

1. Adress by the President of the Management Board¹

Andrej Slapar, President of the Management Board of Zavarovalnica Triglav, gives his view on the 2017 business results and presents main highlights of the first year of implementing the Triglav Group 2017-2020 Strategy.

How would you assess the performance of the Triglav Group in 2017?

The reporting year was characterised by extraordinary mass claims resulting from natural disasters, which affected the whole insurance industry. We were no exception, as mass claims were 59% above the five-year average or 22% above the ten-year average. Nevertheless, the Group performed well and surpassed the budgeted results. Consolidated profit before tax stood at EUR 84.4 million (planned at between EUR 70 and 80 million). The highly unfavourable claims experience was effectively compensated with high premium growth and well-managed expenses. Returns on investment further fell in 2017, but less than expected; however, they were positively affected particularly by specific one-off events.

The Group recorded a high 7% premium growth and collected EUR 1 billion in premiums. Although the claims ratio increased, the combined ratio of the Group remained strong at 93.9%. In line

with our growth and development strategy, the share of premium written in the markets outside Slovenia grew as well.

How would you summarise the current position of the Triglav Group?

The Triglav Group remains the strong market leader in the Adria region. According to the 2016 data, our market share additionally increased to 20%. We are pleased that both credit rating agencies, i.e. S&P Global Ratings and A.M. Best, assessed our position, performance and financial stability as strong. In 2017, they both reassigned the Triglav Group the high »A« credit ratings with a stable medium-term outlook.

On what did you concentrate your development efforts in 2017?

All five strategic guidelines were actively pursued – namely, comprehensive client relationships, digitalisation and internal redesigning of operations, efficient asset management, modern corporate culture development and

organisational commitment, maintaining profitable operations and greater value of the Triglav Group.

We placed additional focus on our clients and their needs. Moreover, we tailored our product range and other activities to the specific and concrete needs of individual markets and clients. We widened the range of our assistance services, involving overall solutions. Roadside assistance was introduced in all of our markets, in parallel with

developing other products. We believe in the concept of all channel sales enabling clients to choose the channel that fits them best. Bearing that in mind, we bundled the existing sales channels with the alternative sales channels, including banks, leasing companies and travel agencies, as well as boosted on-line and mobile sales.

By changing business processes in the Group we are creating an advanced, computerised and innovative business

■ The highly unfavourable claims experience was effectively compensated with high premium growth and well-managed expenses.

■ The year 2017 was the first year of implementing the planned strategic development activities.



■ In the markets outside of Slovenia, a high growth of 10% on average was achieved. On the largest Slovene market, a 6% growth was recorded.

environment. Large-scale activities will be performed throughout the strategy period and cover all processes – from insurance contracting and providing insurance to loss adjustment. With special attention on loss adjustment new technology and process are being introduced as a result of ever greater digitalisation and mobile service launches.

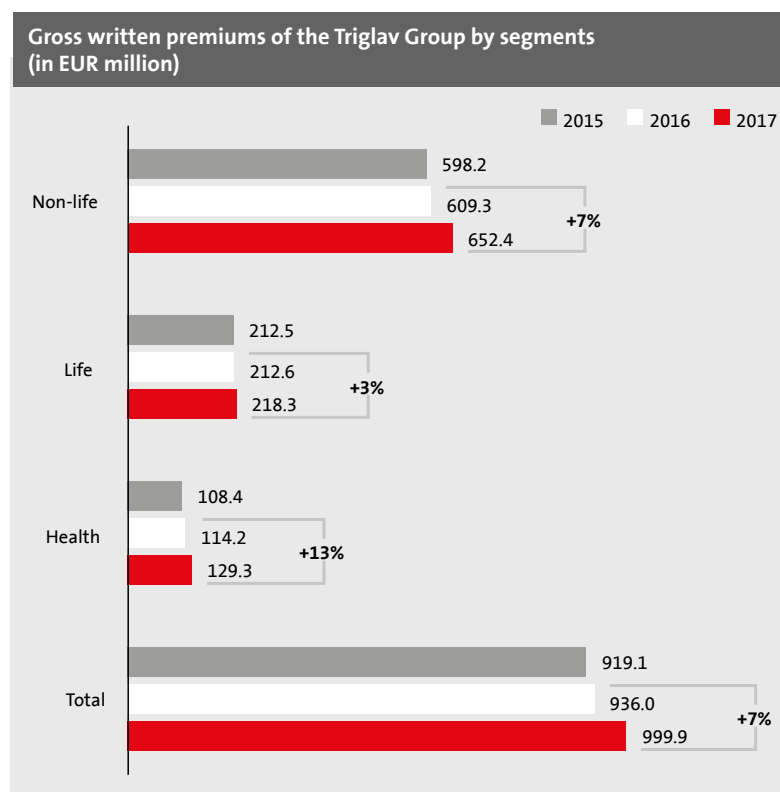
In identifying and introducing new solutions we cooperate with start-ups and business accelerators. Moreover, we are forging new forms or partnerships by entering business ecosystems as an insurer who co-creates an integrated range of different product and service contents.

In the Triglav Group, decision-making is upgraded by including a risk assessment to the greatest extent possible. We continue to strengthen the risk management culture with the aim of making it part of the business decisions taken across all our segments and in all Group members.

How was the insurance business of the Group?

We are witnessing a strong recovery of the insurance markets in the region combined with unprecedented competition. Our business results were good nevertheless. Consolidated gross insurance, co-insurance and reinsurance written premiums were planned at EUR 930 million, but we collected EUR 1 billion. As I have already mentioned, total premium growth was high at 7%. In addition, growth was recorded in most markets covered by Triglav and in all three insurance segments. Premium from non-life insurance, the largest premium group, grew by 7%. A high premium growth of 13% was seen in health insurance and 3% in life insurance, despite the high maturity of insurance policies.

In terms of claims, 2017 was not a favourable year for the Group. Gross claims paid increased by 6% compared

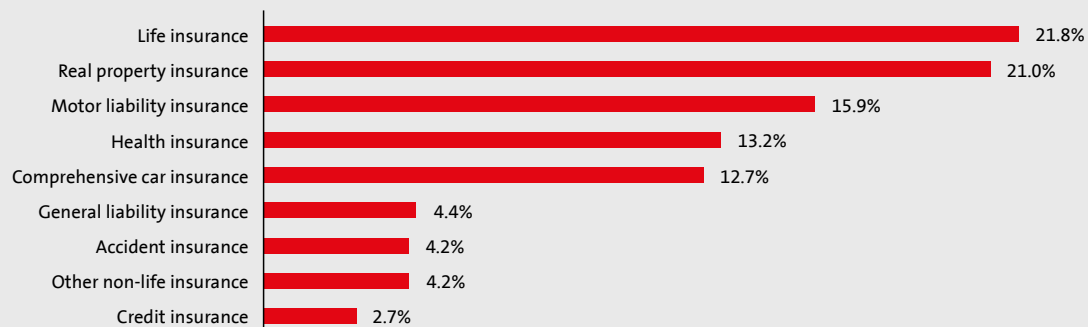


to 2016. In mass claims, extreme loss events were experienced. The majority of mass claims resulted from multiple hail storms, spring frost and floods in Slovenia, Croatia and Macedonia. Claims ratio was 64%, which means it deteriorated by 2 percentage points. In contrast, expense ratio improved by 1.1 percentage point to 29.8% and combined ratio remained favourable at 93.9%. According to plans the latter should have been around 95%, which is also the average target value of combined ratio to 2020.

How did the Group perform in different insurance markets?

Written premium increased in all the markets covered by the Triglav Group, except in Macedonia. In Slovenia, our largest market, written premium increased by 6%, which equals the growth of the Slovene market. All three insurance undertakings in Slovenia reported premium growth: the parent company, Triglav, Zdravstvena zavarovalnica and Skupna pokojninska družba. The Group did well in foreign markets too, with high premium growth rates of 10% on average.

Well balanced structure of consolidated gross written premium in 2017





■ **Our long-term interest in the Adria region remains unchanged. We find these markets promising.**

We developed individual markets depending on their level of development and requirements. All Group members share their experience, knowledge and development achievements. The results achieved so far show that we decided to go in the right direction.

Your plans for the region?

Our long-term interest in the Adria region remains unchanged. We find these markets promising and we are glad to see them grow. Already we are the market leader, but we want organic growth and we do not exclude any takeovers in case an opportunity arises. Although for the Group Slovenia is the largest market, we still plan that the share of total

premium generated outside Slovenia will continue to grow. In 2017 it did increase to 17.7%.

We will continue to play an active role in developing insurance markets. Our plan is to invest more in life, pension and health insurance, where we expect to have the highest growth rates. Some steps have already been taken. In Macedonia we established a new life insurance company, whilst in Bosnia and Herzegovina we were the first to offer voluntary pension insurance schemes through a specialised joint-venture. In health insurance we widened our range and established ourselves as a health insurer in practically all markets in the region.

How did financial markets influence the performance of the Triglav Group?

We expected unfavourable market trends would continue in 2017 and influence the returns on our financial investments, which did happen. Although our investment policy remained unchanged, we adjusted our investment classes. Net interest income decreases continued. Return on financial investments, excluding unit-linked insurance contract investments, amounted to EUR 78 million and were 4% lower compared to 2016. The decline in return on investment was lower than expected, with some impact resulting from specific one-off events such as realised capital gains.

In the new strategy period the focus is to develop the second pillar of asset management further. How do you intend to do that?

The Triglav Group provides asset management primarily in the form of health insurance services and our mutual funds. The latter are now also available from the newly-founded company Triglav, which is a regional platform for alternative investments.

Our strategic objective is to become a key asset management player in the Adria region. Our aim is to increase the volume of assets under management, both of the Triglav Group in total and by client. In order to achieve that objective, we will rely on the synergies within the Group and possibilities to connect with partners from other business ecosystems – keeping an eye on new opportunities brought about by the consolidation of the industry in the region.

Does your strategy include modern corporate culture development and organisational commitment?

To our existing values of safety, responsibility, professionalism and simplicity, the new strategy added a new value: pursuit of the modern. This proves we want to be open to new ideas, to understand diversity and to overcome challenges of modern times by probing the needs of all generations. We are creating a more nimble organisation that will provide a balance between stability and dynamism. We are aware that our success is based on

our employees, which is why we laid grounds for revamping the corporate culture of the Triglav Group. We intend to build environment which will appreciate creativity, the quality of work and personal development. It is our conviction that such corporate culture is the best incentive for employees.

In 2017, Slovenia enacted non-financial reporting. How were you prepared for this new legal requirement?

I could say that we have been well prepared for this ever since 2009, when we first reported on non-financial performance according to international GRI Standards. The improvements recorded by the key sustainability and development indicators are also measured by strategy indicators.

In risk management we pay great attention to non-financial risks, which are getting increasingly complex due to technological, environmental and societal changes. We are fully aware how important it is to recognize, verify and consider the interests of our key stakeholders as well as the expectations of society on the financial industry to act ethically and with integrity, without forgetting the responsibilities of our social role.

I should add that the financial security of citizens and companies will improve mainly by developing the insurance markets in Slovenia and the entire region. By developing its own business the Triglav Group will continue to actively contribute to this end.