efficiency of risk management and functioning of the internal control system of the audited areas;
- on the assessment whether the resources for the Department operation in the reporting area were appropriate;
- on the content and findings from the programme for quality assurance and improvement of the Department operation;
- on the statement of independence and objectivity of the Department's and internal auditors' operation.

The Report includes all the information required under the second paragraph of Article 165 of the Insurance Act and Article 43 of Zavarovalnica Triglav, d.d.'s Internal Auditing Policy.

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

In 2023, the Internal Audit Department performed its activities on the basis of the *Annual Work Programme of the Internal Audit Department of Zavarovalnica Triglav, d.d., for 2023*, adopted by the Management Board (on 8 November 2022) with the consent by the Supervisory Board (on 22 November 2022), which also includes the Work Guideline for 2024–2026. In accordance with professional internal auditing rules and good practice guidelines, the Department performed internal audits in Zavarovalnica Triglav (hereinafter also the Company) and other subsidiaries of the Triglav Group (hereinafter also the Group) as well as some other internal audit activities.

In the reporting period, the Department completed/performed 31 internal audits, of which 3 audits from 2022 and 28 (out of total 31) planned audits for 2023:

- 5 audits were performed at the Group level, 19 at the Company, and 4 in the subsidiaries;
- for 18 audits, it issued final reports;
- it also prepared reports for 3 audits that are being performed as continuous auditing;
- 10 audits continue in 2024;
- 3 audits were moved to the beginning of 2024.

In the reporting period, the Department did not perform any extraordinary internal audits.

In the reporting period, the Department also performed a number of other internal audit activities:

- **formal advisory activities** encompassing assistance to the Corporate and Legal Affairs in the annual review of compliance of the *Governance System and Policy of Zavarovalnica Triglav, d.d.*, with the Strategy, with other policies and internal acts in the governance system of the Company and with other regulations, and other things as instructed by the Company's bodies;
- **informal advisory activities** encompassing mostly consultations/advice regarding the preparation or upgrade of the internal acts of the Company and improvement of controls in the implementation of business processes;
- **monitoring of the implementation of recommendations** provided by internal and external auditors;
- **periodic reporting** to the Management Board, the Audit Committee and the Supervisory Board regarding the Department operation, the findings of the internal audits and the implementation of recommendations provided by internal and external auditors;

- **tasks related to quality assurance and improvement** of the Department operations and of internal audit departments in the subsidiaries of the Group, which mostly encompassed the following:¹
- continuous supervision of the Department Director over the work of internal auditors;
 - monitoring of the Department's performance and efficiency indicators, including but not limited to on the basis of the assessment of the work of internal auditors and the Department as a whole performed by the internal audit stakeholders (members of the Management Board, Audit Committee and Supervisory Board, and heads of organisational units);
 - participation in internal and external training courses;
 - cooperation with other key functions, monitoring the operation of other departments in the Company and the exchange of information within the Department;
 - activities associated with the planned migration of the TeamMate application to cloud and introduction of this application in the subsidiaries;
 - further introduction of the continuous auditing and combined assurance engagements, and supplementing work methodology based on the recommendations provided at the end of 2021 by the external service provider for the quality assessment of the Department operation;
 - monitoring the operation of the internal audit departments at the subsidiaries, and assisting and advising to the departments in the implementation of internal audits, work planning for 2024 and certain other activities;
 - referring one of the department heads to Triglav Osiguranje Zagreb with a view of monitoring the rectification of the established deficiencies in the internal control system and improving the operation of the internal audit function in this subsidiary;
- **work planning** for the Department for 2024 based on the audit assessment of operational risks of the Company or the Group;
- **other activities** encompassing mostly administrative activities and managing the Department, attending sessions and meetings, cooperation with the external auditor etc.

Internal audits and other activities in 2023 were significantly affected by the increased extent of sick leaves and other absences. Nevertheless, the Department managed to complete most of the planned audits and other activities by the end of the year; the implementation of unfinished activities continues in 2024. Therefore, as **Department Director, I estimate that with due consideration of a lower number of the available working days due to sick leaves and other absences, the Department in 2023 successfully and in the expected extent performed the planned internal audit activities.**

¹ Most of the tasks concerning quality assurance and improvement of the internal audit quality were performed. Some activities which were performed more slowly than initially planned due to the larger extent of the unforeseen sick leaves and other absences (e.g. activities of introducing analytical tools into the internal auditors' operation, activities of introducing the application to support internal audit processes and risk management into the subsidiaries, activities of implementing the pilot project to examine the options of introducing more effective approaches to the implementation of internal audits, and activities of preparing or upgrading the overall opinion on the appropriateness and efficiency of (corporate) governance, risk management and functioning of control procedures at the Company and the Group) continue in 2024.

3. SUMMARY OF SIGNIFICANT FINDINGS BASED ON INTERNAL AUDITS PERFORMED

In the implementation of internal audits, the Internal Audit Department focuses mainly on the checking of the appropriateness and efficiency of the Company's governance, risk management and functioning of the internal control system in order to assure that:

- the risks are properly identified and managed;
- the accounting 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 good practice policies as well as in line with internal acts regulating the operation of the Company;
- the assets are used economically, efficiently and are properly secured;
- the programmes, plans and objectives are achieved;
- the Company continuously improves the quality of its operation;

with the Department also paying attention while auditing to the role of the Company as the controlling company in the Triglav Group and areas and risks important at the Group level². To this end, it cooperates with internal audit departments at the subsidiaries, monitors their operation, assists them and, if needed, performs audits in the subsidiaries on its own.

The Department promptly reports, in writing, on the findings of internal audits performed to the responsible managers of audited areas or recommendation addressees, and informs the Management Board on the reports as well. Based on the Department's reports, the responsible managers of audited areas or recommendation addressees must adopt corresponding measures and implement proper activities within the agreed deadlines to eliminate the identified irregularities and deficiencies, and report to the Department thereon. Based on the above, 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 provided by external auditors.

Based on the internal audits performed and the monitoring of the implementation of the recommendations in 2023, the **Department deems that overall, risk management and functioning of the internal control system of the audited areas in the Company are appropriate and continue to be upgraded.**

² Internal audits at the Group level are intended to review the risk management system in a specific business area from the perspective of the Company and the Group as a whole (so-called systemic audits). Such audits are usually performed at the Company, which, as the controlling company, provides for the risk management system, but also at the subsidiaries if necessary.

In doing so, the Department identified mostly the following opportunities for additional improvement of the functioning of the above system:

- **in the field of introducing AdInsure 3.0 information system:** to ensure transparent and consistent implementation of procedures for the management of business requirements from the upgrade of the existing AdInsure 3.0 sales portal at ZT and any other measures to ensure stable operation of the portal and rational use of funds;
- **in the field of business intelligence system management:** to define the strategy (or a medium-term plan) for the business intelligence implementation at ZT and the Group; clearly define the roles, tasks and access rights in the data warehouse management;
- **in the field of the managing resources of guarantee assets and guarantee funds:** in the investment policies, to define the basic directions for investment resulting from the adopted sustainable operations policy at ZT and the Group; include the presentation of the sustainable aspect of investment management into quarterly investment reports; improve recording of operational investment decision directions between ZT and its subsidiaries;
- **in the field of ORSA process implementation:** the subsidiaries included in the ORSA process at the Group level should be instructed for the preparation of the action plan for improving the risk management system and the ORSA process;
- **in the field of implementing the Triglav komplet loyalty programme:** to set up reports to monitor and analyse data on the loyalty programme implementation; strengthen management control and take action in case of irregularities;
- **in the field of assistance services:** when implementing car assistance, to ensure consistent verification of eligibility of hiring replacement vehicle; ensure human resources for prompt control of the activities taking place at car repair services; when implementing house assistance and “report-repair” assistance services, to ensure strict compliance with the provisions of insurance conditions; reinforce the network of contractual providers or home assistance;
- **in the field of non-life insurance subrogation implementation:** to set up a process for monitoring or controlling the implementation of FOS transaction subrogations via MGA agents in the Greek and Polish markets;
- **in the management of contractual sales channels in the field of life insurance:** to prepare a concept for setting up or a strategy for bank insurance development;
- **in the field of managing IT licenses:** to update the register of the purchased and installed license software and improve the procedures for monitoring the condition and license compliance;
- **in the field of managing access rights to information sources:** to upgrade the system/process of implementing periodic checks of user rights and ensure compliance with the prepared action plan to rectify the deficiencies identified based on past audits performed by external and internal auditors, advisory and security check and internal compliance check or the self-assessment of the IT Division;
- **in the field of the system of electronic signing of documents:** to specify the internal legal and formal framework for electronic signing, taking into account business needs and regulatory requirements;
- **in the field of implementing the IFRS 17 standard:** to ensure appropriate human resources for the implementation of coordination and provision of support to the subsidiaries for the

preparation of actuary calculations of life insurance at the Group level, and proceed with the improvement of procedures for ensuring IFRS 17 implementation within regular activities of the departments (in the Company and subsidiaries);

- **in the field of operation and management of the digital branch office i.triglav:** to continuously upgrade the existing technical architecture and documentation; set up a traceable procedure for the coordination and approval of the appropriateness and validity of the *General Terms and Conditions of i.triglav*; perform a comprehensive assessment of the impact of processing at i.triglav on personal data protection;
- **in the field of managing personal computer equipment:** to upgrade non-supported operational system and, in the future, regularly take measures for their timely replacement or upgrade; install important corrections on the personal computer equipment as soon as possible to reduce system vulnerabilities and ensure regular monitoring and rectification of security vulnerabilities;
- **in the field of providing support to users:** to update and amend the rules for providing the second level of user support; check the user requests open for a prolonged time and resolve them appropriately, or close them;
- **in the field of continuous operation management:** to prepare and maintain a multiannual plan of the activities and necessary human, technical and financial resources for the implementation of the activities used by the Company (and consequently the Group) to ensure an adequate level of management and implementation of continuous operation measures;
- **in the field of contract and invoice management:** to proceed with the centralisation of strategic and operational purchasing processes;
- **in the field of insurance implementation:** to emphasise the importance of data accuracy and quality; periodically check the appropriateness and adjustments of the concluded insurance contracts with respect to the potential changes.

The Management Board and the management of the audited areas are aware of the potential impact of identified irregularities and deficiencies on the achievement of the objectives of the Company and the Group, and have adopted appropriate measures or have been performing appropriate activities to eliminate them. The number of provided and open recommendations during 2023 is comparable to the past years. **Most recommendations were realised within the agreed deadlines.** The number of overdue partly realised recommendations has remained at the approximately same level; they mostly relate to the rectification of deficiencies or improvement of software support functionality. The reasons for non-realisation lie mostly in the occupancy of the staff in the technology and IT fields; and the Department deems that the exposure to the related risks has remained at an acceptable level.

Below are summarised the opportunities to improve risk management and functioning of the internal control system in the subsidiaries identified by the Department based on the performed internal audits in these subsidiaries and based on the monitoring of work and findings of internal audit departments in these subsidiaries³. **Overall, the controlling environment and control procedures in the subsidiaries are mostly at an appropriate level and keep improving.**

³ The internal audit function is established in all insurance and other financial subsidiaries. In each subsidiary, the function is performed by the organisational unit within the subsidiary or a person employed at the subsidiary or externally (external provider of internal audit services), which is functionally and organisationally separated from other parts of the subsidiary and known simply as the internal audit department. The internal audit departments in the subsidiaries perform their tasks in accordance with legal provisions and professional and ethical rules of internal auditing applicable for each subsidiary, and also minimal standards and detailed methodological guidelines for the internal audit function operation at the Group, which have been prepared by the Internal Audit Department of Zavarovalnica Triglav by observing the International Standards for the Professional Practice of Internal Auditing, ethical rules and good practice of internal auditing.

The listed opportunities concern individual subsidiaries in which audits took place:

- **in the field of subsidiary management:** to ensure appropriate translations of the key internal acts and other documents into a language clearly understandable for all stakeholders; prepare an action plan for the implementation of *Minimal standards of ZT for subsidiary operation* and ensure appropriate monitoring of the plan, and such standards should be enforced to the extent adjusted to the size of the subsidiary;
- **in the field of managing databases and access rights to information systems:** to specify the rules/procedures for changing data directly in databases; periodically monitor accesses to (production) databases, specify the rules for granting user rights to applications and ensure their consistent implementation;
- **in the field of key controls in the process of non-life insurance subrogation implementation:** to improve procedures for an effective identification of any potential subrogations and improve software support in subrogation implementation.

The responsible persons from the subsidiaries have been informed of the findings, and the implementation of the recommendations to improve risk management and functioning of internal controls at the subsidiaries is monitored in more detail by the internal audit departments of such subsidiaries. **Most recommendations were realised within the agreed deadlines.**

4. OVERALL ASSESSMENT OF THE APPROPRIATENESS AND EFFICIENCY OF RISK MANAGEMENT AND FUNCTIONING OF THE INTERNAL CONTROL SYSTEM

The overall assessment of the appropriateness and efficiency of risk management and functioning of the internal control system in 2023 is based on:

- the findings of the internal audits performed in the reporting period;
- the findings of other internal and external providers of assurance⁴ in the reporting period presented in their reports, and other information obtained while cooperating with them;
- monitoring the realisation of the recommendations of internal audits and monitoring the information of the realisation of the recommendations of other providers of assurance in the reporting period;
- other relevant information available to the Internal Audit Department before preparing this assessment.

The Department deems that the above bases are appropriate and sufficient to provide an overall assessment, specifically emphasising that the **provided overall assessment represents a reasonable (and not absolute) assurance**.

Based on the above bases, the Department deems that **risk management and functioning of the internal control system in 2023 were appropriate**. The Company has an appropriate management system in place proportional to the nature and extent of its operations and complexity of operational risks, regularly monitors the risk profile and actively upgrades individual areas of the risk management system and internal control system, especially where increased risks or higher exposure are detected, and, as the parent company in the Group, monitors risk management and functioning of the internal control system in the subsidiaries, providing assistance in the improvement of such systems.

Nevertheless, **there are still opportunities to improve the maturity of the above systems**, to which the Department and/or other providers of assurances pointed and gave recommendations in relation therewith. In this context, the Company must pay special attention to the following:

- transparent and consistent implementation of procedures for managing business requirements related to the upgrade of the existing software support;
- continuous improvement of the aspects of IT and cyber security;
- continuous improvement of internal rules and processes in the management/control of insurance products and insurance distribution.

⁴ Findings and other information of other functions in the Company's governance system (risk management function, compliance function and actuarial function), other control functions at the Company (mostly the fraud prevention, detection and investigation function, data protection officer, and money laundering and terrorism prevention officer) and external providers of assurance (Insurance Supervision Agency, financial statements' auditor, credit rating agencies, inspection bodies and some other independent auditors and advisers), for which the Department deemed their work can be relied upon.

5. ASSESSMENT OF THE APPROPRIATENESS OF RESOURCES FOR THE DEPARTMENT OPERATION

As at 31 December 2023, the Internal Audit Department had 11 persons employed, one of who had come from Triglav, Zdravstvena zavarovalnica, d.d., on 30 December 2023. **Eight of the employees have at least one professional title** awarded by the Slovenian Audit Institute or equivalent professional institutions abroad following completed education in auditing and/or related disciplines (e.g. certified internal auditor, auditor, certified information systems auditor, CIA, CISA, CISM, CGEIT, CDPSE, CRMA)⁵. One auditor was referred between January and end September 2023 to Triglav Osiguranje Zagreb in order to perform the work of the holder of the key function of internal audit. **On the average, the employees have 30 years of work experience, of which 18 years in internal auditing and related activities.** A new director took over the management of the Department on 1 December 2023.

The number and qualification of the employees at the Department allow for a suitable extent of internal auditing and the completion of the planned internal audits and other internal audit activities, provided that the Department does not face any unplanned extended sick leaves or other extraordinary absences.

If the Department employees 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 seek assistance from properly qualified experts outside or inside the Company.

The Department employees are provided with an appropriate extent of expert education and training. In 2023, the employees attended formal trainings within and outside the Company.

As Department Director, I estimate that the Management Board provides appropriate conditions and resources for the Department operation. The conditions allowing for an independent and objective operation of the Department and internal auditors are presented in more detail in Section 7.

⁵ CIA – Certified Internal Auditor; CISA – Certified Information Systems Auditor; CISM – Certified Information Security Manager; CGEIT – Certified in the Governance of Enterprise IT; CDPSE – Certified Data Privacy Solutions Engineer; CRMA – Certification in Risk Management Assurance.

6. PROGRAMME AND FINDINGS REGARDING QUALITY ASSURANCE AND IMPROVEMENT OF THE INTERNAL AUDIT DEPARTMENT OPERATION

The Internal Audit Department develops/maintains and implements a programme for quality assurance and improvement of its operation in order to:

- ensure compliance with the professional and ethical rules of internal auditing (especially with the International Standards for the Professional Practice of Internal Auditing);
- continuously improve performance and efficiency of its operation as well as the operation of internal audit departments at the subsidiaries.

The programme of quality assurance and improvement of the Department operation covers the following activities:

- internal quality assessments including:
 - continuous supervision of 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 performance and efficiency indicators of the Department;
 - periodic self-assessment of the Department operation to be performed at least once in the period between two external assessments;
 - regular monitoring of the operation of internal audit departments at the subsidiaries;
- external quality assessments to be performed at least once every five years by a qualified independent expert;
- activities aimed at eliminating deficiencies identified during assessments, and other activities aimed at improving quality.

The latest external quality assessment of the Department operation was performed at the end of 2021. It was performed by KPMG, poslovno svetovanje, d.o.o., which assessed that the Department operated in compliance with the rules of internal auditing specified in binding legal provisions, standards and codes, but provided some recommendations for further development and introduction of best practices into the Department operation, which are taken into account by the Department to a reasonable extent when planning and implementing its activities.

As Department Director I estimate that, based on the performed activities of quality assurance and improvement of the Department operation in 2023, presented in this section and in Section 2, the Department operates in compliance with the rules of internal auditing specified in binding legal provisions, standards and codes in every important aspect, and is meeting the expectations of internal audit stakeholders (Management Board, Audit Committee and Supervisory Board and the heads of organisational units at the Company); however, there are opportunities for improvement or further development the Department will observe in planning and implementing its future activities.

7. STATEMENT ON THE INDEPENDENCE AND OBJECTIVITY OF THE INTERNAL AUDIT DEPARTMENT AND INTERNAL AUDITORS

The Management Board ensures proper working conditions to the Internal Audit Department, as follows:

- in terms of organisational and functional independence;
- in terms of the resources provided for the Department's operation;
- in terms of providing access to information, resources and persons in the Company (including the members of the Management Board, the Audit Committee and the Supervisory Board);

thus, allowing the Department employees to perform internal audit 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 separated from other parts of the Company in terms of organisation and function. The Department independently determines its areas, objectives and the extent of internal auditing, and is independent in performing its work and in reporting on internal auditing, and the Department employees 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 extent of internal auditing based on the assessment of risks in the Company operation and risks important at the Group levels, and reports directly to the Management Board and the Supervisory Board. To this purpose, the Department Director reports on the Department operation, findings of the performed internal audits, implementation of the recommendations and the assessment of appropriateness and efficiency 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;
- the Audit Committee and the Supervisory Board, thus preserving 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 at Zavarovalnica Triglav, d.d.*⁶

As Department Director, I hereby declare that the Department in 2023 operated independently and that no circumstances arose in the operation 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 extent of internal auditing;
- the access to the records, resources and persons in the Company needed by the internal auditors to successfully and efficiently perform their job
- the resources for the implementation of risk-based internal auditing.

The 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. The circumstances that may lead to a conflict of interest are notably the following:

- 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.

