

3. Strategy and plans of the Triglav Group

- The Triglav Group adopted a new Triglav Group and Zavarovalnica Triglav d.d. Strategy for the 2013–2017 period.
- In 2013, Zavarovalnica Triglav surpassed its planned profit level.
- In demanding business conditions, the net profit of the Triglav Group in 2014 is planned at EUR 65.6 million.

A new value

Profitability and safety of operations



Strategy objectives

In November 2013, the Triglav Group Strategy for the 2013–2017 period was adopted. It is a revised Strategy for the 2011–2015 period due to the changed economic conditions in the markets on which the Triglav Group operates, a grim macroeconomic situation and changes in consumer behaviour. The Strategy is set very ambitiously, which is reflected in its key strategy objectives (see *Section 3.2*). In the above-mentioned period, the Group will be focused on its core insurance business, profitability and safety of operations.

Simplicity: Everything we do must bring benefit and generate value. Jointly and rapidly unnecessary complexity and red-tapism are eliminated. Products and processes are being simplified without reducing the high level of professional competence.

Corporate social responsibility: The sustainable development of the Triglav Group (balancing of people, environmental awareness and profitability) is based on corporate social responsibility, implemented as economic, legal, ethical and philanthropic responsibility.

3.1 Mission, values and vision of the Triglav Group

3.1.1 Mission

We are building a safer future.

3.1.2 Values

The companies of the Triglav Group are centred around common values, which are realised through personal relations and relations with the environment. Simplicity is a new value, in addition to professionalism, security and corporate social responsibility.

Professionalism: Business objectives are pursued through state-of-the-art insurance/financial services provided by highly professional employees. The Triglav Group is the key promoter of professional development of insurance/financial services in the environment.

Security: Safe operations are guaranteed by efficient risk management. The Group's high-quality products and services improve the financial security of clients.

3.1.3 Vision

The Triglav Group's business operations are profitable and secure. Measured by written premium, the Group is the biggest insurance company in the region of South-East Europe. Combined ratio is 95%. Return on equity (ROE) is planned to be above 10% during the period until 2017.

The long-term profitable growth of the Triglav Group originates from very competitive, high-quality services, effective risk management and financial stability of the Group, which will help maintain the independent »A« credit rating assigned by an established credit rating agency. Members of the Group achieve higher levels of reputation than their competitors. They are distinguished by comprehensive insurance/financial services offered through modern sales channels. Clients perceive the Group's products as simple and desirable.

The Group reaches at least a 10% market share on all of its foreign markets, and ranks among the top three insurance companies in all key markets in terms of premium. The Group has a well-regulated and efficient governance system and follows the principles of modern organisation in all areas of business. The processes are lean and streamlined. Dedicated and highly-qualified employees are the basis of the Group's sustainable development.

3.2 Fundamental goals and characteristics of the Triglav Group Strategy for the 2013–2017 period

Key strategy objectives: The Triglav Group set very ambitious goals for the period up to 2017. Plans include a return on equity above 10% and a stable combined ratio around 95% in the entire period.

Expansion of the Triglav Group: The Triglav Group plans further growth and development in target markets in South-East Europe by winning at least a 10% market share. On the Slovene market, it will focus on profitability and maintaining the largest market share. So as to further expand and develop on the domestic market, special attention will be paid to health and pension insurance products.

Dividend policy: The dividend policy of Zavarovalnica Triglav remains the same and arises from the target capital adequacy and the plans for further growth and development of the Group in its target markets. In line with the policy, the Triglav Group will always have enough available capital to independently ensure its »A« rating.

3.2.1 Strategic guidelines

- profitable operations and greater value of the Triglav Group;
- client-focused approach;
- simplification of business processes and cost efficiency, adequate staffing structures; and
- achieving adequate growth and profitability rates on key markets and efficient corporate governance of the Triglav Group's companies.

No imprudent exposure to business and financial risks.

3.2.2 Strategic objectives

For measuring the implementation of strategic objectives, a balanced scorecard with projections until 2017 has been developed and linked to concrete strategy activities.

1. Employees, competences and learning level

- Focus on client and employee satisfaction
- Stimulation of creativity
- Stimulation of learning and internal transfer of knowledge
- Established intergenerational cooperation
- Increased mobility and internationalisation of the staff
- Implemented system of successions; development and retention of the promising staff
- Renewed organisational culture in accordance with the Group's values
- Increased share of the variable part of remuneration for successful individuals.

2. Processes and organisation level

- Implemented data warehouse with a CRM system
- Simplified (lean) business processes and cost efficiency
- Developed sales activities via own sales network in subsidiaries
- Efficient management by objectives at all levels of the Group
- Innovative and speedy development of products and alternative sales channels
- Efficient corporate governance system and key internal controls for the Group
- Compliance with Solvency II requirements.

3. Client level

- Comprehensive overview of policyholder and an upgraded, modern credit scoring system
- Developed and efficient client loyalty programmes
- Growing number of active policyholders
- A range of integrated insurance/financial services offered through modern sales channels
- The Triglav Group as the biggest insurance company in the region of South-East Europe measured by its written premium – holding at least a 10% share of an individual insurance market.

4. Finance level

- Profitability
- Optimised assets and liabilities structure according to the requirements of Solvency II and the »A« rating from Standard & Poor's
- Positive insurance technical result of the Group
- Efficient claim management system.

High level of financial stability



Credit rating of the Triglav Group



Zavarovalnica Triglav share



Total equity of the Triglav Group



Environmental impact on the performance of the Triglav Group

3.3 Objectives achieved by the Triglav Group in 2013¹³

The Triglav Group continued to implement its strategy, placing focus on the core insurance business, profitability and safety of operations. Despite a difficult economic and market situation, the Group generated **net profit totaling EUR 69.9 million**, and surpassed the 2013 budgeted level by **as much as 27%**. It managed to keep high financial stability achieved by prudent management of business and financial risks, as confirmed by credit rating agencies Standard & Poor's and A.M. Best, which both upgraded the credit ratings of Zavarovalnica Triglav and Pozavarovalnica Triglav Re to »A-«. These ratings were assigned a stable medium-term outlook and reflect their supportive risk-adjusted capitalisation, good operating performance and strong competitive position of the Triglav Group within the Slovene market (see also *Section 5.8 Credit rating of the Triglav Group and Zavarovalnica Triglav* for more details).

The trends related to the economic crisis persist and continue to **decrease the total written premium**. Total written premium of the Triglav Group decreased by 4% compared to 2012 and was 4% below the budgeted level. Falling purchasing power of households resulted in lower insurance density, accompanied by a high unemployment rate, a decline in activities of economic entities, lower demand for some insurance products and extremely fierce competition. A drop in total written premium can also be attributed to a redefined marketing and sales policy, the purpose of which was to maintain and sustain the portfolio, as well as the result of measures for improving the insurance technical result of individual non-life insurance classes. Intensive management of the non-life insurance portfolio led to a favourable **combined ratio**. Therefore, the combined ratio of the Triglav Group – a measure of profitability in core insurance operations – **reached 91.0%, exceeding the budgeted level by 3.7 percentage points**. **Return on equity** of the Triglav Group and of Zavarovalnica Triglav in 2013 was 12% and 9.6% respectively.

Gross claims paid were 3% lower than planned and 2% higher than the preceding year. The profit level was also affected by **individual mass loss events**. The biggest damage was caused by an ice and snow storm in January affecting the entire Slovenia. The flood events in Central and Eastern Europe at the end of May and in the beginning of June impacted the business results of Triglav Pojištvna and Pozavarovalnica Triglav Re (for details see *Section 7.2 Environmental impact on the performance of the Triglav Group*).

The Company's business results are heavily influenced by the situation on capital markets, as diverse financial investments represent the majority of the Company's total assets. The global financial crisis caused market slumps. Despite a conservative investment policy of the Triglav

Group, the value of some portfolio investments decreased, mainly resulting in a lower net operating profit. **Financial assets were permanently impaired by EUR 28.1 million**.

The Company regularly met liquidity requirements and managed its investment portfolio in adherence to the principles of security, liquidity and profitability. **Return on financial investments** decreased by 3% over 2012, mainly as a result of a lower return on long-term business fund backing unit-linked life insurance.

The **value of Zavarovalnica Triglav's share (bearing the ticker symbol ZVTG)**, which is listed on the Ljubljana Stock Exchange, was marked by the exchange rate growth and increased liquidity. The closing price of the share **had increased by 15% since the end of 2012** and equalled EUR 19 at the end of 2013. The ZVTG share was the second most traded equity on the Ljubljana Stock Exchange, accounting for 16% of total trading volume. The average daily turnover in 2013 was more than twice as high as the 2012 average. Apart from that, the share of international investors increased by almost 7 percentage points to 16.6% – for more information see *Section 5. Share capital and shareholders of Zavarovalnica Triglav*.

The **total equity** of the Triglav Group as at 31 December 2013 reached **EUR 590.5 million**, which was **3% more** than as at the 2012 year-end. The portion of equity in the balance sheet total increased by 0.8 percentage point compared to 31 December 2012, reaching 19.2% (for more information see *Section 9.1 Equity and liabilities*).

3.4 Plans of the Triglav Group for 2014

The Triglav Group business plan for 2014 was produced on the basis of strategic starting points and objectives of the Group for the period 2013–2017. By doing so, market potentials and circumstances in the insurance markets covered by the Group were taken into account as well as forecasts of respective macroeconomic trends in those markets for 2014.

The starting points of the plan are focusing on the core insurance business, achieving the highest possible profitability and safety of operations. The economic and financial crisis will have an impact on the core business – insurance operations, exposing the Company to the risks of lower demand for some insurance products, policyholders defaulting on the payment of premiums and risks related to the selection of underwriting risks.

The crisis, among others, will be reflected in a lower economic activity, reduction in exports and imports, new corporate bankruptcies, reduced purchasing power of households, higher unemployment rate, lower bank credit- ing, etc.

Financial highlights of the Triglav Group business plan for 2014

	2014 plan
Gross written premium from insurance and co-insurance contracts	EUR 902.1 million
Gross claims settled	EUR 668.5 million
Profit/loss before tax	EUR 75.9 million
Net profit or loss	EUR 65.6 million
Equity as at 31 December	EUR 606.1 million
Combined ratio in non-life insurance	96.3%

Net profit/loss: Net profit of the Triglav Group is planned at EUR 65.6 million, whereas net profit before tax will amount to EUR 75.9 million. Bearing in mind the poor economic situation of markets, on which the Triglav Group operates, the Group has set itself very ambitious objectives. The combined ratio – a ratio between total non-life insurance expenses and net premium earned – will reach 96.3%.

The basic objective of the Triglav Group's insurance subsidiaries for 2014 is an on-going improvement of profit and loss arising from their core business and combined ratio. The budgeted combined ratios of all insurance subsidiaries are planned to be lower than 100% by the end of the strategic period.

Premium trends: Sales activities in 2014 will be even more focused on clients and on developing and increasing the efficiency of internal and external sales network. In the marketing approach, emphasis will be placed on the quality, simplicity, transparency and a high standard of services, supplemented with a penetrating market strategy. Despite a tight economic situation, the Triglav Group plans to book EUR 902.1 million in consolidated gross written premium or approximately the same as in 2013. The parent company, Zavarovalnica Triglav, plans a lower premium compared to 2013, which predominantly results from a high number of maturities due to the aging of the portfolio and due to surrenders, foreseen measures for retaining solid and loyal clients with client loyalty programmes, price adjustments to match competition as well as measures to improve the insurance technical result of individual non-life insurance classes.

Loss events: In 2014, a slightly increased number of loss events is planned, which will require regular adjustments to the reinsurance protection programme. Due to the developments in recent years and the ever more frequent mass catastrophe claims (hail, floods, storms, etc.), the Company expects an increased number of loss events. According to the plan, consolidated gross claims paid by the Triglav Group will amount to EUR 668.5 million. Due to an increased number of loss events, more expensive reinsurance protection and smaller volume of premiums, the claims ratio is expected to decrease to 67.5%. Technological, process and organisational improvements will be continually made to the claim settlement procedure, in line with the strategic objectives. By enhancing professionalism of employees and contracted partners, the Company will ensure a correct execution, quality and speedy completion time of loss adjustment procedures.

Cost management: According to anticipations, gross operating expenses will remain at a level approximately equal to 2013, aiming at keeping the share of operating costs in gross written premium round the 2013 year-end level. Due to large IT investments, a high growth in depreciation is planned. The cost reduction measures will be predominantly focused on those types of costs that are not directly related to insurance acquisition.

Investment: The Group plans a restrictive policy of investments in real property, equipment and intangible assets, primarily aimed at strategic projects in IT and general affairs as well as most urgent maintenance.

Financial investments: Adequate levels of investment security and liquidity will remain at the forefront of the Triglav Group's investment guidelines. These will be followed by the criterion of profitability. In view of an uncertain economic situation it is estimated that the uncertain outcome of the debt crisis and its effect on the Company's exposure to financial risks will continue to present the greatest risk. The credit risk (counterparty's default risk) of government securities remains high as well as the risk of changes in credit spreads.

Risk management: The main goal in risk management is to set up an economic capital model for the asset and liability management of Zavarovalnica Triglav. The target model will ensure that risk exposure is within the limits of the defined appetite and profitability within the strategic objectives and that the Company will have sufficient capital to ensure compliance with the requirements of credit rating agencies as well as those of Solvency I and Solvency II at any time.

Ambitious profit targets

More loss events
