

# 3. Strategy and plans of the Triglav Group

The successful implementation of the Triglav Group Strategy in the past was the basis for its revision in 2011 and extension to 2015. This was done to include Triglav's understating of issues and changes in the industry and markets in which it operates. The amendments to the existing strategy mainly concern the expansion of business and volume of operations in the present markets and the penetration of new markets of business interest in the region. Furthermore, planned business indicators up to 2015 were made even more ambitious.

## 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 three common values, which are realised through personal relations and relations with the environment:

#### Professionalism

Business objectives are achieved through the professionalism of financial services, based on highly professional employees. The Group is the driving force of the professional development of financial services in the environment.

#### Security

Effective risk management is used to provide for the security of operations. Triglav's high-quality financial products and services improve the financial security of clients.

#### Corporate social responsibility

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

### 3.1.3 Vision

**Our business operations are profitable and secure. Return on equity (ROE) is above 12%.** The sources of profit growth are very competitive, high quality services, effective risk management and the financial stability of the Triglav Group, which will serve to maintain the »A« rating received from an established credit rating agency. Members of the Triglav Group achieve higher levels of reputation than their competitors and are distinguished by comprehensive insurance/financial services offered through modern sales channels. The Group has a well-regulated and efficient governance system and follows the principles of modern organisation in all areas of business. Dedicated and highly-qualified employees are the basis of the Group's sustainable development.

The business vision of the Triglav Group is focused on the profitability and security of its operations.

## 3.2 Triglav Group in the 2011-2015 Strategy Period

The Triglav Group Strategy was redrafted in order to emphasise the consolidation of the Group in the existing markets and make its approach more ambitious and proactive.

For the period up to 2015, the Triglav Group has set very ambitious strategic goals.

Priority is given to consolidating and improving the performance of the Triglav Group's member companies.

The Group's expansion will be financed mainly through a capital increase of Triglav INT to be funded by an international institutional partner.

Very ambitious objectives were set to be achieved by 2015, such as a return on equity above 12% and a stable combined ratio below 95%.

The strategy gives priority to consolidating and improving the performance of the companies currently in the Triglav Group, whilst expansion on the existing markets and penetration of new ones in South-East Europe are not excluded should the opportunity arise.

Expansion on the existing markets covers:

- expansion of the sales network and sales support of Zavarovalnica Triglav;
- introducing life, health and pension insurance products to markets where there are currently no such products available;
- acquisition of other insurance companies and mergers;
- starting and developing business complementary to insurance.

The Strategy also includes the project »Introduction of IFRS 4 – Phase II« with the aim of duly preparing and compiling financial statements in accordance with the amended International Financial Reporting Standards.

The expansion of the Triglav Group to new markets in South-East Europe will take place if an exceptional opportunity arises, depending on capital strength and the situation on international financial markets. The expansion will be financed mainly through a capital increase of Triglav INT d.d., to be funded by an international institutional investors and Zavarovalnica Triglav. The Triglav Group will also require additional capital for the purpose of financial stability, in order to maintain the »A« rating received from an established credit rating agency and to comply with potential new capital adequacy requirements in the framework of Solvency II.

The new strategy also defines the dividend policy of Zavarovalnica Triglav. A proposal to pay out a part of accumulated profits shall be made to the General Meeting of Shareholders on the condition that the available capital of Zavarovalnica Triglav left after dividend payment is sufficient for maintaining the target capital adequacy in the medium run and for the Triglav Group independently meeting the »A« rating requirements. The dividend policy of Zavarovalnica Triglav takes account of the planned growth rate and development of the Triglav Group in target markets.

### 3.2.1 Key strategic directions

The Triglav Group's key strategic directions continue to be:

- creating an efficient Group management system;
- optimising business processes and ensuring appropriate staffing;
- achieving profitability of operations and increasing the total value of the Group,
- expansion on the existing and new markets;
- developing alternative sales channels;
- entering new key projects with a profitability rate above the target ROE of the Group in 2015.

### 3.2.2 Strategy objectives of the Triglav Group

The previous strategy was deepened on the existing foundations, as proven by the fact that the strategy objectives on four levels remain unchanged in the revised strategy to 2015.

#### Level 1: Employees, knowledge and learning

- successful adaptation of the number and structure of employees to the demands of process and organisation reengineering;
- increased mobility and internationalisation of human resources;
- development and retention of key, promising employees;
- redesign of organisational culture in line with the process reorganisation in the Group;
- increase in the variable part of remuneration for high achievers.

In recent years, the Triglav Group  
has expanded considerably,  
growing into a big family.

At Triglav ties are forged between member companies, clients and the environment.









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# Big family.

Triglav Group family members, from left to right, front row: Maja Popović, Djon Berišaj, Zinka Zavrl Križaj, Darko Krušič, Alenka Hlebec;

second row: Cvetka Porenta, Igor Bratina, Roman Lipold, Lidija Lampič;

back row: Vojka Brglez, Marin Matijaca, Edo Povhe, Debora Šmerc, Vanja Nadali, Luka Bavdek and Polona Pušljar.

The Group's insurance companies abroad were consolidated into Triglav INT, so Triglav is now present under the umbrella brand name also in Bosnia and Herzegovina, Serbia and Macedonia.

**Level 2: Processes and Organisation**

- finalisation of the IT-Build and IT-Life projects, including changes in processes and organisation;
- implementation of the data warehouse and the CRM system;
- implementation of the business process management system;
- implementation of the corporate governance system and key internal controls for the Group;
- compliance of operations with Solvency II requirements.

**Level 3: Clients**

- comprehensive overview of the policyholder and an upgraded, modern credit system (policyholder card);
- development of efficient client loyalty programmes;
- increase in the number of active policyholders;
- comprehensive insurance/financial services offered through modern sales channels;
- a rank among the top 3 insurance companies in the region.

**Level 4: Finances**

- profitability and cost efficiency;
- optimised balance sheet structure according to the requirements of Solvency II and the »A« rating from Standard & Poor's;
- positive underwriting result of the Group;
- efficient receivables management.

For measuring the achievement of the strategy objectives, a balanced scorecard with projections by 2015 has been developed and linked to concrete strategy activities.

### 3.3 Objectives of the Triglav Group achieved in 2011

The global economic and financial crisis brought greater uncertainty to financial markets and made the core insurance business more difficult. Despite lower demand for some insurance products and the challenging economic situation, a great majority of the set objectives were achieved.

However, the economic crisis led to sales results below the planned levels. Investors were more reluctant to assume risk, which was reflected in a smaller demand and lower premiums for unit-linked life insurance products. The reduced volume of bank lending directly reduced total written premium on credit insurance. Moreover, difficulties experienced in some branches of the Slovene economy, especially the construction industry, also helped decrease the demand for certain insurance products.

The performance of the Company was also influenced by other factors:

- growing price competition in the market and the amendments to the terms and conditions of insurance introduced in 2010 decreased the total written premium on motor-vehicle insurance;
- high and repetitive claims made over recent years required more stringent terms and conditions for agricultural insurance, which is the main reason less premium was generated in this insurance class.

Business measures taken yielded higher profits than planned, despite unfavourable business conditions.

Business measures taken yielded high realisation degree of the planned profits, despite unfavourable business conditions. These included cost-cutting, selection of the existing portfolio, greater attention to pricing and risk assumption, redesigning of the existing insurance products and the development of new ones. Favourable weather conditions also helped towards good results. The combined ratio, which shows the profitability of core insurance operations, reached 90.1% – the most favourable level in the history of the Triglav Group.



Zavarovalnica Triglav's business results are heavily influenced by the situation on the capital markets, as diverse financial investments represent the majority of the Company's total assets. Despite the relatively conservative investment policy of Zavarovalnica Triglav, the global financial crisis and the situation on the capital markets had a negative impact on the value of certain investments which reflected foremost in the decrease of the share capital and profit. In 2011 financial assets were permanently impaired by EUR 63.2 million. Zavarovalnica Triglav regularly met liquidity requirements and managed its investment portfolio in adherence to the principles of security, liquidity and profitability.

On 21 November 2011, the credit rating agency Standard & Poor's confirmed Zavarovalnica Triglav and the Triglav Group the »A« long-term rating and financial strength rating with a negative outlook for the fourth consecutive time – for more information see *Section 5.8. Credit rating of Zavarovalnica Triglav*.

The confirmation of the credit rating means that the Triglav Group met one of its major strategy objectives: under unfavourable conditions in the economy and on capital markets the Group shall retain the recognition of its financial strength, good performance and strategy implementation.

### 3.4 Plans of the Triglav Group for 2012

Plans of the Triglav Group for 2012:

- EUR 984.0 million of written premium;
- EUR 595.9 million of net claims incurred;
- EUR 60.6 million of profit;
- EUR 554.2 million of equity as at the year end;
- planned combined ratio of 95.3%;
- operating costs growth rate below premium growth rate.

In the future the Triglav Group will continue to give priority to profitability, rather than to market share growth, so as to enable further growth and development. All subsidiaries are planned to be operating at a profit by 2015.

Major measures and projects planned for 2012:

- upgrade of existing insurance products and development of new ones;
- upgrade of credit rating programmes of the Group and partnership building;
- extension of the range of product packages and combined insurance products;
- the focus of all employees on client satisfaction;
- effective combination of sales channels, upgrade of web insurance products, active marketing of web insurance products and development of alternative sales channels;
- further development of bancassurance;
- various measures for improving loss adjustment processes;
- process simplification;
- strengthening of the Group's presence in the region;
- transfer of expertise and good business practices from the controlling company to the subsidiaries.

The key measures for improving cost effectiveness will be continued: business process reengineering and adaptation of staffing levels, curbing the increase of costs not directly linked to the sale of insurance policies, optimisation of marketing communication costs, of external service costs, and of capital expenditure and standardisation of controls and controlling costs.

The corporate social responsibility strategy adopted in 2011 will be implemented at the Group level.

In the future, the Triglav Group will continue to give priority to profitability, rather than to market share growth.