

4. Strategy and Plans of the Triglav Group

- The Triglav Group is actively developing into a modern, innovative and dynamic insurance/financial group, which firmly remains the leader both in Slovenia and the wider region.
- The budgeted profit level for 2017 was surpassed.
- In 2018, profit before tax of the Triglav Group is planned between EUR 80 million and EUR 90 million, whilst gross written premium is set to exceed EUR 1 billion.

The Triglav Group Strategy for the 2017–2020 period was adopted in December 2016. It is a development-oriented strategy, with its main focus on comprehensive client relationships while maintaining the profitability and safety of the Group's operations and being committed to sustainable and responsible development.

Last year was the first year of implementing the revised values of the Group, whose aim is to build a common culture and implement the new, highly development-oriented vision.

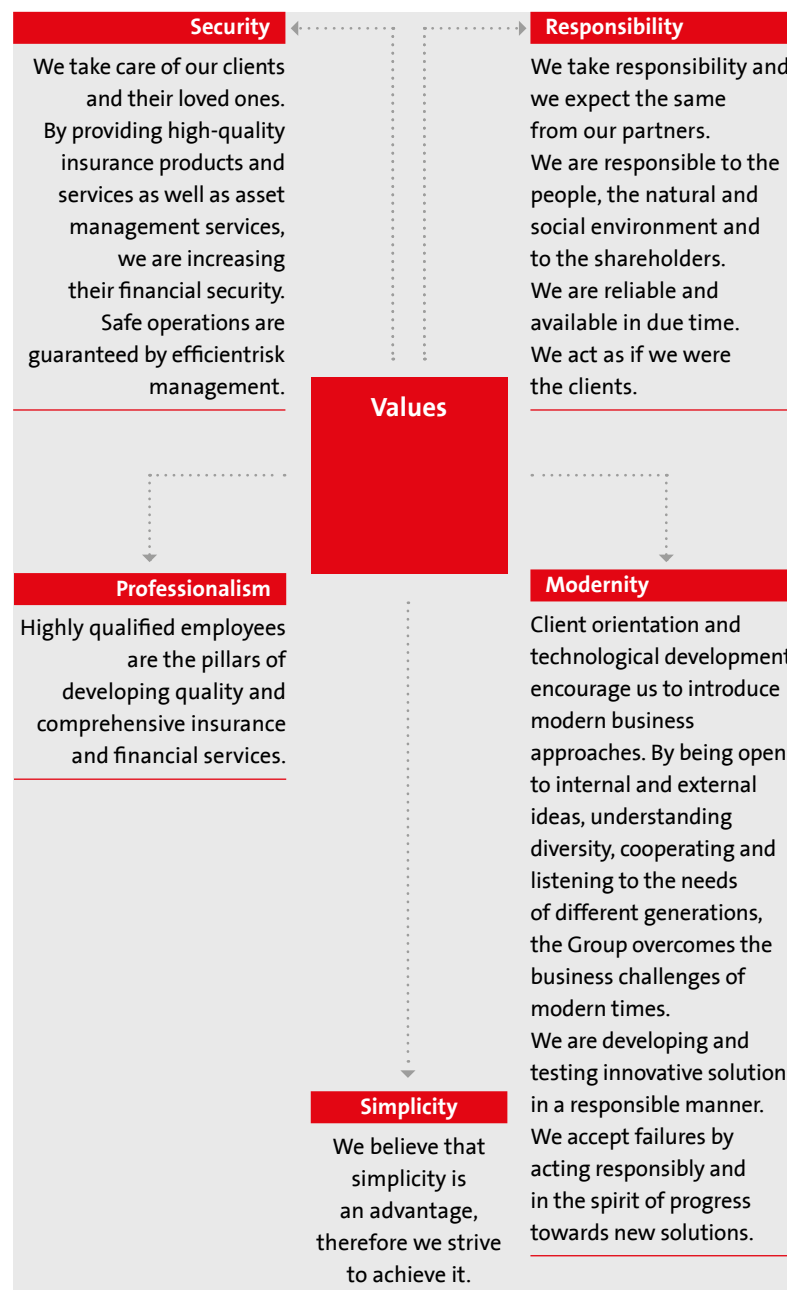
4.1 Mission, values and vision of the Triglav Group

Mission

Building a safer future for all stakeholders, while being committed to responsible and sustainable development. Its cornerstone is the team of over five thousand employees, who achieve the Group's mission through their commitment, expertise and dedication.

Values

The values of the Triglav Group are part of the corporate culture, which are realised through personal relations and relations with the environment on a daily basis. They not only guide and connect the Group but are also an important part of the Group's distinctiveness.



Vision of the Triglav Group

Dynamically developing new ways of doing business as the foundation of the Group's responsible long-term development, while at the same time operating profitably and safely.

- In South-East Europe, the Triglav Group is recognised as the leading provider of innovative and comprehensive insurance-service products and asset management services.
- The Group is the largest in terms of income and the best in terms of client satisfaction.
- Clients perceive the Group's multi-channel products and services as simple and desirable.
- The Group dynamically develops new ways of doing business, which are among the top trends of digitisation.
- The Group is well-positioned in dynamic networks of business ecosystems.
- The Group effectively manages the risks and ensures its financial stability. Return on equity (ROE) will surpass 10% in 2020. The standalone »A« credit rating assigned by a renowned rating agency is being maintained.
- An efficient governance and management system of the Group has been established.
- The Group's processes are lean, simple, technologically advanced and cost-effective.
- Dedicated and highly skilled employees are the cornerstone of the Group's culture of openness and cooperation, as well as its sustainable development and a responsible attitude to all its stakeholders.

4.2 The Triglav Group Strategy for the 2017–2020 period⁷

Main strategic activities

Insurance

- Non-life
- Life
- Pension
- Health
- Reinsurance

Asset management

- Own insurance portfolios (asset backing liabilities and guarantee funds)
- Mutual funds and individual asset management

Key strategic guidelines

1. Profitable operations and greater value of the Triglav Group
2. Efficient asset management of the Triglav Group
3. Comprehensive client relationships
4. Transformed operations of the Triglav Group
5. Development of a modern culture and dedicated staff

Sound and profitable performance while strengthening the competitive advantages of the Triglav Group: The performance of the Triglav Group will be profitable and aimed at increasing its value. In the long term, the core insurance business will be profitable, whilst the average target combined ratio in non-life insurance will be around 95%. In 2020, the return on equity (ROE) of the Group will surpass 10%.

The Group will ensure effective and comprehensive management of risks, cost-effectiveness, its financial stability and appropriate capital adequacy. The Group will maintain its »A« credit ratings.

In its operations, the Group will not only exploit but also enhance its competitive advantages. The Triglav Group has a strong, trustworthy brand, a large client portfolio – users of its services and products, and extensive and developed sales channels, in addition to being known for its range of quality products and services and quick settlement of claims. Furthermore, the Group is set apart from its competitors by its attitude towards the market. Its long-term focus on the markets in the region requires the Group to both actively and responsibly invest in the market and its relations with the stakeholders.

Development of markets of the Triglav Group: The Group will remain present in six countries of South-East Europe, where it will grow organically. However, potential takeovers are not ruled out should an appropriate opportunity arise. In the region where the Group operates, a long-term accelerated growth of insurance markets is expected, resulting in a higher share of total written premium on the markets outside Slovenia. The Group will continue to develop the markets in the region, primarily investing in those insurance segments where the highest growth rates are expected (life, health and pension insurance). Digital business models will be developed, which will enable the Group to enter new markets. The Group will build strategic partnerships with the companies whose activities complement its business model.

Asset management: The strategic objective of the Group will be to increase the volume of assets under management or the share of assets managed for a particular client.

Client orientation: All of the Group's activities are centred around its clients, who are monitored individually and throughout their whole lifelong path as users. The Group's increasingly digitised processes will be adapted thereto, in addition to

developing innovative products, which will be both simple and known for their multi-channel availability through a mix of traditional and digital sales approaches.

A modern and innovative insurance/financial group: The digital strategy will be implemented and dynamically upgraded. The goal is that at the end of the strategic period, i.e. in 2020, the Group will be the leading provider of innovative and comprehensive insurance-service products and asset management services in South-East Europe. The Group will implement strategic projects aimed at developing sales channels and the multi-channel sale, as well as upgrade its insurance products with assistance services.

Optimal organisational structure of the Triglav Group: The Group is implementing the renewed organisational culture and an increasingly flexible organisational structure so as to ensure a balance between the stability and dynamics of organisation, thereby reducing strategic and other risks. Synergies will continue to be exploited and operating expenses optimised at the Group level, in addition to the establishment of a comprehensive innovation system. In its activities and objectives, the Group remains committed to the principles of corporate social responsibility and sustainable development.

Strategic objectives were classified into four balanced scorecard strategy levels:

Strategic objectives

Financial operations	Clients	Processes and organisation	Employees, competences and learning
<ul style="list-style-type: none"> ▪ Profitable operations ▪ Growth in the volume of operations (in terms of written premium, the Triglav Group remains the largest insurance company in South-East Europe) ▪ Maintaining the »A« credit ratings ▪ Capital adequacy and optimal capital allocation by segment/subsidiary of the Group ▪ Comprehensive risk management 	<ul style="list-style-type: none"> ▪ Comprehensive and responsible client relationship management and multi-channel communication with clients ▪ Satisfied and loyal clients ▪ Growth in the number of active clients, their understanding of the Group's services and higher insurance coverage of individual clients ▪ Insurance products with a high degree of related services ▪ New business models 	<ul style="list-style-type: none"> ▪ A high degree of automation, optimisation and cost-effectiveness of business processes ▪ The digital way of doing business and new business processes ▪ Developed multi-matrix organisation and business productivity growth ▪ Efficient use of data (internal and external) so as to make the right business decisions ▪ Innovation ▪ Exploitation of synergies within the Group ▪ Simplicity of business processes and cost efficiency 	<ul style="list-style-type: none"> ▪ Renewed organisational culture (openness, acceptance of changes and promotion of diversity, orientation to internal and external clients, ensuring cooperation outside the formal organisational forms, respect for diversity and dignity and taking responsibility) ▪ An appropriate number, structure and commitment of employees to renewed and optimised processes ▪ Adequate competences and digital skills of employees ▪ Stability and appropriate structure of key promising employees ▪ Employee mobility

4.3 Implementation of the Triglav Group Strategy in 2017⁸

To realise the adopted strategic guidelines, the Group continued the work started in previous years and launched several new projects. In the first year, tangible results were achieved in some areas, whereas in relation to more extensive projects quality foundations for further work were laid.

- In the reporting period, the Triglav Group generated a profit before tax of EUR 84.4 million.
- Increased volume of operations was seen in all business segments of the Group.

Profitable operations and greater value of the Group

- The launch of the new IT system for improved capital and asset-liability management.
- Continued gradual centralised asset management at the Group level.
- Establishment of a regional platform for alternative investments (Trigal).

Efficient asset management

- Adaptation of the management of all segments of both activities (non-life, life, health and pension insurance, reinsurance and asset management).
- The continued development of online and mobile sale as well as other alternative sales channels (via banks, travel agencies and leasing houses).
- The revised client satisfaction and loyalty measurement and the introduction of in-depth client analyses.
- The upgrade of the existing products and the development of new, more flexible and understandable products.
- Further upgrade of products with assistance services.
- The introduction of paperless, mobile and simple business with clients and partners as well as the digitisation of business processes.
- The launch of interdisciplinary activities so as to achieve synergies in different areas at the Group level.
- The transfer of business solutions and practices to the Group members, which are adapted to the specificities of each market.
- The development of a business model for the digital entry of the Group to the selected markets outside the region.

Comprehensive client relationships

- The Business Intelligence (BI) Department was established, which is in charge of the data warehouse, the reporting system and analytical support to business decisions.
- Completed multi-annual project of constructing the data warehouse in the parent company and its expansion at the Group level.
- The geographical information system of the parent company was upgraded and integrated into risk underwriting, reinsurance and claim settlement.
- Established project bases for centralised management of information technology and infrastructure in the Group.

Transformation of operations

- The analyses were carried out and the foundations were laid for the project of renovating the organisational culture within the Group.

Development of a modern culture and dedicated staff

- The Triglav Group implemented the set strategic objectives in the challenging situation on financial markets and in demanding market conditions, while also dealing with mass loss events.

- The Group's profit before tax reached EUR 84.4 million and thus surpassed the budgeted net profit. In addition, total written premium increased by as much as 7%.

4.4 Objectives achieved by the Triglav Group in 2017⁹

The Group implemented the set strategic objectives in the challenging situation on financial markets and in demanding market conditions, while also dealing with mass loss events. The Group's **profit before tax** reached **EUR 84.4 million** and thus surpassed the budgeted net profit (see [→ *Section 8. Financial result*] for more details).

The Group **maintained its financial stability, capital adequacy and the profitability of its operations**. The credit rating agencies S&P Global Ratings and A.M. Best affirmed the Group's »A« **credit ratings**. Both ratings have a **stable medium-term outlook**. Achievement of the »A« credit rating is in line with the Strategy of the Group. Such a credit rating ensures an appropriate competitive position of the Triglav Group in insurance, reinsurance and financial markets, as it confirms its financial strength and solid performance. See [→ *Section 6.6 Credit rating*] for more details.

The combined ratio of the Triglav Group was 93.9%, which is within the expected target range (the combined ratio is a measure of profitability in the core non-life and health insurance operations excluding investment return). See [→ *Section 8. Financial result and Section 7.2 Environmental impact on the performance of the Triglav Group*] for more details.

Total written premium of the Triglav Group was **higher than planned** despite the challenging market conditions and fierce competition. Growth was recorded in all insurance segments and in most markets of the Group. In the Slovene insurance market, 5% more in written premium was charged by the parent company, whereas Triglav, Zdravstvena zavarovalnica and Skupna pokojninska družba recorded 13% and 3% higher written premium respectively. Triglav Osiguranje, Belgrade recorded as much as 27% premium growth, while a 10% premium growth was seen in Lovćen životna osiguranja. Written premiums were higher in Triglav Osiguranje, Zagreb (9%), Triglav Osiguranje, Sarajevo (7%) and in Triglav Osiguranje, Banja Luka (6%). The premium charged by Lovćen Osiguranje, Podgorica remained at approximately the same level as the year before, whereas that of Triglav Osiguranje, Skopje decreased by 1%. Insurance premium is discussed in greater detail in [→ *Section 7.5*].

4.5 Plans of the Triglav Group for 2018

The Triglav Group Strategy for the 2017–2020 Period, the market potential and competition conditions on the markets in which the Group operates, and the forecasts of macroeconomic trends and development of financial markets for 2018 were the basis for drafting the Triglav Group Business Plan for 2018.

Expected situation in insurance markets: In 2018, the macroeconomic environment will be relatively favourable for the business of the Triglav Group, taking into account the moderate probability of a positive rather than a negative scenario. Because of more favourable macroeconomic conditions, extremely aggressive competition is expected among insurance companies, which will try to improve their market position. In the countries of South-East Europe, the expected economic growth may still be threatened by high macroeconomic imbalances.

The Group's insurance companies will continue to be exposed to certain risks, particularly the risks of lower demand for some insurance products, policyholders defaulting on the payment of premiums, the risks related to the selection of underwritten risks and the regulatory risk, foremost in the health insurance segment.

On the largest, Slovene insurance market, the Group's performance in the life insurance segment will further be affected by a high number of maturities due to the aging of the portfolio and surrenders, which is slightly decreasing compared to past years. The non-life insurance premium will be affected by the measures for retaining solid and loyal clients with client loyalty programmes, repricing to match competition and measures to improve insurance technical results in individual insurance classes. Approximately the same number and extent of large individual loss events (flood, hail, storm) as in past years is foreseen.

Expected financial environment for the return on investments: Under the baseline scenario, the financial environment for the return on investments will remain unfavourable in 2018, with the risks of realisation of this scenario being significantly high. The expected lower interest income will have a negative impact on the business result of the Group.

Global economic growth forecasts are favourable, as the International Monetary Fund (IMF) forecasts a 3.6% growth, which will be mostly generated by emerging markets, while advanced economies will see a moderate growth of 2%. These forecasts are full of uncertainties. Forecasts are accompanied by the uncertainties that are more pronounced in the medium term, rising mainly from the financial sector. Considering the 2017 visible economic trends and the ECB's relatively stimulative policy, the return on Bund is expected to remain low or to stabilise at

a slightly higher level due to potential major fluctuations. Following the anticipated reduction in the ECB's purchases, the movement of spreads on bonds of peripheral countries will much more depend on specific economic and political factors within a particular country. Given the current outlook, spreads on corporate bonds are not expected to significantly change in 2018, remaining at historical lows. The outlook for the stock markets is again favourable. Nevertheless, there is a strong likelihood of correction, primarily due to relatively high valuations of most stock indices.

Business Plan of the Triglav Group for 2018

Profit before tax: The Triglav Group is expected to generate profit before tax of EUR 80–90 million. The budgeted profit is based on the assumptions of the Group's projected insurance operations and asset management, taking into account the anticipated conditions on the financial markets, which will affect the return on investments of the Group.

Insurance premium: Consolidated gross written premium of the Triglav Group is planned to increase to over EUR 1 billion. The Group will not only use and strengthen its strong competitive advantages but also adapt its marketing strategy to the anticipated harsh competitive situation. The sales activities will remain focused on client needs and adapted to individual markets. The Group will continue to implement strategic activities, aimed at multi-channel selling. To this end, the traditional and new digital sales channels will be combined and aligned, while clients will choose the best suitable for them.

Mass claims: Approximately the same development as in past years is foreseen, particularly in mass loss events (flood, hail, storm...). The Group will maintain adequate reinsurance coverage, which will mitigate any unfavourable claims experience. In claim settlement, the Group will continue to constantly improve its claim handling processes by introducing improvements in technology, processes and organisation.

Combined ratio: A gradual growth of the share of written premium on the markets outside Slovenia is anticipated, in addition to continuous improvement of performance of the Group's insurance subsidiaries, which will be reflected in their combined ratios upon meeting the relevant assumptions. The combined ratio of the Group is projected to be favourable at around 95%, which is its average target strategic value.

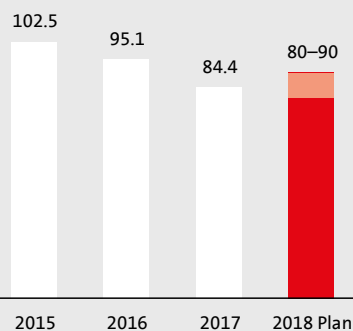
Gross operating expenses: Gross operating expenses will be affected by higher insurance acquisition costs (marketing campaigns, advertising, fees and commissions, labour costs of the agent network) and higher depreciation of property, plant and equipment resulting from high past and planned investments in information technology. Furthermore, gross operating expenses will be affected by

the streamlining measures, which will be predominantly focused on the types of costs not directly related to insurance acquisition. The planning of staffing levels and labour costs, which account for the bulk of total operating expenses of the Group's insurance subsidiaries, will follow the strategic guidelines, changes in business processes and concrete requirements of individual work areas.

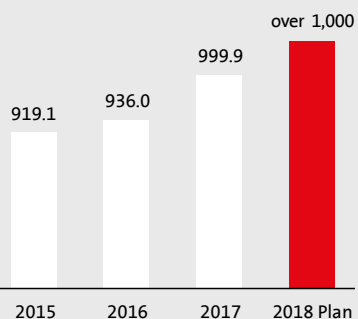
Asset management: The strategic objectives will be to increase the volume of assets under management (AUM) from non-compulsory saving and effective asset management. The Group will continue to actively pursue any opportunities arising from the consolidation of the asset management industry in the region and continue with asset management centralisation at the Group level.

Investment policy of the Group and the expected return on investments: The basic investment guidelines governing the insurance portfolios of the Group will remain unchanged, with the focus being on maintaining appropriate investment security and liquidity, followed by achieving adequate profitability. The Group will not only maintain but also strengthen its relatively conservative investment structure with the emphasis on fixed-rate investments. Moreover, the Group will continue to invest on the financial markets which ensure higher liquidity, diversification and expected return. Considering the persisting low interest rate environment, some activities will further focus on capacity building for investing in alternative investment classes and strategies. Based on the expected situation, lower returns on investments are expected (excluding unit-linked insurance assets).

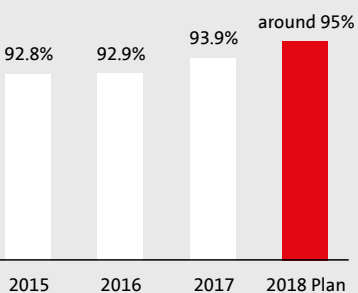
Budgeted net profit/loss before tax of the Triglav Group for 2018



Budgeted gross written premium for insurance, co-insurance and reinsurance contracts of the Triglav Group for 2018



Budgeted combined ratio of the Triglav Group for 2018



Risk management: The upgrade of the comprehensive risk management system will continue at the level of the parent company and the Group. This will primarily include consistent inclusion of risk assessment in day-to-day business decisions and their monitoring based on regulatory and especially additional internal approaches. The purpose is to spread the risk management culture to all business segments and Group members.

Maintaining high credit ratings: By retaining strong financial stability, high capital adequacy and high profitability, the Group is expected to maintain high credit ratings assigned by the established rating agencies S&P Global Ratings and A.M. Best.

The ambitious business plan for 2018 is the continuation of the consistent implementation of the Group's planned strategic guidelines by 2020 and a step towards the realisation of its vision.

Financial highlights of the Triglav Group business plan for 2018 (in EUR million)

	2015	2016	2017	2018 Plan
Profit/loss before tax	102.5	95.1	84.4	80-90
Gross written premiums from insurance, co-insurance and reinsurance contracts	919.1	936.0	999.9	over 1,000
Combined ratio	92.8%	92.9%	93.9%	around 95%

Disclaimer

The planned figures for 2018 are based on the outlook, expectations about events and circumstances, and forecasts available to the Company when drafting the plan. The actual results, performance and events may considerably deviate from those taken into account in the plan. When publishing the interim results of the Triglav Group in 2018, the Company will each time comment on the Group's planned annual profit before tax.